

## **Abacus Group plc**

### **Preliminary Results**

Abacus Group plc (LSE: ABU), a leading franchised distributor of electronic components in the UK, Eire, Italy, Benelux and the Nordic region, is pleased to announce its preliminary results for the year ended 30 September 2005.

#### **Financial Highlights**

- Profit before tax, exceptional items and intangibles' amortisation of £8.1 million (2004: £10.0 million)
  - Profit before tax, after exceptionals (2005: £4.0 million; 2004: £nil) and intangibles (2005: £0.8 million; 2004: £0.7 million) of £3.3 million (2004: £9.3 million)
- Turnover of £178.3 million down 5.1% (2004: £187.8 million), less than the overall sales declines registered in Abacus markets
- Gross margin up at 23.2% (2004: 22.9%)
- Operating costs, before exceptionals and intangibles at £32.0 million (2004: £32.1 million) due to tight control over expenditure
  - Costs in Nordic region cut by £0.4 million in the last quarter. Cost of securing these ongoing cost savings amounted to £0.5 million - treated as an exceptional item
- Interest at £1.3 million (2004: £0.9 million) reflects the full year effect of acquisition borrowings taken on in 2004. Net borrowings at £29.1 million (2004: £29.4 million)
- Exceptional cost of £4.0 million includes £3.5 million inventory provision made in anticipation of the new Restrictions on Hazardous Substances (RoHS) legislation in the EU

#### **Operational Highlights**

- Notwithstanding the challenges of 2005 the Directors now believe there are signs of stability in all of the markets in which Abacus operates
- UK market share improved from 14% to 15% with Trident, CTL and CCS all showing growth over 2004

#### **Post year end highlights**

On 26 October Abacus announced a recommended all share offer for Deltron Electronics plc. The offer documents will today be posted to Deltron and Abacus shareholders inviting them to vote in favour of the offer at their EGMs on 15 December 2005.

#### **Commenting on the results for the year, Harry Westropp, Chairman, said**

"2005 was in line with the Board's expectations as announced in July. Notwithstanding the weakness exhibited by our markets, the business has performed ahead of the competition, gaining market share. We believe we are well placed for 2006".

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## *Chairman's Statement*

Abacus Group plc's performance in the year ended 30 September 2005 has been in line with the level indicated at the time of the trading update in July 2005. Profit before tax, exceptional items and intangibles' amortisation was £8.1 million (2004: £10.0 million), with the second half contributing £4.1 million compared with £4.0 million in the first six months. Profit before tax but after exceptionals and intangibles was £3.3 million (2004: £9.3 million). Sales for the year were £178.3 million (2004: £187.8 million). Clearly we are disappointed to see a 5.1% fall in revenue but to put this in context, industry figures as measured by AFDEC show a decline of some 8% in the UK, our major market.

Despite an increase in the first six months, borrowings over the year were slightly reduced. Between March and September 2005 net debt fell by £3.0 million to £29.1 million compared with £29.4 million at the outset of 2005. This second half improvement was achieved by an ever tighter control of working capital, in particular stock and debtors.

The exceptional item of £4.0 million was highlighted in the July trading update. The principal component is the inventory provision of £3.5 million to cover the cost of compliance with the new Restrictions on Hazardous Substances (RoHS) legislation in the EU effective from 1 July 2006. Distributors and manufacturers in the electronics sector face this one-off event as lead and other potentially hazardous materials are eliminated from components and assembly processes. The additional £0.5 million in the exceptional charge results from the reorganisation in the Nordic region and in the event was slightly lower than the £0.7 million which we indicated in July.

The revised dividend policy was also announced in the July trading update and, consistent with this, the Board has declared a second interim dividend of 3.6p, making a total for the year of 7.2p (2004: 10.5p). We consider this to be a sustainable level from which to grow when appropriate in the future.

### **Trading in 2005**

There were a number of key events in 2005 which affected the Abacus result – some internal, others external. I have already mentioned the general market but there were other issues specific to Abacus. Our special project division of Trident continues to grow but the second half performance was hit by delays in the conversion of firm orders into shipments. We are now much more confident of our ability to assess the longer lead times associated with special projects and can see the sales trend falling into place as we go forward. We consider special projects to be a future growth area and expect it to lead to expansion in other geographical markets.

