

# Redhall Group plc

Interim Report

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ENGINEERING // NUCLEAR // MANUFACTURING //  
2014



## FINANCIAL HIGHLIGHTS

	<b>Six months to 31 March 2014 £000</b>	Six months to 31 March 2013 £000 Restated
Group revenue	<b>50,615</b>	56,386
Adjusted operating profit*	<b>1,071</b>	982
Adjusted profit before tax*	<b>233</b>	498
Loss before tax	<b>(1,020)</b>	(449)
Adjusted fully taxed basic earnings per share*	<b>0.60p</b>	1.28p
Adjusted fully taxed diluted earnings per share*	<b>0.60p</b>	1.28p

\* Adjusted results are stated before exceptional items of £1,003,000 (31 March 2013: £697,000) and amortisation of acquired intangible assets of £250,000 (31 March 2013: £250,000)

**David Jackson**, Chairman, commented:

“The new management team has set realistic targets for the future and will concentrate on maximising profitable execution. There has been much change in the Group in the last 18 months and we look to a period of stability in order to assist Redhall to reach its full potential.”

# CHAIRMAN'S STATEMENT

## INTRODUCTION

The results for the six months to 31 March 2014 are in line with management expectations. The business is expected to make progress on this performance in the second half of the financial year, although as announced on 6 June 2014, this progress has been slowed by the delay to certain major projects for existing key customers due to either their budgetary pressures, or an extended design sign-off process. Management have now set expectations for the current year which reflect these delays and a more prudent approach has been adopted to future forecasting.

Our financial position was much improved during the first half by raising £7.0 million net in a share placing. This has enabled us to reduce debt levels and to enter into constructive discussions with our bankers, HSBC Bank plc, regarding the extension of our existing facilities which are due to expire on 30 September 2015.

There has been considerable management change during the last 18 months including the recent appointment of a new Chief Executive and Group Finance Director. The Board's objective for the next 18 months is to have stability in the management teams as change inevitably brings uncertainty, disruption and cost. We have a highly skilled workforce within the Group who will be encouraged to perform at consistently high levels in order to demonstrate the quality of the Redhall Group.

## TRADING RESULTS

Adjusted revenue for the half year to 31 March 2014 totalled £51.3 million, down 9.4% on the 2013 comparative of £56.6 million. Adjusted profit before tax and amortisation was £233k

compared with £498k in the first half of last year. Adjusted fully diluted earnings per share of 0.60p compared with 1.28p for the corresponding period to 31 March 2013. A detailed review of the trading performance can be found in the Chief Executive's report.

## FINANCIAL POSITION

Our net debt at 31 March 2014 stood at £12.2 million compared with £19.1m at 30 September 2013. The settlement with Vivergo and the raising of £7.0 million in the recent share placing has enabled us to reduce our gearing levels. We are currently in discussion with HSBC Bank plc to review our requirements and to extend the facility term beyond 30 September 2015. The Bank is fully supportive of the Group and we would like to take this opportunity to thank them for their continued support.

## DIVIDEND

The Board has recommended that no interim dividend will be paid in 2014. We apologise to shareholders for the continuation of this policy which is reviewed by the Board on a bi-annual basis.

## PEOPLE

We have already announced the appointment of Phil Brierley as Chief Executive and Chris Kelly as Group Finance Director. As stated earlier, we are now looking for a period of stability in the Group from the Board downwards, with our effort concentrated on the further development of our staff.

## PROSPECTS

The order book fluctuates with the incidence of, and activity level of our framework contracts. This

is particularly true of our current order book which stands at £85 million compared with a year-end position of £111 million. We have re-assessed our framework contracts based on current activity levels which has resulted in a reduction of approximately £30 million in the order value. The balance of the order book compares favourably to the year-end comparative and is adequate for current management expectations.

