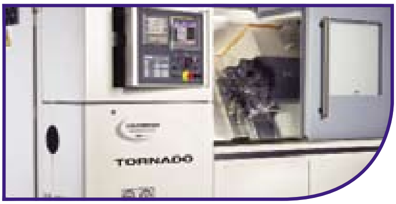
The 600 Group PLC interim report 2009



We are an international group manufacturing and marketing machine tools, machine tool accessories, lasers and other engineering products.

We are the UK's largest machine tool company, operating from a number of locations worldwide and selling products into more than 180 countries.

Highlights

Financials

- Like for like sales 39% lower than corresponding period last year, order levels now stabilised
- Pre-exceptionals operating loss of £1.7m, improved from pre-exceptionals operating loss of £2.5m in the second half of the last financial year
- Net debt of £5.0m (2008: £1.1m) due to funding of turnaround programme

Turnaround phase 1 and 2

- Phase 1 and 2 successfully completed
- Losses experienced in the second half of the previous financial year now stemmed
- Further cost savings will be implemented in the final quarter
- Achieving aggregate annualised cost savings of £12.0m

Next phase

- Management focus switched to strengthening supply chain and developing manufacturing footprint
- Development of a market facing structure to support rebuilding of revenues at sustainable margins

Chairman's statement

Although anticipated, the financial results for the 26 weeks to 26 September 2009 will be a disappointment for our shareholders. However, I believe that the swift action our management team has taken to reduce costs, rationalise our businesses and raise additional working capital has improved the Group's prospects considerably and created a stronger, leaner business, which is now capable of exploiting future opportunities in our markets.

Trading and markets

In the 26 week period under review, the Group's markets continued to be seriously affected by the global economic downturn and this was reflected in our own trading. Order intake levels, when compared with the second half of the previous financial year, did not increase significantly and underlying revenue was 39% lower than the corresponding period in 2008.

As noted in our AGM statement, there were some positive signs of recovery in order activity within our machine tools and laser markets, particularly in the US, towards the latter end of the period under review. Our forward order book in these markets has stabilised and we expect level of orders to improve in the second half of the financial year.

Results

Overall, Group revenue in the period reduced by 49% to £22.7m (2008: £44.2m). After adjusting for the effect of a major one-off aerospace contract undertaken during the first half of last year and discontinued products, underlying revenue was 39% lower year on year. Gross margins improved slightly to 32% (2008: 29%), compared with a prior year margin, excluding the aerospace contract and discontinued products, of 31%. Other operating income decreased to £0.2m (2008: £0.4m). Net operating expenses, after restructuring costs of £2.6m and goodwill impairment of £1.1m, were reduced by £1.1m to £12.9m (2008: £14.0m), as the cost savings generated by the first phase of our turnaround plan started to be realised.

Group operating loss for the period, before exceptional costs of £2.6m and goodwill impairment of £1.1m, was £1.7m (2008: profit of £0.2m). EBITDA, before exceptional costs and goodwill impairment, was £(0.9)m (2008: £1.0m), however, the actions taken to reduce costs have resulted in an improvement in the Group's performance, when compared with the second half of the last financial year in which an operating loss of £2.5m, before exceptional costs and goodwill impairment, was recorded.

The exceptional costs incurred in the period relate to the second phase of the Group's previously announced programme of cost reductions. This programme has now been completed with the exception of a few minor actions, which will be implemented in Q4. As previously reported, the combined effect of these timely management actions is expected to produce annualised cost savings of approximately £12.0m. Following the consolidation of our European operations and 600 UK into 600 Europe, goodwill of £1.1m

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relating to our German operation, Parat, has been written off.

The Group's operating loss after exceptional items, but before net financial income and tax, was £5.4m (2008: operating loss of £1.0m). Net financial expense was £0.8m compared with net financial income of £0.1m in the corresponding period in the previous year. This resulted in a loss before tax of £6.1m (2008: loss of £0.8m). The basic and diluted earnings per share for continuing operations was (10.6)p (2008: (1.4)p).

As anticipated in our 2009 AGM Statement, net borrowings at the half year end increased to £5.0m (2008: £1.1m) due to the one-off costs incurred during the turnaround programme. The Group has banking relationships in all the countries in which it has an operating presence. The banks have been regularly updated on the Group's progress during the course of the turnaround and facilities totalling £6.5m are currently in place. The Board believes that this is sufficient for the Group's ongoing needs. Inventory levels have been reduced by 15% to £22.1m (2008: £26.1m) and further opportunities to reduce working capital are actively being sought.

