

# **WILLIAM SINCLAIR HOLDINGS plc**

## **PRELIMINARY RESULTS FOR THE YEAR ENDED 30 JUNE 2006**

William Sinclair is one of the UK's leading producers of commercial horticulture and branded garden products. The company provides peat and fertiliser products to the retail and commercial sectors.

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 Tesco, Wyevale, B&Q and Homebase as well as an extensive range of independent garden centres.

### **FINANCIAL HIGHLIGHTS**

- Profit increased 55% to £0.84 million (2005: £0.54million).
- Turnover decreased 6% to £39.1 million following exit from unprofitable export contracts.
- Recommended final dividend of 2.0p per share making a total of 3.0p, unchanged from last year but now representing a more acceptable earnings cover of 1.3.
- Basic EPS from continuing operations increased 60% to 4.0p (2005: 2.5p)

### **TURNAROUND STRATEGY**

- Turnaround strategy into second year
- Board restructuring complete
- New product launches and expansion of decorative aggregates reducing financial impact of cyclical nature of the industry
- Proposed move to AIM

Bernard Burns, Chief Executive, William Sinclair Holdings Plc, said:

“The Company is now into the second year of its recovery strategy and the financial benefits of the actions taken are already beginning to show. We are confident of generating further improvement across the business.

“William Sinclair has a portfolio of well established and highly regarded brands with a loyal customer base. We are capitalising on these strengths to seize market share from our competitors, particularly with independent garden centres. In addition we have high expectations for our new product launches in the plant foods and decorative aggregates sector.

“The industry has for too long blamed poor performance on the vagaries of the weather. To reduce the impact of climate conditions William Sinclair is broadening its range of products to lengthen the selling season. In addition the company is developing techniques to continue harvesting during extreme climatic conditions while protecting the end product.

“We look forward to making further progress with our margin performance and are positive about the company's prospects.”

### **For further information:**

William Sinclair Holdings Plc  
Bernard Burns, Chief Executive

01522 537 561

Mark Way / Caroline Sturdy, Madano 020 7593 4000

## **CHAIRMAN'S STATEMENT**

I am pleased to be able to report an improvement in your Company's performance in the year ended 30 June 2006. This reverses the decline seen over the last 5 years and is evidence that the measures adopted by the new management team are beginning to show results.

Sales turnover was down by 6%, the result, mostly, of exiting unprofitable export and domestic business. In a difficult market, we believe that we have increased our market share in the domestic and professional growing sectors.

Importantly, profit before tax increased by 55% to £840k. This is an excellent result but is only the start of what we believe will be a steady increase in shareholder value.

In line with our stated intention to improve dividend cover, the Board is recommending a final dividend of £0.02 per share making a total of £0.03, unchanged from last year but now representing a more acceptable earnings cover of 1.3.

### **IFRS treatment**

The results are the first full year figures since we adopted IFRS in December 2005. The results for the year ended June 2005 have been restated for comparison purposes. Accounting regulations mean that we need to separately identify several exceptional gains and losses. The underlying improvement in performance is not distorted significantly by these exceptional items.

### **Board changes**

Earlier this year we welcomed Ken Piggott to the Board as the Senior Non-Executive Director. Ken has considerable experience in the retail sector which will prove invaluable to us in the years ahead. We recently said goodbye to Paul Davenport who has left to pursue other interests. We wish him well with his future career.

### **Proposed transfer of company's shares to AIM**

The Board is recommending a transfer of the Company's shares from the main market to AIM (Alternative Investment Market). We believe that this will be a more attractive market for the Company's shares and more detailed reasons and benefits to the Company and to shareholders will be set out in a separate document. The Board believes this is an essential move and I urge you to vote in favour at the forthcoming AGM.

### **Change of year end**

I would like to take this opportunity to give notice of our intention to change the year end from 30 June to 30 September for the year after next (i.e. September 2008). There are considerable benefits internally and the revised timetable would be a much better reflection of our trading year. After next year, therefore, we will report results for a 15 month period before reverting to annual figures.

### **Outlook**

Demand in our chosen markets is down a little from the previous years but we are confident that the measures already in place coupled with our strong marketing presence will continue to show improved results with a corresponding increase in overall shareholder value.

Finally, I would like to thank all our employees for all their efforts and cooperation during a year of significant change and development. It has been much appreciated.