In the Nordic region we reconfigured our structure, closing offices in Finland and reducing our staff in the region by 30 to a total of 60 people. We are however growing our representation for the display business and have added five people in Scandinavia for this activity. This opportunity arose from the collapse of our competitor, Eurodis, from where key staff in the region joined us. In the UK, the Eurodis failure also proved beneficial to Abacus as we were able to purchase the Company's customer information. Since August, this has assisted Abacus's UK sales through the broadening of its customer base.

Generally we consider trading levelled out in the second half following the deterioration in the first six months and that the Abacus business is on a firm base going forward.

### **Outlook**

The most significant factor in the coming year will be the proposed recommended acquisition of Deltron announced on 26 October 2005. Both Abacus and Deltron believe that the acquisition presents an excellent opportunity for the enlarged Group. The proposed acquisition gives Abacus the opportunity to expand into territories in Europe where, at present, it has no representation and to grow its business in territories where it already has subsidiaries. The proposed acquisition provides an opportunity for considerable operational savings, thereby enabling the enlarged Group to make good progress with far better prospects for further growth in the future. The acquisition will lead to Deltron shareholders owning 38.5% of the enlarged Abacus share capital and is expected to complete on 17 January 2006.

Since 30 September 2005, trading has continued in line with the Directors' expectations. Accordingly, the Directors view the enlarged Group's prospects for the current financial year with confidence.

## *Chairman's Statement (continued)*

### **People**

We appointed Peter Allen as Chief Financial Officer in April following Peter Griffith-Jones' retirement. He has made a significant contribution since his arrival both in the internal organisation and in his assistance developing the strategy of the Group.

Following completion of the proposed acquisition of Deltron, Jerry Vaughan will be joining us as Managing Director – Deltron; he is currently Chief Operating Officer in Deltron. We will also be pleased to welcome David Weir to the Abacus Board as an independent non-executive Director. Margaret Rice-Jones will be retiring as a non-executive Director at the AGM on 27 January 2006. We are most appreciative of the contribution she has made over the past few years.

In line with best practice, the Abacus Remuneration Committee is proposing that shareholders approve a new long term incentive plan for senior executives. The new plan will involve the award, after a three year period, of Abacus shares to a maximum value equivalent to the executive's annual salary. The level of the award will vary between 33%-100% of the annual salary dependent on Abacus EPS out performing the RPI by 3% to 7% per annum.

At Abacus we are extremely fortunate in our people and the Board joins me in thanking them for their considerable contribution in a difficult trading period. In anticipation of a successful completion of the acquisition of Deltron, I welcome their staff to the enlarged Group and am confident that we shall move forward together to enjoy a successful future.

Harry Westropp  
Chairman  
22 November 2005

## *Financial Review*

### **Turnover**

In the year to 30 September 2005, sales decreased by 5% to £178.3 million, with an equal decline in each half of the year compared to 2004. Despite the tougher market conditions (AFDEC statistics show a 8% decline in the UK, Abacus's largest market), year on year sales in the UK and Eire decreased by only 2% as the Group increased its market share from 14% in 2004 to 15% in 2005. However, sales declined by 13% in ECC and 16% in Promax in Sterling terms. Based on AFDEC's figures, in the Nordic region Promax's market share declined slightly from 4.6% to 4.3% and in Italy, ECC's share decreased from 4.0% to 3.4%.

All operations continued to make a pre-exceptional profit with the exception of Promax. In July 2005, the Group announced that operations in the Nordic region had been reorganised resulting in the closure of offices in Finland and an overall reduction of 30 staff in the Nordic region to 60. The reorganisation costs have been treated as an exceptional charge in 2005.

Looking at the geographical markets, 69% (2004: 67%), 10% (2004: 12%), 13% (2004: 13%) and 8% (2004: 8%) of the Group's turnover arose in the UK, Nordic, Italian and other (mainly European) regions respectively.

### **Gross margins**

During the year, an exceptional provision of £3.5 million was made against excess and obsolete stock in anticipation of the introduction of Restriction of Hazardous Substances (RoHS) legislation in July 2006. It is envisaged that the impact of the legislation will not have a material impact on cashflow.

