

Victoria P.L.C.

Interim Report 2004



Introduction

Overall the first six months have been challenging for the Group. Difficult trading conditions in all of our main markets coupled with operational issues experienced in the period in our UK Axminster carpet manufacturing division combined to deliver a downturn in profitability.

Although Group turnover for the six months ended 2 October 2004 was £26.8 million, 5.2% higher than last year, operating profits halved to £1.09 million from £2.45 million at the interim stage last year. Pre-tax profits were £0.79 million against £2.22 million in 2003 and earnings per share were 7.81 pence (2003: 22.08 pence).

United Kingdom

We had expected the UK residential market to remain difficult; however, we had not anticipated such a quiet retail market as was seen during the summer months, particularly in July and August which were significantly below the traditional trading levels of this period. Five successive rises in interest rates and the ensuing concern over house prices appear to have succeeded in cooling the housing market which in turn has dampened consumer confidence — a key ingredient in the carpet purchase decision.

Whilst historically our product portfolio, excellent point-of-sale display and consistent levels of high service have helped protect us from the worst of market downturns, we cannot be immune from the poor trade on the high street which the whole industry has experienced during the summer period. UK turnover was 6% lower at £12.29 million, with home market sales down by 7% and external export sales up by 5%.

UK profitability was not only affected by this reduced turnover, but also by the ongoing difficulties we have already reported in the

Axminster weaving department. We are taking firm action to return the Axminster department to health. The refurbishment of the Navan looms has been completed and we are now achieving our production targets. We remain focused on the other components of this turnaround and we are currently meeting our weekly targets on order intake, order pricing, labour productivity and quality.

Westwood Yarns, our UK spinner, showed a good increase in profitability, clearly benefiting from the additional capacity installed in August 2003. With profitability increasing and production up by 7%, this more than justified the investment made.

Ireland

The Irish economy went through a much slower period of growth during 2003. Since then, with consumer confidence and spending subdued, the residential carpet market has remained quiet, although the commercial contract market has been more buoyant.

Munster Carpets, recognised as a leading supplier into the Irish contract commercial sector, saw a strong pick-up in sales which more than doubled from the first half of last year. Operating profits also rose strongly and are now ahead of the initial expectations that we had when we acquired the business in 2002.

Steady progress is being made at Navan Carpets in rebuilding the business that we acquired out of liquidation in July 2003. A thorough rationalisation of the product portfolio is under way and several new products have already successfully been introduced. The effect of significant investment in point-of-sale display is also now starting to be seen. However, the impact of the quiet residential market during the period affected sales which has resulted in the Navan division producing a small operating loss.

Australia

The Australian economy has fallen back from its recent peaks. The housing market has slowed and consumer confidence has been lower, with a noticeable reduction seen in consumer spending. This has resulted in increased competition between manufacturers to achieve sales to the carpet retailers.

Despite the more difficult conditions, our Australian operation increased carpet sales by 4.8% in local currency. Sales to the contract residential sector held up well and sales to retailers were maintained. Margins were, however, affected by the level of competition in the slowing residential market. Export sales improved, but margins were affected by the stronger Australian dollar.

Output from our two spinning mills was slightly below last year and led to reduced spinning profits in the period. Whilst our own yarn usage was maintained, outside sales of yarn from our Bendigo spinning mill fell, although there are now signs that this business is returning.

Government grants were again received under the Strategic Investment Programme, although at a lower level than last year when SIP income was boosted by the acquisition of the Bendigo spinning mill.

Australian turnover was 2.4% higher at £11.63 million (2003: £11.35 million) but pre-tax profit was 14.8% lower at £1.44 million (2003: £1.69 million).

Canada

The new strategy implemented by Campbells following the change of partner in February 2003 is continuing to produce improved results.

The introduction of an Area Rug programme has added to sales and profits, and the new "Urban Line" of products supplied to carpet retailers is meeting an enthusiastic response from both the retailers and consumers.

Turnover in the period was up by 32% in local currency and the Group's share of pre-tax profits was £70,000 (2003: £27,000).

Prospects

It is fair to say that conditions remain challenging not only on the high street but also within all of the sectors and markets in which we operate.

