Half Year report 2008

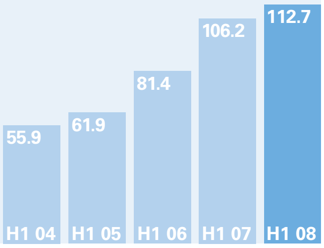
Hamworthy

# Continuing our success


# Financial highlights

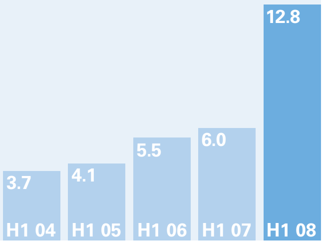
Turnover (£m)

£112.7m
+6.1%



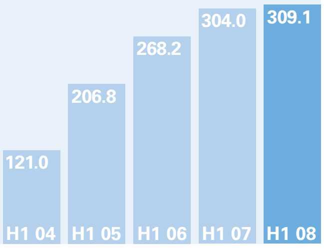

Operating profit (£m)

£12.8m
+112%



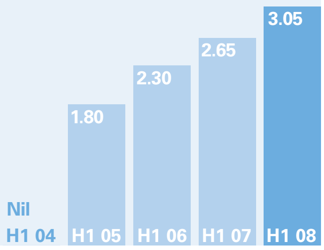

Closing order book (£m)

£309.1m
+1.7%




Interim dividend (p)

3.05p
+15%




- Revenue increased by 6.1% to £112.7 million (H1 2007: £106.2 million)
- Operating profit increased by 112% to £12.8 million (H1 2007 as restated: £6.0 million)
- Operating margin increased to 11.3% (H1 2007 as restated: 5.7%)
- Basic earnings per share rose by 110% to 22.5p per share (H1 2007 as restated: 10.7p per share)
- Order book increased by 1.7% to £309.1 million (30 September 2007: £304.0 million)
- Cash generated from operations of £13.3 million (H1 2007: £18.0 million), leading to net funds at 30 September 2008 of £56.6 million (30 September 2007: £44.4 million)
- Interim dividend up 15% at 3.05p per share (2007: 2.65p per share)

"This is another excellent set of results for Hamworthy. The Group has made good progress on delivering its strategy, particularly on margin improvement and expanding key technologies into new market applications. A strong order book gives the board confidence in the Group's outlook for the near term. The medium term effects from the current conditions in credit and capital markets are difficult to predict but our markets are unlikely to be immune. However, the Group's strong balance sheet, increased breadth of product portfolio and markets and commitment to improving margins leave the Group well positioned to address any adverse impact and exploit future opportunities."

**Gordon Page** CBE
Chairman

**Financial review**

The Group presents its results for the six months to 30 September 2008. Revenue for the period increased 6.1% to £112.7 million (H1 2007: £106.2 million) with operating profit up 112% to £12.8 million (H1 2007 as restated: £6.0 million). The operating margin increased to 11.3% (H1 2007 as restated: 5.7%). In addition to improved operating performance the Group benefited from more favourable currency rates on translation of overseas earnings.

All divisions reported an increase in operating margin resulting from improved operational effectiveness. In addition the Pump Systems business achieved exceptionally good results with very high sales of its higher margin products and margin improvement across its product range. The Aftersales business continued its growth with an increase in revenue of 29.2% to £17.7 million, benefiting from the timing of certain deliveries. The weighted average rate of the Group's reporting currencies strengthened by approximately 10% compared to the prior period increasing sterling consolidated sales by £11.6 million and operating profits by £1.1 million. Basic earnings per share rose 110% to 22.5p per share (H1 2007 as restated: 10.7p per share).

Whilst order intake for the period was 5.1% lower at £116.5 million (H1 2007: £122.7 million) the outstanding order book rose 1.7% to £309.1 million (30 September 2007: £304.0 million) with significant increases in both the Water Systems and Inert Gas Systems businesses more than offsetting a reduction in Gas Systems.

Cash generated from operations of £13.3 million represents 104% of operating profit for the period. The equivalent ratio for the year to 31 March 2008 was 132% with a particularly strong inflow in the final quarter of that year. The cash generation performance in the first half exceeded expectations and some reversal is anticipated in the next six months. Net funds at 30 September 2008 were £56.6 million (30 September 2007: £44.4 million). The Group continued to maintain the pace of its research and development investment aimed at providing a range of opportunities for future growth.

