



METNOR
GROUP PLC



Interim Results

for the six months
ended 30 June 2009



Front and back cover

Main picture:

- 55-bed, high specification care home in Cramlington, Northumberland. Built by Metnor Construction using traditional construction techniques. Mechanical and electrical installation by Norstead.

Small pictures (top to bottom):

- Hotel du Vin, Newcastle – traditional build by Metnor Construction
- Nursing and care home facility in Portishead, Somerset – in timber frame construction by Metnor Construction.
- Aston Hotel, Sheffield – timber frame construction by Metnor Construction.

Inside cover

Offices at Quorum Business Park, Newcastle
– mechanical and electrical services by
Norstead.



Chairman and Chief Executive's statement

I am pleased to report our unaudited results for the six months ended 30 June 2009.

The period has continued to be one of difficulty for the property and construction markets with the scarcity of credit causing many construction and development projects to be delayed or cancelled which has significantly reduced our trading volumes. Set against this background, we have made a deliberate attempt to scale back operations during this period of uncertainty and the cost reduction programme which we began in the last quarter of 2008 has enabled us to generate a satisfactory profit in the period which is in line with our expectations.

Whilst trading volumes have been low, we have been concentrating our efforts on achieving planning permissions for our undeveloped sites and we are pleased to announce a number of important planning gains which have enhanced values and which will benefit the business once the economy begins to improve.

As shareholders will be aware, the Company's shares were de-listed from AIM on 1 April 2009 but at the time the Board announced its intention to keep shareholders informed of the Group's operating and financial performance through regular updates. These results are the first such update since the publication of the Group's full year results for 2008. I trust shareholders will find them useful in assessing how the Group is progressing through these challenging times.

Results

Trading levels in the period under review are significantly reduced but should be viewed against a strong set of comparative figures in 2008 which were achieved prior to the banking crisis and ensuing economic downturn.

Revenue in the six months ended 30 June 2009 was £16.0 million (2008: £44.5 million) as the Group's construction and contracting divisions began the year with reduced order books compared to the same period in 2008. Revenue in 2008 also included £5.8 million in respect of the disposal of a development site and there have been no such disposals in 2009.

Operating profits were down to £0.48 million (2008: £0.97 million) but have not fallen as significantly as revenue because of the overhead savings which have been achieved as a result of the Group's focus on cost control and cost reductions. Overheads have been reduced by 12% compared to the first half of 2008 and we continue to seek ways to further reduce costs which will stand us in good stead for when the recovery begins.

Profit for the period after tax of £0.24 million (2008: £0.80 million) gives a basic and diluted earnings per share figure of 1.6 p (2008: 5.2 p).

In the balance sheet, cash balances at 30 June 2009 stood at £1.6 million (2008: £3.1 million) and borrowings were £17.6 million (2008: £13.5 million) giving a net debt position of £16.0 million (2008: £10.4 million) at the period end. This compares with a net debt position at 31 December 2008 of £13.3 million.

The increase in net borrowings arises from the completion of two developments to which we were committed at the year end - a care home in Chelmsford (which has been funded from a specific loan facility) and an office site in Newcastle (which was funded from operating cash flows). Both of these developments are now complete and will generate net cash inflows in the second half of the year as rental income from the developments will exceed any further expenditure.

The Group's balance sheet remains strong with gross borrowing levels at only 54% (2008: 42%) of net assets and the Group continues to operate within its bank covenants.

Dividends

In line with its decision last year, the Board believes that the Group should continue to conserve cash within the business whilst the economic outlook remains uncertain and is not proposing an interim dividend (2008: £nil).

Trading Review

The Group's core activities continue to be those of a building contractor, a mechanical and electrical services provider and a property developer and investor.

Property division

In our property division we have restricted expenditure to completing those sites which were substantially developed at the year end and have instead concentrated on progressing planning applications on a number of existing sites.

We completed the development of a 120 bed care home in Chelmsford in January 2009 and this is now occupied by a major care home operator on a 30 year lease. We intend to hold this property for investment purposes. We also completed a 25,000 sq ft extension to an existing office building in Newcastle in April 2009 and we will be actively marketing the accommodation in the second half of the year.

On the planning front we have had a number of important successes on our remaining sites:

- in March 2009 we were granted detailed planning for a 1,000 bed student accommodation scheme in the centre of Newcastle, together with outline planning of a further 900 beds on the same site;
- in July 2009 we were granted planning permission for a 74 bed care home in East Sussex.

