

William Sinclair Holdings plc



INTERIM REPORT 2011

## WILLIAM SINCLAIR

William Sinclair Holdings PLC is one of the UK's leading producers of commercial horticulture and branded garden products. William Sinclair's well established brands include J Arthur Bower's, Silvaperl and New Horizon - the leading brand in the fast growing peat free garden compost and organic plant foods sector. William Sinclair's customers include national accounts such as The Garden Centre Group, Sainsbury's, Wilkinson, Homebase and B&Q as well as an extensive range of independent garden centres.

## HIGHLIGHTS

- Profit before tax up to £0.65 million (2010: £0.19 million)
- Revenue up 19% at £26.1 million (2010: £21.8 million)
- Interim dividend of 1.8p per share (2010: 1.5p)
- Increase in market share
- Potential for further efficiency and margin improvements
- Leading position in peat free alternatives

“Our strategy is to exploit the company's pre-eminence in the UK horticulture growing media market with particular emphasis on consolidating our lead in peat free technology. We expect our market to prosper from both demographic trends and the fragile state of the UK economy as, traditionally, gardening becomes more popular in times of austerity. It is pleasing to see the improving financial performance that stems from management actions and I am confident that William Sinclair will continue to generate shareholder value.”

**Bernard Burns, Chief Executive**

## DIRECTORS

**Bill Simpson**, Chairman

**Bernard Burns**, Chief Executive Officer

**Peter Williams**, Finance Director and Company Secretary

**Ken Piggott**, Senior Independent Non-Executive Director

**Philip Nuttall**, Independent Non-Executive Director

## CHAIRMAN'S STATEMENT

for the six months ended 31 March 2011 (unaudited)

The six months to 31 March 2011 was a period of further substantial improvement at William Sinclair with turnover, operating profit and profit before taxation all showing improved performance. The interim dividend has been increased from 1.5p to 1.8p per share.

### Trading Review

Turnover was 19.5% higher than for the same period last year at £26.1 million (2010: £21.8 million). The acquisition of Growing Success and a small aggregates business provided much of this top line growth but we also gained market share with our core product ranges. Overall, the horticulture market showed a modest increase but the Directors believe there was strong demand for growing media as gardeners and nurseries replaced stock damaged by the severe frosts early in the winter.

Our high quality product and service levels continue to attract new customers despite the retail market struggling in some sectors. The appointment of administrators at Focus DIY is the latest evidence of these difficulties. William Sinclair's net exposure here was limited due to the tight credit control procedures adopted.

The integration of the recent acquisitions is progressing to plan and we expect to complete this by the end of the financial year. The acquisitions added modestly to operating profits in the period but will contribute an increasing amount as the integration is completed and the expected synergies deliver healthy margin improvements.

Our operating profit improved by 70.5% to £757,000 (2010: £444,000). This increase is despite the unexpected increase in oil prices which impacted our transport, packaging and harvesting costs. Further improvements in our transport efficiency have partly offset these cost increases as has the forward purchase of some of our packaging.

The relative strength of the Euro against Sterling continues to benefit the Company whilst disadvantaging our overseas competitors. The UK's professional growers, an important customer base for the Company, also benefit from the current exchange rates.

With the benefit of the improved operating margins and some lower finance costs, our pre-tax profits improved by 246% to £647,000 (2010: £187,000).

### Dividend

I am pleased to announce that we are making a further increase to our interim dividend this year. A dividend of 1.80p per share (2010: 1.50p) will be paid on 2 August 2011 to shareholders on the register on 8 July 2011. This is a 20% increase on last year's interim dividend.

## CHAIRMAN'S STATEMENT

for the six months ended 31 March 2011 (unaudited)

### Bolton Fell

We announced on 20 April 2011 that Natural England had requested an extension to their deadline for responding to the Company's compensation claim for ceasing our operations at Bolton Fell. We expect to hear from Natural England later this month. The £9 million interim payment remains on the balance sheet and has not been taken to our P&L account.

