SIRDAR PLC

Interim Report

31st December 2006

Introduction

The six months to 31st December 2006 has been a very challenging period for the group. Sales and margins have been under pressure in the Floor Coverings division and the fashion led boom in hand knitting yarns, which boosted the results of the Specialist Yarns division, has come to an end. Following consideration of various strategic options, the board has now concluded that further action is needed to streamline the group to enable it to focus on its core activity of Floor Coverings. Details are set out in the section on future strategy below.

The results

Turnover for the half year to 31st December 2006 was £34.3m (2005: £38.4m) generating operating profit, before exceptional costs, of £1.5m (2005: £3.5m). After exceptional costs of £0.5m (2005: £nil), operating profit was £1.0m (2005: £3.5m). Earnings per share were 0.05p and adjusted earnings per share were 0.76p (2005: earnings per share and adjusted earnings per share 3.84p).

Cash inflow from operating activities amounted to £3.0m (2005: £1.7m) with £1.6m being generated from working capital (2005: £2.5m absorbed) as a result of the continued focus on this area. Net debt reduced by £0.5m to £4.9m.

The board has declared a maintained interim dividend of 0.80p per share (2005: 0.80p). The dividend is payable on 8th May 2007 to those shareholders on the register of members at the close of business on 10th April 2007.

Floor Coverings

Sales of Floor Covering products reduced by 9% to £26.1m (2005: £28.8m) and operating profit fell to £0.6m before exceptional costs and to £0.2m after exceptional costs (2005: £1.3m before and after exceptional items).

Although the commercial sector of the market remains challenging, the recent investment in people, products and processes within Burmatex enabled this part of the business to maintain turnover and profitability.

As reported previously, the residential sector has been difficult and our operations in this area have been the subject of significant attention as we seek to counter the adverse trading conditions which have affected most players within this market. We have made a number of changes to this operation over the last twelve months including the relocation of the bespoke manufacturing operation from Rochdale to a centre of excellence at Wakefield, the closure of Spenbrook Mill manufacturing plant and the cessation of yarn spinning activities at Oxford Mill, Bury.

A number of other changes are planned for the near future including the setting up of a second centre of excellence in Lancashire and the closure and sale of the operation's headquarters and main manufacturing site in Rochdale.

Our original target was to complete the necessary changes by December 2007 and we are on schedule to achieve this. The total cost to date is approximately £0.6m and we expect the final total to amount to £1.5m. In addition, the changes have necessitated additional capital expenditure to date of £0.5m and the final total capital expenditure is likely to amount to £1.5m. We expect the total cost of £3.0m to be covered by the proceeds of sale of the Rochdale site.

At the conclusion of the restructuring process the residential floor coverings business will have been reconfigured from seven sites to three centres of excellence and will operate with a significantly lower headcount with no adverse impact on potential sales.

Specialist Yarns

Sales in this division reduced by 16% to £8.1m (2005: £9.6m) and operating profit reduced to £1.1m (2005: £2.4m). Sales of the division's standard ranges of hand knitting yarns held steady and sales of technical products under the Tilsatec brand continued to grow. However, the downturn in the market for fancy hand knitting yarns resulted in the lower overall level of sales.

The impact on the Specialist Yarns division of the decision to streamline the group and concentrate on Floor Coverings is set out in the section on future strategy below.

Future strategy

As we approach completion of the changes within our two Floor Coverings businesses, we believe that the time is now right to amalgamate these activities into one operation. The Floor Coverings division represents approximately 75% of our turnover and the market in which it operates is large and growing. Having modernised our businesses, we believe that we are now in a position to increase our share of this market and that this should be the focus of our activities going forward. As well as the current sectors of commercial carpet and residential carpet, the existing businesses are increasingly targeting the contract market and we believe that this will be more successful if it is done on a combined basis rather than as two separate businesses.

As the first step towards integrating our two Floor Coverings businesses, we have appointed Gordon Donald, the current managing director of Burmatex, as managing director of the group's Floor Coverings division with effect from 1st July 2007.

