

For release at 7am Wednesday 26 November 2014

The 600 Group PLC

Unaudited Interim Results for the six months ended 27 September 2014

The 600 Group PLC ("600" or "the Group"), the machine tools and laser marking company, today announces its unaudited interim results for the six months ended 27 September 2014.

Highlights:

- Revenues increased by 0.5% to £21.05m (FY14 H1: £20.94m)
- Profit before taxation of £3.16m (FY14 H1: £0.94m)
- Pension credit of £2.19m arising from liability mitigation exercise
- Adjusted* net profit before tax of £0.67m (FY14 H1: £0.61m)
- Total profit attributable to shareholders of £2.14m (FY14 H1: £0.80m)
- Earnings per share increased to 2.49 pence (FY14 H1: 0.95 pence)
- Underlying earnings up 1.6% to 0.65 pence (FY14 H1: 0.64 pence)
- Growth momentum maintained at ElectroX Laser

*from continuing operations, before pension credit, pension interest, amortisation of shareholder loan and share option costs.

Commenting today, Paul Dupee, Chairman of The 600 Group PLC said:

"Our businesses have delivered satisfactory financial results for the six month period ended 27 September 2014. Revenue growth was above the industry average and profit margins showed continued resilience despite facing sluggish overall market demand.

The Board is optimistic that continued investment in product development, facilities and people offers the opportunity for stronger organic growth than the market average, based on further increases in market share. Meanwhile, we continue to explore acquisition opportunities and anticipate progress from this activity in the second half of the year."

Reconciliation of underlying profit before taxation:

	26 Weeks ended 27 September 2014 £m	26 Weeks ended 28 September 2013 £m
Revenues	21.05	20.94
Cost of sales	(14.14)	(14.02)
Gross profit	6.91	6.92
Net operating costs	(6.05)	(6.12)
Underlying operating profit	0.86	0.80
Bank interest expense (net)	(0.19)	(0.19)
Underlying profit before tax	0.67	0.61
Other items:		
Pensions credit	2.19	-
Share option costs	(0.07)	(0.03)
Interest on pension surplus	0.44	0.42
Amortisation of shareholder loan costs	(0.07)	(0.06)
	2.49	0.33
Reported profit before tax	3.16	0.94

More Information on the group can be viewed at: www.600group.com

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The 600 Group Plc

Chairman's Statement for the six months ended 27 September 2014

Overview

Our businesses have delivered satisfactory financial results for the six month period ended 27 September 2014. Revenue growth was above the industry average and profit margins showed continued resilience despite facing sluggish overall market demand. We have continued to invest in facilities, people and product development, and to implement our strategic goal of developing the Group's exposure to high growth industry sectors led by technical leadership in niche markets.

Results and dividend

Revenue increased by 0.5% to £21.05m (FY14 H1: £20.94m) generating a net operating profit (excluding the effects of pension credit of £2.19m) of £0.80m (FY14 H1: £0.77m).

Revenues were adversely affected by the relative strength of Sterling against the US Dollar during the period. At constant rates of exchange, revenues would have been approximately £1.00m (5.0%) higher than those reported at actual rates prevailing during the first half. Profits were virtually unaffected overall, as the adverse translation of results from operations in North America was mitigated by cost savings on imports into Europe. Foreign currency effects will be softened in the second half of the financial year assuming that current rates of exchange prevail.

After taking account of interest on bank borrowings, the underlying Group pre-tax profit before pension credit interest and amortisation of shareholder loan and share option costs was £0.67m (FY14 H1: £0.61m).

The total profit attributable to shareholders of the Group for the financial period was £2.14m (FY14 H1: £0.80m), providing earnings of 2.49 pence per share (FY14 H1: 0.95 pence).

The process of gaining court approval for the restoration of distributable reserves approval at the Annual General meeting is underway, however the Board does not recommend that any dividend payment be made for the current period.