Pre-exceptional margins improved slightly, with the gross profit margin for 2005 coming in at 23.2% (21.3% post exceptional) as against 22.9% in the previous year. The pre-exceptional gross margin reduced from 24.3% in the first half to 22.2% in the second half of the year, mainly due to favourable exchange rate movements in the first half.

### **Operating expenses and intangibles' amortisation**

Other operating expenses (excluding intangibles of £0.8 million (2004: £0.7 million) and the Promax exceptional restructuring costs of £0.5 million) for the year ended 30 September 2005 were £32.0 million as compared to £32.1 million in 2004. This slight decrease was mainly due to a lower bonus expense in 2005 following a reduction in profits, tight cost control and £0.4 million of savings generated in the quarter ended 30 September 2005 as a consequence of the Promax restructuring.

During the year, distribution headcount decreased by 39, from 605 at September 2004 to 566 at September 2005, of which 26 related to Promax. This tight headcount control has been achieved by continuing to focus on operational efficiencies, whilst ensuring that our customer service levels and franchise support have not diminished.

All acquired goodwill is written off over a 20 year period on a straight-line basis, subject to impairment reviews if conditions dictate. The Group's goodwill amortisation charge in 2005 remained at £0.7 million. In July 2005, the Group acquired sales and marketing information from the administrators of Eurodis Electronics UK Limited for £1.6 million. This intangible asset is to be written off over 5 years, resulting in an additional amortisation charge of £0.1 million in 2005.

### **Finance charges**

Finance charges rose from £0.9 million to £1.3 million. This increase arose because of higher average borrowings, due to the full year effect of 2004 acquisition expenditure, and an increased proportion of borrowings denominated in Sterling in 2005 than 2004, attracting a higher interest rate than borrowings in Yen, Euro and US\$. The Group still achieved a robust interest cover of 7 times (2004: 12), based on profit before interest, intangibles and exceptionals.

### **Taxation**

The Group's effective tax rate for the year, based on profits before taxation and intangibles was 27% against 33% in the previous year. Excluding prior year adjustments of a £0.2 million credit in 2005 and £0.1 million charge in 2004, the rates were both 32%.

## *Financial Review (continued)*

### **Working capital and cash flow**

The Group's cash flow varies seasonally across the year. It is the Group's policy to pay its creditors on time. During the course of the year, cash flow tends to improve during the latter part of the summer, which coincides with the Group's year end.

Net debt for the year decreased by £0.3 million, despite the £1.6 million purchase of the Eurodis sales and marketing information and £2.7 million of capital expenditure, through tight control of inventory and other working capital.

The contributing elements were as follows:

#### *Operating activities*

Operating profit before depreciation and intangibles reduced to £6.7 million in 2005 from £12.6 million in 2004 mainly as a result of the £4.0 million exceptional charge.

The decrease of £8.5 million in net stock in 2005 (2004: £0.3 million inflow) arose mainly from the £3.5 million RoHS provision and a £6.2 million reduction in gross stock levels through tight working capital management. The cash outflow from creditors and provisions was £5.7 million against an inflow in 2004 of £3.2 million. This mainly reflects bonuses accrued in 2004 but paid in 2005 and the decrease in year on year sales and the associated decrease in cost of sales. In 2005 the cash inflow on debtors was £4.0 million against an outflow of £3.0 million in 2004, again primarily due to the reduction in year on year sales. The Group's year end gross debtors' days were 69 in 2005 against 67 in 2004.

#### *Capital expenditure and financial investment*

During the year the Group's capital expenditure amounted to £2.7 million (2004: £2.4 million), of which £2.0 million was spent upgrading our business system (2004: £1.5 million). This project is now over half complete and is scheduled to finish in 2007. The fixed asset depreciation charge was £1.3 million (2004: £1.7 million).

It is the Group's policy that its larger properties be acquired on a freehold basis in order to optimise our flexibility of use for each property, although if circumstances would indicate leasing to be more appropriate in certain specific situations, then such a route would be considered.

Purchases of intangible assets amounted to £1.6 million as described above.