Dividend

As previously stated, any future dividend payments will depend on the Group's results. Accordingly, the Board does not recommend the payment of a dividend at this time.

Principal risks and uncertainties

The principal risks and uncertainties remain as outlined in our 2009 Annual Report.

Related party transactions

No related party transactions took place in the period under review. Related party transactions for the year ended 28 March 2009 are as described in the Group's Annual Report 2009.

Outlook

Gradual signs of recovery are beginning to emerge in our principal markets and, as a result of the acute actions we have taken to reduce costs, the Group is well positioned to benefit from an improvement in trading conditions.

Having completed the first two cost-saving phases of our turnaround strategy, management focus has now been directed towards strengthening the Group's supply chain and developing our manufacturing footprint. This is intended to increase our capacity and support the next phase of the Board's strategy to rebuild Group revenues at sustainable margins.

The final elements of the cost reduction programme, which will be implemented in Q4, are expected to result in an improved operating performance in the second half of the current financial year.

Martin Temple
Chairman
26 November 2009

Having completed the first two cost-saving phases of our turnaround strategy, management focus has now been directed towards strengthening the Group's supply chain and developing our manufacturing footprint.

Consolidated income statement (unaudited)

for the 26 weeks to 26 September 2009

	Notes	**26 weeks to 26 September 2009 £000**	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Revenue		**22,697**	44,180	76,211
Cost of sales		**(15,347)**	(31,582)	(55,301)
Gross profit		**7,350**	12,598	20,910
Other operating income		**160**	433	727
Net operating expenses		**(12,861)**	(13,986)	(29,920)
Loss from operations before restructuring costs, costs in relation to closed operations and impairment of intangible assets		**(1,663)**	245	(2,230)
Restructuring costs		**(2,566)**	(1,200)	(5,184)
Costs in relation to closed operations		**—**	—	(475)
Impairment of intangible assets		**(1,122)**	—	(394)
Loss from operations		**(5,351)**	(955)	(8,283)
Financial income		**4,188**	5,342	10,723
Financial expense		**(4,961)**	(5,195)	(10,429)
Loss before tax		**(6,124)**	(808)	(7,989)
Income tax (charge)/credit	4	**(8)**	(9)	419
Loss for the period from continuing operations		**(6,132)**	(817)	(7,570)
Post tax loss of discontinued business		**—**	(539)	(1,288)
Total loss for the financial period		**(6,132)**	(1,356)	(8,858)
Attributable to:				
Equity holders of the parent		**(6,095)**	(1,429)	(8,888)
Minority interest		**(37)**	73	30
Loss for the period		**(6,132)**	(1,356)	(8,858)
Basic and diluted earnings per share	5			
– continuing operations		**(10.6)p**	(1.4)p	(13.3)p
– total		**(10.6)p**	(2.5)p	(15.5)p

Consolidated statement of recognised income and expense (unaudited)

for the 26 weeks to 26 September 2009

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Foreign exchange translation differences	**243**	285	1,163
Net actuarial losses on employee benefit schemes	**(2,360)**	(390)	(24,430)
Impact of changes to defined benefit asset limit	**—**	(280)	23,930
Deferred tax on above items	**896**	—	—
Net expense recognised directly in equity	**(1,221)**	(385)	663
Loss for the period	**(6,132)**	(1,356)	(8,858)
Total recognised expense and income for the period	**(7,353)**	(1,741)	(8,195)
Attributable to:			
Equity holders of the parent	**(7,410)**	(1,847)	(8,301)
Minority interest	**57**	106	106
Total recognised expense for the period	**(7,353)**	(1,741)	(8,195)

review of the half year

accounts

Consolidated balance sheet (unaudited)