Operating activities

Machine tools and precision engineered components

	FY15 H1 <i>£m</i>	FY14 H1 <i>£m</i>
Revenues	17.17	17.65
Operating profit	1.37	1.21
Operating margin	8.0%	6.9%

Like for like revenues (at constant rates of exchange) increased by approximately 1.7%, but reported a reduction of 3.4% as a consequence of the relative strength of Sterling during the period.

Overall market consumption in North America reduced by 1.5% in the period (*Source: Oxford Economics*) whilst Group revenues (at constant rates of exchange) increased by 4.0%. European market conditions showed a modest 2.7% improvement, and revenues also increased by approximately 4.0% led by the UK and Germany.

Deliveries began in respect of several orders in the period for large swing lathes used primarily in the oil and gas supply chain in North America. Further deliveries will be made in the current quarter, and revenues from this activity are expected to contribute to stronger revenue growth in the second half of the year.

Gross margins were maintained and overhead costs continued to be well managed, facilitating an increase in operating margin for the segment from 6.9% to 8.0% of revenues.

Both the Tornado EL range of CNC machines and the Pratt Burnerd Gripfast chuck were successfully launched in the period. Continuing product developments are well advanced, focused in particular on further expansion of both conventional and CNC ranges of turning machines, and on safety related workholding products. A range of Gamet taper roller bearings targeted specifically outside the machine tool market is scheduled for launch in the second half of the year.

The US build programme has also continued, with several additional accessory options for the drill line, and development of a range of US built saws for launch in the second half of the year.

Laser marking

	FY15 H1 <i>£m</i>	FY14 H1 <i>£m</i>
Revenues	4.00	3.46
Operating profit	0.07	0.14
Operating margin	1.8%	4.2%

Electrox Laser continued to generate strong growth momentum, with revenues increasing by more than 15% to £4.00m across a broad geographical base. More than 44% of revenues were generated in North America, where margins were squeezed by the strength of Sterling relative to the US dollar and additional sales resource was added to increase market penetration.

Further investment was made in new product development, including additions to the EMS range of enclosures and completion of the Scriba control software for imminent launch.

The effect of currency, combined with discretionary product development and higher selling costs, combined to hold back the segmental profit to just above break even.

The investment made in new products over the last two years has returned Electrox to a leading position amongst its peers from a technology and user interface viewpoint. There are now clear signs of increased traction in the market, and we continue to progress opportunities to build our market presence through acquisition.

Investment in ProPhotonix Limited ("ProPhotonix")

On 3 August 2014 we announced the acquisition of 26.3% of the ordinary share capital of ProPhotonix through the issue of ordinary shares in the Group representing 5.5% of the enlarged share capital of 600 Group Plc. The share exchange was carried out following presentations with three London-based institutional investors, each of whom indicated support for the transaction.

ProPhotonix is AIM listed, although registered in Delaware and designs and manufactures LED arrays and laser diode modules in the UK and Ireland. It has a strong base of technology and applications knowledge, applicable to high growth sectors including niche industrial, security and medical markets. We continue to engage with the board of ProPhotonix in constructive dialogue to promote closer co-operation.

Facilities

On 30 June 2014, the freehold site at Colchester, previously occupied under lease by Gamet Bearings, was acquired for £0.77m, saving annual rental payments of £0.09m.

The board has subsequently approved the relocation of Clausing to new leasehold premises in Kalamazoo, Michigan in the second half of the financial year. The new site has the benefits of a better location, improved road links, enhanced operating efficiency, and significantly improved facilities. The existing freehold premises will be sold at its approximate current book value of £0.10m. The new leasehold facility will be rented at an approximate annual rental of £0.14m, with the additional rental cost fully mitigated by savings in utilities and other overheads.

An offer has also been accepted, subject to contract, for the sale of the former Head Office building in Leeds at close to its current book value of £0.39m.

Financial position

Net assets increased by £0.34m to £22.88m with net assets excluding the effect of pension schemes (and associated taxation) increasing by £1.37m to £11.55m.

Cash used in operations was slightly negative at £0.06m with £1.15m of funds from operations absorbed by increased stock to support new product launches and a reduction in trade payables including the final installments on an onerous lease exited back in 2012. Capital expenditure including the purchase of the Gamet premises amounted to £1.04m during the period with a further £0.23m expended on interest and tax payments.

