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Dowding & Mills plc Preliminary Results for the year ended 31 August 2005

STATEMENT BY THE CHAIRMAN, TUDOR DAVIES

Introduction

I am pleased to report continuing progress in improving the Group's profitability and cash generation in line with our stated objective of providing a better financial and operating base for the benefit of shareholders and employees.

This is the second full year of operation since I was appointed to oversee the turnaround in the fortunes of the Group through the new strategy which was announced in March 2003 and we are encouraged to be reporting once again an improvement both in terms of performance and returns.

The major reorganisation and focus since 2003 on cash generation has resulted in steadily improving results and also significant progress in reducing the Group's borrowings for the benefit of shareholders and employees. In the five year period, 1998 to 2003, the Group's borrowings rose from £9 million to £39 million by January 2003. This trend has been reversed and, over the last two years we have successfully reduced borrowings by £18.5 million to £20.5 million at 31 August 2005.

The Company's share price has also started to reflect the market confidence in the strategy and recovery process of the Group. Since 31 August 2004 the share price has gone from 10.75p to 18.50p on 23 November 2005. It is important for shareholders to look back over the last two years; over which time the share price has gone from 8.25p, following the announcement of the full extent of the problems facing the Group in March 2003, which led to a loss of £29.7 million for the period to 31 August 2003, and the 10.0p price immediately following the announcement of our 2004 preliminary results in November 2004. This represents share price growth of 85% in the last twelve months and 124% since we explained the problems and our strategy for recovery.

Prior to 2003 shareholders had historically become accustomed to a regular dividend. However there have been a number of changes to pensions that are outside the control of the Company but common to all companies with large pension deficits. As a result, these changes, which are explained later in this statement, will adversely impact on the Company's ability to make distributions and arise from the accounting regulations requirement to include the FRS 17 pension liability on our 2006 balance sheet, and the Pension Regulator's proposed changes to increase the funding of pension deficits.

On 22 November 2005 the Board of Dowding & Mills plc announced that it had received an approach that may or may not lead to an offer for the entire issued share capital of the Company at 20 pence per Ordinary Share. Shareholders should be aware that there can be no certainty that an offer will be forthcoming but that any relevant developments will be announced as and when appropriate.

Results

Turnover for the year ended 31 August 2005 was £99.6 million (2004: £103.4 million).

The reduction in sales was due to withdrawal from operations in Holland and Luxembourg in February 2004, and the sale of our gear repair branches in November 2004. Without these, and the effect of the closure of a small number of loss making branches, turnover increased by approximately 3%.

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Operating profits improved to £6.1 million (2004: £5.1 million) and the interest charge reduced from £2.0 million to £1.7 million reflecting the reduction in borrowings during the year.

Profit before tax substantially improved to £4.4 million from £0.5 million due partly to better performance but also due to the absence of £2.6 million of exceptional items, which mainly related to the loss on disposal of the Dutch and Luxembourg branches last year.

Profit after tax significantly improved also to £3.1 million compared with £0.8 million. Earnings per share, affected by an increasing tax charge of £1.3 million (an effective rate of 30%) (2004: £0.3 million tax credit) but benefiting from the absence of exceptional items, increased to 2.0p (2004: 0.5p).

Trading

We have continued to benefit from the reorganisation and continuing changes and improvements made to our branch network in the UK and from the withdrawal from less profitable areas of our business.

For the first time in several years, we have seen an increase in turnover in the underlying business. We have become more focused and pro-active in the UK marketplace, benefited from a buoyant mining sector in the USA, and in Australia where, on the back of improving industrial activity as well as increased demand from the mining and extractive industries, a similar improvement has been witnessed.

Since the year end business levels have been patchy with strong performances in USA and Australia making up for slower activity in parts of our UK business. Overall, profits for the first two months of the new financial year are ahead of last year as the savings resulting from the £1.2 million spent on redundancies in the year ended 31 August 2005 flow through.

Pensions

On an FRS 17 basis, the Group Pension Scheme has an unfunded deficit that has risen to £26 million from £22 million a year ago.