In reaching our view that the needs of the group's shareholders would be best served by focusing on our Floor Coverings business, it becomes clear that the needs of the Specialist Yarns division would be better served under different ownership and we will therefore be seeking to sell that division. Once the future of the Specialist Yarns division is decided we will be able to merge the management of the Floor Coverings division with that of the PLC operation and discontinue the majority of the central group costs.

As part of the above process, we have also considered our property strategy and, in particular, our ownership of the site at Flanshaw Lane, Wakefield. This site is currently occupied by a mixture of group businesses and external tenants. As part of the focus on Floor Coverings, the board believe it will be beneficial to dispose of this site and lease back those parts required for our ongoing operations. It is anticipated that this disposal and the planned sale of the Rochdale site will generate funds that will be used to finance the restructuring of the group. This may offer scope to reduce the group's bank debt and/or pension deficit and we will discuss this with our bankers and the trustees of the pension scheme in due course.

Current trading and future prospects

Trading conditions in the early part of 2007 have continued to be very difficult. Sales in both divisions have fallen further behind last year over the first three months of 2007.

The short term prospects for both divisions are very challenging. The Floor Coverings division is focusing on new product development and innovation but recent increases in interest rates and uncertainty over the level of public sector spending mean that the market remains difficult. However, we believe that our modernised Floor Coverings division will be well placed to increase its market share.

The Specialist Yarns division expects growth in technical products to continue but sales of hand knitting yarns are likely to be subdued over the next few months as the business reverts to its normal pattern of seasonality.

The board would like to record their continued appreciation of the effort and commitment of all group employees. This commitment combined with the strategic changes detailed above should enable the group to put in place a sound base for the future.

29th March 2007

Consolidated Profit and Loss Account

6 months ended 31st December 2006

	Note	Unaudited 6 months ended 31st December 2006 £000	Unaudited 6 months ended 31st December 2005 £000	Audited year ended 30th June 2006 £000
Turnover	2	34,260	38,421	74,811
Operating costs		(32,774)	(34,940)	(69,490)
Exceptional costs	3	(468)	–	–
Total operating costs		(33,242)	(34,940)	(69,490)
Operating profit	2	1,018	3,481	5,321
Net interest payable and similar charges		(237)	(329)	(609)
Other finance costs		(250)	(350)	(590)
Profit before taxation		531	2,802	4,122
Taxation		(508)	(1,026)	(1,509)
Profit for the period		23	1,776	2,613
Earnings per share				
(basic and diluted)	5	0.05p	3.84p	5.65p

The results shown in the consolidated profit and loss account derive wholly from continuing activities.

There is no difference between the profit before taxation and the profit for the period stated above and their historical cost equivalents.

Statement of Total Recognised Gains and Losses

6 months ended 31st December 2006

	Unaudited 6 months ended 31st December 2006 £000	Unaudited 6 months ended 31st December 2005 £000	Audited year ended 30th June 2006 £000
Profit attributable to shareholders of the group	23	1,776	2,613
Actuarial gains recognised in the pension scheme	–	1,260	2,814
Total recognised gains relating to the period	23	3,036	5,427

Consolidated Balance Sheet
as at 31st December 2006

	Note	Unaudited 31st December 2006 £000	£000	Unaudited 31st December 2005 £000	£000	Audited 30th June 2006 £000	£000
Fixed assets							
Intangible			12,417		13,297		12,857
Tangible			15,226		15,340		15,107
			27,643		28,637		27,964
Current assets							
Stocks		14,613		17,708		16,517	
Debtors		10,322		13,355		10,416	
Cash at bank and in hand		770		273		537	
		25,705		31,336		27,470	
Creditors (due within one year)		(17,179)		(20,316)		(17,399)	
Net current assets			8,526		11,020		10,071
Total assets less current liabilities			36,169		39,657		38,035
Creditors (due after more than one year)			–		(2,214)		(739)
Deferred taxation	6		(2,151)		(2,217)		(2,071)
Net assets excluding pension deficit			34,018		35,226		35,225
Net pension deficit			(9,100)		(11,612)		(9,590)
			24,918		23,614		25,635
Equity shareholders' funds							
Called up share capital			11,561		11,561		11,561
Share premium account			504		504		504
Capital redemption reserve			2,395		2,395		2,395
Profit and loss account	7		10,458		9,154		11,175
			24,918		23,614		25,635