Net debt as a consequence increased by £1.44m to £6.75m resulting in gearing of 29.5% (March 2014: 23.5%).

UK pension scheme

The surplus on the UK pension scheme decreased during the period from £19.90m to £18.46m as a result of changes in underlying assumptions, most notably the yield on corporate bonds upon which the valuation is based.

The estimated funding deficit at the end of September 2014 using the technical provisions basis agreed at the last tri-ennial valuation remained largely unchanged at £15m. This compared to the tri-ennial valuation deficit at 31 March 2013 of £25.40m.

The scheme continues to benefit from active management of the investment portfolio with the overall aim of reaching full buy-out funding without reliance on future contributions from the Group. The Directors and Trustee continue to work in close co-operation, and during the period an exercise was completed to enable pensioners to exchange non-statutory increases to their pension for an elevated level of fixed benefits. This offer was widely appreciated by scheme members, and the resulting level of take up reduced fixed rate pension increase and inflation risk to the scheme. It also provided an overall funding benefit of more than £2.18m, which is reflected in the consolidated profit and loss account of the Group under IAS 19.

Outlook

Most recent industry forecasts indicate a return to growth in machine tool consumption in North America of 6.2% for 2015, and a further modest improvement in Europe of 3.7% (*source: Oxford Economics*). Order intake in the United States during the period, and since the period end, provide substance to these forecasts, with the order book currently at a two year high.

Market conditions in Europe are patchy. The UK market has been particularly buoyant for almost eighteen months, and is now showing signs of leveling off, whilst Germany and many other territories are slightly more encouraging after a sustained period of negative sentiment.

The Board is optimistic that continued investment in product development, facilities and people offers the opportunity for stronger organic growth than the market average, based on further increases in market share. Meanwhile, we continue to explore acquisition opportunities and anticipate progress from this activity in the second half of the year.

Paul Dupee
Chairman
26 November 2014

Condensed consolidated income statement (unaudited)
for the 26 week period ended 27 September 2014

	26 weeks Ended 27 September 2014	26 weeks ended 28 September 2013	52 weeks Ended 29 March 2014
	£'000	£'000	£'000
Continuing Revenue	21,051	20,937	41,707
Cost of sales	(14,145)	(14,019)	(27,850)
Gross profit	6,906	6,918	13,857
Other operating income	11	90	134
Net operating expenses	(6,050)	(6,213)	(11,643)
Pensions credit	2,186	-	-
Other special items	-	-	(128)
Share option costs	(63)	(28)	(57)
Total Net operating expenses	(3,927)	(6,241)	(11,828)
Operating profit	2,990	767	2,163
Bank and other interest	1	2	7
Interest on pension surplus	443	421	827
Financial income	444	423	834
Bank and other interest	(198)	(184)	(388)
Amortisation of shareholder loan costs	(72)	(63)	(134)
Financial expense	(270)	(247)	(522)
Profit before tax	3,164	943	2,475
Income tax charge	(1,021)	(142)	(623)
Total profit for the financial period attributable to equity holders of the parent	2,143	801	1,852
Basic earnings per share	2.49p	0.95p	2.19p
Diluted earnings per share	2.38p	0.94p	2.15p

Condensed consolidated statement of comprehensive income and expense (unaudited)
for the 26 week period ended 27 September 2014

	26 weeks	26 weeks	52 weeks
	Ended	ended	Ended
	27 September	28 September	29 March
	2014	2013	2014
	£000	£000	£000
Profit for the period	2,143	801	1,852
Other comprehensive (expense)/income:			
<i>Items that will not be reclassified to the Income Statement:</i>			
Remeasurement of the net defined benefit assets	(4,069)	(68)	(229)
Fair value adjustment of ProPhotonix investment	(358)	-	-
Deferred taxation	1,424	24	139
Total items that will not be reclassified to the Income Statement:	(3,003)	(44)	(90)
<i>Items that are or may in the future be reclassified to the Income Statement:</i>			
Foreign exchange translation differences	18	65	2
Revaluation movement in respect of assets held for sale	—	—	-
Total items that are or may be reclassified subsequently to the Income Statement:	18	65	2
Other comprehensive income/(expense) for the period, net of income tax	(2,985)	21	(88)
Total comprehensive income/(expense) for the period	(842)	822	1,764

