VEGA Group PLC Interim Report & Accounts 2001/2002

Summary

- New Chief Executive Phil Cartmell appointed on 2 May 2001
- Revised strategy published to staff and shareholders
- Business reorganised and focused on key market sectors
- Trading profitability restored through strong cost control and improved staff utilisation
- Growth in order book and pipeline of new prospects

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000
Turnover	**17,572**	18,249
Profit/(loss) before taxation*	**61**	(883)
Earnings per share*	**0.23p**	(3.35)p
Order book	**38,845**	34,207
Net debt	**7,745**	9,057

* before goodwill amortisation

Chairman's Statement

The Board are pleased to report that the first six months of this year have demonstrated that VEGA is on the path to recovery. Significant progress has been achieved in developing the strategy of the Group, reducing the cost base and improving the flexibility of the business. This has resulted in profit for the period before tax and goodwill amortisation of £0.1m (2000: loss of £0.9m).

The award in October of the long awaited contracts to develop ground training aids to the Eurofighter programme has resulted in us closing the period with a forward order book of £38.8m, providing evidence of the long term stability of the business.

Results

Turnover for the six months to 31 October 2001 was down slightly on last year at £17.6m (2000: £18.2m). After incurring £0.3m of exceptional restructuring costs, operating profit (before goodwill amortisation) was £0.4m (2000: loss of £0.5m). The basic earnings per share before goodwill amortisation of 0.23p compared to a basic loss per share before goodwill amortisation of 3.35p in the corresponding period in 2000. The Board are not declaring an interim dividend (2000: nil).

The improvement in profitability compared to last year has been achieved through strong focus on cost management and improvements in utilisation rates. Average staff numbers over the first six months of this year have decreased by 90 to 550, compared with the corresponding period last year and utilisation rates of those staff have improved by around 7% points from the same period last year. Specific actions taken to reduce costs included the consolidation of the previous six division structure into three focused business units, significant management and administration cost savings, and a focus on reducing IT and other infrastructure costs.

Maintenance of the Group's financial resources has remained a priority throughout the period. Net debt at 31 October 2001 was £7.7m (31 October 2000: £9.1m). The improvement year on year reflects increased working capital efficiency, as well as strict control over capital expenditure.

VEGA's order intake totalled £18.0m (2000: £17.6m). At the end of October our forward order book stood at £38.8m (31 October 2000: £34.2m). Of this, committed orders for the rest of this financial year amount to £14.4m, with £15.9m of the balance deliverable over the next two financial years.

Operational review

Under the leadership of Phil Cartmell, our new Chief Executive, appointed on 2 May 2001, the first six months of the year have seen significant change throughout VEGA. During the period we have reviewed and re-defined the strategy for the Group and in August, delivered a strategy document to every employee communicating the new vision and direction. A summary of this was set out to shareholders in the last Annual Report and since then we are on target in implementation of that strategy at operational level.

As part of this we have reorganised under three market-focused business units, Space, Government & Defence and Commercial Industries, each headed by a Board director with full responsibility for sales, profit and cash generation. Moving to this structure has had clear benefits in improving the focus of our business in terms of the services and products that we offer clients. Investment in refining these is resulting in a significant increase in the identified opportunities for new business; the pipeline of potential new contracts which we are actively pursuing has increased by around 40% since the start of the financial year. As promised in the Annual Report, this pipeline contains only smaller, shorter term opportunities. Work continues on larger long-term prospects, but the future fortunes of the Group are not dependent on winning them.

In the **Space** business unit we continue to grow. Turnover for the period of £7.0m was up 3% compared to last year. Progress was particularly strong in Germany, where we consolidated our relationship with the European Space Agency including the extension of a framework agreement to provide simulator development support for a further 5 years.

In **Government & Defence**, turnover was 4% down on last year at £6.6m. The signature of the much delayed Eurofighter contract strengthened the committed order book and additionally we made a major breakthrough in September when we were selected as a preferred supplier to UK Government departments for a range of consulting services through one of the Government's catalogue procurement schemes.