Subsequent to the period end, we have entered into a joint sale and development agreement with the University of Northumbria to build a 396 bed student accommodation scheme on one of our other development sites in Newcastle. This is a long term project which is not forecast to complete until July 2011.

Mechanical and Electrical contracting division

As noted in our 2008 Annual Report, we took the decision to downsize our Mechanical and Electrical contracting operation in Newcastle at the end of the year in response to a weakening market, and to focus our attention on our Maidenhead operation.

This has inevitably impacted on results in the first half but having now completed this re-organisation, we are pleased to report a significant number of contract wins in the first six months of the year. Our short and medium term order book is at a comparable level to last year at this stage and we are now focussing our efforts on securing longer term work for the future in both our Newcastle and Maidenhead offices.

The Mechanical and Electrical contracting market continues to be challenging but we are now operating at satisfactory levels in line with our expectations.

Construction division

Our Construction division has had a very quiet six months as a number of large projects which we were expecting to commence have been put on hold as our clients have been unable to obtain the necessary funding to commence work.

Nevertheless we have substantially completed work on two further care homes for a major UK operator and these have been handed over since the period end. We have also commenced work on two smaller care home sites using our timber frame construction kit and work will be well advanced on these projects by the year end.

Our Construction division will also carry out the construction work for the University of Northumbria's student accommodation scheme noted above, so we anticipate a stronger second half to the year for this division.

Outlook

I stated in our 2008 Annual Report that I expected the current difficulties in the UK economy to persist well into 2009 and very little has changed to make me alter this view. I do believe there are signs that the commercial property market has now reached the low point in the cycle but it will still take some time to recover and for liquidity to improve.

Set against these market conditions, the six month period to 30 June 2009 has been one of further cost control, cash conservation and planning for the future rather than active development. Whilst this is frustrating both for me and the rest of the Board, we believe this is the correct course of action to take and thanks to the swift action we took towards the end of last year our finances remain sound.

The cost reduction programme we began eight months ago, coupled with the recent planning gains we have secured, give me confidence that we are well positioned to ride out the downturn and to perform strongly when our trading markets recover.

Stephen Rankin
Chairman and Chief Executive

7 September 2009

Condensed consolidated income statement

for the six months ended 30 June 2009

		Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
	Note			
Revenue	3	16,014	44,461	76,002
Cost of sales		(12,837)	(40,419)	(67,168)
Gross profit		3,177	4,042	8,834
Administrative expenses		(2,695)	(3,072)	(6,186)
Operating profit	3	482	970	2,648
Financial income		65	128	336
Financial expenses	4	(289)	(154)	(971)
Share of profit of jointly controlled entities (net of income tax)		52	164	133
Profit before income tax		310	1,108	2,146
Income tax expense	5	(72)	(310)	(529)
Profit for the period attributable to equity holders of the parent	3	238	798	1,617
Basic earnings per share	6	1.6p	5.2p	10.5p
Diluted earnings per share	6	1.6p	5.2p	10.5p

Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2009

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Profit for the period	238	798	1,617

All gains and losses are included in the condensed consolidated income statement.

Condensed consolidated statement of changes in equity

for the six month period ended 30 June 2009

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited 12 months ended 31 December 2008 £000
	Note		
Profit for the period	238	798	1,617
Dividends on equity shares	9	-	(433)
Own treasury shares acquired	7	-	(126)
Equity settled share-based payments		-	74
		74	(164)
Net increase in total equity	238	378	894
Total equity at start of period	32,266	31,372	31,372
Total equity at end of period	32,504	31,750	32,266