### Peat Policy

The government's policy on peat will be laid out in a white paper expected in June 2011. A cross section of the major stakeholders in the industry, including William Sinclair, have collectively written to the minister responsible to assert that we do not believe the government's future targets for peat reduction will be met through the current voluntary mechanism and only legislation will provide the investment environment necessary for further progress.

In New Horizon, William Sinclair has the market leading peat free brand. In addition we have developed a unique technology which uses waste green material to produce an excellent peat alternative. This places the company in an extremely strong position should there be legislation to support peat reduction.

An extension to an existing planning permission on part of one of our peat bogs near Manchester has been withheld pending a formal, long term decision. William Sinclair, as part of its application, has committed to regenerating the bog once harvesting has been completed, something it is not currently required to do. The formal decision is expected imminently. Whilst we have other peat resources, this is further evidence of the problems created by a general desire to end peat harvesting without providing the legislation to enforce change amongst consumers and growers.

### Outlook

The Company's position within the market is strengthening with our low cost base and market leading high quality products and service levels. Growing media sales have remained exceptionally strong throughout the spring, slightly tempered by poor sales of lawn care products. The fragile state of the UK economy benefits garden consumable markets as consumers spend time in a low cost activity while spending reduces on holidays, home improvements and capital consumer goods.

William Sinclair made an early start with its peat harvest during April 2011. In the event that harvest targets continue to remain on track the Board is confident that the Company will comfortably achieve market forecasts.

Bill Simpson  
Chairman

## CONSOLIDATED INCOME STATEMENT

for the six months ended 31 March 2011 (unaudited)

Notes	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000	Year ended 30 September 2010 £'000
<b>Revenue</b>	<b>26,097</b>	21,840	48,456
Operating expenses	(25,340)	(21,396)	(45,490)
Provision against assets held for resale	–	–	(460)
<b>Group operating profit</b>	<b>757</b>	444	2,506
Finance income	2	12	57
Finance costs	(46)	(103)	(183)
Other finance costs - pension	(66)	(166)	(317)
<b>Profit before taxation</b>	<b>647</b>	187	2,063
Tax charge	2 (182)	(51)	(404)
<b>Profit for the period</b>	<b>465</b>	136	1,659
<b>Profit for the period is attributable to:</b>			
Equity holders of the parent company	448	124	1,622
Minority interests	17	12	37
	<b>465</b>	136	1,659

All results relate to continuing operations.

**Earnings per share (pence)**

Basic EPS on profit for the period	4 2.7p	0.7p	9.8p
Diluted EPS on profit for the period	2.7p	0.7p	9.7p
<b>Dividend per share</b>	<b>3 1.8p</b>	1.5p	5.0p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2011 (unaudited)

<b>Profit for the period</b>	<b>465</b>	136	1,659
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on defined benefit pension scheme	1,800	1,229	(443)
Tax on items taken directly to or transferred from equity	(468)	(344)	178
<b>Other comprehensive income, net of tax</b>	<b>1,332</b>	885	(265)
<b>Total comprehensive income for the period</b>	<b>1,797</b>	1,021	1,394
<b>Attributable to:</b>			
Equity holders of the parent company	1,780	1,009	1,357
Minority interests	17	12	37
	<b>1,797</b>	1,021	1,394

## CONSOLIDATED STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

for the six months ended 31 March 2011 (unaudited)