On 3 November the Group announced the acquisition of 79% of the issued share capital of Baltic Design Centre, a marine design company based in Poland, for a cash consideration of £0.5 million. The acquisition will help improve the competitiveness of the Gas Systems business and bring a wider ship design capability to the Group.

**Prior period adjustment**

On 3 September 2008 the Group announced the need to correct an overstatement of inventory value in its historic accounting in the Inert Gas Systems business. After a comprehensive review discussed in more detail below, the board can confirm that this was an isolated incident and that there is no effect on the current financial year's earnings nor any cash impact. The details of the prior year adjustment made are set out in note 2 to this interim statement. The effect has been to decrease the value of net assets at 31 March 2008 by £3.2 million, the operating profit for the year ended 31 March 2008 by £0.4 million and the earnings per share for that year by 0.6p per share. All comparative numbers in this interim statement have been adjusted accordingly.

At the Board's request, PricewaterhouseCoopers LLP ('PwC') have resigned as auditors and Deloitte & Touche LLP have been appointed with immediate effect. The Companies Act 2006 requires the Company to circulate a copy of PricewaterhouseCoopers' letter of resignation and statement of circumstances. These documents, together with an accompanying letter from the Chairman, have been sent to all persons entitled to receive the Company's accounts today.

The board has, for the first time, elected to have the interim financial information reviewed by the auditors with a published report. The review has been conducted in accordance with International Standard on Review Engagement 2410 and the Deloitte & Touche LLP report is attached hereto.

As previously announced the errors were revealed by an internal review and the board responded without delay in commissioning a forensic investigation by Ernst & Young ('E&Y'). The board have reviewed the E&Y report, met with them to discuss its findings and performed further investigative work. The conclusions reached by the board are entirely consistent with the findings of the independent E&Y report. As part of their client acceptance procedures Deloitte & Touche LLP have confirmed to the audit committee that they consider the approach adopted by Hamworthy regarding this matter to be reasonable. The board concluded that the Inert Gas Systems business in Moss, Norway had used a flawed methodology for the valuation of work in progress, but that there was no evidence of malicious intent, fraud, deliberate misstatement or any deliberate concealment of information from PwC. There was no evidence to suggest any involvement in the erroneous accounting practice by anyone outside the Moss finance department.

**Dividends**
On the 9 January 2009 the Company will pay an interim dividend of 3.05p per share amounting to £1.4 million (2007 interim: 2.65p per share amounting to £1.2 million) to all shareholders on the register at the close of business on 5 December 2008. In accordance with IAS 10 this payment will be set against profit in the second half of this financial year. In July 2008 a final dividend of 5.29p per share amounting to £2.4 million was paid in respect of the financial year ended 31 March 2008.

**Markets**
The Group operates in four main markets: gas transportation and production; oil transportation and production; cruise ships; and merchant shipping. The oil and gas markets in aggregate account for over 75% of Group revenues with merchant shipping accounting for less than five per cent.

As reported previously the focus of investment in the oil and gas markets has been changing. The gas transportation and production market saw significant ordering of large LNG and LPG carriers in 2005 and 2006 leading to deliveries of those vessels being currently at very high levels. Anticipating the reduction in contracting of new large gas carriers as that shipping capacity comes on stream, the Group has invested in developing its system solutions across the broader LNG supply chain. The focus of investment in the gas markets has been shifting towards onshore and offshore production and regasification and the Group has had a number of successes in winning contracts in these areas. Alongside that the smaller LPG and ethylene carrier market has remained robust with contracting volumes above historical average levels.

In the oil transportation and production market tanker deliveries are also at high levels following record ordering in 2006 and 2007 with contracting now lower but at levels which are strong compared to the historic average. Here the shift in investment focus has been towards offshore production with the Pump Systems and inert gas systems businesses benefiting from higher activity in FPSO projects.

Cruise activity remains high with major European shipyards for these vessels reporting full order books through to 2011 and in some cases 2012. The Group has seen relatively few new orders placed for large cruise ships as cruise companies review their positions in the current economic climate although the underlying growth prospects in the medium to long-term remain strong. Retrofit activity for advanced waste treatment plant continues at a steady pace, driven by the need to meet increasing environmental legislation in protected waters around the world.