Condensed consolidated balance sheet

at 30 June 2009

	Unaudited	Unaudited	Audited
	As at	As at	As at
	30 June	30 June	31 December
	2009	2008	2008
Note	£000	£000	£000
Non-current assets			
Investment properties	13,152	4,004	6,543
Property, plant and equipment	2,992	6,645	9,912
Goodwill	3,875	3,875	3,875
Investments in jointly controlled entities	3,563	1,994	3,529
Deferred tax assets	304	137	304
	23,886	16,655	24,163
Current assets			
Inventories	28,003	26,563	24,836
Trade and other receivables	8,890	15,201	12,253
Cash and cash equivalents	1,555	3,050	2,947
Derivative financial instruments	-	10	-
	38,448	44,824	40,036
Total assets	3 62,334	61,479	64,199
Non-current liabilities			
Interest-bearing loans and borrowings	(9,985)	(13,448)	(9,985)
Derivative financial instruments	(670)	-	(621)
	(10,655)	(13,448)	(10,606)
Current liabilities			
Interest-bearing loans and borrowings	(7,674)	-	(6,290)
Trade and other payables	(11,258)	(16,030)	(14,910)
Income tax payable	(243)	(251)	(127)
	(19,175)	(16,281)	(21,327)
Total liabilities	3 (29,830)	(29,729)	(31,933)
Net assets	32,504	31,750	32,266
Equity attributable to equity holders of the parent			
Share capital	155	155	155
Share premium	2,818	2,818	2,818
Merger reserve	2,477	2,477	2,477
Retained earnings	27,054	26,300	26,816
Total equity	32,504	31,750	32,266

Condensed consolidated cash flow statement

for the six month period ended 30 June 2009

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited 12 months ended 31 December 2008 £000
Note			
Net cash (absorbed by)/generated from operating activities	8	(2,908)	3,903
Cash flows from investing activities			
Interest received	40	122	182
Proceeds from sale of property, plant and equipment	90	53	127
Dividend received	-	-	203
Acquisition of property, plant and equipment	(43)	(2,883)	(6,366)
Acquisition of investment properties	-	-	(2,539)
Loans to jointly controlled entities	-	(297)	(1,937)
Loans repaid by jointly controlled entities	45	1,081	1,081
Net cash inflow/(outflow) from investing activities	132	(1,924)	(9,249)
Cash flows from financing activities			
Proceeds from new bank loan	1,384	6,152	8,979
Repayment of borrowings	-	(2,950)	(2,950)
Own treasury shares purchased	7	(61)	(126)
Dividends paid	9	(433)	(433)
Net cash inflow from financing activities	1,384	2,708	5,470
Net (decrease)/increase in cash and cash equivalents	(1,392)	227	124
Cash and cash equivalents at start of period	2,947	2,823	2,823
Cash and cash equivalents at end of period	1,555	3,050	2,947

1 General

Metnor Group plc ("the company") is a company incorporated in the United Kingdom. The address of its registered office and principal place of business is Metnor House, Mylord Crescent, Killingworth, Newcastle upon Tyne, NE12 5YD.

The interim financial information set out in this statement for the six months ended 30th June 2009 and the comparative figures for the six months ended 30th June 2008 are unaudited. This financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The comparative figures for the financial year ended 31 December 2008 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company'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 237(2) or (3) of the Companies Act 1985.

The financial information set out in this statement is presented in pounds sterling and has been rounded to the nearest thousand pounds. The financial information comprises the consolidated financial information for the company and its subsidiaries (together "the Group").

2 Basis of preparation

These interim financial statements have been prepared in accordance with the measurement and recognition criteria of Adopted IFRSs. They do not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31st December 2008.

The accounting policies applied in preparing these interim financial statements, other than those noted below, are the same as those applied in the preparation of the annual financial statements for the year ended 31st December 2008, as described in those financial statements. The Board approved these interim financial statements on 7 September 2009.

From 1 January 2009 the following standards, amendments and interpretations endorsed by the EU became effective and were adopted by the Group:

- IFRS 8 'Operating Segments';
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions';
- Revised IAS 23 'Borrowing Costs';
- Revised IAS 1 'Presentation of Financial Statements';
- Amended IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate';
- Amendments to IFRS 2 'Share based payment – Vesting Conditions and Cancellations'.

The adoption of the above has not had a significant impact on the Group's profit for the period or equity.

3 Segmental information

The Board has reviewed the requirements of IFRS 8 Operating Segments, including consideration of which results it reviews regularly to assess performance and make decisions about how resources are allocated. The Board has concluded that its operating segments under IFRS 8 are the same as previously disclosed under IAS 14.

The Group's main business segments comprise the following:

- Mechanical and Electrical ("M&E") contracting
- Construction and building operations
- Property development and investment
- Central costs and other activities

All of the Group's activities are undertaken in the United Kingdom and accordingly the Group has only one geographical segment.