Consolidated Cash Flow Statement

6 months ended 31st December 2006

	Note	Unaudited 6 months ended 31st December 2006 £000	£000	Unaudited 6 months ended 31st December 2005 £000	£000	Audited year ended 30th June 2006 £000	£000
Net cash inflow from operating activities	9		3,006		1,654		7,584
Interest paid and similar charges			(224)		(374)		(654)
			2,782		1,280		6,930
Corporation tax paid			(553)		(247)		(1,121)
Capital expenditure							
Purchase of tangible fixed assets		(1,282)		(556)		(1,227)	
Sale of tangible fixed assets		295		163		207	
			(987)		(393)		(1,020)
Equity dividends paid			(740)		(647)		(1,017)
Cash inflow/(outflow) before financing			502		(7)		3,772
Financing							
Redemption of loan notes		–		–		(226)	
Repayment of bank loans		(1,519)		(1,519)		(2,811)	
			(1,519)		(1,519)		(3,037)
(Decrease)/increase in cash	10		(1,017)		(1,526)		735

A reconciliation of net cash flow to movement in net debt is set out in note 11.

1 BASIS OF PREPARATION

The financial information has been prepared using the accounting policies set out in the group's annual report and financial statements for the year ended 30th June 2006.

The comparative figures for the year ended 30th June 2006 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 30th June 2006 have been delivered to the Registrar of Companies. The auditors have reported on those accounts. Their report was not qualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2 SEGMENTAL INFORMATION

Analysis of results by class of business

Turnover	6 months ended 31st December 2006 £000	6 months ended 31st December 2005 £000	Year ended 30th June 2006 £000
Floor Coverings	26,138	28,779	56,218
Specialist Yarns	8,122	9,642	18,593
	34,260	38,421	74,811

Operating profit	6 months ended 31st December 2006 £000	6 months ended 31st December 2005 £000	Year ended 30th June 2006 £000
Floor Coverings			
Underlying	1,059	1,759	2,933
Exceptional costs	(468)	–	–
Goodwill	(440)	(440)	(880)
	151	1,319	2,053
Specialist Yarns	1,076	2,441	3,719
	1,227	3,760	5,772
Central group costs	(209)	(279)	(451)
	1,018	3,481	5,321

2 SEGMENTAL INFORMATION (continued)

Net operating assets	31st December 2006 £000	31st December 2005 £000	30th June 2006 £000
Floor Coverings	32,778	37,573	34,470
Specialist Yarns	7,704	8,099	7,541
	40,482	45,672	42,011
Central group liabilities	(759)	(957)	(812)
	39,723	44,715	41,199

Net operating assets are stated excluding inter-company financing and are derived from the balance sheet total by excluding bank borrowings, loans and loan notes totalling £5,705,000 (31st December 2005: £9,489,000, 30th June 2006: £5,974,000) and a net pension deficit of £9,100,000 (31st December 2005: £11,612,000, 30th June 2006: £9,590,000).

3 EXCEPTIONAL COSTS

	6 months ended 31st December 2006 £000	6 months ended 31st December 2005 £000	Year ended 30th June 2006 £000
Staff costs	315	–	–
Other external charges	68	–	–
Write down of fixed assets	85	–	–
	468	–	–

The exceptional costs in the period relate to redundancies, fixed asset write offs and additional charges associated with the reorganisation of the residential floor coverings operation.

4 DIVIDENDS

	6 months ended 31st December 2006 £000	6 months ended 31st December 2005 £000	Year ended 30th June 2006 £000
Paid during the period:			
Final dividend for the year ended 30th June 2006			
– 1.60p per share	740	–	–
Interim dividend for the year ended 30th June 2006			
– 0.80p per share	–	–	370
Final dividend for the year ended 30th June 2005			
– 1.40p per share	–	647	647
	740	647	1,017
Proposed after the period end (not recognised as a liability):			
Interim dividend for the year ending 30th June 2007			
– 0.80p per share	370	–	–
Final dividend for the year ended 30th June 2006			
– 1.60p per share	–	–	740
Interim dividend for the year ended 30th June 2006			
– 0.80p per share	–	370	–
	370	370	740

The interim dividend will be paid on 8th May 2007 to members registered at the close of business on 10th April 2007.