	Equity share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Other reserves £000	Retained earnings £000	Total £000	Minority interests £000	Total equity £000
At 1 October 2010	4,139	–	1,523	7,822	176	2,806	16,466	248	16,714
Profit for the six months to 31 March 2011	–	–	–	–	–	448	448	17	465
Depreciation transfer	–	–	–	(95)	–	95	–	–	–
Actuarial gains on defined benefit pension scheme	–	–	–	–	–	1,800	1,800	–	1,800
Tax on items taken directly to or transferred from equity	–	–	–	–	–	(468)	(468)	–	(468)
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(95)</b>	<b>–</b>	<b>1,875</b>	<b>1,780</b>	<b>17</b>	<b>1,797</b>
Share based payments	–	–	–	–	–	140	140	–	140
New shares issued	117	150	–	–	–	–	267	–	267
Equity dividends paid	–	–	–	–	–	(596)	(596)	–	(596)
<b>Transactions with owners</b>	<b>117</b>	<b>150</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(456)</b>	<b>(189)</b>	<b>–</b>	<b>(189)</b>
<b>At 31 March 2011</b>	<b>4,256</b>	<b>150</b>	<b>1,523</b>	<b>7,727</b>	<b>176</b>	<b>4,225</b>	<b>18,057</b>	<b>265</b>	<b>18,322</b>
At 1 October 2009	4,139	–	1,523	7,906	176	1,915	15,659	220	15,879
Profit for the six months to 31 March 2010	–	–	–	–	–	124	124	12	136
Actuarial gains on defined benefit pension scheme	–	–	–	–	–	1,229	1,229	–	1,229
Tax on items taken directly to or transferred from equity	–	–	–	–	–	(344)	(344)	–	(344)
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,009</b>	<b>1,009</b>	<b>12</b>	<b>1,021</b>
Equity dividends paid	–	–	–	–	–	(414)	(414)	–	(414)
<b>Transactions with owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(414)</b>	<b>(414)</b>	<b>–</b>	<b>(414)</b>
<b>At 31 March 2010</b>	<b>4,139</b>	<b>–</b>	<b>1,523</b>	<b>7,906</b>	<b>176</b>	<b>2,510</b>	<b>16,254</b>	<b>232</b>	<b>16,486</b>
At 1 October 2009	4,139	–	1,523	7,906	176	1,915	15,659	220	15,879
Profit for the year to 30 September 2010	–	–	–	–	–	1,622	1,622	37	1,659
Depreciation transfer	–	–	–	(195)	–	195	–	–	–
Actuarial losses on defined benefit pension scheme	–	–	–	–	–	(443)	(443)	–	(443)
Tax on items taken directly to or transferred from equity	–	–	–	111	–	67	178	–	178
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(84)</b>	<b>–</b>	<b>1,441</b>	<b>1,357</b>	<b>37</b>	<b>1,394</b>
Share based payments	–	–	–	–	–	106	106	–	106
Deferred tax	–	–	–	–	–	6	6	–	6
Equity dividends paid	–	–	–	–	–	(662)	(662)	(9)	(671)
<b>Transactions with owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(550)</b>	<b>(550)</b>	<b>(9)</b>	<b>(559)</b>
<b>At 30 September 2010</b>	<b>4,139</b>	<b>–</b>	<b>1,523</b>	<b>7,822</b>	<b>176</b>	<b>2,806</b>	<b>16,466</b>	<b>248</b>	<b>16,714</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2011 (unaudited)

