

# Norcros plc

## ("Norcros" or the "Group")

Results for the year ended 31 March 2010

Norcros, the home consumer products group with operations primarily in the UK and South Africa, announces its preliminary results for the year ended 31 March 2010.

### Financial Summary

	2010	2009
Revenue	£169.6m	£154.2m
Trading profit*	£7.3m	£7.0m
Profit before tax - underlying**	£3.4m	£4.2m
Loss before tax - reported	(£10.0m)	(£4.8m)
Earnings per share - underlying**	1.2 p	2.8 p
Net cash generated from operations	£10.6m	£6.8m
Net debt	£15.9m	£45.8m

\* Operating profit before exceptional items and other operating income

\*\* Before exceptional items, non cash share of loss of associate and non cash finance costs

- Revenue growth +10% to £169.6m (2009:£154.2m)
- Trading profit ahead at £7.3m (2009: £7.0m)
- Resilient performance of UK businesses and SA Adhesive operation
- Operational changes in SA tile manufacturing and retail benefitting H2
- Bank refinancing completed in July 2009
- Capital raising of £27.7m net in Dec 2009 to pay down expensive debt
- Ongoing focus on operating cost efficiency, asset utilisation and cash conversion
- Cash generated from operations £10.6m (2009:£6.8m). Net debt £15.9m (2009:£45.8m). Net debt/EBITDA 1.3 times
- Disposal of Beaumont, our Australian trade investment, realised c. £4.3m net cash and profit on disposal of c.£2.6m, completed post year end in June 2010
- In anticipation of the retirement of Joe Matthews in 2011, Group Finance Director Nick Kelsall is appointed Group Chief Executive-designate with effect from 1 July 2010, and will succeed Joe as Group Chief Executive on 1 April 2011.

**John Brown**, Chairman of Norcros, commented:

*“Looking ahead, the UK outlook for consumer spending in the current year remains uncertain. Public sector investment is expected to decline, whilst private sector investment is forecast to remain muted. In South Africa, the economy is projected to show a slow recovery. Despite these challenging conditions, the Group is in good shape with a strong balance sheet, following the recent capital raising, and resilient revenue driven by essential repair and maintenance activity and continued focus and investment in new product development. Last year’s major operational improvements in our South African operations should also yield benefits in the current year.*

*An encouraging start has been made to the current financial year. With the strength of our leading market positions, we believe the Group is well positioned to take advantage of any organic growth opportunities in its key markets as well as any market recovery when it occurs and we look forward to making further progress in 2010/11.”*

22 June 2010

**ENQUIRIES:**

**Norcros plc**

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**Notes to editors**

Norcros plc is a leading manufacturer and distributor of showers in the UK and a market leader in the manufacture and supply of ceramic tiles both in the UK and internationally.

The company operates through three principal divisions, namely Triton: a UK market leader in the manufacture and marketing of domestic showers in the UK, with a strong position in electric showers and an increasing presence in mixer showers; Johnson Tiles: the leading manufacturer and supplier of ceramic tiles in the UK; and Norcros South Africa: a leading manufacturer and retailer of ceramic tiles, adhesives and sanitary ware in South Africa, under the “Johnson”, “Tile Africa” and “TAL” brands.

For further information please visit the company website: [www.norcros.com](http://www.norcros.com)

## Chairman's Statement

### Overview

I am pleased to report that the Group has delivered a solid performance, ahead of market expectations and with significant progress in a number of areas. This result has been delivered despite the substantial downturn in demand in our major markets.

The performance in our UK businesses was particularly encouraging and the initial benefits of the operational improvements implemented in our South African tile manufacturing and retail operations started to show through in the second half of the year.

Following the successful capital raising in December 2009, which raised net proceeds of £27.7m, and the intense focus on cash, net debt was reduced by £29.9m to £15.9m (2009: £45.8m).

### Results

Revenue for the year increased by 10.0% to £169.6m (2009: £154.2m), benefiting from the relative strength of the South African Rand and Australian Dollar to Sterling exchange rates. At constant exchange rates revenue increased by 2.4%, reflecting growth across all of our UK businesses partly offset by declines in both our overseas operations.

Group trading profits of £7.3m (2009: £7.0m) were 4.3% higher than prior year. Trading profit in our UK operations grew by 30.3% to £11.6m, with our businesses outperforming their industry peers and growing market share on the back of successful product and marketing initiatives. Conversely, in South Africa the continuation of very weak economic conditions and significantly reduced building activity resulted in a trading loss of £3.7m, albeit our South African adhesive operation delivered a resilient performance and reported results in line with last year. Pre-tax profitability was impacted by exceptional charges of £8.2m (2009: charge of £7.7m), £2.5m of which related principally to the closure of underperforming retail stores in South Africa and a further £5.7m charge related to the impairment of the carrying value of the Group's Greek Associate together with associated costs. This reflects the continuing losses in this business, which was adversely impacted by the extreme difficulties in the local economy in Greece.

Group loss before tax and exceptional items was £1.8m (2009: profit of £2.9m), with the higher trading profits more than offset by higher net finance costs, which increased from £3.9m to £5.3m. In addition there was a £3.4m increase in the IAS 19 pension interest charge reflecting a £1.1m expense this year compared with £2.3m income in the prior year.

Basic losses per share before exceptional items were 0.6p (2009: earnings of 1.0p) and basic losses per share as reported were 3.4p (2009: losses of 4.2p).

Net cash generated from operations in the period was £10.6m (2009: £6.8m) reflecting a significant increase in the rate of cash conversion. Capital expenditure was £3.9m (2009: £4.7m) and included new product development at Triton, investment in ink jet technology in the UK tiles business, store upgrades and the purchase of the Randburg store in South Africa. Net debt at 31 March 2010 reduced to £15.9m from £45.8m at 31 March 2009 and leverage measured as net debt/EBITDA was 1.3 times. All banking covenants were met and since January 2010 we have enjoyed the lowest level of bank margin available within the facility agreement.

