



# Redhall Group plc

Interim Report 2007

# Highlights

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## Financial

- Turnover up 59% at £22.3 million (H1 2006: £14.0 million)
- Organic growth of 51%
- Operating profit increased 336% to £886,000 (H1 2006: £203,000)
- Earnings per share of 4.67p (H1 2006: 0.85p)
- Interim dividend of 1p per share (Full year 2006: 1p)
- Forward order book now approaching £60 million (December 2006: £40 million)

## Acquisitions

- Integration of Steels Engineering progressing well following acquisition in January 2007
- Redhall is acquiring Jex Engineering Company Limited for £11.9 million:
  - Profitable bolt-on acquisition
  - Exposure to food, pharmaceutical and chemical markets
  - Access to design and engineering resource
  - Presence in key geographical area targeted by the Group
  - Synergies with Redhall manufacturing and engineering operations

## Chairman's Statement

### Introduction

I am pleased to be able to announce further progress in the development of the Group with much improved interim trading results and the announcement of the acquisition of Jex Engineering Company Limited ("Jex") which substantially enhances Redhall's engineering capability.

### Trading Results

Turnover for the six months ended 31 March 2007 increased 59% to £22.3 million (2006: £14.0 million) and excluding our acquisition of Steels Engineering Services Limited and Steels Engineering and Design Limited ("Steels"), organic growth was 51%. We achieved an operating profit prior to exceptional items of £886,000, an increase of 336% on the 2006 comparative of £203,000 with operating margin in the first half improving to 4%. Earnings per share stood at 4.67p compared to last year's 0.85p.

I believe that these results confirm the strength of our current trading which is entirely in line with management expectations.

### Exceptional Item

We have identified an exceptional charge of £102,000 in relation to national insurance on the exercise of a personal share option, details of which were announced on 8 June 2006. The charge is currently being contested with HM Revenue & Customs.

### Acquisition of Jex

I am pleased to announce the acquisition of Jex for £11.9 million net of inherited cash. Jex is one of the UK's leading independent providers of engineering services to process industry. It can supply a full turnkey solution from feasibility and design to manufacturing, construction and

major plant relocation. The acquisition of Jex gives us a strong trading position in the food, pharmaceutical and chemical industries. With its head office and principal trading operation based in Grimsby, the acquisition also gives us the capability of expanding the Group's wider engineering services offering into the North East of England. In its latest audited accounts for the year ended 31 October 2006, Jex reported revenue of £18.8 million and made a profit before taxation of £1.65 million. We look forward to working with the management and staff at Jex to grow the business substantially over the next few years. The core business is highly rated in its field and we have an excellent base to work from. We anticipate that the additional critical mass that this acquisition provides will have a positive effect on contract opportunities for all Group companies.

### Operating Review

All businesses have traded in line with expectations in the first half and made substantial contributions to the half year result. Highlights in the first half are:

#### Nuclear Services

We have witnessed the coming of age of Jordan Nuclear during the six month period under review. The acquisition of Steels has given our nuclear business the additional foundation of AWE Aldermaston and orders won by both businesses in the period total £22 million.

Turnover at £8.2 million for the half year was up 148% on the comparative of £3.3 million. We have an order book for the second half of this year already standing at £10.5 million and firm orders for next year of £11.9 million. I therefore believe we can look forward to a continuation of this improved performance.

## Chairman's Statement

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What is important in the achievements in the last six months is that we have acquired term contracts at Sellafield including the £7.5 million Multi-Discipline Site Works contract and preferred supplier status for certain critical facilities at AWE Aldermaston. This will reduce the reliance on the winning of one-off contracts going forward.

In addition, the growing profile and technical capability of our nuclear services business is enabling us to secure larger project work as evidenced by the recent award of the £6 million Sellafield THORP evaporator replacement contract.

### Engineering Services

Engineering Services in the first half contributed £5.2 million to our Group turnover, an increase of 38% on the 2006 comparative of £3.8 million. The acquisition of Jex announced today will considerably enhance the contribution from Engineering Services during the second half.