The merchant shipping market continued the high level of new shipbuild deliveries seen in 2007 into 2008. Freight rates for commodity ship types, in particular bulk carriers and container vessels have fallen dramatically in recent weeks as new capacity comes into the fleet at a time when demand for transportation of raw materials and finished goods is weakening. As a result, contracting levels for new vessels of these types have weakened markedly. The Group's exposure to this merchant ship newbuild market is relatively low, representing less than 10% of the Group's order book.

The Aftersales market for the Group's products remains buoyant with a growing installed base from the high levels of deliveries over recent years.

**Pump Systems**
Revenue rose by 45.1% to £40.6 million (H1 2007: £28.0 million) with operating profits up 190% at £7.8 million (H1 2007: £2.7 million). The resultant 19.1% operating margin is considered exceptional in this six month period. The outstanding order book was 10.5% lower at £79.2 million (30 September 2007: £88.5 million).

All product lines within the business increased revenue compared to prior year interim period with the most significant increase in deepwell pumps where Hamworthy is the market leader in the LPG gas carrier market. This very high level of deepwell pump deliveries also accounts for the fall in the outstanding order book. The significant increase in operating margins arises from a combination of progress in cost reduction and efficiency improvement, delivery of additional volumes through a cost base which is more fixed than other business segments and a favourable product mix toward the higher margin products. The business also benefited from increased sales from the Aftersales business. Whilst it is not expected that these unusually high percentage operating margins will continue through the second half, the benefits of the improvements in operational effectiveness will be sustained.

During the period the business made good progress in increasing its presence in the offshore market, securing a contract for delivery of a package of 30 all electric-drive deepwell pumps for the Pazflor FPSO to operate off the coast of Angola. In the Singapore plant offshore now accounts for 50% of engine room pumps sales and the business saw healthy sales in pump room systems and fire-fighting pumps.

In line with the Group's strategy to employ its technology in adjacent markets, the deepwell pump business has secured a contract for a land-based application from a Norwegian fertilizer company. The pumps, chosen for their environmental and safety features, are to be used to pump ammonia from storage tanks and provide further evidence of Hamworthy's ability to engineer existing products into new applications and markets.

**Gas Systems**

Revenue in the first half fell 23.0% to £37.0 million (H1 2007: £48.0 million). Operating profit was 8.1% higher at £2.1 million (H1 2007: £2.0 million). In the prior year first half period the business' operating margin was reduced as a result of additional costs taken on a land-based liquefaction project. As anticipated the outstanding order book fell to £112.9 million (30 September 2007: £139.0 million) as the business delivered against the LNG-RS programme for the Qatar based Q-Flex carriers. Twenty of these carriers have now successfully completed sea trials.

Gas Systems has continued to make good progress in its strategy of broadening its exposure across the LNG supply chain, winning its first contract for an onshore LNG plant outside Norway and securing its third contract for an LNG regasification system, to operate in Dubai. The business has continued to invest in the development of its LNG liquefaction technology for the LNG FPSO market and has secured two Front End Engineering & Development contracts for such solutions. The timing of new non-shipping LNG orders is inevitably uncertain and has been exacerbated by current economic conditions. However, with the planned broadening of our exposure across the LNG sector we continue to believe in the medium to long-term growth of our business in this area.

In August the Group also announced that it had secured a first of type contract to supply LNG-RS plant on four dual fuel diesel-electric powered ships. This contract widens the market for the Group's LNG-RS into this important segment of the LNG carrier market.

With the expected lower levels of activity in the large LPG carrier market, the business is focusing on expanding into the smaller LPG and LEG segment where activity levels remain higher. The business made a valuable step forward in this market, securing a contract to provide LEG-RS for two liquid ethylene carriers to be built in Japan.

The business continued to make good progress in the key area of operational effectiveness, with significant investment in embedding new project management processes, training and development

**Water Systems and compressors**

Revenue rose 4.2% to £22.6 million (H1 2007: £21.7 million) with operating profit up 27.4% at £3.1 million (H1 2007: £2.5 million). The outstanding order book rose 65.3% to £73.3 million (30 September 2007: £44.3 million).

