Chairman's statement

This has been a very challenging year for The 600 Group PLC. We have, however, met these challenges head on and made significant strides towards creating a platform from which to build a profitable future for the Group.

We entered the year facing a downturn in our main markets and, as serious problems with the Group's supply chain began to emerge, it became apparent that a radical overhaul of the business was required. David Norman accepted the role of Group Chief Executive in August 2008, undertaking responsibility to review all the Group's operations in order to deliver an achievable and rapid turnaround strategy.

The strategic review was completed in January 2009 and a full restructuring of the Group commenced. The first phase, the major cost reduction programme outlined in the Interim Management Statement dated 3 February 2009, was achieved ahead of schedule in May 2009. The Board expects that the second phase, commenced in June 2009, which consists of further cost reductions and the integration of business units and functions will be substantially complete by the end of September 2009.

Results

Overall, sales for the year reduced by 2% to £76.2m (2008: £77.4m) although underlying sales reduced by 7% after taking into account the effect of a one-off major aerospace contract undertaken in the first half of the year. Gross profit margins reduced to 27% (2008: 29%) as a result of the adverse impact of the aerospace contract and currency movements. Other operating income included the £0.3m benefit in respect of the sale and leaseback of our Colchester and Halifax properties. Other operating expenses were £29.9m (2008: £22.9m) including restructuring costs of £5.2m, costs in relation to closed operations of £0.5m and an impairment charge for intangible assets of £0.4m. The restructuring costs relate to the previously announced programme of redundancies, an extensive reorganisation of the Group's structure and impairment of inventory and receivables.

The Group's loss from operations before net financial income and tax was £8.3m (2008: operating profit of £0.3m). As anticipated, net financial income for the year reduced significantly to £0.3m (2008: £2.3m) due to the UK Pension Scheme moving to de-risk its assets.

Loss before tax was, therefore, £8.0m (2008: profit before tax of £2.5m). The discontinued costs of £1.3m (2008: £1.8m) relate to the closure of operations in Canada. The basic and diluted loss per share for continuing operations was 13.3p (2008: earnings per share of 3.3p and 3.2p respectively).

As anticipated, the net cash balance of £3.2m in 2008 reduced to net borrowings of £1.5m in 2009 due to costs incurred in restructuring.

In accordance with FRC guidelines, the Board has assessed the Group's funding and liquidity position and concluded that the going concern basis for the preparation of its accounts continues to be appropriate.

This has been a very challenging year for The 600 Group PLC. We have, however, met these challenges head on and made significant strides towards creating a platform from which to build a profitable future for the Group.

Dividend

We have previously stated that dividend payments will be directly related to our results. The Board does not consider it is appropriate to pay a dividend at the present time.

Progress

I believe we have made substantial progress in reshaping the Group and positioning it for the future. We needed to cut the Group's costs dramatically and deliver a sustainable improvement in the efficiency of our business, particularly in the use of cash. This meant that we had to change our Group structure and management, reduce the number of sites and overhaul the supply chain.

David Norman's first task was to review senior management. Numbers were inevitably reduced but, pleasingly, he managed to establish a new team with the experience and energy to take us forward predominantly from our existing staff. You will read in his Group Chief Executive's report that we aggressively addressed our cost base during the year under review and continue to do so. Our product strategies, which were having a major impact on our costs and our reputation as a leading machine tools producer, were also addressed. We made the decision to leave our chosen Chinese partner, The Dalian Machine Tool Group, and have sourced products and components elsewhere. This was a challenging but necessary action, which needed careful handling to avoid further costs and disruption to our supply lines. The number of sites operated by the Group were also reduced and the sales force is being shaped into a more focused and cost effective team.

Such fundamental reshaping of the business incurs costs. I am pleased to report that we have been able to fund this from within our existing overdraft facilities and through the release of cash which was locked inside the business. Our action has, however, significantly impacted the balance sheet (split in similar proportions between legacy costs, ceased operations and operational activity). This should not affect our ability to move forward in the short term and will result in a very different and more sustainable platform for the Group. Improvements to the balance sheet will, however, now be both a necessity and a priority as we move forward.

Separately we will continue to address the issue of the Pension Fund, which is significant in terms of size and impact, and we are working closely with the Trustee to further de-risk its asset holdings.

Strategy

The new business platform we have developed has provided us with an opportunity to review our overall business strategy. We continue to see machine tools and lathes products as our core business and the UK, Continental Europe and North America remain our key strategic markets. There are real opportunities to build on our strong brands in these product areas and exploit our engineering and manufacturing expertise to a much greater extent than achieved in recent years. We will concentrate on the Group's branded products, take much more control of our own manufacturing and shorten our supply lines. The challenging global economy has weakened many companies in our product or associated product areas and, we believe, this will present us with opportunities to expand the business over and above our own organic growth.

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Chairman's statement/continued

People

The Board relishes these prospects but they will, of course, present us with new challenges. To assist the Group's progress there will be one further change to our Board. Jonathan Kitchen has informed me that he will retire at the Annual General Meeting on 25 September 2009. He has given outstanding service to the Group for a number of years and I, in particular, am grateful for his wise counsel over my relatively short period as Chairman.

I am pleased to announce that Chris Cundy, Commercial Director of VT Group, has agreed to join the Board with effect from 1 August 2009, as a non-executive Director. He has a wide experience as a finance director in a manufacturing and service environment. His breadth of knowledge and expertise will be valuable to the Group as we move forward over the coming years.

Outlook

The next few months will continue to present us with major challenges as our markets remain subdued. Whilst this will impact the level of sales revenue, further improvements that will deliver a more efficient and effective business are either in progress or planned. In addition, the Group's new product strategies, which will be implemented over the next twelve months, are being finalised.

Our priorities for the first half of the current year are to complete the improvements to our business, return the Group to sustainable profitability with a positive cash flow and begin the rebuilding of our balance sheet. When we have secured these objectives, we will be able to take a bolder approach to other market and corporate opportunities.

The Group has a strong business plan, experienced leadership and a much clearer sense of its strategic direction. In view of this, the Board believes that the Group is in a strong position to take advantage of any recovery in our markets and will soon be able to progress new and rewarding growth opportunities.

Martin Temple CBE
Chairman
23 June 2009

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