Notes	As at 31 March 2011 £'000	As at 31 March 2010 £'000	As at 30 September 2010 £'000
<b>Non-current assets</b>			
Property, plant and equipment	19,969	20,929	20,196
Intangible assets	2,031	1,606	1,607
	<b>22,000</b>	<b>22,535</b>	<b>21,803</b>
<b>Current assets</b>			
Inventories	13,958	10,220	10,929
Trade and other receivables	24,117	18,364	9,324
Cash and cash equivalents	596	499	3,650
	<b>38,671</b>	<b>29,083</b>	<b>23,903</b>
<b>Assets held for sale</b>	<b>1,651</b>	<b>2,151</b>	<b>1,651</b>
<b>Total assets</b>	<b>62,322</b>	<b>53,769</b>	<b>47,357</b>
<b>Current liabilities</b>			
Trade and other payables	(16,225)	(11,691)	(9,256)
Financial liabilities - borrowings	(9,618)	(14,000)	(744)
Corporation tax payable	(383)	(488)	(328)
	<b>(26,226)</b>	<b>(26,179)</b>	<b>(10,328)</b>
<b>Non-current liabilities</b>			
Financial liabilities - borrowings	(513)	(1,482)	(1,099)
Deferred tax liabilities	(851)	(970)	(383)
Provisions	(242)	(241)	(232)
Defined benefit pension plan deficit	(7,168)	(8,411)	(9,601)
Receipt from Natural England	7 (9,000)	-	(9,000)
	<b>(17,774)</b>	<b>(11,104)</b>	<b>(20,315)</b>
<b>Total liabilities</b>	<b>(44,000)</b>	<b>(37,283)</b>	<b>(30,643)</b>
<b>Net assets</b>	<b>18,322</b>	<b>16,486</b>	<b>16,714</b>
<b>Capital and reserves</b>			
Equity share capital	4,256	4,139	4,139
Share premium account	150	-	-
Capital redemption reserve	1,523	1,523	1,523
Revaluation reserve	7,727	7,906	7,822
Other reserves	176	176	176
Retained earnings	4,225	2,510	2,806
<b>Group shareholders' equity</b>	<b>18,057</b>	<b>16,254</b>	<b>16,466</b>
Minority interests	265	232	248
<b>Total equity</b>	<b>18,322</b>	<b>16,486</b>	<b>16,714</b>

## CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 March 2011 (unaudited)

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000	Year ended 30 September 2010 £'000
<b>Net cash flow from operating activities</b>	<b>(9,389)</b>	<b>(6,032)</b>	<b>2,316</b>
<b>Net cash flow from investing activities</b>	<b>(1,578)</b>	<b>(1,398)</b>	<b>7,381</b>
<b>Net cash flow from financing activities</b>	<b>(1,078)</b>	<b>(873)</b>	<b>(1,568)</b>
<b>(Decrease) / increase in cash in the period</b>	<b>(12,045)</b>	<b>(8,303)</b>	<b>8,129</b>
Opening cash and cash equivalents	3,629	(4,500)	(4,500)
(Decrease) / increase in cash and cash equivalents	<b>(12,045)</b>	<b>(8,303)</b>	<b>8,129</b>
<b>Closing cash and cash equivalents</b>	<b>(8,416)</b>	<b>(12,803)</b>	<b>3,629</b>

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**Cash flow from operating activities**

Group operating profit	757	444	2,506
Amortisation of intangible assets	76	24	47
Depreciation of property, plant and equipment	930	810	1,812
Negative goodwill on acquisition	(31)	-	-
Impairment of assets held for sale	-	-	500
Profit on disposal of property, plant and equipment	-	(5)	(32)
Share based payments	140	-	106
Difference between pension contributions paid and amounts recognised in the income statement	(699)	13	(620)
Increase in inventories	(2,621)	(1,582)	(2,291)
Increase in debtors	(14,793)	(10,414)	(1,374)
Increase in creditors	6,969	4,668	2,233
Increase in provisions	10	10	1
Cash generated from operations	<b>(9,262)</b>	<b>(6,032)</b>	<b>2,888</b>
Income taxes paid	(127)	-	(572)
	<b>(9,389)</b>	<b>(6,032)</b>	<b>2,316</b>

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000	Year ended 30 September 2010 £'000
<b>Cash flow from investing activities</b>			
Interest received	2	12	57
Sale of property, plant and equipment	1	19	66
Purchase of property, plant and equipment	(667)	(1,429)	(1,694)
Payments to acquire intangible fixed assets	-	-	(48)
Acquisitions in the period (Note 6)	(914)	-	-
Receipt from Natural England	-	-	9,000
	<b>(1,578)</b>	<b>(1,398)</b>	<b>7,381</b>
<b>Cash flow from financing activities</b>			
Interest paid	(46)	(103)	(183)
Dividends paid to minority interests	-	-	(9)
Dividends paid to equity shareholders	(596)	(414)	(662)
Repayment of borrowings	(703)	(356)	(714)
Issue of new shares	267	-	-
	<b>(1,078)</b>	<b>(873)</b>	<b>(1,568)</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Six months ended 31 March 2011 £'000	Six months ended 31 March 2010 £'000	Year ended 30 September 2010 £'000
(Decrease) / increase in cash and short term deposits	(3,054)	(456)	2,695
Cash (outflow) / inflow from change in borrowings	(8,288)	(7,491)	6,148
Movement in net debt in the period	<b>(11,342)</b>	<b>(7,947)</b>	<b>8,843</b>
Net debt at 1 October	<b>1,807</b>	<b>(7,036)</b>	<b>(7,036)</b>
<b>Net (debt)/cash at period end</b>	<b>(9,535)</b>	<b>(14,983)</b>	<b>1,807</b>

