Interim Report 2008/2009

elektron plc

Key Points

- Turnover from continuing operations up 24% to £19.4 million as a result of acquiring Sifam Instruments last year (2007: £15.6 million)
- Gross margin fell by 3% on higher material costs but is now recovering
- Operating profit before exceptional items of £0.8 million (2007: £1.3 million)
- Exceptional costs of £0.6 million (2007: £0.1 million) incurred in respect of reorganisation and redundancy, including moving switch manufacture to China
- Profit before taxation from continuing activities after exceptionals £0.1 million (2007: £1.1 million)
- Earnings per share on continuing operations before exceptionals 0.70p (2007: 1.45p)
- Net gearing of 31% following the purchase of a 23% stake in Hartest Holdings Plc
- Transfer of Arcolectric production to China nearing completion and expected to produce further annualised cost savings

Chairman's Statement

Overview and Financials

The first six months of the current year have seen challenging conditions in all our markets.

Sales are up £3.8 million (24%) to £19.4 million as a result of acquiring Sifam Instruments Limited last year.

Gross margin has reduced to 34% compared with 37% in the first half of last year. However, this is an increase on the 33% gross margin earned in the second half of last year.

Operating expenses in the first half, before exceptional costs, have risen to £5.8 million compared with £4.5 million in the comparative period of which £1.1 million is attributable to Sifam. The underlying £0.2m increase is accounted for by a combination of factors including salary costs arising from additional technical and marketing staff in the UK and additional costs in China as the transfer of switch production progresses.

The plan to off-shore switch production to our factory in China is on target and will substantially reduce costs in the year commencing 1st February 2009. We incurred exceptional costs of £605,000 in the period in relation to this relocation and other redundancy costs.

We continue to look for suitable acquisitions.

At 31 July 2008, net borrowings had increased to £3.0 million principally as a result of funding the acquisition of the investment in Hartest Holdings plc. Cash generated from operations was £1.4 million which was enhanced by £0.5 million of working capital reductions. £1.0 million has been paid in relation to restructuring costs leaving £0.9 million cash inflow from operating activities that has been used to fund the dividend of £0.4 million and plant additions of £0.5 million.

The earnings per share from continuing businesses, before exceptional costs, were 0.70p compared with 1.45p in 2007. Basic and diluted earnings per share on continuing businesses after exceptional costs were 0.20p (2007: 1.37p).

Components Division (Sales £11.7 million, operating profits £882,000)

There has been a high level of uncertainty within the market during the closing months of the first half of the year, however sales held up well and in line with expectations.

We are progressing well with the plan to move the remaining UK based manufacturing offshore, and the new moulding shop and automatic assembly plant are established and running. These moves are now starting to yield the expected cost savings.

The positive effects of reconfiguring our US & European selling network continue. Our entry into the South America market place is starting to yield encouraging results.

The relatively high price levels experienced within the commodities market during the initial months of the year, have served to dilute margins. This trend is now reversing.

The volatility in the currency markets remains, but the swings have been in the Group's favour in the closing months of the first half.

Elektron Components Division performance was therefore in line with expectations for the financial period. Sales revenues of £11.7 million, which represents a 4% growth on prior year, yielded operating profits of £0.9 million. Gross margin slipped from 39% to 36% as a result of the high cost of materials mitigated in part by pricing adjustments and swings in the currency markets.

Chairman's Statement

The forward order book is currently softer than would normally be expected. However, in anticipation of the downward pressure we experience in some of our more traditional products, we intensified our focus on a number of bespoke engineering opportunities, with two significant wins now under our belt. These include a 3-year contract to supply a custom product to a military customer, with contract revenues anticipated to be in excess of £1.2 million.

We are enhancing our technical resources in the UK and China, to capitalise on opportunities presented by emerging and enabling technologies. We have several exciting projects underway designed to transform our well-established brands. We also have a number of new products nearing launch.

2008 continues as a year of transformation and increased strategic focus for the Elektron Components Division. We have succeeded in strengthening our organisation and laying the foundation for a sustainable and improving performance. While there is a lot more to do, we have the right strategy in place and the right people to make it happen.

Hard Metals Division (Sales £4.0 million, operating profits £9,000)

The downturn in market requirements over recent months has resulted in a reduction in sales of 7% from £4.3 million to £4.0 million. Gross margin was 29% compared with 31% in the prior period. The overstocking and subsequent realignment of stock levels of one of our major oil customers and their first tier suppliers over this period have been major contributors to this decrease. This exercise is nearing completion resulting in an increased order intake level over the last 2 months.

The development into new grades of material, have enabled us to enter niche markets for high precision components, thus continuing to reduce our sensitivity to material price fluctuations.

Pricing reviews continue, with increases in selling prices taking place on those components where margins are seen as unacceptable.

Howle Carbides is taking receipt of a new automatic pick and place press in early October. Equipped with "quick change tooling", it will give a significant reduction in press setting times, enabling us to enter the market for more complex higher volume parts for the Wear part and Tooling industries.

