NORTHBRIDGE

# Northbridge Industrial Services plc

Interim report and accounts 2012

# About us

## A world-class consolidator of specialist industrial businesses

**Northbridge Industrial Services was incorporated for the purpose of acquiring companies that hire and sell specialist industrial equipment, supplying a non-cyclical customer base including utility companies, the public sector and the oil and gas industries.**

**We have a presence in the UK, US, UAE, Belgium, Germany, France, Australia, Singapore, India, Brazil, Korea and Azerbaijan.**

## Highlights

- Group revenue up 25% to £14.2 million (2011: £11.4 million)
- Gross profit up 12% to £8.0 million (2011: £7.1 million)
- Operating profit £1.7 million (2011: £2.1 million), impacted by a change in revenue mix from rental to sales
- Strong cash generation from operations of £4.7 million (2011: £2.4 million)
- Interim dividend increased by 6% to 1.85 pence (2011: 1.75 pence)
- Oil tool rental activity in Australia performing well
- Transformer rental acquisition in Belgium successfully expanded to Middle East
- Significant investment in hire fleet and new factory premises £6.4 million (2011: £0.7 million)

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# Chairman's statement

**Peter Harris, Chairman**

I am pleased to report another period of growth in the Group's trading for the six months ended 30 June 2012, with overall revenue up 25% to £14.2 million (2011: £11.4 million). Gross profits also increased by 12% to £8.0 million (2011: £7.1 million). A delay in the start of large rental contracts in the Middle East and Australia and buoyant demand for sales of manufactured units resulted in a change of revenue mix from rental towards sales and this adversely impacted the operating profit which declined by 23% to £1.7 million (2011: £2.1 million). None the less we were pleased with the underlying performance of the business and we expect the mix of revenue to swing strongly back in favour of rental in the second half of 2012 following the start of these contracts.

Trading conditions continue to be challenging, particularly in the loadbank rental market both in Europe and internationally. Mitigating this, the outright sale of our manufactured units continued to grow strongly with demand from a worldwide customer base. In addition other parts the Group performed well, particularly Tasman Oil Tools, our rental business in Australia, and Northbridge Transformers, our newly acquired transformer rental business. To support these growing parts of our business we have invested a total of £6.7 million in new oil tools, transformers for the rental fleet and acquired new factory premises in Burton on Trent ("Burton") to enable an increase in manufacturing capacity.

Our main subsidiary in the Middle East, ("NME") had a better start to the year even allowing for the delay mentioned above. Our investment in transformers in this region has proved successful and utilisation for the equipment is currently 100%. The acquisition of DSG Rental ("DSGR") in Belgium late in 2011 (now renamed Northbridge Transformers) has performed well and we have invested substantially in the rental fleet as well as relocating equipment to the Middle East. It is our intention to continue this expansion of Northbridge Transformers by including this service in other Northbridge locations.

Our operational cash flow continued to be strong and we expect cash receipts to continue to grow as the business mix swings back to rental and our capital spending returns to normal in the second half of the year.

## Financial results

Northbridge's revenue for the half year ended 30 June 2012 totalled £14.2 million (2011: £11.4 million) with gross profits of £8.0 million (2011: £7.1 million). Profits before tax totalled £1.4 million (2011: £2.0 million). Net assets at 30 June 2012 were £26.8 million (2011: £25.8 million).

Basic earnings per share totalled 6.7 pence (2011: 10.8 pence) and diluted earnings per share totalled 6.6 pence (2011: 10.5 pence). The average number of shares in issue was 15,379,744 (2011: 15,322,957).

## Financing and cash flow

During the period the Group continued to generate cash strongly from operations with £4.7 million (2011: £2.4 million) being generated. This enabled us to accelerate the investment into the hire fleet which was £4.9 million (2011: £0.7 million) and £1.5 million into the new freehold and fitted out building acquired in Burton. Net gearing at the end of the period was 46.9% (2011: 16.8%) as new and existing lenders provided additional finances to fund capital expenditure requirements.

In line with our stated strategies and objectives we will continue to support our worldwide growth both organically and through acquisitions and will seek to take advantages of business opportunities as they arise on a global basis.

## Dividends

The Board has declared an interim dividend of 1.85 pence (2011: 1.75 pence), an increase of 6%, to be paid on 5 November 2012 to shareholders on the register at 5 October 2012.