The Water Systems business reinforced its market leading positions in the new build and retrofit cruise sector with continuing strong sales in both wastewater and fresh water systems. This included deliveries to both new build and retrofit applications and the business was successful in securing first orders for advance wastewater systems for a US-based cruise brand.

Earlier this year the Group announced its enhanced sewage treatment plant was the first from a major supplier to receive Type Approval for the IMO's more stringent wastewater discharge standard. Since then the business has been successful in securing orders for approximately 300 such systems reinforcing its leading position in this environmentally driven market.

The business also designs and supplies water and air cooled condensers for the power generation sector, continued strong demand for which has lead to a 38% increase in the order book for these systems.

**Inert Gas Systems**
Revenue for the period rose 46.6% to £12.5 million (H1 2007: £8.5 million) and operating profit rose significantly to £0.9 million (H1 2007 as restated: £0.1 million). The outstanding order book rose 35.4% to a record £43.6 million (H1 2007: £32.2 million).

Growth in revenue arose from high levels of ordering in 2007 from both the oil tanker and gas carrier markets. Operating margins further improved from the gains made in the second half of last year with cost reductions implemented across the product range.

The business has seen increased activity in the offshore FPSO market and has secured orders with a combined value of over £6 million for two FPSOs which had been in the pipeline for some time. The business also secured its largest ever single order for the supply of nitrogen generators for a ten ship series of chemical carriers to be built in Korea and Inert Gas Systems orders for a series of ten oil tankers to be built in Brazil.

**Aftersales**
The Group's Aftersales business has enjoyed an extremely strong half year with revenue, the constituent parts of which are included in the divisional results reported above, up 29.2% to £17.7 million (H1 2007: £13.7 million). The performance reflects both robust market demand and the benefits of investment made over the last two years in sales and service personnel, stocks and logistics.

The high level of new product deliveries in the last five years across all divisions has significantly increased the field population of the Group's products. This provides a greater foundation for future growth as those systems begin to generate demand for Aftersales servicing.

**Outlook**
The Group continues to develop a broader range of applications for its technologies providing both access to additional growth markets and less dependency on individual sectors. With the very strong first half performance, the Group remains confident of meeting its expectations for the full year. The near term outlook for the Group is underpinned by a sizeable and robust order book giving visibility of demand and activity through 2009. The Group has made good progress across all of its businesses on its target to drive improvement in margins and is confident this will continue to deliver earnings growth ahead of revenues.

The medium-term effects from the current conditions in credit and capital markets are difficult to predict but our markets are unlikely to be immune. However, the long-term growth drivers of increasing environmental legislation and energy demand, in particular for LNG, remain strong. The Group has continued its strong cash generation and has a healthy balance sheet with £56.6 million of net funds at 30 September 2008. With a broad range of markets and technologies, opportunities for continued margin improvement and a strong Aftersales business, the board believes the Group to be well positioned to address any adverse market conditions and exploit future opportunities.

**Joe Oatley**
Chief Executive
25 November 2008

**Paul Crompton**
Finance Director

# Independent review report to Hamworthy plc

We have been engaged by the Company to review the set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and related notes 1 to 7. We have read the other information contained in the half-yearly financial 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 International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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 formed.

**Directors' responsibilities**

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

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the accounting policies the Group intends to use in preparing its next annual financial statements.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial 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 United Kingdom. A review of interim financial information consists of making inquiries, 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 financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with the AIM Rules of the London Stock Exchange.

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditor
Southampton, UK
25 November 2008

# Consolidated Income Statement

for the six months ended 30 September 2008

| | Note | Unaudited half year 30 Sep 08 £'000 | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|---|
| Revenue | 3 | **112,712** | 106,235 | 231,815 |
| Cost of sales | | **(78,995)** | (84,200) | (180,251) |
| Gross profit | | **33,717** | 22,035 | 51,564 |
| | | | | |
| Distribution expenses | | **(1,953)** | (1,434) | (2,529) |
| Administrative expenses | | **(18,977)** | (14,558) | (32,895) |
| Group operating profit | | **12,787** | 6,043 | 16,140 |
| | | | | |
| Finance income | | **1,245** | 694 | 1,747 |
| Finance expense | | **(240)** | (348) | (860) |
| Profit before taxation | | **13,792** | 6,389 | 17,027 |
| Taxation | 4 | **(3,616)** | (1,703) | (4,527) |
| Profit after taxation | | **10,176** | 4,686 | 12,500 |
| | | | | |
| Basic earnings per share | 5 | **22.5p** | 10.7p | 28.1p |
| Diluted earnings per share | 5 | **22.4p** | 10.6p | 28.0p |