The UK defined benefit pension scheme valuation calculated under IAS 19 reduced from a surplus of £1.3m at 31 March 2009 to a deficit of £9.3m at 31 March 2010. The reduction principally reflects the fall in the applicable discount rate from 6.9% to 5.7% and a strengthening in mortality assumptions, partly offset by an increase in the scheme's asset values.

## **Capital structure**

As previously reported, the Group agreed to revised terms on its banking facilities in July 2009 which, as a consequence of the difficult borrowing market and tight liquidity environment, are more onerous than those under the previous facilities. On 4 December 2009, the Group completed a capital raising exercise which raised gross proceeds of approximately £30.0m (approximately £27.7m net of expenses) through the issue of 428,571,428 new ordinary shares via a firm placing and placing and open offer of new shares. The net proceeds were used to reduce the Group's debt, thereby significantly strengthening the Group's financial position, both reducing the Group's borrowings and overall interest cost.

## **Dividend**

The Board has determined not to propose a final dividend in respect of the year ended March 2010. This follows no interim dividend being declared.

It is, however, the Board's intention to return to a progressive dividend policy within the restrictions placed on the Group by the terms of its bank facility agreement and subject to the Group's earnings, cash flow and balance sheet position.

## **Initiatives**

### *South Africa*

Operational improvements have been implemented in our South African tile manufacturing and retail businesses by the new management team. In tile manufacturing, the deployment of specialist tile manufacturing resource succeeded in stabilising the plant and more recently returning it to an efficient level of throughput and quality. We have also completed the closure of four underperforming stores in our retail business. Our second half results were more encouraging and, in spite of the continuing market difficulties, we are confident of re-establishing a solid base for future growth.

### *Australia*

As recently announced the Group completed post year end the disposal of its 25.5% investment in R.J. Beaumont & Co (Pty) Limited for a consideration of c. £4.3m net of expenses, generating a profit on disposal of £2.6m which will be reported in the Group's financial statements for the year ended 31 March 2011. This disposal realises value from the Group's investment and the net proceeds will be used to further reduce debt and associated interest costs

## **Board changes**

In anticipation of his retirement from the Board in 2011, Joe Matthews, who has been Group Chief Executive since April 1996, will step down as Group Chief Executive on 31 March 2011 and from the Board at the Annual General Meeting in July 2011.

Nick Kelsall, currently Group Finance Director, is appointed Group Chief Executive-designate with effect from 1 July 2010 and will succeed Joe as Group Chief Executive with effect from 1 April 2011.

The Board undertook a thorough process of evaluating both internal and external candidates, and the Board congratulates Nick on this appointment.

The Board will now undertake a search for a new Group Finance Director and a further announcement will be made in due course.

I am delighted to welcome Mr Vijay Aggarwal, who joined the Board as a Non-executive Director on 8 October 2009. Mr Aggarwal is the Managing Director of Prism Cement Limited (formerly H & R Johnson (India) Limited, a company in India in which the Group previously had a direct interest, which has recently merged with Prism Cement Limited). Prism Cement Limited is the parent of Lifestyle Investments PVT Limited, a major shareholder of Norcros plc. The Group has recently announced Mr Girija Sankar Patnaik as an alternate Non-executive Director to Mr Vijay Aggarwal. Mr Patnaik is a member of the senior management team of Prism Cement Limited.

### **Employees**

I would like to extend the Board's thanks and gratitude to everyone in the Group for their continuing hard work and dedication during an exceptionally challenging year.

### **Summary and outlook**

Looking ahead, the UK outlook for consumer spending in the current year remains uncertain. Public sector investment is expected to decline, whilst private sector investment is forecast to remain muted. In South Africa, the economy is projected to show a slow recovery. Despite these challenging conditions, the Group is in good shape with a strong balance sheet, following the recent capital raising, and resilient revenue driven by essential repair and maintenance activity and continued focus and investment in new product development. Last year's major operational improvements in our South African operations should also yield benefits in the current year.

An encouraging start has been made to the current financial year. With the strength of our leading market positions, we believe the Group is well positioned to take advantage of any organic growth opportunities in its key markets as well as any market recovery when it occurs and we look forward to making further progress in 2010/11.

**J. E. Brown**  
**Chairman**  
**22 June 2010**

## ***Trading Performance***

### ***Overview***

In the year ended 31 March 2010 we continued to experience extremely tough trading conditions with subdued or reduced demand in many of the markets in which the Group operates. However, despite the toughest year for some time we delivered revenue growth and resilient trading profits of £7.3m compared to £7.0m last year.

This result reflects a very strong performance from our UK businesses despite the effects of the significant decline in the housing market and the downturn in consumer confidence and spending. Profitability benefited from lower energy costs but continued to be adversely impacted by the weakness in Sterling. The strong UK performance reflects our commitment to and the success of our new product and marketing programmes combined with our continued focus on costs.

In South Africa, our performance continued to be adversely impacted by the downturn in economic activity, our investment in new and existing stores and by under-performance in our tile manufacturing business. Operational changes have been implemented by the new management team to improve productivity and efficiency and the level of losses in the second half of the year were significantly reduced.

### ***UK***

Our UK businesses produced a robust performance despite the difficult trading environment. Overall revenue grew by 8.6% to £102.7m (2009: £94.6m) and trading profits were 30% higher at £11.6m (2009: £8.9m), with increased operating margins of 11.3% (2009: 9.4%).

### ***Triton Showers***

Triton, our market leading domestic shower business, delivered a very resilient profit and cash performance, reflecting the strength of its business model and the decisive management actions taken to counteract the weak market conditions. Total revenues were 9.3 % higher, with UK revenues 12.3% higher and export revenues lower by 4.8%. The decline in export sales principally reflect the significant decline in activity levels in Ireland. In an exceptionally competitive UK market we grew revenues in the Trade sector with notable successes in the National and Independent merchant segment reflecting the benefits of new contracts and higher over-the-counter business and the success of our promotional programmes and new product introductions. In retail, we significantly outperformed the market with revenue growth in both the DIY and home shopping segments. This growth has been driven by the success of our new product ranges, our "best in class "customer service, our drive on improving quality and our strong brand awareness.

Triton's performance must be judged in the context of a lower UK shower market and minimal restocking following last year's significant destocking in the retail segment. Against this backdrop Triton has both maintained its leading UK market-position and increased its share of the market.

