

Methven Limited

Interim Report 2005-06



kissed by water



satinjet



www.satinjet.com

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Directors' Report

Group turnover grew 7.1% to \$29.8 million for the six months to 30 September 2005 (2004 \$27.8 million) despite tighter market conditions in New Zealand and Australia.

This result reflects Methven's strategy to focus sales on the more stable renovation and replacement market as well as the impact of the rollout of new Satinjet shower products and branding.

EBITDA has increased 7.1% to \$6.4 million (2004 \$6.0 million) despite the additional planned investment expenditure in design, market and brand development, and sales team expansion, essential for building sustainable growth in Australia.

Group NPAT increased 7.7% to \$3.5 million (2004 \$3.3 million before minority interest).

Unique Brand Experiences

Women represent a key target group for Methven. Research shows it is women who make the decision on an estimated 90% of bathroom and kitchen purchases. Methven has researched buying behaviour and showering habits of women and, to ensure that we stand out from the crowd, we have created a unique female brand signature for Satinjet, our flagship product. Launched in Australia and New Zealand in July and Italy in September, the 'Kissed by Water' Satinjet branding sets out to communicate the sensational showering experience of Satinjet in a way that resonates with women. We have demonstrated the look and feel of this unique brand signature in the presentation of this report.

Australian Market

Overall, Methven achieved sales growth on the previous half year of 13.6% reaching \$10.2 million (2004 \$9.0 million) in a highly competitive and slowing market. Sales of tapware, Satinjet and NEFA valves all grew as a result of the planned investment expenditure in branding, expanding the sales team and introducing new Satinjet styles to complement the current tapware ranges. This increased investment expenditure, combined with the margin impact of successfully defending our position in the commodity end of the showerware market, impacted Methven Australia's reported profitability for the period. However, the continued growth in Australian sales of tapware, Satinjet and NEFA valving was a key driver of growth in overall Group profitability. We believe we now have the platform to sustain ongoing revenue growth and achieve improved profitability in the second half of this financial year.

New Zealand Market

Satinjet is also proving to be an important contributor to growing sales in the domestic market where turnover grew 2.5% on the previous half year, reaching \$18.8 million (2004 \$18.4 million). This was despite a slowdown in the combined renovation and new build markets of 9.0%. Sustained growth will come from remaining focused on the solid

alteration and replacement market and continuing to develop new distinctive products. The outsourcing of selected components from established offshore partners will also begin to contribute to profitability in the second half of this financial year.

Emerging Markets

Our international export programme is progressing with initial sales of Satinjet to luxury Italian bathroomware supplier, Visentin, achieved ahead of schedule in September 2005. Visentin showcased Satinjet at the prestigious Cersaie Trade Fair in Bologna in September, prior to its consumer release in Italy and other European markets.

Research and feasibility studies are underway in the USA and UK to ensure a planned and orderly entry to these markets. In the USA, the next step is to trial Satinjet with selected consumers and merchants in New York and New Jersey states.

We are also seeking opportunities to make modest acquisitions which enhance our distribution reach, particularly in the UK and Australia, or which would add value to our portfolio of proprietary showerware and technologies.

Dividend

Given Methven's strong balance sheet and positive outlook for sales growth and profitability, the Directors have declared a fully imputed interim dividend of 4.12 cents per share to be paid on 16 December 2005.


The interim dividend is in line with the stated policy of distributing 60% of net profit after tax and corresponds to an annualised gross dividend yield of 8.7% based on the 30 September 2005 share price of \$1.42.

Outlook

We are confident that Methven's unique showerware range, Satinjet, will continue to be the trailblazer for growing sales in Australia and New Zealand as well as pioneering the establishment of our distinct brands in our new export markets in Continental Europe, followed by the USA, then the UK.

We believe we are on track and well positioned for the future. Methven's turnover and profit have continued to increase despite challenging trading conditions in Australia and New Zealand. We are evolving a compelling brand experience and value proposition, supported by the continual development of appealing and unique products to maintain our momentum.


Richard Cutfield
Chairman


Rick Fala
Managing Director and CEO

Group NPAT up 7.7% to \$3.5 million

Interim dividend of 4.12 cents per share to be paid on 16 December 2005

Growth in Australia with sales up 13.6%

Essential investment in Australia infrastructure and branding

New Zealand sales up 2.5%

First European sales achieved to Italian Satinjet licensee

New Satinjet products and 'Kissed by Water' branding launched.

The Methven Group Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on 25 October 2005.