### **Treasury**

The Group's treasury function is managed centrally from Newbury, providing a service to the operating businesses, with regular reporting to the Board. The Group's treasury policy is to ensure that adequate financial resources are available to the Group for its business operations and that this is provided in a cost-effective fashion. No speculative transactions are undertaken, in that all foreign currency purchases are related to current or projected transactions.

The Group net borrowings were in line year on year at £29.1 million (2004: £29.4 million). A significant reorganisation of borrowings was undertaken in August to ensure that bank facilities were available on a committed basis rather than as an overdraft. As part of the reorganisation, an £8.0 million loan has been secured under a commercial mortgage on the property assets of Abacus. A further committed facility of up to £25.0 million is secured on UK debtors.

### **Balance sheet**

Shareholders' funds at 30 September 2005 were £43.4 million (2004: £44.2 million), the decrease primarily comprising the 2005 transfers from reserves (after dividends of £3.1 million) of £0.9 million. The return on capital employed before intangibles and exceptionals (profit before interest, taxation and intangibles divided by shareholders' funds and net debt) was 13% (2004: 15%) and after intangibles and exceptionals was 6% (2004: 14%).

## *Financial Review (continued)*

### **Dividend**

Two interim dividends of 3.6 pence each were declared during the year, the former paid in July 2005, the latter to be paid on 3 January 2006 to those shareholders on the Register at the close of business on 2 December 2005. The Directors are not recommending a final dividend. The total dividend for the year of 7.2 pence compared to 10.5 pence in the previous year reflects the Board's decision to restore dividend cover to a more robust position and is considered to be an appropriate revised dividend base on which future growth should be factored.

Dividend cover, before and after intangibles and exceptionals, for the year ending 30 September 2005 is respectively 2.0 times (2004: 1.5) and 0.7 times (2004: 1.3).

### **Earnings per share**

Basic earnings per share, before and after intangibles and exceptionals, were 14.1 pence (2004: 15.9 pence) and 5.1 pence (2004: 14.2 pence) respectively.

Peter Allen  
Chief Financial Officer  
22 November 2005

# Consolidated Profit and Loss Account

for the year ended 30 September 2005

	Note	2005			2004
		Before intangibles and exceptional items £'m	Intangibles' amortisation and exceptional items £'m	Total £'m	Total £'m
<b>Turnover</b>	2	178.3	-	<b>178.3</b>	187.8
Cost of sales		(136.9)	(3.5)	<b>(140.4)</b>	(144.8)
<b>Gross profit</b>		41.4	(3.5)	<b>37.9</b>	43.0
Other operating expenses		(32.0)	(1.3)	<b>(33.3)</b>	(32.8)
<b>Operating profit</b>		9.4	(4.8)	<b>4.6</b>	10.2
Finance charges (net)		(1.3)	-	<b>(1.3)</b>	(0.9)
Profit on ordinary activities before taxation		8.1	(4.8)	<b>3.3</b>	9.3
Tax on profit on ordinary activities		(2.0)	0.9	<b>(1.1)</b>	(3.3)
Profit on ordinary activities after taxation		6.1	(3.9)	<b>2.2</b>	6.0
Dividends paid and declared on equity shares		(3.1)	-	<b>(3.1)</b>	(4.5)
<b>Retained profit (transfer from reserves) for the year</b>		3.0	(3.9)	<b>(0.9)</b>	1.5
<b>Earnings per share (note 1)</b>					
Basic (before intangibles and exceptional items)				<b>14.1p</b>	15.9p
Basic (after intangibles and exceptional items)				<b>5.1p</b>	14.2p
Diluted (before intangibles and exceptional items)				<b>14.1p</b>	15.8p
Diluted (after intangibles and exceptional items)				<b>5.1p</b>	14.1p

All the activities of the Group comprise continuing activities.