We continue to invest significantly in new product development, marketing and promotional programmes. As a result over 70% of the Company's revenue continues to be derived from products introduced in the last three years. The business has maintained its market leading position reflecting the breadth of its customer base and the strength of its product offering.

The weakness in Sterling and price increases in copper and zinc adversely impacted on gross margins but were offset by prompt action on the cost base.

Trading profits were ahead of last year. Furthermore as a result of the management focus to recover input cost increases and reduce operating costs net profit margins were largely maintained. The ability of Triton to consistently deliver good profits and excellent cash generation, in spite of the tough trading conditions, reflects the resilience of its operating model, the flexibility of its cost structure and the strength of its brand and franchise. Our leading and growing presence in the electric shower market where replacement is a key driver of demand has underpinned activity levels and we believe will continue to do so. Triton remains very well positioned to take advantage of any improvement in market conditions, by our continuing drive to offer exciting and affordable new products backed up with our excellent customer service.

### ***Johnson Tiles***

Johnson Tiles is the leading ceramic tile manufacturer in the UK and a market leader in the supply of both manufactured and imported tiles to the trade. Johnson's business is well diversified operating across all sectors of the UK market, consumer, house builder and both public and private sector specifications. Johnson is also the leading exporter of tiles from the UK.

Johnson Tiles continued to perform well with overall revenues 8.0% higher than last year. This was against the backdrop of the extremely tough trading conditions with the UK tile market estimated to have declined by c. 10% driven by lower demand in all sectors. In recent months, the consumer and private house builder markets have stabilised but the private contract market has experienced a sharp decline (c. 20%) as the pipeline fill has been largely utilised and new projects are being cancelled or delayed.

To offset the tough trading conditions resources were focused on the Commercial and DIY Multiples segments and on the Private Sector Specification market. To support the drive to these market sectors further investment was made in inkjet printing technology with a second machine installed and commissioned in August 2009. Driving innovative inkjet product designs has benefited sales in the Consumer sector.

Similarly, Private Sector specification work has benefited from the investment in our design studio, Material Lab, and the Absolute product portfolio, together with promotional activity through exhibitions at 100% Design and Ecobuild. We are on track to achieve our goal of becoming the market leader in the Specification sector.

As a result of the above initiatives our UK revenues grew by 6.6% since last year.

Export revenues also performed well in difficult market conditions. Our strong focus on market leading innovative inkjet products and excellent customer service resulted in 16.2% year on year growth. Strong gains in the Middle East, France and North America have been the key drivers.

Significant cost reduction programmes were also implemented at Johnson Tiles including an across the board 5% pay reduction. The combination of these cost reduction programmes and significantly lower energy costs offset the adverse impact on margins of Sterling weakness, with the result that the business was able to deliver both a trading profit (compared to a small loss last year) and significant cash generation in the year.

Whilst market conditions are expected to continue to be challenging for the foreseeable future we have re-positioned and re-focused the business resulting in a significant turn around in performance and providing the platform to deliver a further improvement in returns as the markets recover.

### ***Norcros Adhesives***

Despite the difficult trading environment, Norcros Adhesives grew revenue by 4% resulting in an increase in trading profit.

The number of new customer gains slowed compared to the previous year, but this was countered, to some extent, by the development of several established accounts and additional sales from new product introductions.

As planned, the new Pro 50 deep bed self levelling compound was successfully launched during the year, and this has rapidly gained a substantial level of sales.

New product developments currently being progressed include a range of super grouts, which have been formulated following market research into fixer requirements. These will be marketed as a four in one product, namely, fine textured, rapid setting, flexible and anti microbial.

Overhead expenditure was tightly managed, resulting in significant savings against the budget, and an ongoing cost reduction programme is being pursued in respect to the supply of raw materials and services.

A new logistics matrix was introduced in the final quarter, utilising a number of different haulage providers and this has enabled reduced distribution costs and improved service levels.

In order to increase the rate of revenue growth of the business, we plan to increase sales resource and step up marketing initiatives to underpin the development of a larger scale business.

### ***South Africa***

Norcros South Africa endured a challenging year on the back of difficult economic conditions and internal challenges faced in our tile production unit in particular.

Against the backdrop of a 1.8% decline in South African Gross Domestic Product, the building and renovation sector was particularly hard hit with Retail Glass, Paint and Hardware revenues down 11.1% against the previous year and the levels of building completions falling by 20.5%.

As a result, the overall revenue of our South African business, on a constant currency basis declined by 6.3% reflecting the weak market conditions and the impact of our retail store closure programme. Reported revenues increased by 12.2%, reflecting the translation benefit of the strengthening in the South African Rand to Sterling exchange rate.

Despite prompt management action to reduce payroll and operating costs and benefits from improved procurement the lower revenues, combined with lower throughput in our tile manufacturing unit, led to a trading loss of £3.7m compared to a loss of £1.7m for the previous year. This loss was however heavily weighted to the first half of the year (£2.4m) against a much reduced loss in the second half of the year (£1.3m).

In the year we started the process of re-organising the management structures in the business and we plan to make the final appointments to our senior management team early in the first half of the current year. Despite a disappointing year, we believe the business is better positioned to take advantage of any improvement in market conditions which should lead to a further improvement in performance in the year ahead.

### **Tile Africa**

**Tile Africa**, our retail tile business in South Africa, saw revenues in constant currency decline by 5% reflecting the closure of four stores as well as the extremely difficult market conditions referred to earlier. The lower revenue was partially offset by improved gross margins and tight control of stock and overhead expenses.

Overall the trading loss was slightly worse than the previous year but with the loss in the second half of the year significantly less than that in the first half.

As part of our drive to establish a consistent market offering we have continued the programme to upgrade our existing store portfolio by bringing four more stores up to our Lifestyle format. The results of these upgrades have been positive and we plan to upgrade a further five stores in the current year. We have not added any new stores this year and do not expect to resume the expansion of our Tile Africa retail footprint until 2012. We currently trade out of 32 company owned stores and three franchises, 19 of which will have been converted to our new Lifestyle format by the end of the next financial year.