Consolidated Statement of Financial Performance

For the six months ended 30 September 2005

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Operating revenue	29,757	27,785	54,786
Operating expenses	(24,397)	(22,846)	(44,957)
Net profit before tax	5,360	4,939	9,829
Income tax expense	(1,845)	(1,675)	(3,300)
Net profit after tax	3,515	3,264	6,529
Minority interest in profits of subsidiaries	-	(181)	(208)
Net profit attributable to parent shareholders	3,515	3,083	6,321

Consolidated Statement of Movements in Equity

For the six months ended 30 September 2005

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Equity at beginning of period comprising			
Parent shareholders interest	18,272	10,082	10,082
Minority interest	-	814	814
	18,272	10,896	10,896
Net profit of the period comprising			
Parent shareholders interest	3,515	3,083	6,321
Minority interest	-	181	208
Movement in foreign currency translation reserve	56	(129)	(147)
Total recognised revenues and expenses	3,571	3,135	6,382
Shares issued	-	-	16,000
Cost of share issue	-	-	(884)
Distribution to shareholders of the parent	(1,300)	(100)	(13,100)
Distribution to minority interest	-	(50)	(49)
Minority interest acquisition	-	-	(973)
Net increase in equity	2,271	2,985	7,376
Equity at period end comprising			
Parent shareholders interest	20,543	12,936	18,272
Minority interest	-	945	-
Equity at end of period	20,543	13,881	18,272

Consolidated Statement of Financial Position

For the period ended 30 September 2005

In NZ \$'000	as at 30-Sept-05 unaudited	as at 30-Sept-04 audited	as at 31-Mar-05 audited
Equity			
Share capital	17,116	2,000	17,116
Retained earnings	3,510	11,057	1,295
Foreign currency translation reserve	(83)	(121)	(139)
Parent shareholders' equity	20,543	12,936	18,272
Minority interest	-	945	-
Total equity	20,543	13,881	18,272
Non-current liabilities			
Borrowings	3,107	5,496	4,104
Current liabilities			
Trade creditors	3,918	4,114	3,503
Employee accruals	1,534	1,180	1,560
Other creditors and accruals	2,857	3,541	2,798
Provisions	633	564	565
Income tax payable	773	927	237
Current portion of borrowings	79	-	36
Total current liabilities	9,794	10,326	8,699
Total liabilities	12,901	15,822	12,803
Total liabilities and equity	33,444	29,703	31,075
Non-current assets			
Property, plant & equipment	6,512	5,839	6,183
Patents and trademarks	216	99	199
Future tax benefit	624	404	539
Intangible assets	5,809	4,193	5,984
Total non-current assets	13,161	10,535	12,905
Current assets			
Cash and bank balances	2,785	1,492	698
Trade Receivables	8,223	7,279	7,084
Prepayments and other assets	160	489	146
Inventories	9,115	9,383	10,242
Due from related parties	-	525	-
Total current assets	20,283	19,168	18,170
Total assets	33,444	29,703	31,075

Consolidated Statement of Cash Flows

For the six months ended 30 September 2005

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Operating activities			
<i>Cash was provided from:</i>			
Receipts from customers	28,601	26,615	53,763
Interest received	12	67	71
<i>Cash was applied to:</i>			
Payments to suppliers	(15,152)	(15,271)	(31,876)
Payments to employees	(6,559)	(5,695)	(11,506)
Interest paid	(149)	(316)	(448)
Income tax paid	(1,394)	(1,279)	(3,729)
Net cash inflows from operating activities	5,359	4,121	6,275
Investment activities			
<i>Cash was provided from:</i>			
Proceeds from sale of fixed assets	-	100	100
<i>Cash was applied to:</i>			
Investment in subsidiary	-	-	(2,922)
Purchase of property, plant, equipment,	(1,074)	(1,472)	(2,662)
Patents and trademarks	-	-	-
Net cash outflows from investment activities	(1,074)	(1,372)	(5,484)
Financing activities			
<i>Cash was provided from:</i>			
Issue of ordinary shares	-	-	16,000
Repayment of shareholder advances	-	-	500
<i>Cash was applied to:</i>			
Repayment of borrowings	(954)	(3,500)	(4,935)
Dividends paid to shareholders	(1,300)	(150)	(13,149)
Cost of share issue	-	-	(884)
Net cash outflows from financing activities	(2,254)	(3,650)	(2,468)
Net increase (decrease) in cash held	2,031	(901)	(1,677)
Foreign currency translation adjustment	56	(129)	(147)
Cash at beginning of year	698	2,522	2,522
Cash at end of year	2,785	1,492	698
Composition of Cash			
Cash and bank balances	2,785	1,492	698

Reconciliation with Operating Profit

For the six months ended 30 September 2005

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Net profit attributable to parent	3,515	3,083	6,321
Net profit attributable to minority interest	-	181	208
Items not involving cash flows			
Goodwill amortisation expense	175	125	283
Patent and trademark amortisation expense	25	8	65
Depreciation expense	703	598	1,287
Movement in future tax benefit	(85)	29	(106)
Impact of changes in working capital items			
Trade receivables	(1,139)	(1,111)	(916)
Inventory	1,127	(606)	(1,465)
Other receivables, prepayments and other assets	(14)	(293)	75
Trade creditors	415	1,099	488
Other creditors, accruals and provisions	637	1,008	35
Net cash flow from operating activities	5,359	4,121	6,275

Statement of Accounting Policies

For the six months ended 30 September 2005

Entities Reporting

The financial statements presented here are the consolidated financial statements of the group comprising Methven Limited and its subsidiaries. The accounting policies used in the preparation of the accounts are consistent with those used in the interim accounts for the six months ended 30 September 2004 and the audited accounts for the year ended 31 March 2005.