Condensed Consolidated statement of financial position (unaudited)

As at 27 September 2014

	As at 27 September 2014 £000	As at 28 September 2013 £000	As at 29 March 2014 £000
Non-current assets			
Property, plant and equipment	4,965	4,299	4,348
Intangible assets	1,892	1,530	1,780
Investments	744	-	-
Employee benefits	17,427	18,554	19,019
Deferred tax assets	1,218	3,089	2,723
	26,246	27,472	27,870
Current assets			
Inventories	9,159	9,194	8,505
Trade and other receivables	6,279	5,794	6,209
Cash and cash equivalents	1,220	1,253	1,149
	16,658	16,241	15,863
Total assets	42,904	43,713	43,733
Non-current liabilities			
Loans and other borrowings	(3,487)	(5,006)	(2,475)
Deferred tax liability	(5,702)	(7,582)	(7,737)
	(9,189)	(12,588)	(10,212)
Current liabilities			
Trade and other payables	(6,083)	(6,142)	(6,425)
Income tax payable	(109)	(293)	(140)
Provisions	(158)	(943)	(429)
Loans and other borrowings	(4,485)	(1,899)	(3,982)
	(10,835)	(9,277)	(10,976)
Total liabilities	(20,024)	(21,865)	(21,188)
Net assets	22,880	21,848	22,545
Shareholders' equity			
Called-up share capital	14,632	14,581	14,581
Share premium account	17,945	16,885	16,885
Revaluation reserve	851	835	862
Capital redemption reserve	2,500	2,500	2,500
Equity reserve	183	176	180
Translation reserve	968	1,271	938
Retained earnings	(14,199)	(14,400)	(13,401)
Total equity	22,880	21,848	22,545

Condensed Consolidated statement of changes in equity (unaudited)

As at 27 September 2014

	called up share capital £000	share premium account £000	Revaluation reserve £000	capital redemption reserve £000	Translation reserve £000	Equity reserve £000	Retained earnings £000	Total £000
At 30 March 2013	14,579	16,858	909	2,500	1,860	173	(15,222)	21,657
Loss for the period	—	—	—	—	—	—	801	801
Other comprehensive income:								
Foreign currency translation	—	—	(74)	—	(589)	—	37	(626)
Remeasurement of the net defined benefit assets	—	—	—	—	—	—	(68)	(68)
Deferred tax	—	—	—	—	—	—	24	24
Total comprehensive income	—	—	(74)	—	(589)	—	794	131
Transactions with owners:								
Share capital subscribed for	2	27	—	—	—	—	—	29
Shareholder loan issue with convertible warrants	—	—	—	—	—	3	—	3
Credit for share-based payments	—	—	—	—	—	—	28	28
Total transactions with owners	2	27	—	—	—	3	28	60
At 28 September 2013	14,581	16,885	835	2,500	1,271	176	(14,400)	21,848
Profit for the period	—	—	—	—	—	—	1,051	1,051
Other comprehensive income:								
Foreign currency translation	—	—	(16)	—	(333)	—	(35)	(384)
Remeasurement of the net defined benefit assets	—	—	—	—	—	—	(161)	(161)
Revaluation of properties	—	—	43	—	—	—	—	43
Deferred tax	—	—	—	—	—	—	115	115
Total comprehensive income	—	—	27	—	(333)	—	970	664
Transactions with owners:								
Shareholder loan issue with convertible warrants	—	—	—	—	—	4	—	4
Credit for share-based payments	—	—	—	—	—	—	29	29
Total transactions with owners	—	—	—	—	—	4	29	33
At 29 March 2014	14,581	16,885	862	2,500	938	180	(13,401)	22,545
Profit for the period	—	—	—	—	—	—	2,143	2,143
Other comprehensive income:								
Foreign currency translation	—	—	(11)	—	30	—	(1)	18
Remeasurement of the net defined benefit assets	—	—	—	—	—	—	(4,069)	(4,069)
Fair value adjustment of investments	—	—	—	—	—	—	(358)	(358)
Deferred tax	—	—	—	—	—	—	1,424	1,424
Total comprehensive income	—	—	(11)	—	30	—	(861)	(842)
Transactions with owners:								
Share capital subscribed for	51	1,060	—	—	—	—	—	1,111
Shareholder loan issue with convertible warrants	—	—	—	—	—	3	—	3
Credit for share-based payments	—	—	—	—	—	—	63	63
Total transactions with owners	51	1,060	—	—	—	3	63	1,177
At 27 September 2014	14,632	17,945	851	2,500	968	183	(14,199)	22,880