In addition we have been testing a smaller retail model aimed at smaller towns in outlying areas. We currently have two stores trading successfully in Ellisras and Lydenburg.

As previously announced, we closed four poorly-performing stores during the period recognising an exceptional charge of £2.5m.

Our strategic focus is concentrated on the following core elements:

- Enhanced margins through range management and improved procurement competitiveness;
- Upgrading the quality and capability of our store staff with a strong focus on product knowledge, design solutions and sales process;
- Operational improvements in retail discipline in stock control, distribution costs and headcount savings
- A critical store programme focused on the under-performing stores;
- Enhanced marketing programmes to reinforce the message that "Our home is your home".

### **TAL Adhesives**

**TAL**, our adhesives operation, delivered a strong performance despite significantly lower volumes which fell 20.5% in the year. The lower volumes were partially offset by an improved revenue mix, driven in the main by increased volumes of rapid set products. This improvement in revenue mix supported by savings in the procurement of raw materials drove a good improvement in our gross margins. TAL was, as a result, able to report a good level of trading profit in line with last year's performance.

The division's long-standing relationships with key customers in the market, supported by a strong offering of trusted brands, have continued to help maintain TAL's leading market position.

The strategic focus remains on our core values of product innovation, the provision of sound technical expertise and the quality guarantees that underpin our brand. This focus is supported by an improved and directed marketing effort towards architects, specifiers and fitters.

In our cementitious business the emphasis is on growing market share in the rapid set and building product segments, on the back of new and improved product launches as well as the penetration of new markets. We are also aiming to increase our tile adhesive presence in selected large retail chains, an area in which we are currently under-represented.

Our industrial adhesive business made strong progress this year on the back of an 8% growth in revenue resulting from hotmelt market share growth. We intend to further penetrate this market through the upgrade of our plant which will improve our volumes, quality and more importantly allow for the introduction of new product formats. We believe there is good potential to grow the contribution made by our industrial adhesive unit.

### **Johnson Tiles**

**Johnson Tiles** experienced a tough year driven not only by the downturn in the market but also by production-related problems which affected both our volume and quality. This resulted in higher production costs which we were not able to recover in a competitive market.

Constant currency revenues declined by 20.6% driven in part by the lower level of activity referred to earlier and in part by the effects of the closure of the wall tile plant in the previous year. Our results for the year were extremely disappointing with a marginally higher trading loss than the comparable period. The strength of the Rand compared to Sterling relative to the previous year further exacerbated the reported performance. We do however believe that the actions that have been taken, which were not short-term fixes, are starting to bear fruit and will lead to a significantly improved performance. The trading loss in the second half year was approximately half the loss in the first half year.

The problems in production resulted from a combination of excessive downtime and poor production management. In the first half of the year we replaced the senior management team and focused on reducing plant downtime. In addition we engaged the help of external specialist expertise from the UK and Italy to help up-skill both our engineering and production teams. Good progress was delivered in the fourth quarter with the plant stabilising and production volumes returning to targeted levels at the required quality. The plant is currently operating at levels in line with management's expectations and a number of initiatives are underway to reduce unit costs of manufacturing by driving down our gas, raw material and consumable costs.

Simultaneously we are also planning to enrich our mix of product aimed at further improving our margins by introducing a wider range of larger-format floor and porcelain ranges as well as a focused range of white wall tile. Additional resources have been devoted to design and product development.

We plan to significantly bolster our sales resource in the next financial year through the establishment of a dedicated sales team to drive the expected opportunities in the independent market. The new sales team will focus on key retail accounts, key architectural and specifications accounts and growing our exports exposure. The new sales function will be supported by a concerted marketing drive directed at Architects, Specifiers and Fitters.

### ***Rest of the World***

Our Australian business, Johnson Tiles, which made good progress in the first half of the year, encountered a number of operational difficulties in the second half. Revenues on a constant currency basis declined by 2.5% in the period and a disappointing trading loss of £0.6m was reported compared to last year's loss of £0.2m.

Several key overseas suppliers suffered from the tightening in global credit markets with production schedules delayed resulting in significant stock outs in a number of core line items. This held back revenue for a number of months. In addition results were impacted by additional costs relating to the implementation of a new IT system and an increase in the provision for bad debts. On the positive side good progress was made in reducing freight costs through the establishment of small, local warehouses in a number of states and in reducing inventory levels. A positive operating cash performance was achieved in the period.

We remain confident that the actions taken will strengthen the business and allow strategic options to be evaluated.

### ***Greece***

The performance of Philkeram Johnson, our 50% owned Greek tile and adhesives associate, continues to be impacted by the prolonged downturn in local building activity levels.

On a constant currency basis, revenues in the tile business declined by 21.5% which, combined with the action taken to curtail production output as a result of the drive to reduce inventory levels and conserve cash, resulted in a higher trading loss than the comparable period. Action continues to be taken to reduce operating costs including manning levels in line with the maximum permissible under Greek labour laws.

The adhesives operation was also affected by the market conditions, with revenues 11.7 % lower on a constant currency basis. Despite the volume shortfall, margins increased and together with tight control of costs the business recorded a trading profit marginally higher than the comparable period last year.

The Group equity accounts for its share of the results of the Greek associate and its share of the post tax loss was £2.8m (2009: £2.5m). Whilst the loss is a non-cash item, the Board in conjunction with our local partner is continuing to evaluate the options to realise value for this business.

Due to the continuing post tax losses and the severe difficulties in the Greek economy we have decided to fully impair the remaining carrying value of the loan to the associate. In addition we have provided for the mark to market valuation of the cross currency swap which was used to hedge this loan along with other associated costs. These items, totalling £5.7m, have been charged to exceptional operating items in the consolidated income statement. These charges, which were previously announced on 16 April 2010, together with the losses noted above, mean the associate now has a nil carrying value in the consolidated balance sheet, therefore no losses will be charged in future years.

