

centurion[®]
electronics plc



Six months ended 31st March 2005

interim report

CENTURION ELECTRONICS PLC

Chairman's statement

Overview

Centurion announces its interim results for the six months ended 31 March 2005. The last six months have proved to be a period of transition for the Company. As outlined in our pre-close period trading statement on 31 March, the unexpected severity of the downturn in retail markets, particularly in the UK, in which part of the business operates, resulted in our finishing the period with an over supplied stock position. The difficulties created by declining retail markets were further exacerbated by significant component price deflation as a result of cheap imports provided by an aggressive and expanding manufacturing base in the Far East.

The difficult retail conditions facing the Company have been addressed and the Board has implemented a stock liquidation programme to eliminate the over supply of stock levels and introduced a restricted component purchasing plan.

I am pleased to say, as outlined in our statement issued on 25 May, that as a result of the actions we have taken stocks have been reduced significantly and are now approaching appropriate levels.

The Board remains focused on the successful development of its automotive business, which continues to exceed management expectations and I am delighted to report that the Company has secured a new contract with a major European car manufacturer.

The Company anticipates that the financial performance will improve in the second half as our restructuring, which is well underway, will generate annual cost savings in excess of £0.8 million by the end of 2005.

Financial Performance

Although turnover for the six months ended 31 March 2005 increased to £7.8 million (2004: £4.4 million) the Company is reporting a pre-exceptional loss before interest and tax of £0.08 million (2004: profit of £0.56 million), producing a pre-exceptional loss per share of 0.92p compared to a pre-exceptional earnings per share of 1.59p for the same period last year.

As stated previously, the Company announced in March that the Board anticipated a write down in the value of its stock of up to £1.4 million with a further £1.0 million possible in the second half. However, due to the level at which the products affected have been discounted in order to generate the required revenue, a write down of £3.7 million has been incurred, all of which has been taken in the first six months. In addition, restructuring costs of £0.2 million have been incurred in the first half. This has led to a post-exceptional pre interest and tax loss of £4 million and a pre-tax loss of £4.3 million. Full year exceptional items are expected to be £4.9 million on completion. A prior year adjustment has been incurred as a result of incorrect import duty calculations on a specific product. The effect of this has been to reduce net assets by £0.25 million and operating profit by £0.37 million. However, I am pleased to report that stock levels will be broadly in line with current trading conditions and the supply chain is now managed with very strict controls. Centurion's bankers have been supportive of the Company during this process.

Board Changes

During the period we instigated significant senior management changes. The Company has been strengthened by the appointment of Chris Rhodes as Chief Executive, who joined in October 2004. Mike Harrison joined as Finance Director in February and Keith Davis was appointed Supply Chain Director in March. With their combined experience and understanding of the automotive market, I am certain that they will be a valuable addition to the Company and contribute to the successful developments being made in the OEM market. John Bell, Operations Director, resigned in November 2004, Amanda Thorneycroft resigned as Finance Director in January 2005 and subsequent to the period end, we reported the resignation of Alistair Powell, Product Development Director.

Dividend

At this stage in the development of Centurion and, in the light of the results for the half year, the Board feels that the Company should focus its resources on continuing to invest in the business and the Directors will not, therefore, be declaring an interim dividend (2004: nil). It is, however, our intention to adopt a progressive dividend policy in due course.

Strategy

Centurion's strategy is to become more focused on the automotive and specialist retail markets and less dependant upon the volatile high street retail sector. The Board is undertaking a restructuring of the business accordingly. In light of the difficulties currently being faced by the retail market, the Board is also re-evaluating its European strategy. The Company, however, remains committed to the strategy of product development and growth within the automotive and specialist retail market.

We have placed significant emphasis on the development of our internal design and engineering resource. To supplement our growth plans we have concluded an agreement with Infosys Technologies Limited to provide Centurion with outsourced off-shore engineering, technical and design services, while at the same time we continue to develop our relationships with current and potential component suppliers.

Our strategy is clear and, with the right personnel in place and key automotive relationships being fostered, we are confident that we will begin to return to profitability and deliver improved shareholder value from our current low base.