Report Format

The Interim Financial Statements have been prepared in accordance with the requirements of the Financial Reporting Standard No. 24 covering Interim Financial Statements and should be read in conjunction with the 2005 Annual Report.

Audited Information

The six month interim results have not been audited.

Notes to the Financial Statements

For the six months ended 30 September 2005

1. Interest revenue and interest expense

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Interest revenue	12	49	71
Interest expense	149	316	498

2. Capital commitments and contingent liabilities

In NZ \$'000	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Capital commitments	29	40	225
Undrawn letters of credit	339	-	207

There are no other capital commitments or contingent liabilities for the Group as at 30 September 2005.

Segment results

For the six months ended 30 September 2005

In NZ \$'000	METHVEN AUSTRALIA PTY LTD			METHVEN LTD			GROUP		
	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited	6 mths ended 30-Sept-05 unaudited	6 mths ended 30-Sept-04 audited	12 mths ended 31-Mar-05 audited
Sales revenue	7,242	6,526	12,404	22,503	21,210	42,311	29,745	27,736	54,715
EBITDA	151	820	1,207	6,261	5,166	10,755	6,412	5,986	11,962
Net profit (loss) before tax	(92)	646	818	5,452	4,293	9,011	5,360	4,939	9,829
Segment assets									
Intersegment total	7,749	6,658	7,725	30,795	25,887	28,325	38,544	32,545	36,050
Eliminations	-	-	-	-	-	-	(5,100)	(2,842)	(4,975)
Consolidated							33,444	29,703	31,075
Segment liabilities									
Intersegment total	4,779	4,030	4,743	10,677	13,331	10,519	15,456	17,361	15,262
Eliminations	-	-	-	-	-	-	(2,555)	(1,539)	(2,459)
Consolidated							12,901	15,822	12,803

The Australian segment sales exclude sales of NEFA valves as they are sold through a third party distributor. The Australian segment results only include the Methven Australian entity which sells tapware, showerware and gas flues. Methven Ltd sales include export sales of \$3,655,000 (2004 \$2,826,000), including NEFA valves and initial Satinjet sales to Italy. The net profit is that of the Group before income tax and minority interest. The Group operates in one industry segment, being the manufacture and supply of tapware, showerware and domestic water control valves. Intersegment sales are on an arm's length basis.

3. Implementation of International Financial Standards (IFRS)

All companies will be required to prepare financial statements under NZ equivalents to IFRS for no later than the financial year beginning on or after 1 Jan 2007, including comparative financial information. A project team has begun planning for the transition to, and assessing the impact of, NZIFRS. Methven intends to adopt NZIFRS from 1 April 2006, for comparative purposes, to achieve fully compliant financial reporting for the 30 September 2007 interim and the 31 March 2008 annual reporting periods. Our work to date has identified the following areas which will require a significant change of accounting policy:

Taxation

- Initial impact on retained earnings on implementation
- Additional tax assets or liabilities may be required to be recognised

Under NZIFRS, deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between accounting and tax values of balance sheet items rather than the accounting and tax values recognised in the Statement of Financial Performance.

Hedge Accounting

- Initial impact on retained earnings on implementation
- Volatility in future earnings
- New assets or liabilities to be recognised

Methven maintains an off-balance sheet portfolio of forward exchange contracts to hedge currency risks associated with offshore trading. Under NZ GAAP these contracts are accounted for as hedges with any gains or losses deferred and recognised when the hedged transaction occurs. Under NZIFRS all derivative contracts will be recognised at fair value in the Statement of Financial Position. Changes in the fair value of the derivatives will be recognised in the Statement of Financial Performance unless strict hedge criteria are met. Where the Group is unable to meet NZIFRS hedge criteria this will result in increased earnings volatility.

Employee Benefits

- Initial impact on retained earnings on implementation
- New liabilities to be recognised

Under NZIFRS, the liability for both vested and non-vested long-term employee benefits, will be recognised in the Statement of Financial Position at the present value of the expected future obligation.

Goodwill

- Initial impact on retained earnings on implementation
- Elimination of amortisation will reduce expenses and increase earnings
- Volatility in results in event of impairment

Under NZIFRS goodwill is not required to be amortised but is required to be regularly reviewed for impairment, according to strict tests, and any loss in value recognised as an expense at the time the loss in value is identified. Methven's current policy amortises goodwill on a straight line basis over twenty years.

The above differences from current accounting policy have not been quantified as, at this stage, Methven is unable to reliably quantify the effects. On adoption of NZIFRS a majority of the transitions required will be made, retrospectively, against opening retained earnings.

The areas identified above are not an exhaustive list. As the transition progresses, further review, interpretation and updates to the standards may alter the impact.

4. Subsequent Events

On 25 October 2005 the Directors approved an interim dividend of 4.12 cents per share. The dividend will be paid on 16 December 2005 to all shareholders on the company's register at the close of business on the 9 December 2005.