## ***Summary***

Activity levels in the Group's markets in 2010 will continue to be influenced by adverse macro-economic factors which will negatively impact consumer and public expenditure. Against a continuing challenging background we remain focused on increasing revenue through market-leading new product introductions and selective marketing programmes. We will continue to drive improvements in operating cost efficiency, asset utilisation and cash conversion. We are confident that the combination of these measures, together with a robust balance sheet, following the successful capital raising in December 2009, will ensure that the Group is well positioned to take advantage of market opportunities and economic recovery.

## **FINANCIAL REVIEW**

### ***Revenue***

Group revenues increased on a reported basis by 10.0% or by £15.4m to £169.6m (2009: £154.2m). The underlying increase on a constant currency basis was lower at 2.4% or £3.9m from £165.7m (2009 restated to constant currency), principally reflecting the translation impact of the stronger South African Rand and Australian Dollar against Sterling between the two periods. The Group recorded increases in revenue in its UK businesses of 8.6% which more than offset the smaller decreases in both its South African and Australian operations.

### ***Trading profit***

Trading profit, as reported, increased by 4.3% to £7.3m (2009: £7.0m) and on a constant currency basis by 9.0% (2009 restated to constant currency: £6.7m). Our UK businesses performed extremely well and increased their trading profits by 30.3%. Losses were incurred in both South Africa and Australia reflecting continuing difficult market conditions and specific operational issues referred to earlier in the Business Review. Trading profit margins declined slightly from 4.5% to 4.3%.

### ***Exceptional items and operating loss***

Exceptional items of £8.2m have been charged in the year. The major items comprise a £5.7m charge relating to the Greek associate and a £2.5m charge relating principally to retail store closures in South Africa.

Operating losses were £0.8m (2009: £0.7m).

### ***Finance costs***

Finance costs increased to £5.9m from £4.5m in 2009 reflecting the higher costs of bank debt experienced during the year and a £0.7m increase in amortisation charges in relation to capitalised financing costs.

Finance income of £0.6m was in line with 2009.

Other finance costs of £1.1m relate to our UK defined benefit pension scheme. In the previous year the equivalent figure was a £2.3m credit. This reflects the relative movements in the pension scheme assets and liabilities at 31 March 2008 and 31 March 2009. At the latter date the discount rate used to value liabilities was particularly high which coincided with a particularly low point for assets valuations.

### ***Loss before tax***

Loss before tax and exceptional items was £1.8m (2009: profit of £2.9m) principally reflecting the increase in net finance costs noted above. The Group reported a loss before tax and after exceptional items of £10.0m (2009: loss of £4.8m).

### ***Taxation***

No taxation charge has been made for 2010 (2009: £1.5m). The nil charge reflects the loss before tax made by the Group in the current year. The prior year charge reflected the write off of previously recognised deferred tax assets relating to tax losses in South Africa. Given the current economic climate we have decided to continue not to recognise these assets for the immediate future.

### ***Loss per share***

Loss per share, based on losses before exceptional items of £1.8m (2009: earnings of £1.5m), amounted to 0.6p (2009: earning of 1.0p). After exceptional items the Group made a basic loss per share of 3.4p (2009: loss of 4.2p).

### ***Dividends***

Given the current economic conditions and consumer uncertainty no interim or final dividends have been proposed this year. It is, however, the Board's intention to return to a progressive dividend policy within the restrictions placed on the Group by the terms of its bank facility agreement and subject to the Group's earnings, cash flow and balance sheet position.

### ***Pension schemes***

The Group contributed £1.1m into its UK defined benefit pension scheme during the year.

The total charge in respect of defined benefit schemes to operating expenses (excluding exceptional credits) in the Consolidated Income Statement was £0.6m (2009: £1.1m).

The gross defined benefit pension scheme valuation on the UK scheme showed a deficit of £9.3m compared to a surplus of £1.3m last year. The reduction principally reflects the increase in the valuation of scheme liabilities caused by a reduced discount rate of 5.7% from 6.9% this year. This has been largely offset by an increase in the scheme assets as a result of the recovery in equity and bond markets since March 2009.

The Group's contributions to its defined contribution pension schemes were £0.8m (2009: £0.9m).

### ***Cash flow and financial position***

The Group has recorded a year of good cash generation from its operations amounting to £10.6m (2009: £6.8m) and net cash generated after tax and interest of £7.6m (2009: £3.8m). The table below sets out the key cash flow components and the movement in Group net debt.

### ***Key cash flow components and movement in Group net debt***

	2010	2009
	£m	£m
Cash flow from operations	10.6	6.8
Interest and tax	(3.0)	(3.0)
Free cash flow available for investment	7.6	3.8
Net proceeds from capital raising	27.7	-
Capital expenditure	(3.9)	(4.7)
Dividends	-	(4.0)
Proceeds from sale of shares in investments	-	4.0
Other items including other disposal proceeds, foreign exchange, rolled up interest and amortised financing costs	(1.5)	1.6
Movement in net debt	29.9	0.7
Opening net debt	(45.8)	(46.5)
Closing net debt	(15.9)	(45.8)

The Group reduced its debt by £29.9m during the year principally reflecting the net proceeds of £27.7m from the Capital Raising.

Included within the figure of £10.6m cash generated from operations is a decrease in working capital of £1.9m (2009: increase of £0.5m). This reflects the results of management actions to tightly control working capital in the current economic conditions.

Capital expenditure of £3.9m in 2010 represents 83% of the prior year figure and 58% of depreciation (2009: 73%).

#### ***Bank funding***

During the year the Group agreed with its banks to revise the terms of its £80m banking facility. The Group's banking covenants (interest cover, leverage cover, debt service cash cover and capital expenditure) were reset at levels that provide adequate headroom and flexibility.

Overall the costs relating to the revision of the facility were £3.5m including a 1.5% arrangement fee. These costs will be amortised over the life of the facility which expires in October 2012.

The Group has also granted warrants to its banks equivalent to 5% of its fully diluted share capital excluding the shares issues as part of the capital raising (at 31 March 2010 this represents 1.41% of the total issued share capital). These warrants are exercisable at 8.97p per share at any time up to July 2017.