# Consolidated Balance Sheet

at 30 September 2005

	2005 £'m	2004 £'m
<b>Fixed assets</b>		
Intangible assets	12.7	11.8
Tangible assets	20.1	18.4
	<b>32.8</b>	30.2
<b>Current assets</b>		
Stocks	26.1	34.8
Debtors	37.4	41.1
Cash at bank and in hand	1.3	3.1
	<b>64.8</b>	79.0
<b>Creditors</b> (amounts falling due within one year)	<b>(45.1)</b>	(56.3)
	<b>19.7</b>	22.7
<b>Total assets less current liabilities</b>	<b>52.5</b>	52.9
<b>Creditors</b> (amounts falling due after more than one year)	<b>(7.7)</b>	(7.3)
	<b>44.8</b>	45.6
Provisions for liabilities and charges	<b>(1.4)</b>	(1.4)
	<b>43.4</b>	44.2
<b>Net assets</b>	<b>43.4</b>	44.2
<b>Capital and reserves</b>		
Called-up share capital	2.1	2.1
Share premium account	9.2	9.1
Merger reserve	3.3	3.3
Capital redemption reserve	0.4	0.4
Profit and loss account	28.4	29.3
	<b>43.4</b>	44.2
<b>Equity shareholders' funds</b>	<b>43.4</b>	44.2
Minority Interests	-	-
	<b>43.4</b>	44.2
<b>Capital employed</b>	<b>43.4</b>	44.2

## ***Consolidated Cash Flow Statement***

*for the year ended 30 September 2005*

	Notes	2005 £'m	2004 £'m
<b>Net cash inflow from operating activities</b>	3	<b>13.5</b>	13.1
Returns on investments and servicing of finance		<b>(1.3)</b>	(0.9)
Taxation		<b>(3.1)</b>	(2.5)
Capital expenditure and financial investment		<b>(4.2)</b>	(2.4)
		<b>4.9</b>	7.3
Acquisitions		-	(9.3)
Equity dividends paid		<b>(4.6)</b>	(4.4)
<b>Net cash inflow (outflow) before financing</b>		<b>0.3</b>	(6.4)
Financing		<b>0.1</b>	(3.6)
<b>Increase (decrease) in cash in the year</b>	4	<b>0.4</b>	(10.0)

## ***Consolidated Statement of Total Recognised Gains and Losses and Reconciliation of Group Shareholder's Funds***

*for the year ended 30 September 2005*

	2005 £'m	2004 £'m
Profit for the year	<b>2.2</b>	6.0
Dividends paid and declared	<b>(3.1)</b>	(4.5)
	<b>(0.9)</b>	1.5
New share capital subscribed	<b>0.1</b>	0.4
Loss on foreign currency translation	-	(0.1)
<b>Net (reduction) addition to equity shareholders' funds</b>	<b>(0.8)</b>	1.8
Opening equity shareholders' funds	<b>44.2</b>	42.4
<b>Closing equity shareholders' funds</b>	<b>43.4</b>	44.2

# Notes to the Preliminary Announcement

for the year ended 30 September 2005

## 1. Earnings per share

Earnings per share in both years are calculated, in accordance with FRS 14, by dividing the earnings by the weighted average number of shares outstanding in the year.

	Basic (non diluted)		Diluted	
	2005 £'m	2004 £'m	2005 £'m	2004 £'m
Profit for the year	2.2	6.0	2.2	6.0
Intangibles' amortisation	0.8	0.7	0.8	0.7
Exceptional items (post taxation)	3.1	-	3.1	-
<b>Earnings before intangibles and exceptional items</b>	<b>6.1</b>	<b>6.7</b>	<b>6.1</b>	<b>6.7</b>
Weighted average number of shares outstanding (number)	<b>42,569,082</b>	42,426,373	<b>42,672,904</b>	42,809,417
Basic earnings per share after intangibles and exceptional items (pence)	5.1	14.2	5.1	14.1
Effect on earnings per share resulting from intangibles (pence)	1.8	1.7	1.8	1.7
Effect on earnings per share resulting from exceptional items (pence)	7.2	-	7.2	-
<b>Earnings per share before intangibles and exceptional items (pence)</b>	<b>14.1</b>	<b>15.9</b>	<b>14.1</b>	<b>15.8</b>

The Directors consider that earnings per share before intangibles and exceptional items is an appropriate and consistent measure of the Group's underlying performance.

