Andrews Sykes Group plc Annual Report & Financial Statements 2005

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We support a wide range of customers from a UK–wide network of customer service locations together with businesses in Holland and the UAE. Andrews Sykes is synonymous with the hire, sales and service of the most comprehensive range of solutions for pumping, air conditioning, heating, drying, ventilation and specialist temperature control.

- EBITDA* from continuing operations £14.7 million
- Profit on ordinary activities after taxation £14.1 million
- Net debt £19.7 million after distributing total payments of £31.9 million to shareholders
- Basic earnings per share from continuing operations 15.24 pence

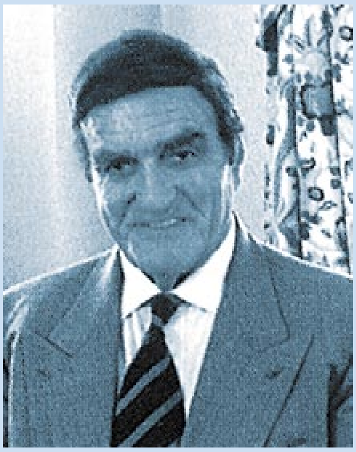
SUMMARY OF RESULTS

	52 weeks ended 31 December 2005	53 weeks ended 31 December 2004 (as restated**)
	£'000	£'000
Turnover from continuing operations	50,673	52,116
EBITDA* from continuing operations	14,747	15,656
Operating profit*** from continuing operations	11,062	11,871
Profit/(loss) on the disposal of the businesses	6,404	(305)
Profit on ordinary activities after taxation	14,127	4,934
Basic earnings per share from continuing operations (pence)	15.24p	8.13p
Dividends paid of 14.0p (2004: 4.0p) per share	8,119	2,320
Net Debt	19,658	2,930

* Earnings before interest, taxation, depreciation and amortisation as reconciled in the consolidated profit and loss account after adding back exceptional items of £NIL (2004: £4,848,000)

** The comparative figures have been restated due to both the full adoption of FRS-17 – Retirement Benefits and FRS 21 – Events after the Balance Sheet Date with effect from 1 January 2005

*** Operating profit as reconciled in the consolidated profit and loss account after adding back exceptional items of £Nil (2004: £4,848,000)



Summary of results

Following a disappointing first half of the year, I am pleased to be able to report that, as anticipated in the half year report, trading strongly improved in the second half. Taking the year as a whole, operating profit from continuing operations before exceptional items was £11.1 million compared with £11.9 million last year (operating profit £7 million add back exceptional administration costs £4.9 million), a decrease of £0.8 million.

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Management changes

The Group's Chief Executive, Robert Stevens, resigned on 1 March 2006 to take early retirement.

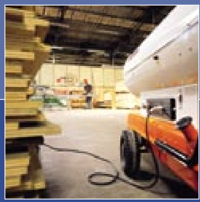
Robert was appointed to the Board in January 2000 as Chief Executive. Since that time he has been responsible for the development of the Group's strategy to ensure that the Group remains a market leader. The Board and I thank Robert for his contribution to the Group since his appointment and wish him a long and successful retirement.

Also on 1 March 2006, Paul Wood was appointed as Director of Operations. Paul has a vast experience in the industry having originally joined the Group in August 1978. The Board and I look forward to working with Paul over the coming years.

Business disposals

2005 has been another year of change for our Group. As I reported to you in the interim report, during the first half of the year we successfully disposed of a non core subsidiary undertaking, Accommodation Hire Limited, a company specialising in the hire and sale of temporary accommodation units. This was followed in October 2005 by the disposal of Engineering Appliances Limited. This company specialises in the sale of pipe work and ducting components and was therefore also non core to the Group. The combined profit on disposal of these businesses was £6.6 million, the total net cash inflows after disposal costs being £11.2 million.


SYKES PUMPS
DO NOT OBSTRUCT
AIR INTAKE DUCTS



A total of £31.9 million was returned to shareholders during the year.

Capital reduction, tender offer and dividend payments

On 26 September the capital reduction and tender offer programme was completed culminating in the payment of £23.8 million to those shareholders who chose to accept the offer. Combined with the payment of the 2004 special final dividend of £8.1 million, this means that a total of £31.9 million was returned to shareholders during the year.

Pension scheme payments

As reported in the Financial Review, the Group has adopted the requirements of FRS 17 – Retirement Benefits in full this year which has had the effect of reducing opening shareholders' funds at 1 January 2005 by approximately £9 million before deferred tax relief.

During the year the Group has made pension contributions of £4.3 million to the defined benefit pension scheme. This includes not only the regular monthly contributions, but also special one off payments of £3.4 million aimed at reducing the pension scheme deficit, which after actuarial adjustments amounts to £6.3 million before deferred tax relief. The Group has now reached an agreement with the pension scheme regulator and pension scheme trustees to continue the monthly contributions at the current level until 2009 or until the deficit is eliminated, if earlier.