Subsequent to the new Bank funding the Group raised a net £27.7m from a Capital Raising (see Chairman's statement). These funds were used to repay the B facility plus accumulated rolled up interest and the balance used to partially repay the A facility. The net effect is to leave the Group with an available facility of £52.8m of which £32.8m is available as cash drawings. This facility is currently subject to a margin of 3.0% above LIBOR.

### ***Foreign currency translation***

Profits from our overseas operations are translated at the average exchange rate for the year and balance sheets of these operations translated at the closing rate of exchange. The table below sets out the relevant exchange rates used:

	Average rate vs £	
	2010	2009
South African Rand	12.47	14.32
Australian Dollar	1.70	2.05
Euro	1.13	1.20
US Dollar	1.59	1.71

  

	Closing rate vs £	
	2010	2009
South African Rand	11.10	13.71
Australian Dollar	1.65	2.06
Euro	1.11	1.12
US Dollar	1.49	1.48

The movement in average exchange rates compared to 2009 had the effect of increasing 2009 reported Group revenue by £11.5m but reducing Group trading profit by £0.3m.

### ***Key Performance Indicators***

Management uses a full suite of measures to manage and monitor the performance of its individual businesses. The Board considers that its key performance indicators are the measures most relevant in monitoring its progress to creating shareholder value. The relevant statistics for 2010 and 2009 are as follows:-

	2010 £m	2009 £m	Change %
Revenue *	169.6	165.7	+2.4%
Trading profit *	7.3	6.7	+9.0%
Profit before tax – underlying**	3.4	4.2	-19.0%
Earnings per share – underlying** - pence	1.2p	2.8p	-57.1%
Dividend per share - pence	-	-	-
Cash generated from operations	10.6	6.8	+55.9%
Net debt	15.9	45.8	-65.3%

\* Expressed in constant currencies.

\*\* Before exceptional operating items, non-cash share of loss of associate and non-cash finance costs

## **Responsibility Statement**

Each of the directors, whose names and functions are listed below, confirms that, to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The business review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole.

**Directors:** John Brown (Chairman), Joe Matthews (Group Chief Executive), Nick Kelsall (Group Finance Director), David Hamilton (Director and Company Secretary), Les Tench (Non-Executive Director), Jamie Stevenson (Non-Executive Director) and Vijay Aggarwal (Non-Executive Director).

J. Matthews

**Group Chief Executive**

N. P. Kelsall

**Group Finance Director**

## Consolidated income statement

Year ended 31 March 2010

	Notes	2010 £m	2009 £m
<b>Continuing operations</b>			
Revenue	2	<b>169.6</b>	154.2
Operating loss		<b>(0.8)</b>	(0.7)
Trading profit*		<b>7.3</b>	7.0
Exceptional operating items	3	<b>(8.2)</b>	(7.7)
Other operating income		<b>0.1</b>	—
<b>Operating loss</b>		<b>(0.8)</b>	(0.7)
Finance costs	4	<b>(5.9)</b>	(4.5)
Finance income	4	<b>0.6</b>	0.6
IAS 19 finance (costs)/income		<b>(1.1)</b>	2.3
Share of loss of associate		<b>(2.8)</b>	(2.5)
<b>Loss before taxation</b>		<b>(10.0)</b>	(4.8)
Taxation		<b>—</b>	(1.5)
<b>Loss for the year</b>		<b>(10.0)</b>	(6.3)
<b>Loss per share attributable to equity holders of the Company</b>			
From continuing operations:			
Basic loss per share (2009 restated)	5	<b>(3.4)p</b>	(4.2)p
Diluted loss per share (2009 restated)	5	<b>(3.4)p</b>	(4.2)p

\*Trading profit is defined as operating profit before exceptional operating items and other operating income.

## Consolidated statement of comprehensive income and expense

Year ended 31 March 2010

	2010 £m	2009 £m
Loss for the year	<b>(10.0)</b>	(6.3)
Other comprehensive income:		
Actuarial losses on retirement benefit obligations	<b>(5.6)</b>	(4.8)
Foreign currency translation adjustments	<b>8.8</b>	6.4
Other comprehensive income for the year	<b>3.2</b>	1.6
Total comprehensive expense for the year	<b>(6.8)</b>	(4.7)

Items in the statement are disclosed net of tax.

**Consolidated balance sheet**  
At 31 March 2010

	Notes	2010 £m	2009 £m
<b>Non-current assets</b>			
Goodwill		23.8	22.9
Investment in associates		—	2.1
Financial assets		—	4.3
Trade investments		1.7	1.7
Property, plant and equipment		47.0	45.4
Investment properties		5.5	5.6
Deferred tax assets		2.6	—
		<b>80.6</b>	<b>82.0</b>
<b>Current assets</b>			
Inventories		37.4	36.5
Trade and other receivables		38.7	31.3
Derivative financial instruments		0.6	1.5
Pension scheme asset		1.2	0.5
Cash and cash equivalents		3.9	7.3
		<b>81.8</b>	<b>77.1</b>
<b>Current liabilities</b>			
Trade and other payables		(41.7)	(35.1)
Derivative financial instruments		(2.2)	(1.7)
Current tax liabilities		(0.6)	(0.6)
Financial liabilities – borrowings		(2.8)	(2.4)
		<b>(47.3)</b>	<b>(39.8)</b>
<b>Net current assets</b>		<b>34.5</b>	<b>37.3</b>
<b>Total assets less current liabilities</b>		<b>115.1</b>	<b>119.3</b>
<b>Non-current liabilities</b>			
Financial liabilities – borrowings		(17.0)	(50.7)
Pension scheme liability		(9.3)	—
Other non-current liabilities		(1.6)	(1.1)
Provisions		(16.0)	(17.2)
		<b>(43.9)</b>	<b>(69.0)</b>
<b>Net assets</b>		<b>71.2</b>	<b>50.3</b>
<b>Financed by:</b>			
Share capital	6	19.2	14.9
Share premium		86.8	63.4
Retained earnings and other reserves		(34.8)	(28.0)
<b>Total equity</b>		<b>71.2</b>	<b>50.3</b>