The new accounting regulations will require this liability, net of deferred tax, to be included on our balance sheet from next year, thereby reducing net assets and shareholders' funds by £18.1 million at 31 August 2005. The proposed future funding requirements under the new Pensions Regulations require an increasing level of payments to eliminate the deficit more quickly than is currently the position.

Dividends

In order to preserve funds for the reorganisation and future development of the business, the dividend ceased in December 2002 shortly after my appointment. Despite the progress in improving cash generation and the subsequent reduction in borrowings, the changes arising from the accounting and funding of pensions will impact adversely on the availability of funds and distributable reserves, thus restricting the ability to make distributions to shareholders for several years.

Outlook

As I stated earlier the first two months profits are ahead of last year, and over the coming year we expect to make further progress. Our trading profits should improve from the benefits of the ongoing reorganisation of our branch network and, with continuing cash generation this should enable us to meet our increasing obligations to the pension fund consistent with our stated objective of improving the financial and operating base for the benefit of our shareholders and employees.

**Dowding & Mills plc
Preliminary Results**

**Consolidated Profit and Loss Account
for the year ended 31 August 2005**

	2005 £'000	2004 £'000
Turnover	99,635	103,410
Cost of sales	(76,857)	(79,167)
Gross profit	22,778	24,243
Selling and distribution costs	(4,336)	(5,069)
Administration expenses	(12,354)	(14,057)
Operating profit	6,088	5,117
Exceptional items	-	(2,605)
	6,088	2,512
Net interest payable	(1,685)	(1,963)
Profit on ordinary activities before tax	4,403	549
Tax on ordinary activities	(1,318)	278
Retained profit for the year	3,085	827
Earnings per share (EPS)	2.00p	0.54p

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

There are no significant discontinued operations.

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Statement of Group Retained Profits

	2005 £'000	2004 £'000
At 1 September 2004	(7,605)	(9,368)
Reinstatement of goodwill previously written off to reserves	-	1,583
Retained profit for the year	3,085	827
	(4,520)	(6,958)
Exchange differences	478	(647)
At 31 August 2005	(4,042)	(7,605)

Foreign exchange gains in the year which have been credited direct to reserves, include a loss of £52,000 relating to US\$ denominated borrowings.

Consolidated Statement of Total Recognised Gains and Losses

	2005 £'000	2004 £'000
Profit for the financial year	3,085	827
Currency translation differences on overseas investments	478	(647)
Total recognised gains and losses since the last Annual Report	3,563	180

Reconciliation of Movement in Group Shareholders' Funds

	2005 £'000	2004 £'000
Profit for the financial year	3,085	827
Reinstatement of goodwill previously written off to reserves	-	1,583
Other recognised gains and losses relating to the year	478	(647)
	3,563	1,763
Opening shareholders' funds	16,703	14,940
Closing shareholders' funds	20,266	16,703

**Dowding & Mills plc
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**Consolidated Balance Sheet
as at 31 August 2005**

	2005		2004	
	£'000	£'000	£'000	£'000
NET ASSETS EMPLOYED				
Fixed assets				
Intangible assets		1,804		1,915
Tangible assets		<u>29,486</u>		<u>31,433</u>
		31,290		33,348
Current assets				
Stocks	7,641		7,976	
Debtors	20,176		20,761	
Cash at bank and in hand	<u>3,948</u>		<u>4,822</u>	
	31,765		33,559	
Creditors – amounts falling due within one year	<u>14,936</u>		<u>15,425</u>	
Net current assets		16,829		18,134
Total assets less current liabilities		<u>48,119</u>		<u>51,482</u>
Creditors – amounts falling due after more than one year	23,971		32,247	
Provisions for liabilities and charges	<u>3,882</u>		<u>2,532</u>	
		(27,853)		(34,779)
Net assets		<u>20,266</u>		<u>16,703</u>
REPRESENTED BY				
Called up share capital				
Allotted and fully paid: 154,095,548 Ordinary Shares of 10p each (2004: 154,095,548)		15,410		15,410
Reserves				
Share premium account		8,145		8,145
Merger reserve		753		753
Profit and loss account		<u>(4,042)</u>		<u>(7,605)</u>
Equity shareholders' funds		<u>20,266</u>		<u>16,703</u>