## Operations

### Crestchic

Crestchic, our main UK subsidiary, showed good growth again compared to previous years and sales revenue generated from manufactured units was up by 39%. We have now outgrown our current facility and this continued improvement underpins our decision to expand our manufacturing operation by relocating all our non-manufacturing activities into the newly acquired premises adjacent to our Burton site. This allows our current premises to be dedicated to manufacturing only and will expand our capacity substantially.

The rental business of Crestchic continues to be affected by economic conditions in Europe and the slowdown in oil and gas related capital investment earlier in the cycle resulted in rental revenue being down by 8% on the comparative period in 2011. As our hire services are required towards the end of the build programme, there is a "lagging" effect to rental demand for the larger projects compared with the outright sale of our products. We expect rental demand, particularly relating to testing in the oil and gas industry, to pick up in the future.

### Tasman Oil Tools ("Tasman")

Tasman, our oil tool business based in Perth, Western Australia showed some good growth compared with 2011 with turnover up 6% in the first six months; despite the delayed start of two major contracts.

These had started by the end of the period under review but the benefits will now extend further into the second six months of 2012 and into 2013.

The gaining of the Quality Assurance Standards accreditation in the last quarter of 2011 has stood us in good stead and we are now able to offer equipment to an expanded range of customers. This has resulted in the winning of new customers during 2012.

To service these customer demands we have invested a further £2.5 million in drilling tools for our hire fleet.

### Northbridge Middle East ("NME")

NME, which distributes Crestchic products in the Middle East region as well as operating its own hire fleet, had suffered from the relocation of some of its customers away from the region. This caused the hire revenue to fall slightly from last year. However, the Group's acquisition of DSGR in December 2011 has enabled us to offer transformers for rental in the Middle East using our existing location in Dubai and operating under the "Northbridge Transformers" banner.

This has been a very successful start and further investment in the equipment has been necessary. Currently utilisation of transformers is 100%. Despite the late start of a major contract in the first half, rental revenue has now returned to the level of previous years and the longer duration of transformer rental contracts will give a higher degree of stability in the region.

## Outlook

We are optimistic regarding the longer-term outlook for the business despite the dip in profits for the first six months, which was caused primarily by the late start of a number of large rental contracts. These contracts will have a positive impact on the second half of 2012, which is now likely to be our busiest ever. It is unfortunate that slippage in larger rental contracts has become a common feature in the current market and one that is difficult to plan for and some of this revenue will move into 2013.

Our growth in activities in the Far East, in all our products and target industries and the increasing importance of their profit contribution to the Group has persuaded us to relocate our senior management team from Dubai to Singapore to better manage the expansion opportunities for that region. The impact on profits in the full year as a result of slippage and relocation costs is likely to be in the order of £0.6 million.

We have invested strongly in those areas of the business that are currently experiencing growth and we expect this to continue in the long term. The acquisition of the new premises in Burton will provide a step change in our production capabilities in the UK and will enable us to approach new markets with confidence. The management of our existing market is being improved by the recruitment of additional sales and marketing personnel and we now have the space to consider an expansion of our range of loadbanks to include equipment specified for markets in which we are not currently active.

Transformer rental is an activity that is likely to grow further in the future with the increasing frailty of the electricity utilities in many countries and following our acquisition of DSGR and further investment into the hire fleet, we now have one of the larger rental fleets in the world.

Oil tool rental in Australasia continues to be buoyant and we now possess one of the largest hire fleets of independently owned drilling tools following our recent investment, which will pay dividends in the future as we expand our footprint beyond Australia itself.

In line with our stated strategies and objectives we will continue to support our worldwide growth both organically and through acquisitions and will seek to take advantages of business opportunities as they arise on a global basis.

**Peter Harris**
Chairman
27 September 2012

# Interim review report to Northbridge Industrial Services plc

## For the six months ended 30 June 2012

### Introduction

We have been engaged by the Company to review the interim set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Cash Flows and the related explanatory notes to the unaudited interim accounts.

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 interim set of financial statements.