as at 26 September 2009

	As at 26 September 2009 £000	As at 28 March 2009 £000	As at 27 September 2008 £000
Non-current assets			
Property, plant and equipment	**10,583**	10,832	11,041
Intangible assets	**1,705**	2,868	3,067
Deferred tax assets	**1,268**	1,268	1,605
	13,556	14,968	15,713
Current assets			
Inventory	**22,128**	24,644	26,137
Trade and other receivables	**9,698**	11,512	18,972
Cash and cash equivalents	**2,890**	552	2,370
	34,716	36,708	47,479
Total assets	**48,272**	51,676	63,192
Non-current liabilities			
Employee benefits	**(5,873)**	(3,829)	(3,256)
Deferred tax liability	**(709)**	(709)	(1,479)
	(6,582)	(4,538)	(4,735)
Current liabilities			
Trade and other payables	**(10,832)**	(14,716)	(19,839)
Income tax payable	**(51)**	(77)	(92)
Provisions	**(276)**	(294)	(285)
Loans and other borrowings	**(7,841)**	(2,019)	(1,296)
	(19,000)	(17,106)	(21,512)
Total liabilities	**(25,582)**	(21,644)	(26,247)
Net assets	**22,690**	30,032	36,945
Shareholders' equity			
Called-up share capital	**14,308**	14,308	14,308
Share premium account	**13,766**	13,766	13,766
Revaluation reserve	**2,040**	1,969	2,045
Capital redemption reserve	**2,500**	2,500	2,500
Translation reserve	**1,196**	1,117	356
Retained earnings	**(11,704)**	(4,155)	3,443
Total equity attributable to equity holders of the parent	**22,106**	29,505	36,418
Minority interest	**584**	527	527
Total equity	**22,690**	30,032	36,945

Consolidated cash flow statement (unaudited)

for the 26 weeks to 26 September 2009

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Cash flows from operating activities			
Loss for the period	**(6,132)**	(1,356)	(8,858)
Adjustments for:			
Amortisation of development expenditure	**286**	250	549
Depreciation	**446**	505	1,267
Impairment of goodwill	**1,122**	—	394
Net financial income	**773**	(148)	(294)
Profit on disposal of plant and equipment	**—**	(329)	(226)
Equity share option expense	**11**	55	24
Income tax expense	**8**	9	(419)
Operating loss before changes in working capital and provisions	**(3,486)**	(1,014)	(7,563)
Decrease in trade and other receivables	**1,825**	396	9,278
Decrease/(increase) in inventories	**2,407**	(1,180)	2,436
Decrease in trade and other payables	**(4,017)**	(1,341)	(8,919)
Increase/(decrease) in employee benefits	**332**	(327)	(188)
Cash generated from operations	**(2,939)**	(3,466)	(4,956)
Interest paid	**(151)**	(245)	(306)
Income tax paid	**(40)**	(15)	(24)
Net cash from operating activities	**(3,130)**	(3,726)	(5,286)
Cash flows from investing activities			
Interest received	**18**	393	82
Proceeds from sale of plant and equipment	**52**	2,032	2,106
Purchase of plant and equipment	**(136)**	(579)	(1,131)
Development expenditure capitalised	**(244)**	(274)	(724)
Net cash from investing activities	**(310)**	1,572	333
Cash flows from financing activities			
Proceeds from external borrowing	**684**	2	254
Net cash from financing activities	**684**	2	254
Net decrease in cash and cash equivalents	**(2,756)**	(2,152)	(4,699)
Cash and cash equivalents at beginning of period	**(1,075)**	3,297	3,297
Effect of exchange rate fluctuations on cash held	**(60)**	58	327
Cash and cash equivalents at end of the period	**(3,891)**	1,203	(1,075)

Notes relating to the interim financial statements (unaudited)

for the 26 weeks to 26 September 2009

1. Basis of preparation

The 600 Group PLC (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange. The Consolidated Interim Financial Statements of the Company for the 26 week period ended 26 September 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

This half yearly financial report is the condensed consolidated financial information of the Group for the 26 weeks ended 26 September 2009. It has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and the requirements of IAS 34 "Interim financial reporting" as adopted by the European Union.

The half yearly financial report 2009/10 was approved by the Board of Directors on 26 November 2009.

The half yearly financial report 2009/10 does not constitute financial statements as defined in Section 240 of the Companies Act 1985 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual Report and Financial Statements for the 52 week period ended 28 March 2009, copies of which can be obtained from the Company's registered office or website.

The financial information contained in this half yearly report in respect of the 52 weeks ended 28 March 2009 has been extracted from the Annual Report and Financial Statements 2009 which have been filed with the Registrar of Companies. The auditors report on these financial statements was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The half yearly results for the current and comparative period are neither audited nor reviewed by the Company's auditors.

