

Redhall Group plc

Interim Report 2006

# Highlights

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- Turnover up 6% at £14.0 million (2005: £13.3 million)
- First half-year trading profit for four years
- Operating profit of £203,000 (2005: operating loss of £213,000)
- Profit before taxation and exceptional items of £113,000 (2005: loss of £386,000)
- Earnings per share of 0.85p (2005: loss per share of 1.78p)
- £13 million contract for nuclear store won
- Forward order book of £34 million
- Strong cash performance — net cash position of £1.4 million (31 March 2005: net debt of £611,000)

# Chairman's Statement

## Introduction

I am pleased to report strong progress in the recovery of the Group which has enabled us to announce our first interim profit since 2002.

The removal of the shadow of legacy contract issues and the greater focus of our businesses have already started to yield results. This is a small indication of the long-term potential of the business as a niche engineering support services group.

## Trading Results

Turnover for the six months ended 31 March 2006 increased 6% to £14.0 million (2005: £13.3 million) and we achieved an operating profit of £203,000 (2005: operating loss of £213,000), a turnaround of £416,000 since the 2005 interims. Earnings per share were 0.85p (2005: loss per share 1.78p). I am satisfied with this first step towards producing a profit more in line with the capability of the Group.

## Operating Review

Overall, the Group's operations have made important advances in the first six months. Booth Industries and Jordan Manufacturing saw growth in sales whilst in Jordan Nuclear and CHB-Jordan Engineering trading was flat. Although volumes were behind our expectations careful cost and contract control in our first six months has resulted in improved margins across all businesses.

**Booth Industries** had a strong start to the year with a better balance of oil and gas and infrastructure work. Recent investment in research and development to diversify its product portfolio is paying off with turnover of £4.2 million up 26% on the previous year. The most notable contract was the £2.2 million Dublin Port Tunnel Door contract which

commenced in 2005 and was substantially completed in the period. The raising of safety standards in the onshore and offshore oil and gas industry following recent incidents together with a greater level of general investment has also resulted in activity levels rising towards the end of the half-year. The increased turnover and cost control resulted in operating margins improving to 9.4% (2005: 8.5%).

As reported in my last Chairman's statement, **Jordan Nuclear** has been impacted in the short term by a slower than anticipated spend by its principal client, British Nuclear Group. This was as a result of the continued change in the supply chain following the creation of the Nuclear Decommissioning Authority ("NDA"). These uncertainties are already diminishing and tender activity levels for our maintenance and decommissioning services are at an all-time high. Turnover levels fell in the period compared to 2005, which had included a major contribution from the £7 million MA1 Cell contract at Sellafield. Given this, it is a credit to the quality of the business that it delivered improved margins of 2.8% and performed in line with our expectations.

**CHB-Jordan Engineering**, the Group's site-based oil, gas and petrochemical facilities maintenance business, performed in line with expectations delivering turnover comparable with 2005. It secured a five year extension to its facilities management contract with Polimeri Europa which is expected to have a total value of at least £10 million over five years. This, along with a renewed focus on project engineering opportunities particularly in the field of major tank repair and refurbishment, enabled the business to deliver an improved gross margin of 15.1% (2005: 13.4%).

## Chairman's Statement

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**Jordan Manufacturing**, the Group's specialist stainless steel fabricator, experienced the greatest improvement year on year with an increase in turnover of over 200%. The business has recovered strongly since the cessation of the contract to supply nuclear transport vessels. A major contribution was made by the enabling contract to manufacture the storage modules for the Sellafield Product Residue Store ("SPRS"). We have also made significant headway in diversifying into non-nuclear markets with successes in the architectural and process sectors. With the more intensive use of factory capacity during the first half-year the business has returned to operating profit.

### Dividend

The Board has decided not to recommend an interim dividend (2005 interim: nil; 2005 final: nil).

### Financial Position

Our net cash position at £1.4 million (31 March 2005: net debt of £611,000) improved significantly from that reported at the year-end due to favourable payment terms having been negotiated on certain contracts, and the final settlement of some older contracts which had been in dispute. The positive cash generation in the period coupled with the new senior debt facilities to which I referred in my last Chairman's statement enabled us to repay a further £500,000 of unsecured convertible loan stock in the period.

We are required to adopt FRS17 "Retirement Benefits" in the year ending 30 September 2006 and the impact of this has been reflected in the results and the net assets reported for this interim period. Because it is a change in accounting policy it has also been reflected in

the comparative periods. The Board is satisfied with the agreement it reached with the Trustees of the Group's defined benefit pension scheme in 2004 to pay off this deficit over a 15 year period.