Our high level prospects remain good and we are close to realising work in several areas of the business, but particularly so in Manufacturing and in the food segment of our Engineering division. In the longer-term, we remain convinced that the proposed new nuclear reactors at Hinkley for EDF will go ahead, but we cannot give any guidance on a start date and have therefore excluded this potential work from our forecasts.

The new management team will concentrate on profitable execution and increasing margins rather than top line growth in the short term. Once we have achieved this we can again look to grow. The Board remain convinced that the Group's future prospects are strong.

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**David Jackson**

Chairman

12 June 2014

# CHIEF EXECUTIVE REVIEW

The Redhall Group is an established multi-disciplinary Engineering business offering design, manufacture, installation, maintenance and decommissioning services to the nuclear, oil and gas, petrochemical and food process sectors. Our Manufacturing facilities are centred around three locations at Bolton, Bristol and Newcastle which deliver key products to our UK and overseas customers. The contracting services we provide are delivered through our directly employed workforce at locations centred close to our clients, which have helped develop the longstanding key customer relationships that underpin the business.

## OVERVIEW

Overall the operating profit before exceptional items increased by 9.0% to £1.1million. This was achieved on a turnover that was down by 9.4% to £51.3 million indicating that our drive for improved operating margin is starting to take effect. The most notable contribution came from the Manufacturing division which increased turnover by 8.1% and adjusted operating profit by 72.6% to £1.26 million. This represents solid progress against our aim of rebalancing the business towards manufacturing.

A more detailed analysis of each division's performance is given below.

## DIVISIONAL REVIEW

### **Engineering**

Activity for the first six months of 2014 generated revenue of £22.49 million which is 19.9% down on 2013. The adjusted operating profit fell from £1.02 million in 2013 to £0.51 million in 2014. Overall operating margin fell to 2.3%. The

industrial market continues to be challenging for our customers as evidenced in the recent decision by Polimeri to close their plant at Hythe in Hampshire. There has been reduced activity in plant shutdowns in the first half of this year with programmes either deferred until the latter part of this year or into the next financial year. The change in our clients' spending patterns in the first half of this year, coupled with our conscious decision not to undertake high risk projects, are the contributory factors in the reduced activity in this part of the business.

The volume of work undertaken servicing the Food sector has also fallen in the first half of this year, but the effect of the restructuring within this part of the business last year has improved the margins significantly. There have been key announcements in recent months of increased client spending in the Food sector. Mondelez (part of Kraft) made the announcement in January 2014 that it plans to invest £75 million at its facility in Bourneville and more recently Premier Foods announced a five year investment programme for Hovis. These are amongst a number of good opportunities for the division although they will be more focused on 2015 and beyond.

### **Nuclear**

Nuclear turnover in the period was £15.39 million, down 4.6% on 2013. Adjusted operating profit at £0.34 million was slightly lower than that for the comparable period in 2013 of £0.40 million. Whilst the adjusted revenue and operating profit continues to be affected by reduced volume on two key framework contracts, we have successfully secured £4.7 million of work from our two new framework agreements with Dounreay Site Restoration Limited and Low Level Waste

Repository (LLWR) facility in Cumbria. The LLWR framework was a short-term agreement, but has just been extended for a further twelve months which is testament to the safe quality service that we provide to our customers.

In addition to work under these framework agreements, we continue to support tier 2 contractors at our various sites and hope to convert some key prospects during the second half of this year. Our operation to support the Astute Class Submarine programme at Barrow grew this year by 9% as we progress work on Boats 3, 4, 5 and 6. From our office in Aldermaston we continue to provide support to AWE at Aldermaston and Burghfield and have also fulfilled orders for EDF in the first half of the year to the value of £1 million as part of their plant life extension programme at Dungeness.

