Advanced fluid handling systems for ships and offshore oil and gas facilities

Hamworthy plc

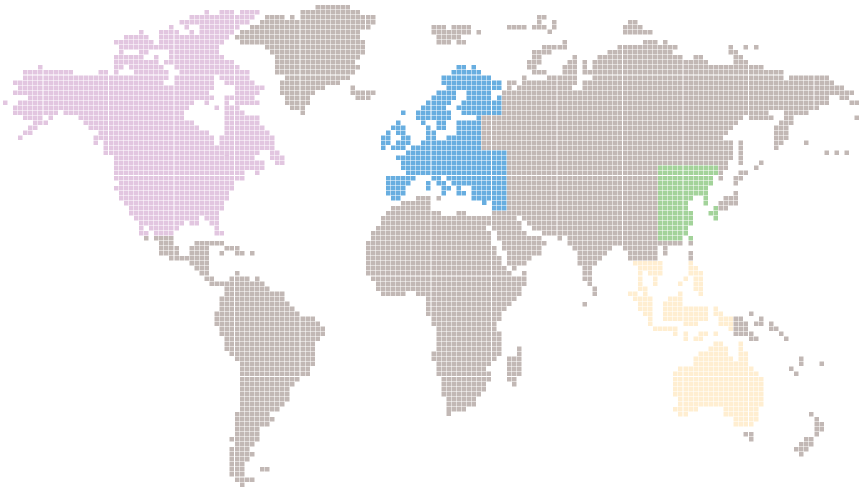
Interim Report 2005

Hamworthy
FLUID INNOVATION

Corporate Statement

Hamworthy is a world leader in the design and manufacture of innovative shipping and offshore fluid handling systems focused on gas handling, pumping and wastewater systems. It has a significant market share in most of its product ranges. The Group serves international markets and customers which, typically, are commercial and naval shipbuilding yards, ship owners and oil and gas companies.

Our Global Reach



Three year aggregate product sales by region for continuing business 2003 – 2005

5%	40%	3%	46%	6%
North America	Europe	Rest of World	Korea, China & Japan	Australia & other Far East

Financial Highlights

"These results clearly demonstrate the Company's robust growth. The continuing success in winning new orders and the pipeline of new technology products underpin our confidence for the future."

Gordon Page CBE, Chairman

- Turnover up 10.8% to £61.9 million (2004: £55.9 million)
- Operating profit up 11.3% to £4.1 million (2004: £3.7 million)
- Pro forma basic earnings per share 7.4p (2004: 7.9p) as effective tax rate rises. Statutory basic earnings per share 7.4p (2004: 12.5p)
- Cash generation from operating activities £2.7 million (2004: £2.6 million)
- Order book increases to £170.7 million (31 March 2005: £121.0 million)
- Dividend of 1.8p per share (2004: nil)
- The Group has announced that it is to raise £17.5 million, before expenses, by way of a placing of 6,140,351 new ordinary shares at a price of 285p per placing share. The placing is conditional on shareholder approval at an EGM convened for midday on 16 December 2005.

Interim Statement

Underpinning the continued growth, order intake more than doubled compared to the same period last year resulting in an outstanding order book at 30 September 2005 of £171 million.

Financial review

Turnover for the six months ended 30 September 2005 increased to £61.9 million (H1 2004: £55.9 million). Underpinning the continued growth, order intake more than doubled compared to the same period last year resulting in an outstanding order book at 30 September 2005 of £170.7 million (£121.0 million at 31 March 2005). Significant orders were received by both the gas systems and pump systems businesses.

Operating profits increased 11.3% to £4.1 million from £3.7 million as margins were maintained. Pro forma earnings per share (adjusted in accordance with note 4) decreased to 7.4p (H1 2004: 7.9p). The higher rate of tax compared to prior year accounted for a decrease of 1.3p per share in this figure. As reported in the annual report and accounts to 31 March 2005 the benefits of certain tax losses and unutilised allowances from prior years have now ended and the underlying tax rate is returning to its medium term expected rate of just under 30%. Statutory basic earnings per share fell to 7.4p (H1 2004: 12.5p).

The Group generated cash from operating activities of £2.7 million (H1 2004: £2.6 million). Net cash at 30 September 2005 was £3.3 million (£2.5 million at 31 March 2005) comprising term loan debt of £7.6 million and cash at bank of £10.9 million.