Weighted average number of shares	2005 Number of shares	2004 Number of shares
For basic earnings per share	<b>42,569,082</b>	42,426,373
Exercise of options	<b>103,822</b>	383,044
<b>For diluted earnings per share</b>	<b>42,672,904</b>	42,809,417

## 2. Turnover and segmental analysis

### Geographical segments

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of VAT. Both the turnover and profit before taxation of the Group are attributable to one class of business, electronic component distribution. These are analysed below by geographical segment.

	United Kingdom		Nordic		Italy		Eire		Group	
	2005 £'m	2004 £'m	2005 £'m	2004 £'m	2005 £'m	2004 £'m	2005 £'m	2004 £'m	2005 £'m	2004 £'m
<b>Turnover:</b> by origin										
Sales to third parties	134.8	139.6	18.2	21.7	23.0	26.5	2.3	-	178.3	187.8
<b>Exceptional Items</b>	<b>(2.8)</b>	-	<b>(0.7)</b>	-	<b>(0.5)</b>	-	-	-	<b>(4.0)</b>	-
<b>Profit (loss) before taxation</b>	<b>4.2</b>	9.7	<b>(1.0)</b>	(0.8)	<b>(0.2)</b>	0.4	<b>0.3</b>	-	<b>3.3</b>	9.3
<b>Net assets</b>	<b>40.1</b>	39.6	<b>2.5</b>	3.6	<b>0.5</b>	1.0	<b>0.3</b>	-	<b>43.4</b>	44.2

**3. Cash flow from operating activities**

	2005	2004
	£'m	£'m
Operating profit	4.6	10.2
Depreciation	1.3	1.7
Intangibles' amortisation	0.8	0.7
Operating profit before depreciation and intangibles	6.7	12.6
Decrease in stocks	8.5	0.3
Decrease (increase) in debtors	4.0	(3.0)
(Decrease) increase in creditors	(6.0)	3.2
Increase in provisions	0.3	-
<b>Net cash inflow from operating activities</b>	<b>13.5</b>	<b>13.1</b>

**4. Movement in net debt**

	2005	2004
	£'m	£'m
<b>Increase (decrease) in cash for the year</b>	<b>0.4</b>	<b>(10.0)</b>
Cash outflow from decrease in debt and lease financing	-	1.6
Change in net debt resulting from cash flows	0.4	(8.4)
Loans and finance leases acquired with subsidiary	-	(2.1)
Issue of loan notes to purchase subsidiary undertaking	-	(0.2)
New finance leases	(0.2)	(0.1)
Foreign exchange difference	0.1	0.1
<b>Movement in net debt in the year</b>	<b>0.3</b>	<b>(10.7)</b>
<b>Net debt at beginning of year</b>	<b>(29.4)</b>	<b>(18.7)</b>
<b>Net debt at end of year</b>	<b>(29.1)</b>	<b>(29.4)</b>
<b>Net debt at end of year comprises:</b>		
Cash	1.3	3.1
Overdrafts	(20.8)	(23.1)
Finance leases: falling due within one year	(0.1)	(0.1)
Loans: falling due within one year	(1.8)	(2.0)
Loans: falling due after more than one year	(7.7)	(7.3)
<b>Net debt at end of year</b>	<b>(29.1)</b>	<b>(29.4)</b>

**5. Financial Information**

The financial information set out above does not constitute the Company's statutory accounts for the years ended 30 September 2005 and 30 September 2004, but is derived from them. The accounting policies set out in the 2004 accounts have been applied in preparing the information for 2005. Statutory accounts for 2004 have been delivered to the Registrar of Companies. The Auditors have reported on the accounts to 30 September 2004: their report was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985. This preliminary announcement was approved by the Board on 22 November 2005.

The Company will hold its Annual General Meeting on 27 January 2006, following which the statutory accounts for 2005 will be posted and delivered to the Registrar of Companies. The Auditors have reported on these accounts and their report was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

The Annual Report and Accounts will be posted to shareholders in December 2005. Copies of the Annual Report and Accounts and of this announcement will be available at the Company's registered office: Abacus House, Bone Lane, Newbury, RG14 5SF or from the web site: [www.abacus-group.co.uk](http://www.abacus-group.co.uk).