The major achievement in the period was the award of a three-year term contract at Esso Fawley which is the UK's largest refinery. We have also been active at Pembroke with shutdowns and tank work.

### Specialist Manufacturing

Turnover in this segment of the business increased to £8.9 million in the period, an increase of 29% on the 2006 comparative of £6.9 million. The performance of the Specialist Manufacturing division is all the more commendable because it has been achieved despite the delays on site on the SPRS contract which was secured in 2006. We have undertaken a significant contract for British Nuclear Group with phase one of a nuclear container contract (£1.2 million) and also for

Bovis Lend Lease in the London architectural market (£0.9 million).

### Dividend

The Board has decided, in line with its previously stated policy, to pay an interim dividend of 1p per share. The dividend will be paid on 3 July 2007 to shareholders on the register on 8 June 2007. This compares to a full year dividend of 1p for 2006.

### Financial Position

We continue to operate with cash in the bank. The balance at the period end stood at £1.0 million. Cash generated in the half year from operating activities was £675,000. Creditors continue to be paid regularly in accordance with suppliers' normal terms.

The Steels acquisition was funded by the issue of new equity of £2 million and cash of £100,000. Contemporaneous with the acquisition of Jex, a special contribution estimated to be £3 million will be made to the Group's defined benefit pension scheme to eliminate the actuarial deficit. We are funding the Jex acquisition and special pension contribution with an equity fund-raising of £12 million and term debt provided by the Bank of Scotland.

At this stage of our development we have chosen not to overgear our balance sheet. Notwithstanding this conservative approach to debt, we anticipate both acquisitions being earnings enhancing.

We have adopted FRS20 "Share-based Payment" in the period. This has not resulted in a material charge to the profit and loss account.

## IFRS

The Group is required to issue its financial statements for the year ending September 2008, including the March 2008 interims, in accordance with International Financial Reporting Standards ("IFRS"). The Directors are considering the implications of these requirements, and in particular which areas of the Group's balance sheet and results would be significantly affected by the adoption of IFRS. This process is continuing, but the key areas where differences in treatment between UK GAAP and IFRS may arise include:

- IFRS 3 — Business combinations
- IAS 12 — Income taxes (Deferred tax)

A further update on IFRS matters will be provided to shareholders in due course, once the impact of the changes can be quantified in a sufficiently reliable manner.

## Prospects

The acquisition of Steels and Jex has given Redhall enhanced prospects for next year. The order book is now approaching £60 million and this gives 2007/8 a strong base. New contract momentum is strong and we are bidding several other major projects where we believe the Group is well placed.

Steels has been a successful acquisition in its own right with £4.3 million of orders won since acquisition but more importantly the management team are assisting other Group companies with contract opportunities at Aldermaston.

Jex gives us access to new markets and in particular opportunities on the Humber Bank. We are fortunate that the Jex management team has chosen to join Redhall. This is a

testament to our achievements and the growing reputation of the Group over the last twenty months.

Jordan Nuclear has now firmly established itself as a key tier two contractor with a series of major contract wins. Turnover in 2007/8 will be more than 200% ahead of 2005/6 levels. We are presently seeking to strengthen the senior management team in order to continue our growth profile.

I am pleased to note that Booth Industries has secured its first major design order for new facilities at AWE Aldermaston, with high hopes of significant follow-on manufacturing that will benefit results in 2008. Booth Industries continues to focus on new products for the road and rail infrastructure markets particularly in South-East England where expenditure is expected to grow over the next five years.

Jordan Manufacturing has good prospects but needs to convert one of several major enquiries for 2007/8 to sustain its progress.

CHB-Jordan has enhanced prospects due to the award of the Esso Refinery contract at Fawley. Tank work enquiries have risen as a result of the recommendations made in the report on the Buncefield fire.

Overall, we are in good shape for next year in trading terms. We continue to work on acquisitions and are targeting companies in particular that would enhance our nuclear engineering services capability.