Condensed consolidated cash flow statement (unaudited)
for the 26 week period ended 27 September 2014

	26 weeks ended 27 September 2014 £000	26 weeks ended 28 September 2013 £000	52 weeks To 29 March 2014 £000
Cash flows from operating activities			
Profit/(loss) for the period	2,143	801	1,852
Adjustments for:			
Amortisation of development expenditure	52	37	28
Depreciation	222	249	467
Past service pension credit	(2,186)	—	—
Net financial income	(174)	(176)	(312)
Loss on disposal of property, plant and machinery	13	21	—
Equity share option expense	63	28	57
Income tax expense	1,021	142	623
Operating cash flow before changes in working capital and provisions	1,154	1,102	2,715
Decrease in trade and other receivables	(19)	231	(255)
Decrease/(increase) in inventories	(564)	638	1,143
Decrease in trade and other payables	(635)	(1,110)	(1,243)
Restructuring and redundancy expenditure	—	—	(371)
Cash generated from/(used in) operations	(64)	861	1,989
Interest paid	(198)	(118)	(290)
Income tax paid	(30)	(359)	(496)
Net cash flows from operating activities	(292)	384	1,203
Cash flows from investing activities			
Interest received	1	2	7
Purchase of ProPhotonix shares	(1,102)	—	—
Proceeds from sale of property, plant and equipment	—	—	42
Purchase of property, plant and equipment	(870)	(239)	(545)
Development expenditure capitalised	(165)	(269)	(511)
Net cash from investing activities	(2,136)	(506)	(1,007)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares	1,068	29	29
Net repayment of external borrowing	1,477	425	(72)
Net finance lease expenditure	(39)	(30)	58
Net cash flows from financing activities	2,506	424	15
Net increase/(decrease) in cash and cash equivalents	78	302	211
Cash and cash equivalents at the beginning of the period	1,149	1,025	1,025
Effect of exchange rate fluctuations on cash held	(7)	(74)	(87)
Cash and cash equivalents at the end of the period	1,220	1,253	1,149

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 AIM Market of the London Stock Exchange. The Consolidated Interim Financial Statements of the Company for the 26 week period ended 27 September 2014 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 week period ended 27 September 2014. The Condensed Consolidated Half-yearly Financial Statements do not constitute statutory financial statements and do not include all the information and disclosures required for full annual financial statements. The Condensed Consolidated Half-yearly Financial Statements were approved by the Board on 26 November 2014.

The comparative figures for the financial year ended 29 March 2014 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

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

As noted in the Basis of preparation accounting policy in the Group's Financial Statements for 29 March 2014 the Group refinanced in May 2014 with Santander PLC who provided a Term Loan facility of £2.00m with scheduled repayments through to November 2017 and a Revolving Credit facility of £1.30m until May 2017. In addition a further Term Loan was provided in June 2014 of £0.72m with repayments through to November 2017 to finance the acquisition of the Gamet premises. The overseas bank overdrafts in place around the Group are all due for review in June 2015.

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 these facilities.