**Bill Simpson**

27 September 2006

## **CHIEF EXECUTIVE'S STATEMENT**

This has been a year of steady progress as the new management team has implemented a business turnaround strategy. Operating profits have risen by 55% year on year to £0.84 million against a backdrop of difficult trading conditions for the industry.

Following last year's strategic review of the business, we concluded that in both the Retail and Professional markets we have significant competitive advantages over our rivals but that the Company was failing to capitalize on these strengths.

The Company has a strong portfolio of brands, including the 'New Horizon' range which has a leading position in the fast growing peat-free garden compost and organic plant foods sector. The Company's brands have a good reputation for service and reliability.

Our peat resources are closer to the customers than our major competitors and with transport costs representing a significant part of total costs for growing media, this is an important strategic advantage.

In addition, we have efficient and new production facilities providing the Company with the basic ingredients for a strong competitive position.

### **Solid progress in fixing operating issues and capitalizing on competitive advantage**

Over the last 12 months we have sought to resolve a number of operating challenges and to set a course to take advantage of the Group's inherent strengths, resulting in improved performance and enhanced shareholder value.

### **Positive Impact of Cost Reduction Programme**

The increase in underlying profit stems primarily from the first phase of a cost reduction programme, which delivered improvements in transport efficiencies and in raw material costs.

The improvement in transport efficiencies by the end of the reporting period had reduced the cost per pallet mile from 10p to 9p representing an improvement of 11% when compared with the previous year.

Changes in harvesting methods have led to better yields and a series of moisture reduction measures has resulted in drier and lighter peat and therefore lower transport charges and has resulted in improved quality. This has compensated for a rise in plastic prices of 30%, a rise in energy prices of 60% and a rates increase at our main operating site in Cumbria of 114% during the year

We believe that there will be further opportunities to continue improving our operating cost base in the years ahead.

### **Further Improvement in Customer Service and Product Quality**

Our key performance measures show a further improvement in customer service, an area where Sinclair already leads the marketplace.

We are now clearly better than any of our major competitors in this critical area with fewer late deliveries, smaller minimum orders and a wider range of specialist delivery vehicles.

The quality and consistency of our product improved during the year as investment in harvesting and storage equipment came on line.

## **Operations**

### **UK Retail Market**

We believe that total sales in the UK horticultural retail market fell by between 6% and 8% compared with the previous year largely because of adverse weather in the critical selling season. Average temperature was substantially below seasonal norms and rainfall was approximately 50% above seasonal norms for the 3 weeks before Easter. It wasn't until the last 4 weeks of the season (March to May) that climate and sales improved.

Overall UK retail sales fell by just 2% to £24.8 million as we increased our share of the growing media market.

### **UK Professional Market**

We estimate that total sales in the Professional UK horticultural market were down 10% year on year.

Our sales were only 3.5% down at £9.8 million, again reflecting our success in winning market share. A management restructure took place during the year which is now complete and will, we believe, bring focus to differing customer objectives in different distribution channels.

Towards the end of the year we launched a blocking product, a drought-busting product and we intend to launch a wood fibre growing medium that is both less expensive and is nutritionally superior to the existing market leading product.

These and a number of other initiatives will increase the size of the addressable UK market by 50%.

### **Silvaperl Market**

Silvaperl, our industrial aggregates business, increased turnover by 2% to £3.3 million, largely through increased sales into non-horticultural markets.

### **Export Market**

During the year we withdrew from several marginal export markets but successfully negotiated compensation for this which is shown as exceptional revenue. As a result, sales to this market fell by 53% to £1.3 million.

## Capital structure and net debt

The Group's capital structure is as follows:

	2006 £000	2005 £000
Net debt	855	1906
Group shareholders' equity	13,864	11,509
Capital employed	<u>14,719</u>	<u>13,415</u>

The Group's gearing has fallen from 14.2% to 5.8%, as a function of cash generated from operations, the revaluation of the Group's properties and the reduction in the pension deficit. This leaves the Group well within its target of borrowing not more than 35% of capital employed.