Net debt

Due to the combination of the above factors, the Group's net debt has increased from £2.9 million at 1 January 2005 to £19.7 million by 31 December 2005. The principal movements are the return of £31.9 million funds to the shareholders, pension scheme payments of £4.3 million and cash inflow of £11.2 million on the disposal of businesses.

Earnings per share and buy back programme

As set out in note 9 of the financial statements, the basic earnings per share from continuing operations is 15.24 pence compared with 8.13 pence last year.

The Board continues to believe that shareholder value will be optimised by the purchase, when appropriate, of our own shares coupled with investment in organic growth. Consequently, the Board will request that shareholders vote in favour of a resolution to renew the authority to purchase up to 12.5% of the ordinary shares in issue.

Dividend

As the company returned £31.9 million to shareholders during the year, the board is not proposing a final dividend this year. Future dividend policy will be regularly reviewed by the Board.




Outlook

The colder winter continued well into the first quarter of 2006 giving the Group a good start to the new financial year. Costs remain well under control and therefore the Group remains ready to take advantage of market opportunities and beneficial weather conditions.

JG Murray

Chairman

26 April 2006

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Overview

2005 was a year of contrasting results principally caused by differing weather conditions impacting our business in contrary ways. As highlighted in our interim report, the first half of 2005 was a difficult trading period for the Group due to low demand caused by the unfavourable weather conditions of a mild dry winter. However, the year finished strongly with more favourable extremes of temperature in the second half boosting both the air conditioning and the heating businesses. The low level of rainfall throughout the year has meant that the pumping business has remained constant with little change from the previous year.

Business Disposals

On 6 May 2005 the Group sold its subsidiary undertaking Accommodation Hire Limited, which specialised in the hire and sale of temporary accommodation units and toilet facilities. It was regarded as a non core activity and was managed on a largely autonomous basis separate from the rest of the Group.

Engineering Appliances, a small loss making non core engineering business, was sold on 3 October 2005 to its principal supplier.

Both the companies were facing increasing competition in their respective market places and had been under performing against Group targets for some time. Management therefore took the decision to sell these businesses and are satisfied with the profit and cash generated on disposal.

Operating profit from continuing operations before exceptional administration costs

The consolidated of operating profit from continuing operations of £11.1 million was £0.8 million behind 2004 (operating profit of £7 million, add back exceptional administrative expenses of £4.9 million), a decrease of approximately 7%. Historically profits in the second half of the year have usually tended to out perform the first half year due to the high returns on summer related products, and 2005 continued this normal seasonal pattern aided by a significant upturn in heating revenue caused by a return to more normal British winters. The second half profits were £1.6 million better than the equivalent period of 2004, an increase of 27% over the previous year. This good return in the second half of the year almost compensated for the shortfall in the first half of the year.

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	Turnover	Operating profit before exceptional items
Continuing Operations	£ m	£ m
First half 2005	**23.0**	**3.6**
First half 2004	26.3	6.0
Second half 2005	**27.7**	**7.5**
Second half 2004	25.8	5.9
Total 2005	**50.7**	**11.1**
Total 2004	52.1	11.9

The second half recovery was achieved principally by the Group's main trading subsidiary Andrews Sykes Hire Limited. New operational processes meant that the Company was able to react quickly in the summer and take advantage of the high demand for air conditioning that was supplied to customers on relatively long term hire contracts. In addition the Company was able to benefit from the cold spell before Christmas when there was exceptionally high demand for heating units.

Pump hire started the year slowly but with a managed focus we were able to initiate measures during the year that stimulated the demand for the product. Our initiatives are beginning to show signs of success. The continued investment in the new generation of silenced pumps throughout 2005 into 2006 will help the Company achieve its goal of increasing market share.

Andrews Sykes Hire will continue to concentrate on its core product range of pumps, air conditioning and heating but will also introduce associated items into its fleet that can compliment the existing product range.

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A more focused strategy is being implemented in Andrews Air Conditioning and Refrigeration Limited that will ensure a sound footing of underlying revenue for future years, as well as improving our margins through productivity efficiencies and management focus on cost control.

Andrews Sykes BV, our subsidiary based in Holland, achieved a good strong performance, beating their prior year result. This was on the back of a successful summer for air conditioning and a good finish to the year on heating and drying products. Holland continues to be an area where the Group sees the opportunity for further organic growth and also gives excellent potential for further growth in other European countries.

Khansaheb Sykes, the well established dewatering and pumping company based in the United Arab Emirates (UAE), also performed well by taking advantage of the continuing development in construction projects in the area as the UAE strives to attract further tourism. The UAE continues to be a good outlet for pumps sales into other Middle Eastern countries.

Summary

The year has seen management continue to invest in its core products and services, recovering from a poor start to the year to achieve a reasonable full year result. The cold weather experienced at the end of 2005 continued into the early months of 2006, which has given the Group a healthy start to its New Year targets both in the UK and Europe.