In the UK, we are now in the traditionally busier autumn period and, although activity has picked up, sales are still not up to the levels we were experiencing last year. Recent new range introductions have been well received in the market and we continue to focus on product development with a number of products at various stages of readiness for launch. Although we consider that the UK is likely to remain difficult for the rest of this year, we expect to see a turnaround in the Axminster department's performance, allowing the UK to improve on its first half year profitability.

In Ireland, the strength of the contract commercial market appears to be solid and we expect Munster to continue to perform well. Investment in patterning, displays and new products should enable Navan to show further progress in the second half year.

In Australia, our business has managed to meet its budget for the first half year and, with some improvement now being seen in outside orders for yarn, we expect to maintain this performance for the full year.

Overall, we believe that the Group is on track to meet market forecasts for the full year and, in the absence of unforeseen circumstances, we would expect to maintain the level of final dividend paid last year.



R M Gilbert

Chairman

24 November 2004

Group Profit and Loss Account

	Six months to 2 October 2004 Unaudited £000	Six months to 27 September 2003 Unaudited £000	Year to 3 April 2004 Audited £000
Note			
Turnover	26,815	25,481	54,622
Cost of sales	19,579	17,814	38,808
Gross profit	7,236	7,667	15,814
Distribution costs	5,113	4,249	8,948
Administrative expenses	1,427	1,440	3,199
Other operating income	394	468	1,085
Operating profit	1,090	2,446	4,752
Interest payable and similar charges	374	258	586
Share of profits of associated undertaking	70	27	19
Profit on ordinary activities before taxation	786	2,215	4,185
Taxation	244	682	1,180
Profit after taxation	542	1,533	3,005
Dividends paid and proposed	—	—	799
Retained profit	542	1,533	2,206
Earnings per share			
— basic and diluted	2	7.81p	22.08p
Dividend per share	3	—	11.50p

Statement of Total Recognised Gains and Losses

	Six months to 2 October 2004 Unaudited £000	Six months to 27 September 2003 Unaudited £000	Year to 3 April 2004 Audited £000
Profit after taxation	542	1,533	3,005
Currency translation differences on foreign currency net investments	(306)	482	673
Total gains relating to the period	236	2,015	3,678
Total gains recognised since last annual report	236	2,015	3,678

Note of Historical Cost Profits and Losses

	Six months to 2 October 2004 Unaudited £000	Six months to 27 September 2003 Unaudited £000	Year to 3 April 2004 Audited £000
Reported profit on ordinary activities before taxation	786	2,215	4,185
Historical cost profit on ordinary activities before taxation	786	2,215	4,185
Historical cost profit for the period retained after taxation and dividends	542	1,533	2,206

Consolidated Balance Sheet

	2 October 2004 Unaudited £000	27 September 2003 Unaudited £000	3 April 2004 Audited £000
Fixed assets			
Tangible assets — Goodwill	566	594	563
Tangible assets	23,479	22,670	23,592
Investment in associated undertaking	354	306	306
	24,399	23,570	24,461
Current assets			
Stock	15,287	13,464	14,908
Debtors	10,466	10,285	9,795
Cash	838	42	308
	26,591	23,791	25,011
Less: Current liabilities			
Creditors due within one year	16,953	14,963	16,052
Net current assets	9,638	8,828	8,959
Total assets less current liabilities	34,037	32,398	33,420
Less: Creditors due after one year	7,472	7,139	7,033
Provisions for liabilities and charges	997	793	1,056
Net assets	25,568	24,466	25,331
Capital and reserves (equity)			
Share capital	1,736	1,736	1,736
Share premium account	829	829	829
Revaluation reserve	2,120	2,126	2,144
Profit and loss account	20,883	19,775	20,622
Total shareholders' funds	25,568	24,466	25,331