### 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 rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the interim set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### 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 enquiries, 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 interim set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

**BDO LLP**
Chartered accountants and registered auditors
Birmingham
27 September 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated statement of comprehensive income

## For the six months ended 30 June 2012

| | Notes | **Six months ended 30 June 2012 Unaudited £'000** | Six months ended 30 June 2011 Unaudited £'000 | Year ended 31 December 2011 Audited £'000 |
|---|---|---|---|---|
| **Revenue** | | **14,188** | 11,380 | 24,904 |
| Cost of sales | | **(6,231)** | (4,268) | (10,220) |
| **Gross profit** | | **7,957** | 7,112 | 14,684 |
| Selling and distribution costs | | **(3,168)** | (2,392) | (5,529) |
| Administrative expenses | | | | |
| Excluding exceptional items | | **(3,138)** | (2,585) | (4,320) |
| Exceptional items – acquisition related expenses | | **—** | — | (1,688) |
| Total administrative expenses | | **(3,138)** | (2,585) | (6,008) |
| **Profit from operations** | | **1,651** | 2,135 | 3,147 |
| Finance income | | **32** | 12 | 18 |
| Finance costs | | **(273)** | (139) | (277) |
| **Profit before income tax** | | **1,410** | 2,008 | 2,888 |
| **Income tax expense** | | **(383)** | (352) | (567) |
| **Profit for the period attributable to the equity holders of the parent** | | **1,027** | 1,656 | 2,321 |
| **Other comprehensive income** | | | | |
| Exchange differences on translating foreign operations | | **(274)** | (183) | (56) |
| **Other comprehensive income for the period, net of tax** | | **(274)** | (183) | (56) |
| **Total comprehensive income for the period attributable to equity holders of the parent** | | **753** | 1,473 | 2,265 |
| **Earnings per share attributable to the equity holders of the parent** | 2 | | | |
| – basic (pence) | | **6.7** | 10.8 | 15.1 |
| – diluted (pence) | | **6.6** | 10.5 | 14.9 |
| Dividend per share (pence) | 3 | **1.85** | 1.75 | 5.0 |

All amounts relate to continuing operations.

# Consolidated balance sheet

## As at 30 June 2012

| | 30 June 2012 Unaudited £'000 | 30 June 2011 Unaudited £'000 | 31 December 2011 Audited £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | **10,658** | 9,484 | 11,134 |
| Property, plant and equipment | **26,920** | 19,854 | 23,323 |
| | **37,578** | 29,338 | 34,457 |
| **Current assets** | | | |
| Inventories | **2,813** | 1,858 | 2,468 |
| Trade and other receivables | **9,809** | 6,669 | 8,451 |
| Cash and cash equivalents | **451** | 1,364 | 878 |
| | **13,073** | 9,891 | 11,797 |
| **Total assets** | **50,651** | 39,229 | 46,254 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | **6,308** | 3,812 | 3,691 |
| Financial liabilities | **5,380** | 1,923 | 3,195 |
| Other financial liabilities | **564** | 1,192 | 993 |
| Current tax liabilities | **511** | 580 | 426 |
| | **12,763** | 7,507 | 8,305 |
| **Non-current liabilities** | | | |
| Financial liabilities | **7,649** | 3,775 | 8,031 |
| Other financial liabilities | **733** | — | 725 |
| Deferred tax liabilities | **2,723** | 2,159 | 2,975 |
| | **11,105** | 5,934 | 11,731 |
| **Total liabilities** | **23,868** | 13,441 | 20,036 |
| **Total net assets** | **26,783** | 25,788 | 26,218 |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | **1,562** | 1,550 | 1,551 |
| Share premium | **13,367** | 13,189 | 13,203 |
| Merger reserve | **849** | 849 | 849 |
| Treasury share reserve | **(201)** | (201) | (201) |
| Foreign exchange reserve | **1,314** | 1,461 | 1,588 |
| Retained earnings | **9,892** | 8,940 | 9,228 |
| **Total equity** | **26,783** | 25,788 | 26,218 |