Dividends

The Company intends to pay an interim dividend of 1.8p per share. This will be paid on 23 December 2005 to all shareholders on the register at 2 December 2005. In accordance with FRS21 this will be set against profit in the second half of this financial year. There was no payment made in respect of the six months to 30 September 2004 as, following admission to AIM in July 2004, the first dividend was declared as a final dividend in respect of the period from admission to 31 March 2005. This was paid and, in accordance with FRS21, was recorded during the half year to 30 September 2005.

Gas systems

The gas systems business generated revenue of £27.7 million (H1 2004: £26.7 million) and operating profits of £2.0 million (H1 2004: £2.0 million). Orders received increased nearly fivefold to £62.4 million (H1 2004: £13.3 million). The outstanding order book increased to £101.3 million (£64.4 million at 31 March 2005).

As expected there was a significant change in sales mix. Volatile organic compound (VOC) recovery sales fell to £6.0 million (H1 2004: £19.7 million) as the North Sea retrofit contract neared its conclusion. The turnover of liquid natural gas reliquefaction systems (LNG-RS) was £14.1 million (H1 2004: nil). Liquid petroleum gas reliquefaction systems (LPG-RS) contributed sales of £7.5 million (H1 2004: £6.8 million).

The highlights of the order intake were four more shipsets of LNG-RS at Samsung for the QatarGas project, the land-based natural gas liquefaction plant at Kolsnes, Norway, and orders for LPG-RS at DSME (Daewoo) and, significantly, a first order at Hyundai. In October the order book was further strengthened by winning a contract in excess of £17.0 million for a further three shipsets of LNG-RS at Hyundai.

The Group is seeking orders for its LNG-RS technology on conventional size LNG carriers and remains optimistic about the prospects for the land-based natural gas liquefaction sector and for regasification.

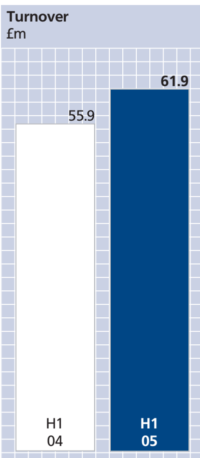
Pump systems

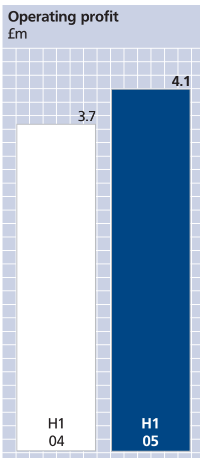
The pump systems business generated revenue of £18.3 million (H1 2004: £15.4 million) and operating profits of £1.3 million (H1 2004: £1.2 million). Orders received increased to £29.4 million (H1 2004: £22.2 million). The outstanding order book rose to £42.4 million (£31.0 million at 31 March 2005).

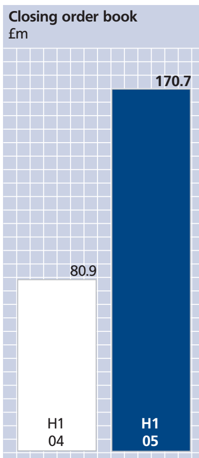
The improvement in sales came from deepwell marine pumps for gas ships and oil tankers. There was also a stronger performance from engine room pumps offset by reduced volumes of pump room pumps. Spares volumes in aggregate were steady.

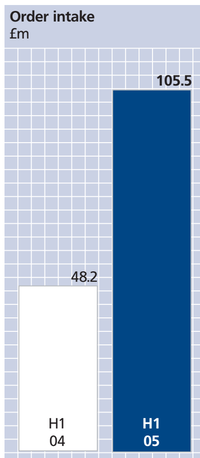
The increase in order book derived from deepwell pumps for gas ships, the offshore sector and engine room pumps. The rise for deepwell gas pumps reflects the strength of activity in the market for large LPG carriers. The offshore order intake follows the long-awaited upturn in activity from floating production and storage offloading (FPSO) vessels. The Group is gaining share with its electrically-driven deepwell pump alternative technology. Strong engine room pump orders came from the offshore sector and also a breakthrough into Korea on LNG ships through the Group's Korean licensee and partner.

The period also saw the first order for the new CKL200 deepwell cargo pump. This pump and its sister CKL250, soon to be launched, is aimed at the oil tanker market together with the existing CKL300. Sourcing of components from China for pumps assembled in Denmark and Singapore accelerated. The Danish pump facility was reorganised to make the production and assembly for larger pumps more efficient.









The growth of the order book and continued prospects for higher demand for its products allows the board to look forward with confidence.