In **Commercial Industries**, turnover was down 13% year on year to £3.9m mainly due to a reduction in the level of turnover to commercial aviation clients, a trend identified in the second half of last year. Strong performances in difficult market conditions were however achieved in the training development and process automation areas including winning a £0.9m contract to develop training solutions for a major store investment by a blue-chip UK retailer. In addition, the business unit won the award for bespoke training product of the year at the prestigious WOLCE Awards for on-line learning.

A further benefit of our new structure has been the ability it has given us to match our cost base to the size of our business. In the first half of this year we have reduced net costs by around £0.5m on an annualised basis, incurring £0.3m in exceptional restructuring costs in the process.

We still have work to complete with regard to improving the performance of legacy lower margin business and in reducing office accommodation costs, but the improved visibility of future business gives much greater options to flex our overall cost base appropriately.

Outlook

Given current market dynamics it is difficult to predict the speed of growth that we can expect beyond this financial year, however our long term order book and the level of identified opportunities supports our belief that we will continue on the path to full recovery.

A H Roberts
Non-executive Chairman
10 December 2001

Summarised Profit & Loss Account

	Six months ended 31 October 2001 £'000	Restated Six months ended 31 October 2000 £'000	Restated Year ended 30 April 2001 £'000
Turnover (notes 1 & 2)	**17,572**	18,249	35,661
Operating loss (note 3)			
Continuing operations before amortisation of goodwill	**374**	(521)	(2,312)
Amortisation of goodwill	**(393)**	(449)	(2,893)
Operating loss from continuing operations	**(19)**	(970)	(5,205)
Net interest	**(313)**	(362)	(677)
Profit/(loss) on ordinary activities before amortisation of goodwill	**61**	(883)	(2,989)
Amortisation of goodwill	**(393)**	(449)	(2,893)
Loss before taxation	**(332)**	(1,332)	(5,882)
Taxation	**(19)**	265	923
Retained loss	**(351)**	(1,067)	(4,959)

Earnings per share (note 4)

EPS	**basic**	**(1.90)p**	(5.79)p	(26.87)p
	diluted	**(1.90)p**	(5.79)p	(26.87)p
Excluding amortisation of goodwill	**basic**	**0.23p**	(3.35)p	(11.19)p
	diluted	**0.23p**	(3.35)p	(11.19)p

Statement of total recognised gains and losses

	£'000	£'000	£'000
Loss for period	**(351)**	(1,067)	(4,959)
Currency translation differences on foreign currency investments	**10**	14	118
Total recognised gains and losses for the period	**(341)**	(1,053)	(4,841)

Summarised Balance Sheet

	As at 31 October 2001 £'000	Restated As at 31 October 2000 £'000	Restated As at 30 April 2001 £'000
Fixed assets			
Intangible assets	**13,857**	17,065	14,250
Tangible assets	**1,562**	2,145	1,767
Investments	**660**	600	660
	16,079	19,810	16,677
Current assets			
Debtors	**12,094**	14,675	12,191
Cash at bank and in hand	**148**	120	362
	12,242	14,795	12,553
Creditors: amounts falling due within one year	**(8,007)**	(9,348)	(8,222)
Net current assets	**4,235**	5,447	4,331
Total assets less current liabilities	**20,314**	25,257	21,008
Creditors: amounts falling due after more than one year	**(5,575)**	(6,396)	(5,934)
Provisions for liabilities and charges	**(270)**	(285)	(270)
Net assets	**14,469**	18,576	14,804
Capital and reserves			
Share capital	**925**	925	925
Share premium	**15,529**	15,507	15,523
Profit and loss account	**(1,985)**	2,144	(1,644)
Total shareholders' funds	**14,469**	18,576	14,804

Cash Flow Analysis

Reconciliation of operating loss to cash flow

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
Operating loss	**(19)**	(970)	(5,205)
Depreciation	**390**	549	1,062
Loss/(profit) on sale of fixed assets	**6**	(5)	4
Amortisation of intangible fixed assets excluding goodwill	**-**	295	666
Amortisation of goodwill	**393**	449	2,893
(Increase)/decrease in debtors	**(184)**	(997)	1,980
(Decrease)/increase in creditors	**(818)**	83	692
Net cash (outflow)/inflow from operating activities	**(232)**	(596)	2,092