Contract Win

The Company has secured a contract with a major European car manufacturer for the supply of an undisclosed product that will be available as an option across its entire range of vehicles by September 2005. No further details can be released at present, due to client confidentiality. In addition, two new in-car entertainment programme contracts have been won with the Toyota Group and the range of Centurion products available through Peugeot dealerships has been extended. Negotiations are also underway with a number of other European car manufacturers for the supply of a variety of infotainment systems. I look forward to reporting further progress with respect to these negotiations in due course.

Outlook

The Company anticipates that the financial performance will improve in the second half as our restructuring, which is progressing well, is expected to generate benefits by the end of 2005. With continuing difficult retail market conditions, the Board is concentrating on the successful development of its automotive business, and I expect to be able to announce further progress during the second half of the year.

Brian Hendon
Chairman
8 June 2005

Profit and loss account for the six months ended 31 March 2005

	Note	Unaudited 6 months to 31 March 2005	Unaudited 6 months to 31 March 2005	Unaudited 6 months to 31 March 2005	Unaudited 6 months to 31 March 2004 As restated*
		Pre-Exceptional £	Exceptional* £	Total £	Pre-Exceptional £
Turnover		7,800,954	-	7,800,954	4,425,971
Cost of Sales		5,096,272	3,724,448	8,820,720	2,640,029
Gross (loss)/profit		2,704,682	3,724,448	(1,019,766)	1,785,942
Administrative expenses		(2,786,018)	(210,274)	(2,996,292)	(1,219,924)
Other Operating Income		-	-	-	-
Operating (loss)/profit	2	(81,336)	(3,934,722)	(4,016,058)	566,018
Interest Payable and similar charges		(264,632)	-	(264,632)	(80,006)
(Loss)/profit on ordinary activities before taxation		(345,968)	(3,934,722)	(4,280,690)	486,012
Taxation on (loss)/profit on ordinary activities	4	(120,415)	(876,434)	(996,850)	116,000
(Loss)/profit on ordinary activities after taxation		(225,553)	(3,058,288)	(3,283,840)	370,012
Dividends		-	-	-	-
Retained (loss)/profit for the Financial Period		(225,553)	(3,058,288)	(3,283,840)	370,012
Earnings Per Share	3				
Basic		(0.92p)	(12.49p)	(13.41p)	1.59p
Diluted		(0.92p)	(12.49p)	(13.41p)	1.55p

* Further details of exceptional items and prior period restatement are disclosed in note 2

Profit and loss account for the six months ended 31 March 2005 (continued)

	Unaudited 6 months to 31 March 2004 As restated* Exceptional £	Unaudited 6 months to 31 March 2004 As restated* Total £	Audited Year to 30 September 2004 As restated* Pre-Exceptional £	Audited Year to 30 September 2004 As restated* Exceptional £	Audited Year to 30 September 2004 As restated* Total £
Turnover	-	4,425,971	15,744,431	-	15,744,431
Cost of Sales	-	2,640,029	10,727,377	-	10,727,377
Gross (loss)/profit	-	1,785,942	501,7054	-	5,017,054
Administrative expenses	-	(1,219,924)	(3,351,423)	-	(3,351,423)
Other Operating Income	470,000	470,000	-	470,000	470,000
Operating (loss)/profit	470,000	1,036,018	1,665,631	470,000	2,135,631
Interest Payable and similar charges	-	(80,006)	(174,946)	-	(174,946)
(Loss)/profit on ordinary activities before taxation	470,000	956,012	1,490,685	470,000	1,960,685
Taxation on (loss)/profit on ordinary activities	141,000	257,000	417,758	141,000	558,758
(Loss)/profit on ordinary activities after taxation	329,000	699,012	1,072,927	329,000	1,401,927
Dividends	-	-	266,359	-	266,359
Retained (loss)/profit for the Financial Period	329,000	699,012	806,568	329,000	1,135,568
Earnings Per Share					
Basic	1.42p	3.01p	4.52p	1.39p	5.91p
Diluted	1.37p	2.92p	4.40p	1.35p	5.75p