Wastewater systems

The wastewater systems business generated revenue of £8.7 million (H1 2004: £6.4 million) and operating profits of £1.1 million (H1 2004: £0.5 million). Orders received increased to £7.8 million (2004: £7.1 million). The outstanding order book fell to £11.1 million (£11.6 million at 31 March 2005).

Increased sales volumes derived from conventional wastewater plant, both large and small, together with spares. The margins also improved as a result of increased sourcing of components from China.

After the flurry of orders last year for both conventional and advanced wastewater plant on new cruise ships, there has been a pause whilst both the two leading cruise operators develop new ship designs. The Group is working with both to obtain orders for wastewater systems. In October the Group obtained an order worth more than £1.0 million to retrofit a Royal Caribbean ship with advanced wastewater treatment. This is significant as it is the first wastewater order with this customer and positions the Group well for further retrofit and newbuild opportunities. For large cruise ships currently on order the Group's share of wastewater systems is 52%.

Inert gas systems

The inert gas systems business generated revenue of £7.2 million (H1 2004: £7.5 million) and operating profits of £0.4 million (H1 2004: £0.5 million). Orders received rose slightly to £5.8 million (H1 2004: £5.6 million). The outstanding order book fell to £15.9 million (£16.5 million at 31 March 2005).

The lower profit in the period is accounted for by lower offshore sales, which tend to have higher margins. The order intake rate was disappointing but there is a strong enquiry level especially in the offshore sector and for LPG and LNG carriers.

Following the substantial transfer of manufacture of inert gas systems for tankers to the Group's plant in Suzhou, China, work is now in hand to transfer manufacture of systems for LNG and LPG carriers.

Outlook

In each of the calendar years 2003 and 2004 approximately 2000 ships were ordered worldwide. This rate continued through the first half of 2005 but as expected it has now attenuated but remains healthy. Newbuild ship prices have eased 7% since their extraordinary peak earlier this year but remain high. The real test will be when yards start to market their 2009 berths.

Shipping rates remain strong and ship owners continue to enjoy strong cash flows. The trend towards tightening environmental legislation continues with particular emphasis in the years to come on ballast water discharges and control of sulphur emissions.

The prospects for deliveries of the ship types of most significance to the Group are somewhat more positive than presented at the time of the annual report for 2005. The high rate of product tanker deliveries is expected to continue through 2008. There is hard evidence from new oil company projects of the long-awaited upturn in FPSOs. Both LNG and LPG carriers have strong forecasts through to 2009. Sentiment in the cruise industry is positive with many observers believing that its growth is now constrained by shortage of capacity and with new larger designs under development.

The Group has been more successful than hitherto expected in growing its order book. This and continued prospects for higher demand for its products allows the board to look forward with confidence over the medium term. The board thanks its employees for their efforts in achieving continued sustained growth.

By order of the board

Paul Crompton
Company Secretary
22 November 2005

Profit and Loss Account

Consolidated accounts for the six months ended 30 September 2005

	Note	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000 as restated	Audited Year ended 31 Mar 05 £'000 as restated
Turnover	2	**61,933**	55,886	113,896
Cost of sales		**(46,036)**	(42,629)	(87,120)
Gross profit		**15,897**	13,257	26,776
Administrative expenses		**(11,797)**	(9,574)	(19,493)
Operating profit		**4,100**	3,683	7,283
Net interest and similar charges		**(381)**	(205)	(681)
Profit on ordinary activities before taxation		**3,719**	3,478	6,602
Taxation on ordinary activities	3	**(966)**	(456)	(1,026)
Profit on ordinary activities after taxation		**2,753**	3,022	5,576
Dividends	1	**(1,200)**	–	–
Retained earnings		**1,553**	3,022	5,576
Basic earning per share	4	**7.4p**	12.5p	18.4p
Diluted earnings per share	4	**7.2p**	12.4p	18.0p

Statement of Group Total Recognised Gains and Losses

	Note	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000 as restated	Audited Year ended 31 Mar 05 £'000 as restated
Profit for the financial period		**2,753**	3,022	5,576
Currency translation differences on foreign currency net investments		**143**	570	139
Actuarial loss in pension scheme		**–**	–	(250)
Movement in deferred tax on pension deficit		**(27)**	–	431
Total recognised gains and losses relating to the period		**2,869**	3,592	5,896
Prior year adjustment	1	**192**	–	–
Total gains and losses recognised since last annual report		**3,061**	3,592	5,896