The Haddeo loan of £2.5m is due for repayment in August 2015. The Group has held discussions with Santander PLC, Haddeo and its overseas banks and no matters have been drawn to its attention to suggest the renewal of, or provision of, similar working capital or loan facilities would not be forthcoming on acceptable terms at the expiry of the current facility terms. The Group also considers that alternative sources of finance would be available should the need arise.

The Directors have a reasonable expectation that the Company and the Group have 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 this half yearly financial report.

2. SIGNIFICANT ACCOUNTING POLICIES

The Condensed Consolidated Financial Statements in this half yearly financial report for the 26 week period ended 27 September 2014 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 29 March 2014.

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 29 March 2014.

3. SEGMENT ANALYSIS

IFRS 8 – “Operating Segments” requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Executive Directors. The Executive Directors review the Group’s internal reporting in order to assess performance and allocate resources.

The Executive Directors consider there to be two continuing operating segments being Machine Tools and Precision Engineered Components and Laser Marking.

The Executive Directors assess the performance of the operating segments based on a measure of operating profit/(loss). This measurement basis excludes the effects of Special Items from the operating segments. Head Office and unallocated represent central functions and costs and include the effects of the Group Final Salary Scheme in the UK and the charge for share based payments.

The following is an analysis of the Group’s revenue and results by reportable segment:

26 Weeks ended 27 September 2014	Machine Tools & Precision Engineered Components	Continuing		Total
		Laser Marking	Head Office & unallocated	
Segmental analysis of revenue	£000	£000	£000	£000
Revenue from external customers	17,174	3,877	-	21,051
Inter-segment revenue	-	124	-	124
Total segment revenue	17,174	4,001	-	21,175
Less: inter-segment revenue	-	(124)	-	(124)
Total revenue	17,174	3,877	-	21,051
 Operating Profit/(loss) pre-pensions credit	 1,369	 73	 (638)	 804
Pensions credit	-	-	2,186	2,186
Operation Profit/(loss)	1,369	73	1,548	2,990
 Other segmental information:				
Reportable segment assets	18,521	6,402	17,981	42,904
Reportable segment liabilities	(6,569)	(1,291)	(12,164)	(20,024)
Intangible & Property, plant and equipment additions	832	203	-	1,035
Depreciation and amortisation	156	118	-	274

3. SEGMENT ANALYSIS (continued)

26 Weeks ended 28 September 2013	Continuing			
	Machine Tools & Precision Engineered Components	Laser Marking	Head Office & unallocated	Total
	£000	£000	£000	£000
Segmental analysis of revenue				
Revenue from external customers	17,648	3,289	-	20,937
Inter-segment revenue	-	166	-	166
Total segment revenue	17,648	3,455	-	21,103
Less: inter-segment revenue	-	(166)	-	(166)
Total revenue	17,648	3,289	-	20,937
Operation Profit/(loss)	1,213	144	(590)	767

Other segmental information:

Reportable segment assets	16,399	4,622	22,692	43,713
Reportable segment liabilities	(6,236)	(1,119)	(14,510)	(21,865)
Intangible & Property, plant and equipment additions	120	388	-	508
Depreciation and amortisation	162	109	15	286

52-weeks ended 29 March 2014	Continuing			
	Machine Tools & Precision Engineered Components	Laser Marking	Head Office & unallocated	Total
	£000	£000	£000	£000
Segmental analysis of revenue				
Revenue from external customers	34,431	7,276	—	41,707
Inter-segment revenue		296	—	296
Total segment revenue	34,431	7,572	—	42,003
Less: inter-segment revenue		(296)	—	(296)
Total revenue per statutory accounts	34,431	7,276	—	41,707
Segmental analysis of operating Profit/(loss) before special Items	3,005	421	(1,078)	2,348
Special Items	-	-	(185)	(185)
Group (Loss)/profit from operations	3,005	421	(1,263)	2,163
Other segmental information:				
Reportable segment assets	17,557	6,153	20,023	43,733
Reportable segment liabilities	(6,043)	(1,522)	(13,623)	(21,188)
Intangible & Property, plant and equipment additions	412	644	-	1,056
Depreciation and amortisation	308	159	28	495

4. SPECIAL ITEMS AND SHARE BASED PAYMENT COST

In order for users of the financial statements to better understand the underlying performance of the Group the Board have separately disclosed transactions which by virtue of their size or incidence, are considered to be one off in nature. In addition the charge for share based payments has also been separately identified.