Consolidated Cash Flow Statement

		Six months to 2 October 2004 Unaudited £000	Six months to 27 September 2003 Unaudited £000	Year to 3 April 2004 Audited £000
Net cash inflow from operating activities	4	1,291	2,417	4,460
Returns on investment and servicing of finance				
Interest paid		(251)	(163)	(357)
Hire purchase interest		(123)	(95)	(229)
		(374)	(258)	(586)
Taxation				
UK Corporation Tax refund/(paid)		184	(118)	(271)
Overseas tax paid		(688)	(514)	(985)
		(504)	(632)	(1,256)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(1,303)	(1,470)	(3,303)
Receipts from sales of tangible fixed assets		45	37	70
		(1,258)	(1,433)	(3,233)
Acquisitions				
Payments to acquire the assets of a trade or business		—	(1,507)	(1,446)
Equity dividends paid		(799)	(625)	(625)
Financing				
Increase in/(repayment of) long-term loans		1,111	(406)	(457)
Capital element of finance lease and hire purchase payments		(725)	(552)	(923)
Receipts from financing of assets		80	905	1,375
		466	(53)	5
Increase/(decrease) in cash		(1,178)	(2,091)	(2,691)

Notes to the Interim Statement

1 Basis of preparation

The results for the year ended 3 April 2004 are extracts from the Group report and accounts as filed with the Registrar of Companies. These were audited and reported upon without qualification under section 235 of the Companies Act 1985.

2 Earnings per share

The earnings per share for the six month period to 2 October 2004 are based on 6,943,556 shares in issue throughout the period. The same number of shares were in issue throughout the six months ended 27 September 2003 and the year ended 3 April 2004.

3 Dividends

No interim dividend is proposed (September 2003: nil; March 2004: 11.5 pence).

4 Reconciliation of operating profit to net cash inflow from operating activities

	Six months to 2 October 2004 Unaudited £000	Six months to 27 September 2003 Unaudited £000	Year to 3 April 2004 Audited £000
Operating profit	1,090	2,446	4,752
Depreciation and amortisation charges	1,113	1,028	2,094
Loss/(profit) on sale of fixed assets	(4)	(2)	13
(Increase) in working capital	(793)	(1,226)	(2,657)
Exchange rate difference on consolidation	(115)	171	258
Net cash inflow from operating activities	1,291	2,417	4,460

5 Exchange rates

The results of overseas subsidiary and associated undertakings have been translated at the exchange rates prevailing at the period end:

	2 October 2004	27 September 2003	3 April 2004
Australia	A\$2.4818 = £1	A\$2.4614	A\$2.4099
Euro	€1.4492 = £1	€1.4458	€1.5074
Canada	C\$2.2664 = £1	C\$2.2469	C\$2.4101

Directors and Advisers

BOB GILBERT

Chairman — Non-executive

ALEXANDER ANTON

Non-executive

KEITH ACKROYD

Non-executive

ALAN BULLOCK

Group Managing Director

JOHN DUNCAN

Sales & Marketing

MARK LEE

Group Finance Director

MICHAEL OAKLEY

Australia

PRESIDENT

G S F Anton

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Kidderminster, DY10 1HL

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282204

BANKERS

Barclays Bank PLC

SOLICITORS

Wragge & Co.

STOCKBROKERS

Arden Partners

REGISTRARS

Capita Registrars

AUDITORS

Deloitte & Touche LLP

Principal Subsidiaries and their Directors

VICTORIA CARPETS LIMITED

Manufacture and Sale of Carpets
Kidderminster, UK
A R Bullock (Joint Managing)
J A Duncan (Joint Managing)
T A Danks
N Glover
S Lewis

THE VICTORIA CARPET COMPANY PTY LIMITED

Manufacture and Sale of Carpets
Dandenong, Australia
M W Oakley (Executive Chairman)
B I Poynter (Managing)
A K Seymour
A R Bullock

WESTWOOD YARNS LIMITED

Manufacture and Sale of
Carpet Yarns
Holmfirth, UK
A R Bullock (Chairman)
M J Reah (Managing)
N Gledhill

MUNSTER CARPETS LIMITED

Munster Carpets and Navan Carpets
divisions
Sale of Carpets
Dublin, Ireland
S Kelly (Managing)
A R Bullock
T A Danks
J A Duncan
M S W Lee

Associated Undertaking

COLIN CAMPBELL & SONS LIMITED

Distributors of Carpets and Rugs
Vancouver, Canada
R Munden (President)
A R Bullock
C Bolt
K Metrick
M W Oakley

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