### **Manufacturing**

The turnover in Manufacturing for the six months to 31 March 2014 was £13.45 million compared with £12.44 million for 2013, an increase of 8.1%. The adjusted operating profit rose to £1.26 million from £0.73 million for the same period last year. Whilst it is pleasing that the division has achieved an improved performance, this is still lower than we had anticipated due to the substantial delays suffered by our key clients in delivering their programme of works. The significant increase in our adjusted operating margin to 9.3% from 5.9% in 2013 is largely attributed to the improved performance at our facilities in Newcastle and Bristol. These two facilities are experiencing growth in workload this year, particularly in Newcastle where there are sufficient confirmed orders to secure its forecast for this financial year.

Our specialist door business continues to perform well, but it is in this business that most of the delays

in the award of some key contracts have impacted the timing of the forecasted growth. These delays are timing issues and we still anticipate receiving these contract awards, albeit this is likely to be during the next financial year. We have recently secured our first order to supply doors on the Crossrail project. Whilst the order value is relatively small, it is strategically important as it is the first door contract to be awarded on this project.

### **Summary**

During the first half of 2014 the Group made advances in improving margin and increasing the proportion of contribution from Manufacturing. Our progress will be impacted in the second half of the year as a result of delays to our clients' programmes of work, however we remain confident that these contracts will be awarded during 2015. We will continue to focus on higher margin work and profit growth, reinforcing robust contract controls and forecasting.

**Phil Brierley**  
Chief Executive  
12 June 2014

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Six months to 31 March 2014 £000	Six months to 31 March 2013 £000 Restated	Year to 30 September 2013 £000 Restated
<b>Revenue</b>	3	<b>50,615</b>	56,386	113,082
Cost of sales		<b>(42,478)</b>	(47,771)	(105,499)
Gross profit		<b>8,137</b>	8,615	7,583
Administrative expenses		<b>(8,319)</b>	(8,580)	(16,303)
<b>Operating (loss)/profit</b>	3	<b>(182)</b>	35	(8,720)
Financial income	4	<b>4</b>	-	-
Financial expenses	4	<b>(842)</b>	(484)	(1,214)
<b>Loss before tax</b>		<b>(1,020)</b>	(449)	(9,934)
<b>Adjusted operating profit*</b>		<b>1,071</b>	982	2,640
<b>Adjusted PBTA*</b>		<b>233</b>	498	1,426
Exceptional items		<b>(1,003)</b>	(697)	(10,856)
Amortisation of acquired intangible assets		<b>(250)</b>	(250)	(504)
Loss before tax		<b>(1,020)</b>	(449)	(9,934)
Tax credit on loss on ordinary activities	5	<b>92</b>	53	432
<b>Loss attributable to equity holders of the Parent Company</b>		<b>(928)</b>	(396)	(9,502)
<b>Loss per share</b>	6			
Basic		<b>(3.06)p</b>	(1.33)p	(31.84)p
Diluted		<b>(3.06)p</b>	(1.33)p	(31.84)p

\* Before exceptional items and amortisation of intangible assets acquired with business combinations.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	<b>Six months to 31 March 2014 £000</b>	Six months to 31 March 2013 £000 Restated	Year to 30 September 2013 £000 Restated
<b>Loss for the period</b>	7	<b>(928)</b>	(396)	(9,502)
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss:</b>				
Actuarial gain on pension scheme		-	76	1,194
Tax on actuarial loss		-	-	(239)
Effect of tax rate change on actuarial loss		-	-	(21)
Tax on amortisation of property revaluation transferred between reserves		-	-	3
Effect of tax rate change on amortisation of property revaluation		-	-	18
<b>Other comprehensive income for the period net of tax</b>		<b>-</b>	<b>76</b>	<b>955</b>
<b>Total comprehensive income attributable to equity holders of the Parent Company</b>		<b>(928)</b>	<b>(320)</b>	<b>(8,547)</b>

