

Vp plc

W W W . V P P L C . C O M

2005

It is some five years since we recognised the potential benefits to be gained from specialisation within the rental market and focussed our efforts on growing our specialist businesses. We believe our earnings track record over this period demonstrates the success of this strategy and that the results we are announcing today further reinforce the correctness of this decision.

RESULTS

The Group has progressed on several fronts since the start of the new financial year; delivery of material earnings growth, completion of significant acquisitions and the securing of improved and extended banking facilities.

For the six months ended 30 September 2005, profit before tax rose 19% to £5.9m (2004: £4.9m) before one off costs of £0.4m associated with the integration of the recent Pivotal Services Group acquisition. This result is particularly pleasing as it has been achieved on the basis of purely organic improvement without any contribution from acquisitions. Revenue increased by 4% to £47.4m (2004: £45.6m). Earnings per share rose by 10% to 8.96p (2004: 8.14p). Return on capital employed improved to 17.3% (2004: 16.8%).

Your Board is declaring an interim dividend of 1.95p per share, an increase of 11%. The dividend is payable on 6th January 2006 to shareholders registered as at 9th December 2005.

Net debt at 30th September 2005 stood at £5.7m (31 March 2005: £2.4m) representing gearing of 10%. The increase in net debt is after absorbing the £4.5m cost of the Pivotal acquisition and increased capital investment in the rental fleet of £8.5m (2004: £5.9m).

BUSINESS REVIEW

Groundforce produced a satisfactory first half performance, reporting profits of £2.6m (2004: £2.8m). Margins improved but revenue reduced to £11.5m (2004: £12.7m) largely as a result of the anticipated hiatus between the AMP3 and AMP4 water infrastructure investment programmes. Groundforce continues to enjoy good demand from its core civil engineering and construction markets and is well positioned to take advantage of the significant AMP4 workloads as and when they materialise.

UK Forks had an excellent first half on the back of strong revenue growth. Profits rose significantly to £1.3m (2004: £0.8m) on revenue ahead 17% at £7.5m (2004: £6.4m). The division recorded further successes both in the housebuilding and general construction sectors and our order book remains strong. The seasonality of this market means that the second half of the year is unlikely to be as strong as the first.

Airpac Oilfield Services delivered another strong set of figures with profits of £0.5m (2004: £0.6m) on revenue static at £2.2m (2004: £2.2m). Demand from the North Sea market remained buoyant though international project related activity was marginally lower.

Hire Station produced profits of £0.9m (2004: loss £0.3m) before the one-off costs of £0.4m in relation to the recently acquired Pivotal Group. This profit turnaround reflects the impact of the measures taken by management last year and provides a solid base for further progress. Revenue increased to £20.0m (2004: £17.4m).

Pivotal, acquired in July 2005, comprises two activities; a health & safety and management training business, and a safety equipment rental business incorporating a confined space training function. The former has been restructured since acquisition, and now trades as Pivotal Performance and the latter activity has been successfully integrated with our existing Safeorce business to create ESS Safeorce.

As anticipated Torrent Trackside experienced a reduction in revenue, primarily due to the loss of the Network Rail maintenance plant contract. Revenue in the period was £6.2m (2004: £6.9m). Profits reduced to £0.8m (2004: £1.3m). Torrent is a quality business and has responded well to the changes in the market, repositioning itself to take advantage of other growth opportunities, including London Underground.

ACQUISITIONS

In addition to the acquisition of Pivotal in July 2005, since the period end we have separately reported on two further acquisitions.

In November, we acquired Trax Portable Access Limited (TPA), a rental business specialising in the temporary roadway and access market, for an initial cash consideration of £11.5m. This may be augmented by up to a further £7.9m under a 3-year earn-out arrangement. TPA fits well with our strategic objectives in terms of market position, return on capital employed and earnings growth. The highly experienced management team are remaining with the business which we believe is capable of significant further development. We are very pleased to welcome TPA as a new division within Vp.

Also in November, we acquired the business and assets of Dudley Vale from GE Equipment Services Limited for a cash consideration of £3.5m. Dudley Vale rents and sells piling equipment to the construction and civil engineering sectors and will be integrated with our existing Piletec operations within Groundforce. The combined business will have an excellent market position and will trade as Piletec Dudley Vale.

OUTLOOK

We are very pleased to have secured three important acquisitions for Vp since the start of the current financial year and look forward to their contribution to future performance.