5 EARNINGS PER SHARE

The calculation of basic earnings per share is based on earnings of £23,000 (31st December 2005: £1,776,000, 30th June 2006: £2,613,000) and on 46,242,455 (31st December 2005: 46,242,455, 30th June 2006: 46,242,455) ordinary shares, being the weighted average number in issue during the period. Adjusted earnings per share, as set out below, is calculated after excluding exceptional costs, net of tax, and is presented in order to demonstrate the underlying performance of the group.

	6 months ended 31st December 2006		6 months ended 31st December 2005		Year ended 30th June 2006	
	£000	pence	£000	pence	£000	pence
Earnings and basic earnings per share	23	0.05	1,776	3.84	2,613	5.65
Exceptional costs	328	0.71	–	–	–	–
Adjusted earnings and basic earnings per share	351	0.76	1,776	3.84	2,613	5.65

6 DEFERRED TAX

	31st December 2006 £000	31st December 2005 £000	30th June 2006 £000
Brought forward	2,071	2,230	2,230
Profit and loss account	80	(13)	(159)
Carried forward	2,151	2,217	2,071

7 PROFIT AND LOSS ACCOUNT

	31st December 2006 £000	31st December 2005 £000	30th June 2006 £000
Brought forward	11,175	6,765	6,765
Profit for the period	23	1,776	2,613
Other recognised gains	–	1,260	2,814
Equity dividends paid	(740)	(647)	(1,017)
Carried forward	10,458	9,154	11,175

8 RECONCILIATION OF MOVEMENTS IN GROUP EQUITY SHAREHOLDERS' FUNDS

	31st December 2006 £000	31st December 2005 £000	30th June 2006 £000
Profit for the period	23	1,776	2,613
Other recognised gains	–	1,260	2,814
Equity dividends paid	(740)	(647)	(1,017)
Net (decrease)/increase in equity shareholders' funds	(717)	2,389	4,410
Opening equity shareholders' funds	25,635	21,225	21,225
Closing equity shareholders' funds	24,918	23,614	25,635

9 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	6 months ended 31st December 2006 £000	6 months ended 31st December 2005 £000	Year ended 30th June 2006 £000
Operating profit	1,018	3,481	5,321
Depreciation	877	896	1,769
Goodwill amortisation	440	440	880
Loss/(profit) on disposal of tangible fixed assets	71	(18)	(31)
Current service pension cost	130	130	170
Decrease/(increase) in stocks	1,904	(364)	827
(Increase)/decrease in debtors	(23)	(1,532)	1,432
Decrease in creditors	(331)	(584)	(1,044)
Contributions to defined benefit pension scheme	(1,080)	(795)	(1,740)
Net cash inflow from operating activities	3,006	1,654	7,584

10 ANALYSIS OF CHANGES IN NET DEBT

	31st December 2006 £000	Cash flows £000	30th June 2006 £000
Cash at bank and in hand	770	233	537
Bank overdrafts	(3,490)	(1,250)	(2,240)
	(2,720)	(1,017)	(1,703)
Loan notes	(168)	–	(168)
Bank loans	(2,047)	1,519	(3,566)
Total net debt	(4,935)	502	(5,437)

11 RECONCILIATION OF MOVEMENT IN NET DEBT

	31st December 2006 £000	31st December 2005 £000	30th June 2006 £000
(Decrease)/increase in cash	(1,017)	(1,526)	735
Redemption of loan notes	–	–	226
Repayment of bank loans	1,519	1,519	2,811
Movement in net debt	502	(7)	3,772
Net debt at start of period	(5,437)	(9,209)	(9,209)
Net debt at end of period	(4,935)	(9,216)	(5,437)

OTHER INFORMATION

The interim results are unaudited.

Further copies of this report are available from the Company Secretary at the registered office at Flanshaw Lane, Alverthorpe, Wakefield, West Yorkshire WF2 9ND.