Summarised cash flow statement

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
Net cash outflow from operating activities	**(232)**	(596)	2,092
Returns on investments and servicing of finance	**(313)**	(362)	(677)
Taxation	**263**	(200)	(619)
Capital expenditure and financial investment	**(173)**	(252)	(448)
Equity dividends paid	**-**	(864)	(859)
Cash flow before financing	**(455)**	(2,274)	(511)
Issue of Ordinary share capital	**6**	513	529
Other financing movements	**(653)**	1,192	910
(Decrease)/increase in cash in the period	**(1,102)**	(569)	928

Reconciliation of net cash flow to movement in net debt

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
(Decrease)/increase in cash in the period	**(1,102)**	(569)	928
Loan notes redeemed	**-**	225	225
New bank loans	**-**	(2,000)	(2,000)
Repayment of bank loans	**642**	516	776
Capital element of finance lease repayments	**11**	67	89
Exchange movements	**(9)**	(2)	(11)
Movement in net debt for period	**(458)**	(1,763)	7
Opening net debt	**(7,287)**	(7,294)	(7,294)
Closing net debt	**(7,745)**	(9,057)	(7,287)

1. The financial information in this report does not constitute statutory accounts within the meaning of section 240(3) of the Companies Act 1985. The interim financial information for the six months ended 31 October 2001 is unaudited but has been reviewed by the Company's auditors as set out on page 9.

The comparative figures for the year ended 30 April 2001 are not the Company's statutory accounts for that financial year. Those accounts, upon which the auditor issued an unqualified opinion, have been delivered to the Registrar of Companies.

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 30 April 2001 with the exception of the implementation of FRS 18 Accounting Policies and FRS 19 Deferred Tax. The taxation charge is calculated by applying the directors' best estimate of the annual tax rate to the profit for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

During the period ended 31 October 2001 the Company implemented FRS 19 Deferred Tax, which requires full provision for deferred tax. The results of the Company are unchanged as a result of implementing this Standard. The Company already makes full provision for any deferred tax liabilities and there are no material deferred tax assets that are likely to crystalise in the foreseeable future.

During the period ended 31 October 2001 the Company also implemented FRS 18 Accounting Policies. The results of the Company are unchanged as a result of implementing this Standard.

The interim financial information for the six months ended 31 October 2001 was approved by the Board on 10 December 2001.

2. Segmental analysis

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
Turnover by business unit			
Commercial Industries	**3,939**	4,548	9,140
Government & Defence	**6,619**	6,911	12,590
Space	**7,014**	6,790	13,931
Total turnover	**17,572**	18,249	35,661

Notes

3. Exceptional items recognised before operating loss

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
Impairment of goodwill	**-**	-	2,000
Other administrative costs	**297**	-	1,018
Total exceptional items	**297**	-	3,018

4. Earnings per Ordinary share

The calculation of earnings per share is based on profits attributable to shareholders and weighted average number of shares as set out below.

	Six months ended 31 October 2001 £'000	Six months ended 31 October 2000 £'000	Year ended 30 April 2001 £'000
Loss attributable to shareholders	**(351)**	(1,067)	(4,959)
Profit/(loss) attributable to shareholders before goodwill amortisation	**42**	(618)	(2,066)

	Six months ended 31 October 2001 Ordinary shares	Six months ended 31 October 2000 Ordinary shares	Year ended 30 April 2001 Ordinary shares
Basic weighted average number of shares	**18,506,550**	18,420,764	18,458,835
Dilutive potential shares (employee share options)	**17,512**	219,630	113,875
Dilutive weighted average number of shares	**18,524,062**	18,640,394	18,572,710

5. There have been no acquisitions or disposals in the period. All turnover and costs are derived from existing operations.

6. The interim accounts for the six months to 31 October 2000 included an interim dividend of £436,000 which was subsequently cancelled. As a result the comparative information has been restated.

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 October 2001 which comprises the Summarised Profit and Loss Account, Summarised Balance Sheet, Cash Flow Analysis and the related Notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and, therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 October 2001.

Ernst & Young LLP
Luton
10 December 2001

VEGA Group PLC, 2 Falcon Way, Shire Park, Welwyn Garden City, Herts, AL7 ITW
tel: 01707 391999 fax: 01707 393909 www.vega.co.uk