**J. Matthews**  
*Group Chief  
Executive*

**N. P. Kelsall**  
*Group Finance Director*

## Consolidated cash flow statement

Year ended 31 March 2010

	Notes	2010 £m	2009 £m
<b>Cash generated from operations</b>		<b>10.6</b>	6.8
Income taxes received/(paid)		0.1	(0.4)
Interest received		0.5	0.8
Interest paid		(3.6)	(3.4)
<b>Net cash generated from operating activities</b>		<b>7.6</b>	3.8
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investments		—	4.0
Dividends received from associates and trade investments		0.1	—
Purchase of property, plant and equipment		(3.9)	(4.7)
Proceeds from sale of property, plant and equipment		—	2.0
<b>Net cash generated (used in)/from investing activities</b>		<b>(3.8)</b>	1.3
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		27.7	—
Repayment of borrowings		(31.5)	—
Capitalised finance costs		(3.5)	—
Drawdown of new borrowings		—	2.8
Dividends paid to Company's shareholders		—	(4.0)
<b>Net cash used in financing activities</b>		<b>(7.3)</b>	(1.2)
<b>Net (decrease)/increase in cash at bank and in hand and bank overdrafts</b>		<b>(3.5)</b>	3.9
Cash at bank and in hand and bank overdrafts at beginning of the year		4.9	1.1
Exchange movements on cash and bank overdrafts		(0.3)	(0.1)
<b>Cash at bank and in hand and bank overdrafts at end of the year</b>	7	<b>1.1</b>	4.9

## Consolidated statement of changes in equity

Year ended 31 March 2010

	Ordinary share capital £m	Share premium £m	Translation reserve £m	Retained losses £m	Total £m
At 1 April 2008	14.9	63.4	(5.5)	(13.7)	59.1
Comprehensive income:					
Loss for the year	—	—	—	(6.3)	(6.3)
Other comprehensive income:					
Actuarial loss on retirement benefit obligations	—	—	—	(4.8)	(4.8)
Foreign currency translation adjustments	—	—	6.4	—	6.4
Total other comprehensive income	—	—	6.4	(4.8)	1.6
Transactions with owners:					
Dividends	—	—	—	(4.0)	(4.0)
Employee share option schemes	—	—	—	(0.1)	(0.1)
Total transactions with owners	—	—	—	(4.1)	(4.1)
At 31 March 2009	14.9	63.4	0.9	(28.9)	50.3
Comprehensive income:					
Loss for the year	—	—	—	(10.0)	(10.0)
Other comprehensive income:					
Actuarial loss on retirement benefit obligations	—	—	—	(5.6)	(5.6)
Foreign currency translation adjustments	—	—	8.8	—	8.8
Total other comprehensive income	—	—	8.8	(5.6)	3.2
Transactions with owners:					
Issue of new shares (net of transaction costs)	4.3	23.4	—	—	27.7
<b>At 31 March 2010</b>	<b>19.2</b>	<b>86.8</b>	<b>9.7</b>	<b>(44.5)</b>	<b>71.2</b>

### Notes to the group accounts

Year ended 31 March 2010

#### 1. Basis of preparation

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 March 2010 or 2009. The preliminary results of the Group for the year ended 31 March 2010 have been extracted from audited consolidated financial statements which have not yet been delivered to the Registrar of Companies. The auditors have reported on the Group's statutory accounts for the year ended 31 March 2010. The report does not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006. The financial information for the year ended 31 March 2009 is derived from the statutory accounts for that year.

The consolidated financial statements for the year ended 31 March 2010 have been prepared on the basis of the IFRS accounting policies set out in the Group's Annual Report and Financial Statements for the year ended 31 March 2009, with the exception of the adoption of IAS 1 (revised), 'Presentation of financial statements' and IFRS 8, 'Operating segments'. These standards impact disclosure only.

## 2. Segmental reporting

The Group operates in three main geographical areas: UK, South Africa and the Rest of the world. All inter-segment transactions are made on an arm's length basis. The chief operating decision maker assesses performance and allocates resources based on geography as each segment has similar economic characteristics, complementary products, distribution channels and regulatory environments.

*Continuing operations – year ended 31 March 2010*

	UK	South Africa	Rest of the World	Group
	£m	£m	£m	£m
Revenue	102.7	59.0	7.9	169.6
Trading profit/(loss)	11.6	(3.7)	(0.6)	7.3
Exceptional operating items	(0.1)	(2.4)	(5.7)	(8.2)
Other operating income	—	—	0.1	0.1
Operating profit/(loss)	11.5	(6.1)	(6.2)	(0.8)
Finance costs				(5.9)
Finance income				0.6
IAS 19 finance cost				(1.1)
Share of loss of associate				(2.8)
Loss before taxation				(10.0)
Taxation				—
Loss from continuing operations				(10.0)
Net debt				(15.9)
Segmental assets	96.3	57.3	8.8	162.4
Segmental liabilities	(70.5)	(14.4)	(6.3)	(91.2)
Capital expenditure	2.0	1.9	0.1	4.0
Depreciation	4.0	2.6	0.1	6.7

*Continuing operations – year ended 31 March 2009*

	UK	South Africa	Rest of the World	Group
	£m	£m	£m	£m
Revenue	94.6	52.6	7.0	154.2
Trading profit/(loss)	8.9	(1.7)	(0.2)	7.0
Exceptional operating items	(5.8)	(1.0)	(0.9)	(7.7)
Operating profit/(loss)	3.1	(2.7)	(1.1)	(0.7)
Finance costs				(4.5)
Finance income				0.6
IAS 19 finance income				2.3
Share of loss of associate				(2.5)
Loss before taxation				(4.8)
Taxation				(1.5)
Loss from continuing operations				(6.3)
Net debt				(45.8)
Segmental assets	96.8	47.8	14.5	159.1
Segmental liabilities	(94.7)	(10.1)	(4.0)	(108.8)
Capital expenditure	2.3	1.9	0.1	4.3
Depreciation	4.0	2.3	0.1	6.4

### 3. Exceptional items

	2010 £m	2009 £m
Impairment of associate's carrying value and related costs <sup>1</sup>	(5.7)	—
Past service pension credit <sup>2</sup>	—	1.5
Restructuring costs <sup>3</sup>	(2.5)	(3.5)
Property provisions <sup>4</sup>	—	(7.0)
Profit on disposal of investments <sup>5</sup>	—	1.3
	<b>(8.2)</b>	<b>(7.7)</b>

<sup>1</sup> The remaining carrying value of Philkeram Johnson (the Group's Greek associate) has been fully impaired together with associated costs including the mark to market value of the related cross currency swap.