## David Jackson

Chairman and Chief Executive  
31 May 2007

## Consolidated Profit and Loss Account (Unaudited)

		<b>Half-year 31 March 2007 £000</b>	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
	Note			
<b>Turnover</b>		<b>22,268</b>	14,028	31,618
Operating profit before exceptional item		<b>886</b>	203	933
Exceptional item	1	<b>(102)</b>	—	—
<b>Operating profit on ordinary activities</b>		<b>784</b>	203	933
Net interest receivable/(payable)		<b>32</b>	(33)	(48)
Other finance charges		<b>(56)</b>	(57)	(113)
<b>Profit before taxation</b>		<b>760</b>	113	772
Taxation		<b>(57)</b>	—	8
<b>Profit after taxation</b>		<b>703</b>	113	780
<b>Earnings per share</b>	2			
— basic		<b>4.67p</b>	0.85p	5.77p
— diluted		<b>4.53p</b>	0.84p	5.12p

## Consolidated Balance Sheet (Unaudited)

		As at 31 March 2007 £000	As at 30 September 31 March 2006 £000	As at 30 September 2006 (audited) £000
	Note			
<b>Fixed assets</b>				
Tangible assets		2,663	2,393	2,543
Intangible assets — goodwill	3	2,115	—	—
		<b>4,778</b>	2,393	2,543
<b>Current assets</b>				
Stocks		262	175	218
Debtors		13,631	7,007	10,130
Cash at bank		1,038	2,267	723
		<b>14,931</b>	9,449	11,071
<b>Creditors: amounts falling due within one year</b>		<b>(12,315)</b>	(8,449)	(8,751)
<b>Net current assets</b>		<b>2,616</b>	1,000	2,320
<b>Total assets less current liabilities</b>		<b>7,394</b>	3,393	4,863
<b>Creditors: amounts falling due after more than one year</b>		<b>—</b>	—	(8)
<b>Net assets excluding pension scheme deficit</b>		<b>7,394</b>	3,393	4,855
<b>Pension scheme deficit</b>		<b>(2,794)</b>	(4,731)	(2,871)
<b>Net assets/(liabilities) including pension scheme deficit</b>		<b>4,600</b>	(1,338)	1,984
<b>Capital and reserves</b>				
Called up share capital		3,966	3,338	3,664
Share premium account		1,117	578	1,110
Merger reserve		2,042	294	294
Revaluation reserve		1,005	1,033	1,005
Other reserve		14	—	—
Profit and loss account		(3,544)	(6,581)	(4,089)
<b>Equity shareholders' funds/(deficit)</b>		<b>4,600</b>	(1,338)	1,984

## Consolidated Cash Flow Statement (Unaudited)

		<b>Half-year 31 March 2007 £000</b>	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
<b>Cash inflow from operating activities</b>	4	<b>675</b>	1,657	348
<b>Returns on investments and servicing of finance</b>				
Interest paid		(2)	(145)	(334)
Interest received		35	13	17
Interest element of finance lease rentals		(1)	(1)	(2)
<b>Taxation</b>				
UK Corporation tax paid		—	—	—
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(236)	(65)	(337)
Proceeds from disposals of tangible fixed assets		—	—	11
<b>Dividends</b>				
Equity dividends paid		(158)	—	—
<b>Acquisitions</b>				
Steels businesses		(180)	—	—
Cash acquired with subsidiary undertakings		164	—	—
<b>Net cash inflow/(outflow) before financing</b>		<b>297</b>	1,459	(297)
<b>Financing</b>				
Issue of new shares		27	—	858
Finance leases		(9)	(6)	(23)
Medium term loan repayments		—	(100)	(100)
Loan stock repayments		—	(528)	(1,157)
<b>Increase/(decrease) in cash for the period</b>	5	<b>315</b>	825	(719)

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

	<b>Half-year 31 March 2007 £000</b>	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
<b>Profit for the period</b>	<b>703</b>	113	780
Dividends paid	<b>(158)</b>	—	—
Actuarial gain in respect of defined benefit pension scheme	—	—	518
Movement on deferred tax relating to defined benefit pension scheme deficit	—	—	(155)
<b>Total recognised gains relating to the period</b>	<b>545</b>	113	1,143

# Notes

## 1. Exceptional item

It was reported in the annual report and accounts for the year ended 30 September 2006 that on 8 June 2006, R S McDowell and family granted options over 1,000,000 of his beneficial shareholding to D J Jackson ("Private Option Arrangement"). On 31 January 2007, D J Jackson exercised his option over 500,000 of these shares. This has attracted an employer's national insurance charge of £102,000 which has been paid to HM Revenue and Customs ("HMRC"). D J Jackson is currently contesting the tax treatment of this Private Option Arrangement with HMRC.