Balance Sheet

Consolidated accounts as at 30 September 2005

	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000 as restated	Audited Year ended 31 Mar 05 £'000 as restated
Fixed assets			
Intangible assets – goodwill	**6,872**	7,324	7,082
– negative goodwill	**(1,057)**	(1,406)	(1,220)
	5,815	5,918	5,862
Tangible assets	**5,745**	6,159	5,762
	11,560	12,077	11,624
Current assets			
Stocks	**27,072**	19,603	22,181
Debtors falling due within one year	**22,928**	15,235	16,961
Cash at bank and in hand	**10,900**	5,999	11,337
	60,900	40,837	50,479
Creditors: amounts falling due within one year	**(49,369)**	(34,043)	(41,488)
Net current assets	**11,531**	6,794	8,991
Total assets less current liabilities	**23,091**	18,871	20,615
Creditors: amounts falling due after one year	**(5,533)**	(7,011)	(6,172)
Provisions for liabilities and charges	**(4,142)**	(2,112)	(2,647)
Net assets before pension scheme	**13,416**	9,748	11,796
Pension scheme liability	**(1,060)**	(1,280)	(1,109)
Net assets	**12,356**	8,468	10,687
Capital and reserves			
Called up share capital	**1,850**	1,850	1,850
Share premium account	**85**	141	85
Profit and loss account	**10,421**	6,477	8,752
Equity shareholders' funds	**12,356**	8,468	10,687

Cash Flow Statement

Consolidated accounts for the six months ended 30 September 2005

	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000	Unaudited Year ended 31 Mar 05 £'000
Net cash inflow from operating activities	**2,658**	2,603	8,538
Net interest paid	**(381)**	(245)	(601)
Issue costs of new bank loan	**–**	(589)	(606)
Dividends paid	**(1,200)**	–	–
Net cash outflow from returns on investments and servicing of finance	**(1,581)**	(834)	(1,207)
Taxation	**(338)**	(176)	(814)
Purchase of tangible fixed assets	**(477)**	(470)	(685)
Sale of tangible fixed assets	**10**	–	67
Net cash outflow for capital expenditure	**(467)**	(470)	(618)
Purchase of subsidiary undertakings	**–**	(786)	(786)
Cash acquired with subsidiary undertakings	**–**	273	273
Net cash outflow from acquisitions	**–**	(513)	(513)
Net cash inflow before use of liquid resources and financing	**272**	610	5,386
Issue of ordinary share capital	**–**	1,300	1,300
Costs of share issue	**–**	–	(56)
Repayment of loans	**(700)**	(500)	(1,200)
Increase/(decrease) in borrowings	**–**	790	790
Net cash (outflow)/inflow from financing	**(700)**	1,590	834
(Decrease)/increase in net cash	**(428)**	2,200	6,220

Notes to the Interim Report

1. Basis of preparation

The interim financial information for the six months to 30 September 2005 has, except for the changes set out below, been prepared on the basis of the accounting policies applied in the Group's statutory accounts for the year to 31 March 2005.

The Group has adopted for the first time FRS17 Pension Accounting and FRS21 concerning Events after the Balance Sheet Date. This gives rise to prior year adjustments and the restatement of the previous period's and year's figures. These changes increase the operating profit by £96,000 in the half year to 30 September 2004 and by £192,000 in the year ended 31 March 2005. Recognition of the £1,200,000 final declared dividend in respect of the year ended 31 March 2005 is deferred under FRS21 until the date of approval by shareholders and this therefore increases retained earnings for that period. The Group expects these accounting policies, including the above changes, to apply to the accounts for the year ending 31 March 2006.

The Group has changed the allocation of certain overhead costs as between cost of sales and administrative expenses in order to better reflect the nature of those costs. These changes increase cost of sales and decrease administrative expenses by £1,062,000 in the six months to 30 September 2004 and by £2,132,000 in the year to 31 March 2005 compared to those previously reported. The information has not been audited but has been prepared in accordance with generally accepted accounting principles in the UK.

The financial information does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985. The information for the year to 31 March 2005 has been extracted from the full financial statements for that year which received an unqualified audit report and which have been filed with the Registrar of Companies.