Net debt comprises the balance of a fixed term loan originally taken out in October 2004 for the purchase of additional, freehold storage land in Lincoln as well as cash balances, overdrafts and finance leases as follows:

	2006 £000	2005 £000
Cash and cash equivalent	153	96
Overdrafts	(133)	(97)
Loans	(742)	(800)
Finance leases	(133)	(205)
Net debt	<u>(855)</u>	<u>(1,906)</u>

## Current trading and the year ahead

The performance of the business continues to improve and we believe that the cost reduction programme has a considerable distance yet to go in terms of adding to the strength of our ongoing performance. We believe that there are opportunities in a number of areas:

- Our distribution distances are shorter than our competitors' and we must make more of that advantage, especially when transport costs are a relatively high part of total costs. We believe there are further savings to be made in transport cost reduction;
- We are examining ways to reduce the raw material price across our product range which we believe will enhance profitability;
- We are examining the number and position of our various manufacturing and distribution sites. We believe that some consolidation is likely and that the relocation of our key distribution points will yield substantial overhead savings;
- There are a number of opportunities for us to unlock value and realise assets from our balance sheet in terms of surplus land and sites and we are examining a number of possible routes forward.

Moreover, in the year ahead, we expect to start growing our sales again as well as gaining market share. The existing production capacity in the business should facilitate all our short-term growth plans without the need for substantial capital investment.

In particular, there are two major product launches this year which we believe will make a good contribution.

First, we are stepping up our decorative aggregates product range, where we believe our relationship with the horticultural retail trade will allow us to leverage distribution. In addition, the new bagging plant at Lincoln will give us a quality and efficiency in bagging which currently does not exist in this market.

Secondly, in plant foods we already have a strong market position. We are introducing new packaging that is waterproof and re-sealable. We do not believe that there is anything similar available at a comparable retail price. Consequently we expect to benefit from substantial growth in market share while competitors take time to react to the innovation.

In addition, we are examining carefully a number of further reduced peat and peat free products which will enhance our position in both the Retail and Professional markets

After nearly a decade of profit decline, I believe we have established a sustainable recovery. We must exploit to the maximum our critical market advantages and strong existing market share in our key areas of operation.

**Bernard Burns**  
27 September 2006

**WILLIAM SINCLAIR HOLDINGS plc**  
**Group Income Statement**  
**for the year ended 30 June 2006**

	<i>Notes</i>	<i>Before exceptional items 2006 £000</i>	<i>Exceptional items (Note 5) 2006 £000</i>	<i>Total 2006 £000</i>	<i>Total 2005 £000</i>
<b>Revenue</b>		38,889	240	39,129	41,453
Operating expenses		38,011	339	38,350	40,475
<b>Operating profit</b>		878	(99)	779	978
Share of post tax profits of associates and joint ventures accounted for using the equity method		201	173	374	75
<b>Group operating profit from continuing operations</b>		1,079	74	1,153	1,053
Finance revenue		29	-	29	6
Finance costs		(310)	-	(310)	(400)
Other finance expense – pensions		(32)	-	(32)	(116)
<b>Profit from continuing operations before taxation</b>		766	74	840	543
Tax expense		(210)	29	(181)	(124)
<b>Profit for the year attributable to members of the parent company</b>		556	103	659	419
<b>Earnings per share (pence)</b>					
Basic EPS on profit for the year	4	3.4p		4.0p	2.5p
Diluted EPS on profit for the year	4	3.3p		3.9p	2.5p

**WILLIAM SINCLAIR HOLDINGS plc**  
**Group Statement of Recognised Income and Expense**  
**for the year ended 30 June 2006**

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>
<b><i>Income and expense recognised directly in equity</i></b>			
Revaluation of property, plant and equipment		964	2,376
Actuarial gains/(losses) on defined benefit pension plans		2,135	(823)
		<hr/>	<hr/>
		3,099	1,553
Tax on items taken directly to or transferred from equity		(929)	(455)
		<hr/>	<hr/>
<b><i>Net income recognised directly in equity</i></b>		2,170	1,098
<b><i>Profit for the year</i></b>		659	419
		<hr/>	<hr/>
<b><i>Total recognised income and expense for the year</i></b>	3	2,829	1,517
		<hr/> <hr/>	<hr/> <hr/>