### Prospects

I am delighted to announce the award by Carillion plc (subject to contract) of the £13 million SPRS contract to manufacture and install a nuclear store at Sellafield, Cumbria. In addition to the £9 million manufacturing order referred to in the announcement of 22 February 2006, we have also secured associated installation works of approximately £4 million. Redhall, through its subsidiaries Jordan Manufacturing and Jordan Nuclear, has been working closely with British Nuclear Group Sellafield Limited ("BN-GS") and Carillion plc to develop the project. The order represents the first major construction award since the formation of the NDA. The SPRS is necessary for Sellafield in order to maintain its long-term remediation capability. One of the key purposes of the store is to accommodate materials already at Sellafield which need to be retrieved from older facilities, repackaged and placed in a modern facility. It will receive materials recovered from historic fuel manufacturing buildings that are now being decommissioned. The building will also supplement the product storage capabilities of the Thorp reprocessing plant and Sellafield MOX plant.

The nuclear sector is now buoyant and our tendering activity is at an all-time high driven by a new political will. Jordan Nuclear, as part of an alliance team, has been selected as one of four preferred framework alliance contractors undertaking decommissioning projects at Sellafield. BN-GS has advised an anticipated contract volume of £10–15 million per annum

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per framework contract. We are also involved in several other short and longer term projects at Sellafield and are actively looking to extend our presence at other nuclear sites in the UK.

Booth Industries has secured a £1.2 million contract to supply specialist stainless steel cladding for the construction in Norway of two sixth-generation deepwater drilling semi-submersibles, being the largest and most advanced drilling rigs in the world. There is a strong possibility that the contract could increase in value next year if two additional rigs are ordered. Overall, our Group order book stands at £34 million.

I believe that phase one of our project to revive the Group is well on course. We shall now turn our attention to adding growth by acquisition to our good organic growth. In the initial stages I would anticipate targeting acquisitions which fall within the existing funding capability of the Group unless a particularly compelling opportunity is unearthed. We shall concentrate on our existing areas of activity and those of specialist contracting services particularly of an environmental nature.

**David Jackson**

Chairman and Chief Executive

8 June 2006

## Consolidated Profit and Loss Account (Unaudited)

		Year ended	
		Half-year	30 September
		31 March	2005
		2005	(audited)
		Restated	Restated
	Note	£000	£000
<b>Turnover</b>		<b>14,028</b>	24,573
<b>Operating profit/(loss) on ordinary activities</b>		<b>203</b>	(3,549)
<b>Exceptional items</b>			
Profit on disposal of fixed asset		—	148
Net interest payable		(90)	(264)
<b>Profit/(loss) before taxation</b>		<b>113</b>	(3,665)
Taxation		—	(78)
<b>Profit/(loss) for the period transferred to/(from) reserves</b>		<b>113</b>	(3,743)
<b>Earnings/(loss) per share</b>	1		
— basic		<b>0.85p</b>	(28.03)p
— diluted		<b>0.84p</b>	(28.03)p

## Consolidated Statement of Total Recognised Gains and Losses (Unaudited)

	<b>Half-year 31 March 2006 £000</b>	Half-year 31 March 2005 Restated £000	Year ended 30 September 2005 (audited) Restated £000
<b>Profit/(loss) for the period</b>	<b>113</b>	(238)	(3,743)
Actuarial loss in respect of defined benefit pension scheme	—	—	(254)
Surplus on revaluation of properties	—	—	14
<b>Total recognised gains/(losses) relating to the period</b>	<b>113</b>	(238)	(3,983)

## Consolidated Balance Sheet (Unaudited)

	As at 31 March 2006 £000	As at 30 September 31 March 2005 Restated £000	As at 30 September 2005 (audited) Restated £000
<b>Fixed assets</b>			
Tangible assets	<b>2,393</b>	2,354	2,444
<b>Current assets</b>			
Stocks	<b>175</b>	189	184
Debtors	<b>7,007</b>	10,402	8,045
Cash at bank	<b>2,267</b>	1,002	1,442
	<b>9,449</b>	11,593	9,671
<b>Creditors:</b> amounts falling due within one year	<b>(8,449)</b>	(5,700)	(7,398)
<b>Net current assets</b>	<b>1,000</b>	5,893	2,273
<b>Total assets less current liabilities</b>	<b>3,393</b>	8,247	4,717
<b>Creditors:</b> amounts falling due after more than one year	<b>—</b>	(1,375)	(1,390)
<b>Net assets excluding pension scheme deficit</b>	<b>3,393</b>	6,872	3,327
<b>Pension scheme deficit</b>	<b>(4,731)</b>	(4,578)	(4,778)
<b>Net (liabilities)/assets including pension scheme deficit</b>	<b>(1,338)</b>	2,294	(1,451)
<b>Capital</b>			
Called up share capital	<b>3,338</b>	3,338	3,338
<b>Reserves</b>			
Share premium account	<b>578</b>	578	578
Merger reserve	<b>294</b>	294	294
Revaluation reserve	<b>1,033</b>	1,019	1,033
Profit and loss account	<b>(6,581)</b>	(2,935)	(6,694)
<b>Equity shareholders' (deficit)/funds</b>	<b>(1,338)</b>	2,294	(1,451)