## NOTES TO THE ACCOUNTS

**1. Basis of preparation**

The financial information set out in the interim report has been prepared in accordance with accounting policies under International Financial Reporting Standards as adopted by the European Union ('IFRS') as detailed in the financial statements for the year ended 30 September 2010. These policies are expected to be followed in the financial statements for the year ending 30 September 2011.

The interim report has been approved by the Board of Directors and is neither audited nor reviewed. The interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The financial information for the year ended 30 September 2010 is extracted from the audited accounts for that period. Those accounts have been delivered to the Registrar of Companies. The auditors' report on them was unqualified and did not contain a statement under either section 498(2) or section 498(3) of the Companies Act 2006.

The Group does not consider that any standards or interpretations issued by the International Accounting Standards Board (IASB), but not yet applicable, will have a significant impact on the financial statements for the year ending 30 September 2011.

A copy of this interim report will be posted to shareholders shortly and will be available to view on the Company's website at [www.william-sinclair.co.uk](http://www.william-sinclair.co.uk).

**2. Taxation**

The taxation charge on ordinary activities is calculated by applying the Directors' best estimate of the full year effective tax rate to the profit before taxation.

**3. Dividend**

A final dividend of 3.5p per share (2010: 2.5p) was paid on 17 March 2011 to shareholders on the register on 18 February 2011. An interim dividend of 1.8p per share (2010: 1.5p) will be paid on 2 August 2011 to shareholders on the register on 8 July 2011.

**4. Earnings per share**

Basic earnings per share have been calculated by reference to a weighted average of 16,825,200 (2010: 16,554,046) shares in issue during the period.

**5. New share issues**

During the period the CEO and the finance director each exercised share options that had been granted to them in 2005. A total of 470,000 new 25p shares were issued on 13 January 2011 for a total of £267,000. William Sinclair Holdings plc now has a total of 17,024,046 shares of 25p in issue.

**6. Acquisitions in the period**

During the period the Group acquired the business and certain assets of Growing Success Organics and British Playsand from Monro Horticulture Limited. These assets have been included in the balance sheet within tangible fixed assets, intangible fixed assets and inventories as appropriate. The fair value of the consideration paid is £914,000.

**7. Bolton Fell**

In accordance with the agreement signed in March 2010 between Natural England and William Sinclair, the Group has submitted a formal claim for its interests at Bolton Fell in Cumbria. Natural England had until 30 April 2011 to respond to this claim and to present its own calculations. The Group was informed in April 2011 that Natural England would not be able to meet this deadline and a six week extension was agreed.

William Sinclair's professional advisors calculated the value of the compensation due to the Group to be substantially greater than the £9 million advance payment. In the event that compensation cannot be agreed between the parties before 30 November 2011 the matter can be referred by either side to the Lands Tribunal for a decision. In such circumstances it is possible that payment of further compensation could be delayed by a further year or more.

Under the agreement William Sinclair has implemented a phased withdrawal of peat harvesting from Bolton Fell and is accelerating its existing programme of regeneration. William Sinclair's own team is working closely with environmental experts from Natural England and other agencies to set out new plans to regenerate the peat bog in a practical and structured way. The Group expects this agreement to have an adverse effect on its 2011 harvest from the site.

**Enquiries:**

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