**Dowding & Mills plc
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**Consolidated Cash Flow Statement
For the year ended 31 August 2005**

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
Net cash inflow from continuing operating activities	1		9,667		10,366
Returns on investments and servicing of finance					
Interest received		187		277	
Interest paid		(1,990)		(2,032)	
			(1,803)		(1,755)
Tax paid			(582)		(363)
Capital expenditure					
Purchase of fixed assets		(1,097)		(1,220)	
Sale of fixed assets		529		1,021	
			(568)		(199)
Acquisitions and disposals					
Disposal of businesses		-		(710)	
Net debt disposed of with businesses		-		176	
Disposal of branches		688		-	
			688		(534)
Cash flow before financing			7,402		7,515
Financing					
New loans		-		179	
Repayments of amounts borrowed		(8,705)		(5,691)	
			(8,705)		(5,512)
(Decrease)/increase in cash			(1,303)		2,003

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	2005 £'000	2004 £'000
(Decrease)/increase in cash in the year		(1,303)	2,003
Cash outflow from financing		8,705	5,512
	1	7,402	7,515
Other non-cash items:			
Translation difference	1	(30)	692
Movement in net debt in the year		7,372	8,207
Net debt at 1 September 2004		(27,871)	(36,078)
Net debt at 31 August 2005	1	(20,499)	(27,871)

**Dowding & Mills plc
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**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 August 2005**

1. Notes to the Cash Flow Statement

	2005	2004
	£'000	£'000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	6,088	5,117
Depreciation charge	2,815	2,863
Impairment of fixed assets	(33)	(31)
Amortisation of goodwill	120	121
Impairment of goodwill	-	71
(Profit) on sale of tangible fixed assets	(54)	(27)
(Profit) on disposal of branches	(241)	-
Decrease in stock and work in progress	142	51
Decrease in debtors	198	3,090
(Decrease) in creditors	(718)	(674)
Increase/(decrease) in provisions for liabilities and charges	1,350	(215)
Net cash inflow from operating activities	9,667	10,366

Analysis of net debt

	2004	Cash flow	Exchange	2005
	£'000	£'000	movements	£'000
			£'000	
Cash at bank and in hand	4,822	(957)	83	3,948
Overdrafts	(128)	(346)	(2)	(476)
	4,694	(1,303)	81	3,472
Debt due after one year	(32,247)	8,358	(82)	(23,971)
Debt due within one year	(318)	347	(29)	-
	(27,871)	7,402	(30)	(20,499)

2. Basis of Preparation

The financial information in this preliminary announcement has been prepared in accordance with the accounting policies set out in the financial statements of Dowding & Mills plc for the year ended 31 August 2004, which have remained unchanged for the financial year ended 31 August 2005.

3. Accounts

The summary accounts set out above do not constitute statutory accounts as defined by Section 240 of the UK Companies Act 1985. The summarised Consolidated Balance Sheet at 31 August 2005, the summarised Consolidated Profit and Loss Account, the summarised Consolidated Cash Flow Statement, the Statement of Group Retained Profit, the summarised Statement of Total Recognised Gains and Losses, and the Reconciliation of Movement in Group Shareholders' Funds for the year then ended have been extracted from the Group's 2005 statutory financial statements upon which the auditors' opinion is unqualified. The statutory financial statements for the year ended 31 August 2005 were approved by the Directors on 24 November 2005, but have not yet been delivered to the Registrar of Companies.

4. The Annual Report is being posted to shareholders. Further copies will be available from the Company's Registered Office: Camp Hill, Birmingham, B12 OJJ.

5. The Annual General Meeting will be held at the offices of Citigate Dewe Rogerson, 26 Finsbury Square, London, EC2A 1DS on Thursday, 22 December 2005.