Special items include gains and losses on the sale of properties and assets, exceptional costs relating to reorganisation, redundancy and restructuring, legal disputes and inventory and intangibles impairments.

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Operating costs			
Abortive acquisition costs	—	—	(128)
Pension credit	2,186	—	—
Total Special Items	2,186	—	(128)
Share based payment costs	(63)	(28)	(57)

5. FINANCIAL INCOME AND EXPENSE

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Interest income	1	2	7
Interest on Pension surplus	443	421	827
Financial income	444	423	834
Bank overdraft and loan interest	(92)	(78)	(170)
Shareholder loan interest	(100)	(100)	(200)
Finance charges on finance leases	(6)	(6)	(18)
Amortisation of shareholder loan costs	(72)	(63)	(134)
Financial expense	(270)	(247)	(522)

6. TAXATION

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Current tax:			
Corporation tax at 21% (2013: 23%):	-	-	-
Overseas taxation:			
– current period	(98)	(117)	(62)
Total current tax charge	(98)	(117)	(62)
Deferred taxation:			
– current period	(884)	(134)	(400)
– prior period	(39)	109	(161)
Total deferred taxation charge	(923)	(25)	(561)
Taxation (charged)/ credited to the income statement	(1,021)	(142)	(623)

Following the enactment of legislation in the UK to reduce the corporation tax rate from 23% to 20% from 1 April 2015, the effective tax rate in this period includes the impact on the income statement of calculating the UK deferred tax balances at the lower UK corporation tax rate.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share of 2.49p (2013: 0.95p) is based on the earnings for the financial period attributable to the Parent Company's shareholders of a profit of £2,143,000 (2012 £801,000) and on the weighted average number of shares in issue during the period of 85,935,071 (2013: 84,368,806). At 27 September 2014, there were 9,900,000 (2013: 4,500,000) potentially dilutive shares on option and 11,595,000 share warrants exercisable at 20p. The weighted average effect of these as at 27 September 2014 was 4,147,271 (2013: 1,276,504) giving a diluted earnings per share of 2.38p (2013: 0.94p).

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Weighted average number of shares			
Issued shares at start of period	84,430,346	84,256,091	84,256,091
Effect of shares issued in the period	1,504,725	112,715	174,255
Weighted average number of shares at end of period	85,935,071	84,368,806	84,430,346

Underlying earnings			
Total post tax earnings	2,143	801	1,852
Special items and share based payment costs	(2,123)	28	185
Pensions Interest	(443)	(421)	(827)
Amortisation of Shareholder loan expenses	72	63	134
Associated Taxation	906	71	258
Underlying Earnings	555	542	1,602

Underlying Earnings Per Share	0.65p	0.64p	1.90p
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8. INVESTMENTS

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Investment in ProPhotonix Limited ordinary shares	744	-	-
Total Investments	744	-	-

On 3 August 2014 the Company acquired 26.3% of the ordinary share capital of ProPhotonix Limited through the issue of ordinary shares in the Company representing 5.5% of the enlarged share capital of 600 Group Plc. The share exchange was carried out following presentations with three London-based institutional investors, each of whom indicated support for the exchange.

ProPhotonix Limited is AIM listed, although registered in Delaware, and designs and manufactures LED arrays and laser diode modules in the UK and Ireland. It has a strong base of technology and applications knowledge, applicable to high growth sectors including niche industrial, security and medical markets. We continue to engage with the board of ProPhotonix in constructive dialogue to promote closer co-operation.

The initial investment of £1.10m was adjusted down to a fair value of £0.74m at 27 September 2014. The £0.36m write down was taken to the Statement of comprehensive income and expense.