# Consolidated Statement of Recognised Income and Expense

| | Unaudited half year 30 Sep 08 £'000 | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|
| Profit after taxation | **10,176** | 4,686 | 12,500 |
| Currency translation differences on foreign currency net investments | **613** | 696 | 4,098 |
| Net fair value (loss)/gain on cash flow hedge | **(9,876)** | 10,943 | 9,578 |
| Movement on deferred tax relating to cash flow hedge | **4,135** | (2,336) | (1,951) |
| Deferred tax on employee share option schemes | **(157)** | 873 | (1,831) |
| Deferred tax on unrelieved losses carried forward | **–** | – | 2,164 |
| Actuarial gain in pension scheme | **–** | – | 640 |
| Movement in deferred tax relating to pension deficit | **–** | – | (185) |
| **Total recognised income and expense relating to the period** | **4,891** | 14,862 | 25,013 |

# Consolidated Balance Sheet

as at 30 September 2008

| | **Unaudited half year 30 Sep 08 £'000** | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | **12,052** | 12,401 | 12,367 |
| Property, plant and equipment | **10,127** | 9,115 | 10,183 |
| Derivative financial instruments | **560** | 4,195 | 3,259 |
| Deferred taxation assets | **5,911** | 4,016 | 3,835 |
| | **28,650** | 29,727 | 29,644 |
| **Current assets** | | | |
| Inventories | **72,522** | 48,495 | 64,698 |
| Trade and other receivables | **43,189** | 42,741 | 47,200 |
| Derivative financial instruments | **2,960** | 9,261 | 9,187 |
| Corporation tax | **387** | 501 | 313 |
| Cash and cash equivalents | **57,351** | 48,934 | 52,346 |
| | **176,409** | 149,932 | 173,744 |
| **Current liabilities** | | | |
| Borrowings | **(97)** | (1,980) | (2,604) |
| Trade and other payables | **(89,316)** | (74,713) | (88,896) |
| Derivative financial instruments | **(5,425)** | (1,810) | (1,828) |
| Corporation tax | **(4,149)** | (1,812) | (1,701) |
| | **(98,987)** | (80,315) | (95,029) |
| **Non-current liabilities** | | | |
| Borrowings | **(649)** | (2,560) | (1,695) |
| Trade and other payables | **(24,740)** | (31,527) | (28,426) |
| Derivative financial instruments | **(3,199)** | (488) | (675) |
| Deferred taxation liabilities | **(6,494)** | (6,820) | (7,856) |
| Provisions | **(5,284)** | (3,868) | (6,630) |
| Retirement benefit obligations | **(2,097)** | (2,667) | (2,106) |
| | **(42,463)** | (47,930) | (47,388) |
| | | | |
| **Net Assets** | **63,609** | 51,414 | 60,971 |
| **Capital and Reserves** | | | |
| Called up share capital | **2,307** | 2,264 | 2,266 |
| Share premium account | **19,107** | 18,911 | 18,958 |
| Other reserves | **(1,216)** | 5,505 | 4,525 |
| Profit and loss account | **43,411** | 24,734 | 35,222 |
| Shareholders' Funds | **63,609** | 51,414 | 60,971 |