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 31 March 2014 £000	As at 31 March 2013 £000	As at 30 September 2013 £000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		4,838	4,995	4,989
Intangible assets		5,099	5,574	5,354
Purchased goodwill		23,785	23,785	23,785
		<b>33,722</b>	34,354	34,128
<b>Current assets</b>				
Inventories		668	592	644
Trade and other receivables (of which £463,000 are due after one year (31 March 2013: £1,495,000; 30 September 2013: £1,693,000))		28,996	42,167	32,561
Cash and cash equivalents	9	4,602	-	-
Current tax asset		-	-	-
		<b>34,266</b>	42,759	33,205
<b>Assets held for sale</b>		-	-	572
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(21,346)	(24,807)	(24,632)
Borrowings	9	(2,000)	(11,092)	(12,086)
Current tax payable		(27)	(120)	(19)
		<b>(23,373)</b>	(36,019)	(36,737)
<b>Liabilities associated with assets held for sales</b>		-	-	(136)
<b>Non-current liabilities</b>				
Borrowings	9	(14,750)	(7,500)	(7,000)
Deferred tax liabilities		(174)	(291)	(270)
Retirement benefit obligations		(1,242)	(2,624)	(1,387)
		<b>(16,166)</b>	(10,415)	(8,657)
<b>Net assets</b>		<b>28,449</b>	30,679	22,375
<b>Equity attributable to owners of the Parent Company</b>				
Share capital		12,269	7,462	7,462
Share premium account		21,297	19,127	19,127
Merger reserve		12,679	12,679	12,679
Revaluation reserve		147	129	147
Other reserve		290	342	265
Retained earnings		(18,233)	(9,060)	(17,305)
<b>Total equity</b>		<b>28,449</b>	30,679	22,375

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Merger reserve £000	Revaluation reserve £000	Other reserve £000	Retained earnings £000	Total £000
At 1 October 2012	7,462	19,127	12,679	129	306	(8,740)	30,963
Employee share-based compensation	-	-	-	-	(41)	-	(41)
Tax in connection with employee share-based compensation	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	(41)	-	(41)
Loss for the year (Restated)	-	-	-	-	-	(9,502)	(9,502)
Transfer between reserves in respect of depreciation on property revaluations	-	-	-	(3)	-	3	-
Other comprehensive income for the year (Restated)	-	-	-	21	-	934	955
Total comprehensive income for the year (Restated)	-	-	-	18	-	(8,565)	(8,547)
At 30 September 2013	7,462	19,127	12,679	147	265	(17,305)	22,375
At 1 October 2012	7,462	19,127	12,679	129	306	(8,740)	30,963
Employee share-based compensation	-	-	-	-	36	-	36
Tax in connection with employee share-based compensation	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	36	-	36
Loss for the period (Restated)	-	-	-	-	-	(396)	(396)
Other comprehensive income for the period (Restated)	-	-	-	-	-	76	76
Total comprehensive income for the period (Restated)	-	-	-	-	-	(320)	(320)
At 31 March 2013	7,462	19,127	12,679	129	342	(9,060)	30,679
At 1 October 2013	<b>7,462</b>	<b>19,127</b>	<b>12,679</b>	<b>147</b>	<b>265</b>	<b>(17,305)</b>	<b>22,375</b>
Share capital issued during the period	<b>4,807</b>	<b>2,170</b>	-	-	-	-	<b>6,977</b>
Employee share-based compensation	-	-	-	-	25	-	25
Transactions with owners	<b>4,807</b>	<b>2,170</b>	-	-	25	-	<b>7,002</b>
Loss for the period	-	-	-	-	-	(928)	(928)
Total comprehensive income for the period	-	-	-	-	-	(928)	(928)
At 31 March 2014	<b>12,269</b>	<b>21,297</b>	<b>12,679</b>	<b>147</b>	<b>290</b>	<b>(18,233)</b>	<b>28,449</b>