## 2. Earnings per share

The calculation of basic earnings per share for the six months ended 31 March 2007 is based on 15,047,224 shares (31 March 2006: 13,354,471; 30 September 2006: 13,515,489) being the weighted average number of shares in issue throughout the period, and on earnings of £703,000 (31 March 2006: £113,000; 30 September 2006: £780,000).

The diluted earnings per share is based on the basic earnings for the period of £703,000 as there were no convertible instruments in issue during the period and on 15,516,537 diluted weighted average ordinary shares as calculated below. For the period to 31 March 2006, the conversion of loan stock would have had the effect of increasing the earnings per share and is, therefore, not a dilution under the terms of FRS22. Accordingly, the diluted earnings per share for that period 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. For the period to 30 September 2006, the diluted earnings per share is based on an adjusted profit for the year of £814,000 and on 15,888,638 diluted weighted average ordinary shares as calculated below.

	Half-year 31 March 2007 £000	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
<b>Earnings</b>			
Profit on ordinary activities after tax	703	113	780
Interest and redemption premium on convertible loan stock	—	—	49
Tax relating to interest and redemption premium	—	—	(15)
Adjusted profit	703	113	814
Basic weighted average number of shares	15,047,224	13,354,471	13,515,489
Dilutive effect of share options	469,313	102,441	346,573
Dilutive effect of provision for convertible loan stock	—	—	2,026,576
	<b>15,516,537</b>	13,456,912	15,888,638

**3. Acquisition**

On 31 January 2007, the Company completed the acquisition of Steels Engineering Services Limited and Steels Engineering and Design Limited ("the Steels businesses"). The consideration is to be calculated by reference to the net assets derived from unaudited completion accounts prepared as at the date of acquisition. The completion accounts are to be agreed by both the purchaser and the vendor and have not yet been agreed and therefore the total consideration has not yet been finally determined. Accordingly, for the purpose of this Interim Report the Directors have accounted for the acquisition by reference to the maximum purchase consideration, which has already been paid, plus costs, amounting in total to £2,211,000 and the aggregate net assets of the Steels businesses as set out in the draft completion accounts amounting to £78,000.

During the period from acquisition to 31 March 2007 the Steels businesses did not make a material contribution to the turnover or operating profit of the Group.

**4. Reconciliation of operating profit to net cash inflow from operating activities**

	Half-year 31 March 2007 £000	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
Operating profit on ordinary activities	784	203	933
Difference between pension charge and cash contributions	(133)	(135)	(271)
Depreciation charge	148	116	250
Amortisation of goodwill charge	18	—	—
Loss on sale of tangible fixed assets included within operating profit on ordinary activities	—	—	2
Charge in respect of Company share option schemes	14	—	—
(Increase)/decrease in stocks	(44)	9	(34)
(Increase)/decrease in debtors	(2,326)	1,038	(2,120)
Increase in creditors	2,214	426	1,588
Net cash inflow from operating activities	675	1,657	348

**5. Reconciliation of net cash flow to movement in net funds/(debt)**

	Half-year 31 March 2007 £000	Half-year 31 March 2006 £000	Year ended 30 September 2006 (audited) £000
Increase/(decrease) in cash in the period	315	825	(719)
Cash outflow from decrease in debt and lease financing	9	634	1,280
Increase in net funds arising from cash flows	324	1,459	561
New finance leases	—	—	(24)
Movement in loan stock redemption premium	—	(5)	252
Increase in net funds during the period	324	1,454	789
Opening net funds/(debt)	701	(88)	(88)
Closing net funds	1,025	1,366	701

## 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 2006 except for share-based payments for which the Company has adopted FRS20 "Share-based Payment" that has resulted in a change in accounting policy.

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 2006 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.