# Consolidated Cash Flow Statement

for the six months ended 30 September 2008

| | Note | **Unaudited half year 30 Sep 08 £'000** | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 6 | **13,348** | 18,022 | 21,321 |
| Interest paid | | **(240)** | (348) | (860) |
| Interest received | | **1,245** | 694 | 1,747 |
| Corporate taxes paid | | **(1,264)** | (199) | (2,005) |
| **Net cash from operating activities** | | **13,089** | 18,169 | 20,203 |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | | **(432)** | (600) | (1,492) |
| Purchase of intangible fixed assets | | **(128)** | (321) | (543) |
| Proceeds from disposal of property, plant and equipment | | **1** | 2 | 77 |
| Capitalised expenditure on development costs | | **(49)** | (43) | (49) |
| Payment of deferred consideration | | **–** | – | (628) |
| **Net cash used in investing activities** | | **(608)** | (962) | (2,635) |
| **Cash flows from financing activities** | | | | |
| Issue of share capital | | **254** | 2,332 | 2,381 |
| Purchase of shares for employee share schemes | | **(400)** | (400) | (400) |
| Dividends paid | | **(2,401)** | (1,984) | (3,184) |
| Repayment of loans | | **(3,089)** | (984) | (2,004) |
| **Net cash from financing activities** | | **(5,636)** | (1,036) | (3,207) |
| | | | | |
| **Net increase/(decrease) in cash and cash equivalents** | 6 | **6,845** | 16,171 | 14,361 |

## 1 General information basis

This financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. Full accounts for the year ended 31 March 2008, which include an unqualified audit report and did not contain statements under section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The Group's audited consolidated financial statements for the year ended 31 March 2008 were prepared in accordance with International Financial Report Standards (IFRS) as adopted by the European Union.

The unaudited consolidated interim financial information for the six months to 30 September 2008 has been prepared in accordance with accounting policies that are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2008.

## 2 Prior year adjustment

The Group has restated the valuation of inventory held in the Inert Gas Systems business to correct an historic accounting error. This gives rise to the restatement of the previous year's operating profit and the net assets as follows.

| | Inventory and related creditors £'000 | Related tax liability £'000 | Total net asset effect £'000 |
|---|---|---|---|
| Adjustment to opening net assets 1 April 2007 | (3,987) | 1,117 | (2,870) |
| Adjustment to the operating profit for the year ended 31 March 2008 | (396) | – | (396) |
| Adjustment to the tax charge for the year ended 31 March 2008 | – | 111 | 111 |
| Adjustment to opening net assets 1 April 2008 | (4,383) | 1,228 | (3,155) |

Of the adjustments to the operating profit and tax charge for the year to 31 March 2008, £121,000 and £34,000 respectively relate to the six months to 30 September 2007.

In addition, and in order to enhance clarity for the readers of this financial information, certain customers on account contract receipts which were previously classified as a reduction in inventories have been disclosed within current trade and other payables following the principles applicable to deferred income. This has resulted in an increase in both inventories and trade and other payables of £7.8 million at 30 September 2007 and £10.6 million at 31 March 2008.

With note 6 an adjustment has been made to the movements in debtors and auditors of £17.2 million for the half year to 30 September 2007 and £29.1 million for the year to 31 March 2008 to correct for the previous non eliminated of inter company balances.

# Notes to the accounts (continued)

## 3 Segmental information

| | Note | **Unaudited half year 30 Sep 08 £'000** | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|---|
| **Turnover by geographical destination** | | | | |
| United Kingdom | | **10,864** | 7,053 | 17,125 |
| Europe and Middle East | | **36,494** | 30,505 | 68,208 |
| Far East | | **59,780** | 63,155 | 135,296 |
| Rest of World | | **5,574** | 5,522 | 11,186 |
| | | **112,712** | 106,235 | 231,815 |
| **Turnover by class of business** | | | | |
| Pump Systems | | **40,638** | 28,008 | 66,550 |
| Gas Systems | | **36,958** | 47,998 | 98,940 |
| Water Systems | | **22,635** | 21,714 | 43,776 |
| Inert Gas Systems | | **12,481** | 8,515 | 22,549 |
| | | **112,712** | 106,235 | 231,815 |
| **Operating profit by class of business** | | | | |
| Pump Systems | | **7,782** | 2,688 | 7,255 |
| Gas Systems | | **2,113** | 1,954 | 5,484 |
| Water Systems | | **3,149** | 2,472 | 4,997 |
| Inert Gas Systems | | **879** | 133 | 955 |
| Central costs | | **(1,136)** | (1,204) | (2,551) |
| | | **12,787** | 6,043 | 16,140 |

## 4 Taxation

The tax charge of £3,616,000 (H1 2007 as restated: £1,703,000) is calculated by applying an estimated effective tax rate for each of the Group's material tax jurisdictions for the year to 31 March 2009 to the half year profit before taxation for each jurisdiction. The effective tax rate for the group as a whole for the year to 31 March 2009 is estimated at 26.2% (H1 2007 restated: 28.9%).