9. RECONCILIATION OF NET CASH FLOW TO NET DEBT

	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Increase in cash and cash equivalents	78	302	211
Increase in debt and finance leases	(1,438)	(426)	14
Decrease /(Increase) in net debt from cash flows	(1,360)	(124)	225
Net debt at beginning of period	(5,308)	(5,407)	(5,407)
Shareholder loan amortisation	(69)	(60)	(126)
Exchange effects on net funds	(15)	(10)	-
Net debt at end of period	(6,752)	(5,601)	(5,308)

10. ANALYSIS OF NET DEBT

	At 29 March 2014 £000	Exchange/ Reserve movement £000	Other £000	Cash flows £000	At 27 September 2014 £000
Cash at bank and in hand	1,049	(7)		78	1,120
Short term deposits (included within cash and cash equivalents on the balance sheet)	100	—	—	—	100
	1,149	(7)	—	78	1,220
Debt due within one year	(3,881)	(11)	-	1,855	(2,037)
Debt due after one year	-	—	-	(3,332)	(3,332)
Shareholder loan	(2,289)	—	(69)	—	(2,358)
Finance leases	(287)	3	—	39	(245)
Total	(5,308)	(15)	(69)	(1,360)	(6,752)

11. EMPLOYEE BENEFITS

The Group has defined benefit pension schemes in the UK and USA. The assets of these schemes are held in separate trustee-administered funds. The principal scheme is the UK defined benefit plan.

The UK scheme was closed to future accrual of benefits at 31 March 2013. Any deficit contributions required are determined by independent qualified actuaries based upon triennial actuarial valuations in the UK and on annual valuations in the US. There have been no deficit contributions made to the schemes during the reported periods and the latest actuarial valuation of the UK scheme to 31 March 2013 was agreed with the Trustees in October 2013. The Technical Provisions deficit of the UK scheme at 31 March 2013 represented a funding level of 88.9% and the recovery plan agreed with the Trustees based upon the updated deficit at 30 September 2013 of £19.5m assumes this deficit will be eliminated by a 1% outperformance of the scheme assets against the 3% gilt yield discount rate assumed in the valuation over a 14 year period, with the Company again not required to make any deficit contributions.

Value of UK and USA scheme assets and liabilities for the purposes of IAS 19	27 September 2014	28 September 2013	29 March 2014
	£000	£000	£000
Opening Fair value of schemes assets	196,419	204,214	204,214
Experience adjustments in the period	7,100	(10,400)	(7,723)
Closing Fair value of schemes assets	203,519	193,814	196,491
Opening present value of schemes liabilities	177,509	186,109	186,109
Experience adjustments in the period	8,583	(10,849)	(8,600)
Closing present value of schemes liabilities	186,092	175,260	177,509
Surplus recognised under IAS 19	17,427	18,554	18,982

The principal assumptions used for the purpose of the IAS 19 valuation for the UK scheme compared to the 2014 year end were as follows:

	27 September 2014	29 March 2014
	UK scheme	UK scheme
	% p.a.	% p.a.
Inflation under RPI	3.25	3.20
Inflation under CPI	2.05	2.00
Rate of increase to pensions in payment – LPI 5%	3.15	3.10
Discount rate for scheme liabilities and return on assets	4.00	4.50

12. FAIR VALUE

The group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

Trade and other receivables
Cash and cash equivalents
Trade and other payables
Loans and other borrowings

The investment in ProPhotonix Limited has been fair value adjusted as detailed below:

Investments	27 September 2014 £000	28 September 2013 £000	29 March 2014 £000
Original cost of investment in ProPhotonix Limited	1,102	-	-
Fair value adjustment	(358)	-	-
Fair value of investment in ProPhotonix Limited	744	-	--

Further information on this investment and the fair value adjustment can be found in the Investments note and within the Chairman's statement.

13. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group remain those set out in the 2014 Annual Report. Those which are most likely to impact the performance of the Group in the remaining period of the current financial year are the exposure to increased input costs, the dependence on a relatively small number of key vendors in the supply chain and a downturn in its customers' end markets particularly in North America.