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Note	Six months to 31 March 2014 £000	Six months to 31 March 2013 £000	Year to 30 September 2013 £000
<b>Cash generated from/(absorbed by) operations</b>	8	<b>869</b>	(7,507)	(7,122)
Interest paid		(783)	(340)	(972)
Income taxes received		-	-	18
<b>Net cash generated from/(absorbed by) operating activities</b>		<b>86</b>	(7,847)	(8,076)
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(129)	(103)	(320)
Purchase of intangible assets		-	(49)	(112)
Proceeds from sale of plant and equipment		-	-	15
Interest received		4	-	-
<b>Net cash used in investing activities</b>		<b>(125)</b>	(152)	(417)
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital		6,977	-	-
Proceeds from borrowings		750	3,000	3,000
<b>Net cash generated by financing activities</b>		<b>7,727</b>	3,000	3,000
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,688</b>	(4,999)	(5,493)
<b>Cash and cash equivalents at beginning of period</b>		<b>(3,086)</b>	2,407	2,407
<b>Cash and cash equivalents at end of period</b>		<b>4,602</b>	(2,592)	(3,086)

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

These condensed consolidated interim financial statements (“interim financial statements”) are for the six months ended 31 March 2014 and do not constitute statutory accounts under sections 434 and 435 of the Companies Act 2006. They do not include all of the information required for full annual financial statements. The comparative figures for the financial year ended 30 September 2013 are not the Group’s consolidated statutory accounts for that financial year. Those accounts have been reported on by the Group’s auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006. These interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 September 2013.

These interim financial statements have been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU but not in compliance with IAS34 as adopted by the EU, and under the historical cost convention, except for the revaluation of certain non-current assets and include fair values for share-based payments and the initial recognition of financial instruments. These interim financial statements reflect for the first time the requirements of IAS19 (2011) Post-employment defined benefit plans, the details of this are in note 7 to these interim statements.

These interim financial statements have been prepared in accordance with the accounting policies adopted in the latest consolidated financial statements for the year to 30 September 2013, other than as noted above in connection with IAS19 (2011) Post-employment defined benefit plans. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

As noted in note 9, the Group has agreed amendments to its banking arrangements since 30 September 2013. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of the revised facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they have continued to adopt the going concern basis in the preparation of these interim financial statements.

These interim financial statements have been reviewed, but not audited, by the Group’s auditors and their report is set out on page 20.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 2. PRINCIPAL OPERATING RISKS AND UNCERTAINTIES

The principal operating risks and uncertainties faced by the Group were reported in the latest consolidated financial statements of the Group for the year to 30 September 2013 and remain unchanged.

## 3. SEGMENT ANALYSIS

The segment information set out below reflects the information provided to the Board of Directors, which is the Chief Operating Decision Maker as described by IFRS8. The activities in each segment are as follows:

### ***Engineering***

Engineering comprises activities in industrial processes including oil and gas, petrochemical, chemical, pharmaceutical and food and includes design, project management and execution of on-site works through qualified and experienced engineers and trades personnel. Activities include mechanical design and construction, storage tank services, plant modifications and upgrades, repair and maintenance, shutdown services and offsite services.

### ***Nuclear***

Nuclear comprises activities in both the civil and defence sectors and includes design, project management and execution of on-site works through qualified and experienced engineers and trades personnel. Activities in the civil sector include decommissioning and waste management, support to operating nuclear power stations, and nuclear new build. Activities in the defence sector encompass activities on behalf of the Ministry of Defence and include the marine outfitting of Astute class submarines at Barrow, West Cumbria, and the design and manufacture of specialist equipment and mechanical and electrical engineering activities for the AWE establishments at Aldermaston and Burghfield.

### ***Manufacturing***

Manufacturing encompasses the design, manufacture and installation of bespoke specialist plant and equipment typically in the nuclear, defence, oil and gas, petrochemical, chemical, pharmaceutical and food sectors. The division has particular expertise in the design and manufacture of high integrity fire and blast resistant doors, window and wall systems.