<sup>2</sup> The pension credit related to the impact of changes in pensioners' benefits in the UK defined benefit pension scheme.

<sup>3</sup> Restructuring costs relate to redundancies and asset write-downs following the implementation of a programme of restructuring initiatives throughout the Group's business units.

<sup>4</sup> The provision to cover the Group's onerous property leases was increased by £7.0m in the prior year.

<sup>5</sup> Profit on disposal of the Group's 19% investment in H & R Johnson (India) Limited.

#### 4. Finance income and costs

	2010 £m	2009 £m
<b>Finance costs</b>		
Interest payable on bank borrowings	4.3	3.4
Amortisation of costs of raising debt finance	0.8	0.1
Movement on fair value of derivative financial instruments	—	0.5
Discount on property lease provisions	0.8	0.5
<b>Total finance costs</b>	<b>5.9</b>	<b>4.5</b>
<b>Finance income</b>		
Bank interest receivable	(0.3)	(0.6)
Movement on fair value of derivative financial instruments	(0.3)	—
<b>Total finance income</b>	<b>(0.6)</b>	<b>(0.6)</b>
<b>Net finance costs</b>	<b>5.3</b>	<b>3.9</b>

#### 5. Earnings per share

Basic EPS is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held in the Norcross Employee Benefit Trust. The weighted average number of ordinary shares for 2009 has been restated to take account of the shares issued as part of the capital raising in December 2009.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. At 31 March 2010 the potential dilutive ordinary shares amounted to nil (2009: nil) as calculated in accordance with IAS 33.

The calculation of EPS is based on the followings profits and numbers of shares:

	2010 £m	2009 £m
Basic and diluted:		
– loss for the financial year	(10.0)	(6.3)
Basic and diluted before exceptionals:		
– loss for the financial year	(10.0)	(6.3)
– exceptional items (net of taxation)	8.2	7.8
	<b>(1.8)</b>	<b>1.5</b>

	2010 Number	2009 Number Restated
Weighted average number of shares for basic earnings per share	291,893,248	150,458,892
Share options	—	—
Weighted average number of shares for diluted earnings per share	291,893,248	150,458,892

	2010	2009 Restated
Basic loss per share	(3.4)p	(4.2)p
Diluted loss per share	(3.4)p	(4.2)p
Basic (loss)/earnings per share before exceptionals	(0.6)p	1.0p
Diluted (loss)/earnings per share before exceptionals	(0.6)p	1.0p

EPS before exceptionals is disclosed in order to show the underlying performance of the Group.

## 6. Called up share capital

	2010 £000	2009 £000
<b>Issued and fully paid</b>		
577,326,112 ordinary shares of 1p each (2009: 148,717,884 ordinary shares of 10p each)	5,773	14,872
148,754,684 deferred shares of 9p each	13,388	—
	<b>19,161</b>	<b>14,872</b>

### *Warrant instruments*

During the year the Company executed a warrant instrument in favour of its principal banks over 5% of its fully diluted ordinary share capital excluding any shares issued as part of a capital raising. Therefore, following the subsequent capital raising, these warrants represent 1.41% of the issued ordinary share capital at 31 March 2010. The warrants are exercisable at 8.97p per share at any time up to July 2017.

### *Capital raising*

Under the terms of the capital raising the Group issued 285,766,932 ordinary shares through a firm placing and 142,804,496 ordinary shares through a placing and open offer, both at 7p per ordinary share.

Prior to the capital raising the Group divided each 10p ordinary shares into one 1p ordinary share and one 9p deferred share. These deferred shares carry no voting rights.

## 7. Consolidated cash flow statements

### *(a) Cash generated from operations*

	2010 £m	2009 £m
Loss before taxation	(10.0)	(4.8)
Adjustments for:		
– exceptional items included in the income statement	8.2	7.7
– cash flows from exceptional costs	(4.4)	(4.3)
– other operating income	(0.1)	—
– depreciation	6.7	6.4
– difference between pension charge and contributions	(0.5)	(1.0)
– profit on disposal of property, plant and equipment	—	(0.6)
– finance costs	5.9	4.5
– finance income	(0.6)	(0.6)
– other finance cost/(income)	1.1	(2.3)
– share of loss of associates	2.8	2.5
– share-based payments	—	(0.1)
– exchange differences	(0.4)	(0.1)
<b>Operating cash flows before movement in working capital</b>	<b>8.7</b>	<b>7.3</b>
Changes in working capital:		
– decrease/(increase) in inventories	3.9	(1.9)
– (increase)/decrease in trade and other receivables	(5.0)	4.0
– increase/(decrease) in payables	3.0	(2.6)
<b>Cash generated from operations</b>	<b>10.6</b>	<b>6.8</b>

**(b) Outflow related to exceptional items**

This includes expenditure charged to exceptional provisions relating to business rationalisation and restructuring including severance and other employee costs.

**(c) Analysis of net debt**

	Net cash £m	Net debt £m	Total £m
At 1 April 2008	1.1	(47.6)	(46.5)
Cash flow	3.9	(2.8)	1.1
Other non-cash movements	—	(0.1)	(0.1)
Exchange movement	(0.1)	(0.2)	(0.3)
At 31 March 2009	4.9	(50.7)	(45.8)
Cash flow	(3.5)	31.5	28.0
Rolled up interest	—	(0.5)	(0.5)
Other non-cash movements	—	2.7	2.7
Exchange movement	(0.3)	—	(0.3)
<b>At 31 March 2010</b>	<b>1.1</b>	<b>(17.0)</b>	<b>(15.9)</b>

Other non-cash movements relate to an increase in transaction costs of £3.5m (2009: £nil) following the refinancing of bank debt in July 2009 less amortisation charged for the year of £0.8m (2009: £0.1m).