**WILLIAM SINCLAIR HOLDINGS plc**  
**Group Balance Sheet**  
**at 30 June 2006**

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
		<i>£000</i>	<i>£000</i>
<b>Non-current assets</b>			
Property, plant and equipment		12,677	12,308
Intangible assets		1,159	1,172
Investments accounted for using the equity method		858	519
Deferred tax assets		-	83
		<hr/>	<hr/>
		14,694	14,082
<b>Current assets</b>			
Inventories		4,967	5,550
Trade and other receivables		12,149	12,403
Cash and short-term deposits		153	96
		<hr/>	<hr/>
		17,269	18,049
<b>Total assets</b>		<hr/>	<hr/>
		31,963	32,131
<b>Current liabilities</b>			
Trade and other payables		10,930	11,225
Financial liabilities		251	1,124
Corporation tax payable		131	-
		<hr/>	<hr/>
		11,312	12,349
<b>Non-current liabilities</b>			
Financial liabilities		757	878
Deferred tax liabilities		853	-
Provisions		170	146
Defined benefit pension plan deficit		5,007	7,249
		<hr/>	<hr/>
		6,787	8,273
<b>Total liabilities</b>		<hr/>	<hr/>
		18,099	20,622
<b>Net assets</b>		<hr/>	<hr/>
		13,864	11,509
<b>Capital and reserves</b>			
Equity share capital	3	4,139	4,139
Capital redemption reserve	3	1,523	1,523
Revaluation reserve	3	3,501	2,855
Other reserves	3	176	176
Share based payments	3	28	6
Retained earnings	3	4,497	2,810
		<hr/>	<hr/>
<b>Group shareholders' equity</b>		13,864	11,509
		<hr/> <hr/>	<hr/> <hr/>

**WILLIAM SINCLAIR HOLDINGS plc**  
**Group Cash Flow Statement**  
**for the year ended 30 June 2006**

	2006	2005
	£000	£000
<b>Operating activities</b>		
Group operating profit	779	978
<i>Adjustments to reconcile group operating profit to net cash inflows from operating activities</i>		
Depreciation and impairment of property, plant and equipment	967	1,037
Amortisation and impairment of intangible assets	38	16
(Profit)/Loss on disposal of fixed assets	(7)	(38)
Share-based payments	22	6
Difference between pension contributions paid and amounts recognised in the income statement	(139)	(128)
Decrease/(increase) in inventories	583	(288)
(Increase) in trade and other receivables	(173)	(1,712)
(Decrease) in trade and other payables	(278)	(1,179)
Movement in provisions	24	(136)
Cash generated from operations	1,816	(1,444)
Income taxes received	384	57
<b>Net cash flow from operating activities</b>	<b>2,200</b>	<b>(1,387)</b>
<b>Investing activities</b>		
Interest received	29	6
Sale of property, plant and equipment	1,012	44
Purchases of property, plant and equipment	(1,377)	(934)
Payments to acquire intangible fixed assets	(25)	-
<b>Net cash flow from investing activities</b>	<b>(361)</b>	<b>(884)</b>
<b>Financing activities</b>		
Interest paid	(327)	(347)
Dividends paid to equity shareholders of the parent	(496)	(537)
Dividends received from joint ventures	35	21
New borrowings	-	800
Repayment of borrowings	(58)	-
Repayment of capital element of finance leases and hire purchase contracts	(72)	(21)
<b>Net cash flow from financing activities</b>	<b>(918)</b>	<b>(84)</b>
<b>Increase in cash and cash equivalents</b>	<b>921</b>	<b>(2,355)</b>
Cash and cash equivalents at the beginning of the year	(901)	1,454
<b>Cash and cash equivalents at the year end</b>	<b>20</b>	<b>(901)</b>

# WILLIAM SINCLAIR HOLDINGS plc

## Notes

### 1 Statutory accounts

The Group Income Statement, Group Statement of Recognised Income and Expense, Group Balance Sheet and Group Cash Flow Statement for the years ended 30 June 2006 and 2005 are not statutory accounts within the meaning of Section 240 (5) of the Companies Act 1985. The statutory accounts for the years ended 30 June 2006 and 30 June 2005, which have been audited by Ernst & Young LLP, incorporate an unqualified audit report and do not contain a statement under Section 237(2), (3) or (4) of the Act. The statutory accounts for the year end 30 June 2005 have been delivered to the Registrar of Companies and the statutory accounts for the year ended 30 June 2006 will be delivered to the Registrar of Companies following the Annual General Meeting of William Sinclair Holdings plc.

The results are the first full year figures since adoption of IFRS in December 2005. The results for the year ending June 2005 have been restated for comparison purposes. The accounting policies used for the 2006 figures are unchanged on those used for the 2005 comparatives.