2. Significant accounting policies

The Condensed Consolidated Financial Statements in this half yearly financial report for the 26 weeks ended 26 September 2009 have been prepared using accounting policies and methods of computation consistent with those set out in The 600 Group PLC's Annual Report and Financial Statements for the 52 week period ended 28 March 2009.

In preparing the condensed financial statements, management is required to make accounting assumptions and estimates. The assumptions and estimation methods were consistent with those applied to the Annual Report and Financial Statements for the 52 week period ended 28 March 2009.

3. Segment analysis

IFRS 8: "Operating Segments" is mandatory for the first time for the financial year beginning 29 March 2009. The standard requires that the segments should be reported on the same basis as the internal reporting information that is provided to the chief operating decision-maker. The Group adopts this policy and the chief operating decision-maker has been identified as the Group Chief Executive.

The Directors consider there to be one business segment, being that of machine tools and equipment. The Group's main activity is manufacture and supply of machine tools and equipment. The Group Chief Executive's focus is on the performance and growth of this activity. Internal reports reviewed regularly by the CEO provide information to allow the chief operating decision-maker to allocate resources and make decisions about the operations. The internal reporting focuses on the operations of the Group based on the following geographical segments: Europe, the US, South Africa and Australasia.

3. Segment analysis continued

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Revenue based on geographical origin			
United Kingdom	**11,264**	23,956	40,215
Other European countries	**2,349**	6,268	10,955
North America	**5,236**	7,849	15,528
Africa	**5,189**	7,577	13,032
Australasia	**1,825**	1,977	3,179
Inter-segment revenue	**(3,166)**	(3,447)	(6,698)
Revenue from continuing operations	**22,697**	44,180	76,211
Revenue from discontinued operations	**—**	385	444
Revenue generated in the period	**22,697**	44,565	76,655

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Revenue based on geographical destination			
United Kingdom	**3,471**	12,607	18,866
Other European countries	**5,347**	10,961	18,871
North America	**5,827**	10,118	19,716
Africa	**5,292**	7,881	13,346
Australia	**1,850**	1,976	3,184
Central America	**43**	58	262
Middle East	**176**	57	1,112
Far East	**691**	907	1,298
Revenue generated in the period	**22,697**	44,565	76,655

During the period there were no individual customers comprising 10% or more of the Group's revenue.

Notes relating to the interim financial statements/continued

for the 26 weeks to 26 September 2009

3. Segment analysis continued

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Net assets of each business segment			
United Kingdom	**15,137**	23,847	20,002
Other European countries	**(278)**	1,960	1,286
North America	**3,113**	6,464	4,174
Africa	**2,439**	2,386	2,466
Australia	**2,279**	2,288	2,104
Total net assets	**22,690**	36,945	30,032

	26 weeks to 26 September 2009 £000	26 weeks to 27 September 2008 £000	52 weeks to 28 March 2009 £000
Operating loss			
United Kingdom	**(4,642)**	(962)	(7,424)
Other European countries	**(455)**	(73)	(279)
North America	**(231)**	(245)	(414)
Africa	**(72)**	325	199
Australia and the Far East	**49**	—	(365)
Operating loss from continuing operations	**(5,351)**	(955)	(8,283)
Operating loss from discontinued operations	**—**	(539)	(1,288)
Operating loss in the period	**(5,351)**	(1,494)	(9,571)

Exceptional items of £3.7m were incurred in the first half of the year (2008: £1.2m). These relate to redundancy costs of £1.2m, impairment of goodwill of £1.1m, onerous lease costs of £0.6m, inventory write downs of £0.3m, relocation costs of £0.3m and sundry of £0.2m.

4. Taxation

The charge for corporation tax comprises UK taxation £nil (2008: £nil), overseas taxation charge of £8,000 (2008: charge of £9,000) and deferred taxation charge of £nil (2008: £nil).

5. Earnings per share

The basic earnings per share of (10.6)p (2008: (2.5)p) is based on the loss for the period of £6,095,000 (2008: loss of £1,430,000) and the weighted average number of shares outstanding of 57,233,679 (2008: 57,220,418). At 26 September 2009, there were 1,746,700 potentially dilutive shares on option and the diluted earnings per share was (10.6)p.

6. Interim report

Copies of the interim report will be sent to all shareholders and will be available to members of the public from the Company's registered office at Union Street, Heckmondwike, West Yorkshire, WF16 0HL.

The 600 Group PLC is registered in England and Wales No. 196730.

7. Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the EU; and
- the interim management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

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