Tungsten Carbide and Cobalt are a significant proportion of raw material spends. A review of the global supply market has commenced to ensure we obtain the best prices possible whilst maintaining our renowned high level of product quality.

Titman, our wood router tooling company did well to break even given that its markets follow those of the construction industry.

Instrumentation Division (Sales £3.7 million, operating profits £82,000)

The first half of the year showed an operating profit of £82,000 on sales of £3.7 million and a gross margin of 33%.

Chairman's Statement

A redundancy programme was implemented to reduce costs which resulted in an exceptional cost of £161,000. There has been little change in the immediate trading outlook with demand still strong from blue chip customers for our Digitron brand but continued weakness in the Queensgate line which is largely dependent on the semiconductor industry. As a result of this situation a decision was taken to make further savings by closing the Queensgate office in Bracknell effective 1st October 2008.

We are continuing our strategy of reducing manufacturing costs by moving offshore whilst developing higher value added new technology in the UK. To this end we have finalised plans for the manufacture of our range of control knobs in China. Implementation will begin on 1st October 2008 and will be complete by the end of 2009.

A new head of development has been appointed to spearhead our drive into new products. Development of the new wireless temperature monitoring devices has progressed well. A new Temperature Acquisition Device (TAD) which communicates via Bluetooth with hand held computers is now trialling with some of the major supermarkets and should provide significant sales volume in the 2nd half of 2009.

The name of Sifam will change to Elektron Instruments Limited from 1st October 2008 whilst retaining brand names on key products.

Outlook

Order intake is currently running at 89% of last year with the Group order book at £5.5 million compared to £6.4 million at this point last year. Offsetting this are lower commodity prices and currency movements which are having a beneficial effect.

We are taking additional steps to realign the cost base to ensure a satisfactory return on sales. The off-shoring of switch production is nearing completion and this will be followed by moulded knob production both of which will assist in our target of reaching a minimum 10% operating return on sales when fully implemented.

We continue to look for suitable acquisition opportunities where we can add value.

Keith Daley

Non-Executive Chairman

3rd October 2008

Group Income Statement

Unaudited Interim Results to 31 July 2008

	Unaudited Half year to 31 July 2008 £'000	Unaudited Half year to 31 July 2007 £'000	Audited Year to 31 January 2008 £'000
Revenue from continuing operations	**19,441**	15,630	34,908
Cost of sales	**(12,832)**	(9,824)	(22,749)
Gross profit	**6,609**	5,806	12,159
Net operating expenses (including exceptional items)	**(6,396)**	(4,624)	(9,909)
Operating profit before exceptional items	**818**	1,267	2,135
Negative goodwill	**–**	–	1,163
Exceptional items	**(605)**	(85)	(1,048)
Operating profit from continuing operations	**213**	1,182	2,250
Loss on disposal of discontinued operations	**–**	–	(123)
Profit before finance costs from continuing operations	**213**	1,182	2,127
Finance income	**30**	31	74
Finance costs	**(142)**	(105)	(252)
Profit before taxation from continuing operations	**101**	1,108	1,949
Taxation on continuing operations	**69**	76	520
Profit after taxation from continuing operations	**170**	1,184	2,469
Loss after taxation from discontinued operations	**–**	(9)	(73)
Profit attributable to shareholders	**170**	1,175	2,396
Earnings per share – basic	**0.20p**	1.35p	2.76p
– diluted	**0.20p**	1.35p	2.75p
Earnings per share continuing operations			
– basic	**0.20p**	1.37p	2.85p
– diluted	**0.20p**	1.37p	2.83p

Group Statement of Recognised Income and Expense

Unaudited Interim Results to 31 July 2008

	Unaudited Half year to 31 July 2008 £'000	Unaudited Half year to 31 July 2007 £'000	Audited Year to 31 January 2008 £'000
Profit attributable to equity shareholders	**170**	1,175	2,396
Translation differences on foreign currency investments	**27**	(11)	71
Losses on revaluation of available-for-sale investments taken to equity	**(101)**	–	–
Actuarial gain on retirement benefit obligations	**–**	–	41
Total recognised income attributable to equity shareholders	**96**	1,164	2,508