## Consolidated Cash Flow Statement (Unaudited)

		Half-year 31 March 2006 £000	Half-year 31 March 2005 £000	Year ended 30 September 2005 (audited) £000
	Note			
<b>Cash inflow/(outflow) from operating activities</b>	2	<b>1,657</b>	(511)	206
<b>Returns on investments and servicing of finance</b>				
Interest paid		(145)	(131)	(185)
Interest received		13	19	48
Interest element of finance lease rentals		(1)	(1)	(1)
<b>Taxation</b>				
UK Corporation tax paid		—	—	—
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(65)	(25)	(200)
Proceeds from disposals of tangible fixed assets		—	250	277
<b>Disposal</b>				
Disposal of Oakland Elevators Limited: Deferred consideration less costs		—	846	846
<b>Dividends</b>				
Equity dividends paid		—	—	—
<b>Net cash inflow before financing</b>		<b>1,459</b>	447	991
<b>Financing</b>				
Finance leases		(6)	(6)	(11)
Medium term loan repayments		(100)	(100)	(200)
Loan stock repayments		(528)	(529)	(528)
<b>Increase/(decrease) in cash for the period</b>	3	<b>825</b>	(188)	252

# Notes

## 1. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the six months ended 31 March 2006 is based on 13,354,471 shares (31 March 2005: 13,353,606; 30 September 2005: 13,353,606) being the weighted average number of shares in issue throughout the period, and on the profit of £113,000 (31 March 2005: restated loss £238,000; 30 September 2005: restated loss £3,743,000).

The diluted earnings per share is based on the basic earnings for the period of £113,000 and on 13,456,912 diluted weighted average ordinary shares as calculated below. The conversion of loan stock would have the effect of increasing the earnings per share and is, therefore, not a dilution under the terms of FRS22. For the periods to 31 March 2005 and 30 September 2005, the loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share are identical to those used for the basic earnings per share. This is because the exercise of share options and the conversion of loan stock would have the effect of reducing the loss per share and is, therefore, not a dilution under the terms of FRS22.

	<b>Half-year 31 March 2006 Number</b>	Half-year 31 March 2005 Number	Year ended 30 September 2005 (audited) Number
Basic weighted average number of shares	<b>13,354,471</b>	—	—
Dilutive effect of share options	<b>102,441</b>	—	—
	<b>13,456,912</b>	—	—

## 2. Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	<b>Half-year 31 March 2006 £000</b>	Half-year 31 March 2005 Restated £000	Year ended 30 September 2005 (audited) Restated £000
Operating profit/(loss) on ordinary activities	<b>203</b>	(213)	(3,549)
Difference between pension charge and cash contributions	<b>—</b>	(20)	(40)
Depreciation charge	<b>116</b>	99	191
Profit on sale of tangible fixed assets included within the operating profit/(loss) on ordinary activities	<b>—</b>	—	(3)
Decrease/(increase) in stocks	<b>9</b>	(2)	3
Decrease in debtors	<b>1,038</b>	915	3,194
Increase/(decrease) in creditors	<b>291</b>	(1,290)	410
Net cash inflow/(outflow) from operating activities	<b>1,657</b>	(511)	206

### 3. Reconciliation of net cash flow to movement in net debt

	Half-year 31 March 2006 £000	Half-year 31 March 2005 £000	Year ended 30 September 2005 (audited) £000
Increase/(decrease) in cash in the period	825	(188)	252
Cash outflow from decrease in debt and lease financing	634	635	739
Change in net debt arising from cash flows	1,459	447	991
New finance leases	—	—	(16)
Accrual of loan stock redemption premium	(5)	(25)	(30)
Decrease in net debt during the period	1,454	422	945
Opening net debt	(88)	(1,033)	(1,033)
Closing net funds/(debt)	1,366	(611)	(88)

## Basis of Preparation of Interim Financial Information

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The interim accounts are prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 30 September 2005 except for retirement benefits for which the Company has adopted FRS17 "Retirement Benefits" that has resulted in a change in accounting policy. This change of accounting policy has resulted in a restatement of the results and net assets previously reported for 30 September 2005 and 31 March 2005. The results for the year ended 30 September 2005 and for the six months ended 31 March 2005 were reduced by £81,000 and £40,000 respectively. The net assets at 30 September 2005 and 31 March 2005 were reduced by £4.9 million and £4.6 million respectively. In addition, the net assets at 31 March 2005 have been restated to reflect the policy of revaluing long leasehold and freehold land and buildings that was adopted for the first time as at 30 September 2005. This resulted in an increase in net assets at 31 March 2005 of £1.0 million.

Taxation is calculated by applying the Directors' best estimate of the annual tax rate to the result for the period.

The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The accounts of the Company for the year ended 30 September 2005 have been filed with the Registrar of Companies and carry an unqualified audit opinion.

Copies of this interim report are being sent to shareholders and are available from the Company Secretary, Redhall Group plc, 1 Red Hall Court, Wakefield, WF1 2UN.