3 Segmental information (continued)

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited 12 months ended 31 December 2008 £000
Revenue			
M&E contracting activities	10,148	20,271	35,005
Construction activities	6,578	18,276	43,092
Property activities	230	6,680	6,863
Central costs and other activities	1,763	1,650	3,324
	18,719	46,877	88,284
Less: inter segment revenue	(2,705)	(2,416)	(12,282)
External revenue	16,014	44,461	76,002
Operating profit			
M&E contracting activities	197	292	792
Construction activities	(24)	319	1,292
Property activities	93	266	22
Central costs and other activities	216	93	542
Operating profit from continuing operations			
Finance income	65	128	336
Finance expenses	(289)	(154)	(971)
Share of profit of jointly controlled entities (net of income tax)	52	164	133
Income tax expense	(72)	(310)	(529)
	482	970	2,648
Profit for the period attributable to equity holders of the parent			
	238	798	1,617
Assets			
M&E contracting activities	10,102	12,301	11,939
Construction activities	3,913	8,462	5,863
Property activities	41,355	31,889	39,459
Central costs and other activities	6,964	8,827	6,938
	62,334	61,479	64,199
Liabilities			
M&E contracting activities	5,011	6,734	6,726
Construction activities	5,733	7,805	7,348
Property activities	17,675	13,770	16,647
Central costs and other activities	1,411	1,420	1,212
	29,830	29,729	31,933

4 Financial expenses

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Total interest expense on financial liabilities measured at amortised cost	365	222	754
Less: interest capitalised	(125)	(68)	(452)
	240	154	302
Movement in fair value of derivatives	49	-	669
	289	154	971

5 Income tax

The taxation charge for the six months ended 30 June 2009 and 30 June 2008 is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period.

6 Earnings per share

The calculation of earnings per share is based on the profit for the period and on the weighted average number of ordinary shares in issue and ranking for dividend in the period.

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008	Audited Year ended 31 December 2008
Basic earnings per share			
Profit for the period (£000)	238	798	1,617
Weighted average number of ordinary shares ('000)	15,391	15,467	15,430
Earnings per share	1.6p	5.2p	10.5p

The calculation of diluted earnings per share uses the same profit figures as above but uses a weighted average number of shares to reflect the dilutive effect of share options in existence at the period end as follows:

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008	Audited Year ended 31 December 2008
Diluted earnings per share			
Weighted average number of ordinary shares ('000)	15,391	15,474	15,434
Earnings per share	1.6p	5.2p	10.5p

7 Purchase of own shares

During the year ended 31 December 2008, the company purchased 87,000 of its own 1p Ordinary shares for a total consideration, including costs, of £126,000. These shares are held as treasury shares and have been excluded from the company's issued share capital for the purposes of calculating the earnings per share figure from the date acquired by the company in accordance with IAS 33.

The cost of acquiring these treasury shares has been deducted from retained earnings in accordance with the requirements of IAS 32.

8 Reconciliation of profit for the period to net cash absorbed by operations

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000	Audited Year ended 31 December 2008 £000
Profit for the period	238	798	1,617
Adjustments for:			
Depreciation	366	363	798
Share of profit of jointly controlled entities	(52)	(164)	(133)
Gain on sale of property, plant and equipment	(16)	(34)	(73)
Movement in unrealised profit on sales to jointly controlled entities	-	(41)	(62)
Equity-settled share-based payment expenses	-	74	(164)
Finance income	(65)	(128)	(336)
Finance expenses	289	154	971
Income tax expense	72	310	529
Operating cash flow before movements in working capital	832	1,332	3,147
Change in inventories	(3,129)	(3,088)	(1,246)
Change in trade and other receivables	3,361	4,829	7,780
Change in trade and other payables	(3,636)	(3,214)	(4,333)
Cash (absorbed by)/generated from operations	(2,572)	(141)	5,348
Interest paid	(380)	(199)	(718)
Income tax received/(paid)	44	(217)	(727)
Net cash absorbed by operating activities	(2,908)	(557)	3,903

9 Dividends

The following dividends were recognised during the period:

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Final dividend paid in respect of 2007 (2.8p per share)	-	433	433

10 Interim results

Copies of the condensed interim financial statements will be sent to shareholders on or around 24 September 2009. Further copies will be available from the Company's registered office at Metnor House, Mylord Crescent, Killingworth, Newcastle upon Tyne, NE12 5YD and are also available on our website at www.metnor.co.uk.



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