Group Balance Sheet

Unaudited Interim Results at 31 July 2008

	Unaudited 31 July 2008 £'000	Unaudited 31 July 2007 £'000	Audited 31 January 2008 £'000
Assets			
Non-current assets			
Property, plant and equipment	**3,737**	3,136	3,875
Investments	**1,250**	–	–
Deferred tax	**390**	62	354
Total non-current assets	**5,377**	3,198	4,229
Current assets			
Inventories	**6,363**	5,335	6,617
Trade and other receivables	**7,871**	7,744	7,679
Cash and cash equivalents	**1,986**	1,746	1,987
	16,220	14,825	16,283
Assets held for sale	**–**	1,160	–
Total current assets	**16,220**	15,985	16,283
Total assets	**21,597**	19,183	20,512
Equity and liabilities			
Equity attributable to equity holders of the parent			
Called – up share capital	**4,279**	4,336	4,336
Share premium	**244**	244	244
Merger reserve	**1,047**	1,047	1,047
Capital redemption reserve	**163**	106	106
Other reserves	**62**	57	136
Retained earnings	**3,920**	3,389	4,304
Total equity	**9,715**	9,179	10,173
Non-current liabilities			
Long-term borrowings	**1,511**	333	471
Long-term provisions	**241**	251	242
Deferred income tax liabilities	**126**	–	116
Total non-current liabilities	**1,878**	584	829
Current liabilities			
Trade and other payables	**5,529**	5,026	5,089
Short-term borrowings	**2,780**	2,260	2,783
Current portion of long-term borrowings	**737**	342	283
Current tax payable	**481**	566	526
Short-term provisions	**477**	146	829
Total current liabilities	**10,004**	8,340	9,510
Liabilities directly associated with assets held for sale	**–**	1,080	–
Total current liabilities	**10,004**	9,420	9,510
Total liabilities	**11,882**	10,004	10,339
Total equity and liabilities	**21,597**	19,183	20,512

Group Cash Flow Statement

Unaudited Interim Results to 31 July 2008

	Unaudited 31 July 2008 £'000	Unaudited 31 July 2007 £'000	Audited 31 January 2008 £'000
Cash flows from operating activities			
Profit before taxation (continuing activities)	**101**	1,108	1,949
Loss before taxation (discontinued activities)	**–**	(16)	(65)
Profit before taxation	**101**	1,092	1,884
Adjustments for:			
Depreciation charge	**623**	616	1,293
Interest receivable	**(33)**	(31)	(74)
Interest payable	**145**	147	300
Loss/(profit) on disposal of fixed assets	**7**	(32)	–
Restructuring and other exceptional charges	**605**	–	1,048
Loss on disposal of business	**–**	–	123
Negative goodwill	**–**	–	(1,163)
Operating cash flow before working capital changes	**1,448**	1,792	3,411
Decrease/(increase) in inventories	**255**	(376)	(318)
(Increase)/decrease in trade and other receivables	**(200)**	3,344	(48)
Increase/(decrease) in trade and other payables	**397**	110	(1,001)
Payments on closure of retirement benefit schemes	**–**	–	(1,086)
Payments for restructuring and other exceptional costs	**(971)**	–	(699)
Other non-cash movements	**43**	(359)	(37)
Cash generated from operations	**972**	4,511	222
Interest paid	**(145)**	(147)	(300)
Taxation received/(paid)	**31**	(85)	(141)
Net cash inflow/(outflow) from continuing operations	**858**	4,343	(28)
Net cash (outflow) from discontinued operations	**–**	(64)	(191)
Net cash inflow/(outflow) from operating activities (total)	**858**	4,279	(219)
Cash flows from investing activities			
Business disposals	**–**	80	68
Acquisition of investments/subsidiaries, net of cash acquired	**(1,351)**	–	(1,880)
Purchase of property, plant and equipment	**(495)**	(459)	(1,023)
Proceeds of sale of property, plant and equipment	**17**	33	7,158
Interest received	**33**	31	74
Net cash (used in)/generated from investing activities	**(1,796)**	(315)	4,397
Cash flows from financing activities			
Purchase of own shares	**(164)**	–	–
Movement in long term borrowings	**1,100**	(146)	(146)
Movement in short term borrowings	**397**	(3,067)	(2,814)
New capital leases	**113**	146	302
Payment of hire purchase and finance liabilities	**(119)**	(9)	(44)
Dividends paid	**(390)**	–	(347)
Net cash from/(used in) financing activities	**937**	(3,076)	(3,049)
Net (decrease)/increase in cash and cash equivalents	**(1)**	888	1,129
Cash and cash equivalents at the beginning of period	**1,987**	858	858
Cash and cash equivalents at the end of period	**1,986**	1,746	1,987

Group Statement of Changes in Equity

Unaudited Interim Results to 31 July 2008

	Share Capital £000	Share Premium £000	Merger Reserve £000	Capital Redemption Reserve £000	Other Reserves £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 February 2008	4,336	244	1,047	106	84	52	4,304	10,173
Transfer from income and expense account	–	–	–	–	–	–	170	170
Dividends paid	–	–	–	–	–	–	(390)	(390)
Purchase of own shares	(57)			57	–		(164)	(164)
Exchange differences	–	–	–	–	–	27	–	27
Loss on revaluation of available-for-sale investments	–	–	–	–	(101)	–	–	(101)
At 31 July 2008	**4,279**	**244**	**1,047**	**163**	**(17)**	**79**	**3,920**	**9,715**

Notes to the Unaudited Interim Results to 31 July 2008

1. Accounting Policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS). Full details of accounting policies are included in the Annual Report for the year ending 31 January 2008.

Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

The Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups, in the preparation of these interim financial statements.

2. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information in respect of the year ended 31 January 2008 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 237 of the Companies Act 1985.

Copies of the interim results are available to download from the Group's website www.elektronplc.com. Hard copies are available free of charge from the Company's registered office at Melville Court, Spilsby Road, Romford, Essex RM3 8SB.

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