Balance sheet as at 31 March 2005

	Unaudited 6 months to 31 March 2005	Unaudited 6 months to 31 March 2004	Audited Year to 30 September 2004 As restated
	£	£	£
Fixed assets			
Tangible assets	934,571	774,516	833,369
Current assets			
Stocks	6,952,177	2,892,643	4,706,099
Debtors:			
Trade debtors subject to financing	2,877,742	2,787,956	6,076,017
Less: non-returnable proceeds	-	(848,311)	-
	<u>2,877,742</u>	<u>1,939,645</u>	<u>6,076,017</u>
Other debtors	1,613,760	877,462	2,221,229
Cash at bank and in hand	2,170,251	2,432,136	2,863,896
	<u>13,613,930</u>	<u>8,141,886</u>	<u>15,867,241</u>
Creditors: amounts falling due within one year	(10,794,557)	(2,434,983)	(9,796,168)
Net current assets	<u>2,819,373</u>	<u>5,706,903</u>	<u>6,071,073</u>
Total assets less current liabilities	3,753,944	6,481,419	6,904,442
Creditors: amounts falling due after more than one year	(199,341)	(199,617)	(193,365)
Provisions for liabilities and charges	-	(59,915)	(52,634)
	<u>3,554,603</u>	<u>6,221,887</u>	<u>6,658,443</u>
Capital and reserves			
Called up share capital	221,481	220,881	220,881
Share premium account	4,731,879	4,552,479	4,552,479
Capital redemption reserve	130,000	130,000	130,000
Profit and loss account	(1,528,757)	1,318,527	1,755,083
Shareholders' funds	<u>3,554,603</u>	<u>6,221,887</u>	<u>6,658,443</u>

Cash flow statement for the six months ended 31 March 2005

	Note	Unaudited 6 months to 31 March 2005 £	Unaudited 6 months to 31 March 2004 £	Audited Year to 30 September 2004 £
Net cash outflow from operating activities	5	(4,702,005)	(281,968)	(1,202,590)
Returns on investments and servicing of finance				
Interest paid		(264,632)	(80,006)	(174,946)
Net cash outflow from returns on investments and servicing of finance		(264,632)	(80,006)	(174,946)
Taxation				
UK corporation tax (paid)/received		(170)	18,897	(261,208)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(149,153)	(185,336)	(271,046)
		(149,153)	(185,336)	(271,046)
Equity dividends paid		-	(184,078)	(184,078)
Cash outflow before financing		(5,115,960)	(712,491)	(2,093,868)
Financing				
Short term import loans (paid)/advanced		(793,708)	202,880	2,076,060
Bank loans paid		(22,667)	-	(25,000)
Bank loans received		-	48,499	50,833
Capital element of finance lease rental payments		(33,365)	(24,736)	(62,114)
Share options exercised		180,000	31,500	31,500
Issue of share capital (net of expenses)		-	1,173,700	1,173,701
		(669,740)	1,431,843	3,244,980
(Decrease)/Increase in cash for the period	6	(5,785,700)	719,352	1,151,112

Notes to the interim report

1 Accounting policies

The financial information contained in this interim statement has been prepared on the basis of the accounting policies set out in the Company's audited financial statements for the year ended 30 September 2004, which have been applied consistently.

2 Operating (Loss)/profit and restatements

	Unaudited 6 months to 31 March 2005 £	Unaudited 6 months to 31 March 2004 £	Audited Year to 30 September 2004 £
This is arrived at after charging/(crediting):			
Exceptional items (see below)	3,934,722	(470,000)	(470,000)

Exceptional items

Included in cost of sales for the six months ended 31 March 2005 is an exceptional charge of £3,724,448 (2004 £nil). This relates to a stock write down for obsolescence and valuation considerations resulting from issues in the supply chain management and stock purchase, categorisation and net realisable value procedures. A further £210,274 (2004 £nil) is included in administrative expenses and relates to compensation costs paid to two outgoing directors as well as consultants' costs.

The exceptional credit of £470,000 in the six months ended 31 March 2004 and for the year ended 30 September 2004 relates to insurance proceeds from the keyman policies held on Steven Cunningham which were paid out on his death.

Restatements

The profit and loss account for the six months ended 31 March 2004 has been restated in so far as to reclassify carriage inwards costs as a cost of sale whereas such costs were previously included within administrative expenses. There has been no overall effect on operating profit or net assets as a result of this restatement.

The profit and loss account for 30 September 2004 has been restated as a result of the supply chain review highlighting a fundamental error in a duty calculation for a specific product. The effect of this error on the comparatives is that net assets have been reduced by £256,681 and operating profit has been reduced by £366,687. Had this error not occurred, current year net assets would have been higher by £256,681. The operating loss in the current year is unaffected.