This preliminary announcement of the results for the year ended 30 June 2006 was approved by the Board of directors on 26 September 2006.

### 2 Analysis of Net Debt

	1 July 2005 £000	Cash flow £000	30 June 2006 £000
Cash at bank an in hand	96	57	153
Overdrafts	(997)	864	(133)
Loans	(800)	58	(742)
Finance leases	(205)	72	(133)
Net debt	(1,906)	1,051	(855)

### 3 Reconciliation of movements in equity

	<i>Equity share capital</i> £000	<i>Revaluation reserve</i> £000	<i>Other reserves</i> £000	<i>Share based payments</i> £000	<i>Retained earnings</i> £000	<i>Total</i> £000
At 1 July 2004	4,139	1,191	1,699	-	3,494	10,523
Total recognised income and expense for the year	-	1,664	-	-	(147)	1,517
Share-based payment	-	-	-	6	-	6
Equity dividends paid	-	-	-	-	(537)	(537)
At 30 June 2005	4,139	2,855	1,699	6	2,810	11,509
At 1 July 2005	4,139	2,855	1,699	6	2,810	11,509
Total recognised income and expense for the year	-	675	-	-	2,154	2,829
Depreciation transfer	-	(29)	-	-	29	-
Share-based payment	-	-	-	22	-	22
Equity dividends paid	-	-	-	-	(496)	(496)
At 30 June 2006	4,139	3,501	1,699	28	4,497	13,864

**WILLIAM SINCLAIR HOLDINGS plc**  
**Notes (Continued)**

**4 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 (before deducting the cost of share based payments) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued under the company's share option scheme.

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Net profit attributable to equity holders of the parent – continuing operations	659	419
Cost of share based payments	15	4
	<hr/>	<hr/>
Diluted net profit attributable to equity holders of the parent	674	423
	<hr/> <hr/>	<hr/> <hr/>
	<i>2006</i>	<i>2005</i>
	<i>No.</i>	<i>No.</i>
Basic weighted average number of shares	16,554	16,554
Dilutive potential ordinary shares:		
Employee share options	561	217
	<hr/>	<hr/>
Diluted weighted average number of shares	17,115	16,771
	<hr/> <hr/>	<hr/> <hr/>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

**5 Exceptional items**

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Recognised in arriving at operating profit:		
Income from termination of sales contracts	240	-
Settlement of commercial dispute with suppliers	(106)	-
Reorganisation redundancy costs and professional fees	(165)	-
Disposal of assets by joint venture	105	-
	<hr/>	<hr/>
	74	-
	<hr/> <hr/>	<hr/> <hr/>

The income from the termination of sales contracts arose on giving up the Sangral brand in the Middle East market. The settlement of a commercial dispute with a supplier arose on resolution of a dispute over pallet quantities on hire from the supplier.

Reorganisation, redundancy costs and professional fees relate primarily to the departure of a main board director and a senior divisional manager.

The disposal of assets by a joint venture relates to the disposal by Ou Alutaguse Turvas of peat and other assets which realised a profit in the joint venture of £173,000 against which provision has been made of £68,000 in respect of management bonuses on the disposal.

## WILLIAM SINCLAIR HOLDINGS plc

### Notes (Continued)

#### 6 Dividends paid and proposed

	2006	2005
	£000	£000
<i>Declared and paid during the year:</i>		
Equity dividends on ordinary shares:		
Second Interim for June 2004: 2.25p	-	372
Final dividend for June 2005: 2.00p (June 2004 – nil)	331	-
Interim for June 2006: 1.00p (June 2005 – 1.00p)	165	165
Dividends paid	496	537
<i>Proposed for approval by shareholders at the AGM:</i>		
Final dividend for June 2006: 2.00p (2005 – 2.00p)	331	331

Subject to shareholders' approval the final dividend of 2p per share will be paid on 12 December 2006 to shareholders on the register on 17 November 2006.

#### 7 Annual General Meeting

The Company intends to post the Report and Accounts to shareholders on 20 October 2006. The Annual General Meeting of the Company will be held at The Bentley Hotel, Newark Road, South Hykeham, Lincoln, LN6 9NH on 21 November 2006 at 11.00 am. Copies of this announcement are available from the Company's registered office, Firth Road, Lincoln, LN6 7AH during normal office hours.