### 3. SEGMENT ANALYSIS (CONTINUED)

#### **Operating segments**

The revenues and profit before tax generated by each of the Group's operating segments are summarised as follows:

#### **Six months to 31 March 2014**

	Revenue £000	Group operating profit £000
Engineering	22,490	514
Exceptional items	-	150
<b>Total Engineering</b>	<b>22,490</b>	<b>664</b>
Nuclear	15,387	344
Exceptional items	(710)	(791)
<b>Total Nuclear</b>	<b>14,677</b>	<b>(447)</b>
Manufacturing	13,448	1,255
Exceptional items	-	-
<b>Total Manufacturing</b>	<b>13,448</b>	<b>1,255</b>
Central costs	-	(1,042)
Exceptional items	-	(362)
<b>Total Central costs</b>	<b>-</b>	<b>(1,404)</b>
Total operations before exceptional items	51,325	1,071
Exceptional items	(710)	(1,003)
<b>Total operations</b>	<b>50,615</b>	<b>68</b>
Amortisation of acquired intangible assets		(250)
<b>Operating loss</b>		<b>(182)</b>
Financial income		4
Financial expenses		(842)
<b>Group loss before tax</b>		<b>(1,020)</b>
Tax		92
<b>Group loss for the period</b>		<b>(928)</b>

Adjusted operating profit is stated before exceptional items and amortisation of intangible assets acquired with business combinations.

Exceptional items in the period totalled £1,003,000 and comprised £871,000 of legacy contract items and a loss on the disposal of £132,000 on Chieftain Insulation (NI) Limited.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

## 3. SEGMENT ANALYSIS (CONTINUED)

Six months to 31 March 2013

	Revenue £000	Group operating profit £000
Engineering	28,082	1,023
Exceptional items	-	(66)
<b>Total Engineering</b>	<b>28,082</b>	<b>957</b>
Nuclear	16,122	397
Exceptional items	(259)	(631)
<b>Total Nuclear</b>	<b>15,863</b>	<b>(234)</b>
Manufacturing	12,441	731
Exceptional items	-	-
<b>Total Manufacturing</b>	<b>12,441</b>	<b>731</b>
Central costs	-	(1,169)
Exceptional items	-	-
<b>Total Central costs</b>	<b>-</b>	<b>(1,169)</b>
Total operations before exceptional items	56,645	982
Exceptional items	(259)	(697)
<b>Total operations</b>	<b>56,386</b>	<b>285</b>
Amortisation of acquired intangible assets		(250)
<b>Operating profit</b>		<b>35</b>
Financial income		-
Financial expenses		(484)
<b>Group loss before tax</b>		<b>(449)</b>
Tax		53
<b>Group loss for the period</b>		<b>(396)</b>

Adjusted operating profit is stated before exceptional items and amortisation of intangible assets acquired with business combinations.

Exceptional items totalled £697,000 and comprised restructuring costs of £438,000 and further provisions against legacy contracts of £259,000.

### 3. SEGMENT ANALYSIS (CONTINUED)

Year to 30 September 2013

	Revenue £000	Group operating profit £000
Engineering	54,949	2,210
Exceptional items	-	(8,301)
<b>Total Engineering</b>	<b>54,949</b>	<b>(6,091)</b>
Nuclear	31,962	974
Exceptional items	-	(2,284)
<b>Total Nuclear</b>	<b>31,962</b>	<b>(1,310)</b>
Manufacturing	26,171	1,455
Exceptional items	-	(159)
<b>Total Manufacturing</b>	<b>26,171</b>	<b>1,296</b>
Central costs	-	(1,999)
Exceptional items	-	(112)
<b>Total Central costs</b>	<b>-</b>	<b>(2,111)</b>
<b>Total operations before exceptional items</b>	<b>113,082</b>	<b>2,640</b>
Exceptional items	-	(10,856)
<b>Total operations</b>	<b>113,082</b>	<b>(8,216)</b>
Amortisation of acquired intangible assets		(504)
<b>Operating loss</b>		<b>(8,720)</b>
Financial income		-
Financial expenses		(1,214)
<b>Group loss before tax</b>		<b>(9,934)</b>
Tax		432
<b>Group loss for the year</b>		<b>(9,502)</b>

Adjusted operating profit is stated before exceptional items and amortisation of intangible assets acquired with business combinations.