Notes to the Interim Report continued

2. Segmental information

	Unaudited Half year 30 Sep 05 £'000	Restated unaudited Half year 30 Sep 04 £'000	Restated audited Year ended 31 Mar 05 £'000
Turnover by geographical destination			
United Kingdom	**4,044**	4,361	9,001
Europe and Middle East	**23,001**	29,132	54,003
Far East	**31,678**	18,088	43,463
Rest of world	**3,210**	4,305	7,429
	61,933	55,886	113,896
Turnover by class of business			
Pump systems	**18,345**	15,383	38,192
Gas systems	**27,718**	26,655	44,838
Wastewater systems	**8,704**	6,385	14,282
Inert gas systems	**7,166**	7,463	16,584
	61,933	55,886	113,896
Operating profit by class of business			
Pump systems	**1,290**	1,234	2,442
Gas systems	**2,031**	1,965	2,646
Wastewater systems	**1,089**	461	2,232
Inert gas systems	**372**	517	1,039
Central costs	**(682)**	(494)	(1,076)
	4,100	3,683	7,283

3. Taxation

The tax charge of £966,000 (2004: £456,000) is calculated by applying an estimated effective tax rate for each of the Group's material tax jurisdictions for the year to 31 March 2006 to the half year profit before taxation for each jurisdiction. The effective tax rate for the Group as a whole for the year to 31 March 2006 is estimated at 25.7% (2004: 15.5%).

4. Earnings per share

The calculations of the earnings per ordinary share are based on the following data. In July 2004, as part of the Company's flotation, the fully paid share capital was increased from £550,000 to £1,850,000 and the Company reorganised its loan structure including the settlement of various balances with associated companies. A pro forma earnings per share figure has been calculated which eliminates the effect of these changes, assumes the present share capital and loan structure has been in existence throughout the period and adjusts for certain exceptional or non-recurring items. The directors believe presentation of this pro forma figure provides a more informative reflection of the earnings per share performance.

	Half year 30 Sep 05	Restated Half year 30 Sep 04	Restated Year ended 31 Mar 05
Profit for basic and diluted earnings per share	**2,753,000**	3,022,000	5,576,000
Eliminate interest on extinguished loans net of tax	–	(65,000)	(65,000)
Adjust for acquired businesses	–	(50,000)	(50,000)
Eliminate non-recurring cost of reorganisation	–	–	223,000
Profit for pro forma earnings per share	**2,753,000**	2,907,000	5,684,000
Weighted average number of shares in issue in the period	**37,000,000**	24,213,115	30,375,000
Dilutive effect of share options	**1,192,144**	190,108	566,000
Number of shares for diluted earnings per share	**38,192,144**	24,403,223	30,941,000
Number of shares for pro forma earnings per share	**37,000,000**	37,000,000	37,000,000
Basic earnings per share	**7.4p**	12.5p	18.4p
Diluted earnings per share	**7.2p**	12.4p	18.0p
Pro forma earnings per share	**7.4p**	7.9p	15.4p
Pro forma diluted earnings per share	**7.2p**	7.8p	15.1p

Notes to the Interim Report continued

5. Cash flow

The Consolidated Cash Flow Statement has been prepared using the temporal method by translating the cash flows of overseas subsidiaries at the rates applicable for the monthly reporting period in which they fall. In the unaudited financial statements for the six months ended 30 September 2004 and the audited financial statements for the year ended 31 March 2005 the closing rate/net investment method was used. This translated the cash flows of overseas subsidiaries at the period end closing rate of exchange. This change has been made in order to eliminate translation exchange differences from the individual cash flows as the majority of the Group's cash flows are designated in currencies other than sterling.

Reconciliation to net debt

	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000	Unaudited Year ended 31 Mar 05 £'000
Net debt 1 April 2004	**2,521**	(5,472)	(5,472)
Increase in net cash	**(428)**	2,200	6,220
Movement in borrowings	**700**	(290)	410
Non-cash movements	**534**	670	1,363
Net cash/(debt) 30 September 2005	**3,327**	(2,892)	2,521

Non-cash movements relate to exchange differences and the unamortised issue costs of new bank loans.

Reconciliation of operating profit to net cash inflow from operating activities

	Unaudited Half year 30 Sep 05 £'000	Unaudited Half year 30 Sep 04 £'000	Unaudited Year ended 31 Mar 05 £'000
Operating profit	**4,100**	3,683	7,283
Depreciation	**568**	595	1,169
Amortisation of goodwill	**48**	100	156
Profit on sale of fixed assets	**42**	(54)	267
Increase in stocks	**(4,218)**	(6,456)	(9,224)
Decrease in debtors	**(3,948)**	33,402	31,972
Increase in creditors	**5,531**	(28,485)	(22,958)
Increase in provisions	**535**	(236)	194
Net cash flow from operating activities	**2,658**	2,603	8,538

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