3 Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. These take into account the issue of 350,000 ordinary shares on 21 December 2004 and the issue of 250,000 ordinary shares on 2 February 2005.

The weighted average number of equity shares in issue for the basic earnings per share calculation is 24,488,328 (2004 23,726,817) and the earnings, being (losses)/profits after tax and preference dividends,

3 Earnings per share (continued)

are (£3,283,840) (2004 £1,401,927). For the pre-exceptional items earnings per share ratios the earnings have been increased/(reduced) by £3,058,288 (2004 (£329,000)).

The numerator for the diluted earnings per share disclosure is the same as the basic earnings per share numerator.

The denominator for the diluted earnings per share disclosure is as follows:

	Unaudited 6 months to 31 March 2005 £	Unaudited 6 months to 31 March 2004 £	Audited Year to 30 September 2004 £
Basic earnings per share denominator			
ordinary shares of 0.1pence	24,488,328	23,239,207	23,726,817
Dilutive effect of company share option schemes	-	714,468	665,565
	<u>24,488,328</u>	<u>23,953,675</u>	<u>24,392,382</u>

4 Taxation on loss on ordinary activities

Corporation tax

The tax rate used is based on the effective rate for the year, taking into account the exceptional charges for the six months to 31 March 2005.

Deferred tax

The recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

5 Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	Unaudited 6 months to 31 March 2005 £	Unaudited 6 months to 31 March 2004 £	Audited Year to 30 September 2004 As restated £
Operating (loss)/profit	(4,016,058)	1,036,018	2,135,631
Depreciation	116,752	76,877	179,914
Increase in stocks	(2,246,078)	(630,483)	(2,443,939)
Decrease/(Increase) in debtors	4,183,667	(1,061,295)	(6,541,435)
(Decrease)/Increase in creditors	(2,740,288)	296,915	5,467,239
Net cash outflow from operating activities	<u>(4,702,005)</u>	<u>(281,968)</u>	<u>(1,202,590)</u>

6 Reconciliation of net cash inflow to movement in net funds/(debt)

	Unaudited 6 months to 31 March 2005 £	Unaudited 6 months to 31 March 2004 £	Audited Year to 30 September 2004 £
(Decrease)/Increase in cash in the year	(5,785,700)	719,352	1,151,112
Cash outflow/(inflow) from changes in debt and lease financing	849,739	(226,643)	(2,039,779)
Change in net debt resulting from cash flows	<u>(4,935,961)</u>	<u>492,709</u>	<u>(888,667)</u>
New finance leases	<u>(68,801)</u>	<u>(70,710)</u>	<u>(146,890)</u>
Movement in net debt in the period	(5,004,762)	421,999	(1,035,557)
Net (debt)/funds at start of period	<u>(267,606)</u>	<u>767,951</u>	<u>767,951</u>
Net (debt)/funds at end of year (note 7)	<u><u>(5,272,368)</u></u>	<u><u>1,189,950</u></u>	<u><u>(267,606)</u></u>

7 Analysis of net funds

	At 01 October 2004 £	Cash flow £	Other non-cash changes £	At 31 March 2005 £
Cash in hand and at bank	2,863,896	(693,645)	-	2,170,251
Bank Overdrafts	-	(5,092,055)	-	(5,092,055)
		(5,785,700)		
Debt due after 1 year	(86,750)	22,667	-	(64,083)
Debt due within 1 year	(2,869,154)	793,707	-	(2,075,447)
Obligations under finance leases	(175,598)	33,365	(68,801)	(211,034)
Total	(267,606)	(4,935,961)	(68,801)	(5,272,368)

8 Non-statutory Accounts

The financial information contained in this report does not constitute full statutory accounts as defined by section 240 of the Companies Act of 1985.

Except for the effect of prior period restatements, the financial information in respect of the year ended 30 September 2004 has been extracted from the statutory accounts for that year which have been filed with the Registrar of Companies. The auditors report on those accounts was unqualified.

Copies of this report are being sent to all shareholders and are available from the Company's offices at Satellite House, City Park, Swiftfields, Welwyn Garden City, Hertfordshire AL7 1LY.

INDEPENDENT REVIEW REPORT TO CENTURION ELECTRONICS PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 March 2005 on pages 4 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2005.

BDO STOY HAYWARD LLP

Chartered Accountants
London

8 June 2005

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