Exceptional items in the period relate to a write down of the Vivergo contract £7,700,000 and related professional fees £100,000, redundancy and restructuring costs £2,273,000, Nuclear and new bidding costs £112,000, and provisions against legacy contracts £671,000.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

## 3. SEGMENT ANALYSIS (CONTINUED)

### Geographical segments

The following table shows the distribution of the Group's consolidated revenue by geographical market, regardless of the origin of the goods or services.

	<b>Six months to 31 March 2014 £000</b>	Six months to 31 March 2013 £000	Year to 30 September 2013 £000
United Kingdom	<b>45,404</b>	51,017	103,377
Other European Union countries	<b>701</b>	1,046	2,029
Other overseas locations	<b>4,510</b>	4,323	7,676
	<b>50,615</b>	56,386	113,082

## 4. FINANCIAL INCOME AND EXPENSES

	<b>Six months to 31 March 2014 £000</b>	Six months to 31 March 2013 £000 Restated	Year to 30 September 2013 £000 Restated
<b>Financial income</b>			
Interest income	<b>4</b>	-	-
	<b>4</b>	-	-
<b>Financial expenses</b>			
Interest on bank loans and overdrafts	<b>(722)</b>	(351)	(948)
Net finance expense on pension scheme*	<b>(120)</b>	(133)	(266)
	<b>(842)</b>	(484)	(1,214)

\* Includes £75,000 of pension administration expenses paid for by the Group (31 March 2013: £75,000; 30 September 2013: £150,000).

## 5. TAXATION

The credit for taxation reflects an estimated current tax charge on the projected results for the year and estimated movements in the deferred tax balance.

## 6. EARNINGS PER SHARE

### **Basic (loss)/earnings per share**

The calculation of basic loss per share of 3.06p (31 March 2013: loss per share of 1.33p; 30 September 2013: loss per share of 31.84p) is based on 30,375,018 shares (31 March 2013: 29,846,700; 30 September 2013: 29,846,700), being the weighted average number of shares in issue throughout the period and the loss of £928,000 (31 March 2013: loss of £396,000; 30 September 2013: loss of £9,502,000).

### **Diluted (loss)/earnings per share**

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted loss per share for the period ended 31 March 2014, 31 March 2013 and for the year ended 30 September 2013 are identical to those used for the basic loss per share.

This is because the exercise of share options would have the effect of reducing the loss per share and is, therefore, not a dilution under the terms of IAS33.

### **Adjusted earnings per share**

The Directors believe that helpful additional earnings per share calculations are earnings per share on adjusted bases. The basic and adjusted weighted average numbers of shares and the adjusted earnings have been calculated as follows:

	<b>Six months to 31 March 2014 Number</b>	Six months to 31 March 2013 Number	Year to 30 September 2013 Number
Basic weighted average number of shares	<b>30,375,018</b>	29,846,700	29,846,700
Dilutive potential ordinary shares arising from share options	<b>15,118</b>	18,793	15,118
Adjusted weighted average number of shares	<b>30,390,136</b>	29,865,493	29,861,818
	<b>£000</b>	£000	£000
Earnings:			
(Loss)/profit on ordinary activities before tax	<b>(1,020)</b>	(449)	(9,934)
Exceptional items	<b>1,003</b>	697	10,856
Amortisation of acquired intangible assets	<b>250</b>	250	504
Adjusted profit before tax	<b>233</b>	498	1,426
Tax at 22.0% (2013: 23.5%)	<b>(51)</b>	(117)	(335)
Adjusted profit after tax	<b>182</b>	381	1,091
Adjusted fully taxed basic earnings per share	<b>0.60p</b>	1.28p	3.66p
Adjusted fully taxed diluted earnings per share	<b>0.60p</b>	1.28p	3.65p

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

## 7. POST-EMPLOYMENT DEFINED BENEFIT PLANS

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The quantitative impact of the change is an additional charge to the net finance expense on the pension scheme of £76,500 for the period to 31 March 2013 and an additional charge of £153,000 for the year to 30 September 2013 and a corresponding adjustment to the other comprehensive income for the period.