## 5 Earnings per share

The calculations of the earnings per ordinary share are based on the profit on ordinary earnings after taxation and the weighted average number of shares in issue in the reporting period.

| | **Unaudited half year 30 Sep 08** | Restated unaudited half year 30 Sep 07 | Restated audited year ended 31 Mar 08 |
|---|---|---|---|
| Profit for the period | **10,176,000** | 4,686,000 | 12,500,000 |
| | | | |
| Weighted average number of shares in issue in the period | **45,272,757** | 43,960,652 | 44,557,195 |
| Dilutive effect of share options | **56,568** | 171,224 | 116,912 |
| Number of shares for diluted earnings per share | **45,329,325** | 44,131,876 | 44,674,107 |
| | | | |
| Basic earnings per share | **22.5p** | 10.7p | 28.1p |
| Diluted earnings per share | **22.4p** | 10.6p | 28.0p |

## 6 Cash flow

The Consolidated cash flow statement has been prepared using the temporal method by translating the cash flows of overseas subsidiaries at the rates applicable for the monthly reporting period in which they fall.

| | **Unaudited half year 30 Sep 08 £'000** | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|
| Profit after taxation | **10,176** | 4,686 | 12,500 |
| Adjustments for: | | | |
| Tax | **3,616** | 1,703 | 4,527 |
| Depreciation | **682** | 642 | 1,288 |
| Amortisation of intangible fixed assets | **384** | 399 | 737 |
| (Profit)/loss on sale of fixed assets | **(1)** | (3) | (57) |
| Finance income | **(1,245)** | (694) | (1,747) |
| Finance expense | **240** | 348 | 860 |
| Share-based payments | **184** | 116 | 217 |
| **Operating cash flows before movements in working capital and provisions** | **14,036** | 7,197 | 18,325 |
| (Increase) in stocks | **(8,292)** | (21,469) | (43,763) |
| Decrease/(increase) in debtors | **3,775** | (1,809) | 3,200 |
| (Decrease)/increase in creditors | **5,173** | 34,316 | 43,218 |
| (Decrease)/increase in provisions | **(1,344)** | (213) | 341 |
| Cash generated from operations | **13,348** | 18,022 | 21,321 |

**6 Cash flow** (continued)

| | **Unaudited half year 30 Sep 08 £'000** | Restated unaudited half year 30 Sep 07 £'000 | Restated audited year ended 31 Mar 08 £'000 |
|---|---|---|---|
| Reconciliation of net cash flow to movement in net funds | | | |
| **Net increase/(decrease) in cash and cash equivalents in the period** | **6,845** | 16,171 | 14,361 |
| Non-cash movements in cash and cash equivalents | **(1,232)** | 276 | 4,891 |
| **Movement in cash and cash equivalents in the period** | **5,613** | 16,447 | 19,252 |
| Movement in borrowings | **3,089** | 984 | 2,004 |
| Non-cash movements in borrowings | **(144)** | (82) | (254) |
| On acquisition of subsidiary | **–** | – | – |
| Net funds at the beginning of the period | **48,047** | 27,045 | 27,045 |
| Net funds at the end of the period | **56,605** | 44,394 | 48,047 |

**7 Events after the balance sheet date**

On 3 November 2008 the Group announced the acquisition of 79% of the issued share capital of Baltic Design Centre, a marine design company based in Gdynia, Poland, for a cash consideration of approximately £500,000. Work is currently being carried out on the fair values for the balance sheet as at the date of acquisition and therefore no further information can be provided at this time.

# Glossary

**FPSO**
Floating Production Storage and Offloading

**FSRU**
Floating Storage Regasification Unit

**IMO**
International Maritime Organisation

**LEG**
Liquefied Ethylene Gas

**LEG-RS**

Liquefied Ethylene Gas Reliquefaction System

**LNG**
Liquefied Natural Gas

**LNG-RS**
Liquefied Natural Gas Reliquefaction System

**LPG**
Liquefied Petroleum Gas

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