# Consolidated cash flow statement

## For the six months ended 30 June 2012

| | **Six months ended 30 June 2012 Unaudited £'000** | Six months ended 30 June 2011 Unaudited £'000 | Year ended 31 December 2011 Audited £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit from ordinary activities before taxation | **1,410** | 2,008 | 2,888 |
| Adjustments for: | | | |
| – amortisation and impairment of intangible fixed assets | **360** | 320 | 617 |
| – amortisation of capitalised debt fee | **27** | 10 | 28 |
| – depreciation of property, plant and equipment | **1,439** | 1,079 | 2,164 |
| – profit on disposal of property, plant and equipment | **(85)** | (95) | (447) |
| – impairment of property, plant and equipment | **—** | — | 1,455 |
| – decrease in provision for future employment costs | **—** | (71) | (71) |
| – investment income | **(32)** | (12) | (18) |
| – finance costs | **273** | 139 | 277 |
| – share option expense | **24** | 22 | 54 |
| | **3,416** | 3,400 | 6,947 |
| Decrease/(increase) in inventories | **57** | (845) | (1,085) |
| Increase in receivables | **(1,450)** | (478) | (765) |
| Increase/(decrease) in payables | **2,675** | 356 | (329) |
| **Cash generated from operations** | **4,698** | 2,433 | 4,768 |
| Finance costs | **(273)** | (139) | (277) |
| Taxation | **(350)** | (1,073) | (1,493) |
| Hire fleet expenditure | **(4,922)** | (664) | (2,437) |
| Sale of assets within hire fleet | **1,166** | 360 | 919 |
| **Net cash from operating activities** | **319** | 917 | 1,480 |
| **Cash flows from investing activities** | | | |
| Finance income | **32** | 12 | 18 |
| Acquisition of subsidiary undertaking (net of cash acquired) | **—** | — | (2,096) |
| Payment of deferred consideration | **(490)** | (1,076) | (2,390) |
| Sale of property, plant and equipment | **29** | 21 | 66 |
| Purchase of property, plant and equipment | **(1,762)** | (263) | (364) |
| **Net cash used in investing activities** | **(2,191)** | (1,306) | (4,766) |
| **Cash flows from financing activities** | | | |
| Proceeds from share capital issued | **174** | 39 | 54 |
| Proceeds from bank and other borrowings | **3,084** | 315 | 3,801 |
| Repayment of bank and other borrowings | **(761)** | (441) | (953) |
| Payment of finance lease creditors | **(548)** | (271) | (588) |
| Dividends paid in the year | **(500)** | (468) | (736) |
| **Net cash from/(used in) financing activities** | **1,449** | (826) | 1,578 |
| **Net decrease in cash and cash equivalents** | **(423)** | (1,215) | (1,708) |
| **Cash and cash equivalents at beginning of period** | **878** | 2,588 | 2,588 |
| Exchange losses on cash and cash equivalents | **(4)** | (9) | (2) |
| **Cash and cash equivalents at end of period** | **451** | 1,364 | 878 |

# Notes to the unaudited interim statements

## For the six months ended 30 June 2012

### 1. Basis of preparation

This interim report has been prepared in accordance with the accounting policies disclosed in the full statutory accounts for the year ended 31 December 2011.

These policies are in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board as endorsed for use in the European Union, that are expected to be applicable for the year ending 31 December 2011.

The Group has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing the interim consolidated financial information.

The financial information in this statement relating to the six months ended 30 June 2012 and the six months ended 30 June 2011 has not been audited, but has been reviewed, pursuant to guidance issued by the Auditing Practices Board.

The financial information for the year ended 31 December 2011 does not constitute the full statutory accounts for that period. The annual report and financial statements for 2011 has been filed with the Registrar of Companies.

The Independent Auditors' Report on the annual report and financial statement for 2011 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The interim report for the period ended 30 June 2012 was approved by the Board of Directors on 27 September 2012.

### 2. Earnings per share

The earnings per share figure has been calculated by dividing the profit after taxation, £1,027,000 (2011: £1,656,000), by the weighted average number of shares in issue, 15,379,744 (2011: 15,322,957).

The diluted earnings per share assumes all share options are exercised at the start of the period or, if later, the date of issue of the share options. This increased the weighted average number of shares in issue by 230,737 (2011: 380,399). At the end of the period, the Company had in issue 227,000 (2011: nil) share options which have not been included in the calculation of the diluted earnings per share because their effects are anti-dilutive although these share options could be dilutive in the future.

### 3. Dividends

An interim dividend of 1.85 pence per share (2011: 1.75 pence) will be paid on 5 November 2012 to shareholders on the register as at 5 October 2012. In accordance with IFRS, no provision for the interim dividend has been made in these financial statements.

### 4. Interim report

Copies of the interim report are being sent to all shareholders and are available to the public from the offices of Northbridge Industrial Services plc at Second Avenue, Centrum 100, Burton on Trent, Staffordshire DE14 2WF. The interim report and the interim announcement will also be available from the Group's website at www.northbridgegroup.co.uk.

# Directors and advisors

**Directors**
P R Harris
Non-executive Chairman

E W Hook
Chief Executive

C W Robinson
Finance Director

A K Mehta
Non-executive Director

J W Gould
Non-executive Director

M G Dodson
Non-executive Director
(independent)

D C Marshall
Non-executive Director
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**Secretary**
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