There is no change to the balance sheet position. As a result a third balance sheet as required by IAS1 is not presented.

## 8. CASH FLOW FROM OPERATING ACTIVITIES

	<b>Six months to 31 March 2014 £000</b>	Six months to 31 March 2013 £000 Restated	Year to 30 September 2013 £000 Restated
Loss after taxation	<b>(928)</b>	(396)	(9,502)
Adjustments for:			
Depreciation	<b>280</b>	412	632
Amortisation of intangible assets	<b>255</b>	274	557
Difference between pension charge and cash contributions	<b>(145)</b>	(165)	(342)
Profit on sale of property, plant and equipment	-	-	(12)
Share based payments charge	<b>25</b>	36	(41)
Financial income	<b>(4)</b>	-	-
Financial expenses	<b>842</b>	484	1,214
Taxation credit recognised in income statement	<b>(92)</b>	(53)	(432)
Decrease/(increase) in trade and other receivables	<b>4,137</b>	(4,442)	4,592
Increase in inventories	<b>(24)</b>	(6)	(58)
Decrease in trade and other payables	<b>(3,477)</b>	(3,651)	(3,730)
<b>Cash generated from/(absorbed by) operations</b>	<b>869</b>	(7,507)	(7,122)

## 9. RECONCILIATION OF NET DEBT

A reconciliation of the cash and cash equivalents reported in the condensed consolidated interim cash flow statement with the total borrowings reported in the condensed consolidated interim balance sheet as at 31 March 2014 is set out as follows:

	<b>At start of period £000</b>	<b>Cash flow £000</b>	<b>Non-cash movement £000</b>	<b>At end of period £000</b>
Cash at bank and in hand	-	4,602	-	4,602
Bank overdraft	(3,086)	3,086	-	-
Bank loan due within one year	(9,000)	-	7,000	(2,000)
<hr/>				
Cash and cash equivalents/ (Borrowings due within one year)	(12,086)	7,688	7,000	2,602
Bank loan due after more than one year	(7,000)	-	(7,750)	(14,750)
	(19,086)	7,688	(750)	(12,148)

The bank facilities were renegotiated in December 2013. The current facility expires in September 2015.

## 10. SHARE CAPITAL

On 27 March 2014, the Group issued 19,230,769 new ordinary shares of 25 pence at a price of 39 pence per share. The Group now has a total of 49,077,469 shares in issue. The share premium on the issue, net of expenses, was £2,170,000.

## 11. DIVIDENDS ON EQUITY SHARES

There were no dividends paid during the six month period to 31 March 2014 or the year ended 30 September 2013.

The Directors do not propose the payment of an interim dividend for the six months ended 31 March 2014.

## 12. DISTRIBUTION OF INTERIM REPORT

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.

# INDEPENDENT REVIEW REPORT TO REDHALL GROUP PLC

## INTRODUCTION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 March 2014 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim balance sheet, the condensed consolidated interim cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## DIRECTORS' RESPONSIBILITIES

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

## OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 March 2014 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

**David Morritt for and on behalf of  
KPMG LLP**

Chartered Accountants

1 The Embankment, Neville Street, Leeds

12 June 2014

*Magno Club Silk is produced in a mill that is certified to ISO14001 environmental management standard. It is a mixed sourced product made with pulp derived from well managed forests and other controlled sources. It is bleached using a combination of Elemental Chlorine Free (ECF) and Totally Chlorine Free (TCF) processes and is fully recyclable.*

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