At the beginning of November we arranged new bank funding comprising a 5-year, £45m revolving credit line. This facility leverages our financial strength in support of our strategic growth objectives.

Vp has made a strong start to the new financial year and created a platform which we believe will deliver a satisfactory outcome for the year as a whole.

Jeremy Pilkington

Chairman

1 December 2005

CONSOLIDATED STATEMENT

INCOME

	Note	Six months to 30 Sep 2005 (unaudited) £000	Six months to 30 Sep 2004 (unaudited) £000	Full year to 31 Mar 2005 (unaudited) £000
Revenue		47,387	45,601	90,044
Cost of sales		<u>(32,640)</u>	<u>(31,486)</u>	<u>(61,958)</u>
Gross profit		14,747	14,115	28,086
Administration expenses		<u>(9,127)</u>	<u>(9,024)</u>	<u>(17,746)</u>
Operating profit before financing costs		5,620	5,091	10,340
Financial income		115	55	135
Financial expenses		<u>(249)</u>	<u>(211)</u>	<u>(443)</u>
Profit before tax		5,486	4,935	10,032
Income tax expense	3	<u>(1,589)</u>	<u>(1,417)</u>	<u>(2,824)</u>
Profit for the period attributable to equity holders of the parent		<u>3,897</u>	<u>3,518</u>	<u>7,208</u>
Earnings per 5p ordinary share	5	8.96 p	8.14 p	16.62 p
Diluted earnings per 5p ordinary share	5	8.66 p	7.86 p	16.09 p
Divided per share	6	1.95 p	1.75 p	5.75 p
Dividends paid and proposed (£000)		846	761	2,502

Consolidated Statement of Recognised Income and Expense

	Six months to 30 Sep 2005 (unaudited) £000	Six months to 30 Sep 2004 (unaudited) £000	Full year to 31 Mar 2005 (unaudited) £000
Tax on items taken directly to equity	(66)	–	393
Actuarial losses on defined benefit pension scheme	–	–	(1,310)
Foreign exchange translation difference	–	5	4
Net income recognised directly to equity	(66)	5	(913)
Profit for the period	3,897	3,518	7,208
Total recognised income and expense for the period	<u>3,831</u>	<u>3,523</u>	<u>6,295</u>

	Note	30 Sep 2005 (unaudited)	31 Mar 2005 (unaudited)	30 Sep 2004 (unaudited)
		£000	£000	£000
Assets				
Property, plant and equipment		51,285	48,676	47,901
Intangible assets		9,845	7,468	7,434
Total non current assets		<u>61,130</u>	<u>56,144</u>	<u>55,335</u>
Inventories		2,580	2,136	2,098
Trade and other receivables		26,260	22,069	23,131
Cash and cash equivalents		2,395	5,755	4,794
Total current assets		<u>31,235</u>	<u>29,960</u>	<u>30,023</u>
Liabilities				
Interest bearing loans and borrowings		(37)	(159)	(238)
Income tax payable		(1,876)	(1,628)	(1,925)
Trade and other payables		(18,608)	(13,407)	(15,583)
Total current liabilities		<u>(20,521)</u>	<u>(15,194)</u>	<u>(17,746)</u>
Interest bearing loans and borrowings		(8,051)	(8,033)	(8,000)
Employee benefits		(3,744)	(3,916)	(2,594)
Deferred tax liabilities		(2,909)	(3,068)	(3,530)
Total non current liabilities		<u>(14,704)</u>	<u>(15,017)</u>	<u>(14,124)</u>
Net assets		<u>57,140</u>	<u>55,893</u>	<u>53,488</u>
Equity				
Issued capital		2,309	2,309	2,309
Share premium		16,192	16,192	16,192
Revaluation reserve		301	301	419
Retained earnings		38,311	37,064	34,541
Total equity attributable to equity holders of parent	4	<u>57,113</u>	<u>55,866</u>	<u>53,461</u>
Minority interest		<u>27</u>	<u>27</u>	<u>27</u>
Total equity		<u>57,140</u>	<u>55,893</u>	<u>53,488</u>

	Note	Six months to 30 Sep 2005 (unaudited) £000	Six months to 30 Sep 2004 (unaudited) £000	Full year to 31 Mar 2005 (unaudited) £000
Cash generated from operations	7	9,741	9,283	20,148
Interest paid		(231)	(251)	(485)
Interest received		115	55	135
Income taxes paid		(1,426)	(1,521)	(3,277)
Net cash from operating activities		8,199	7,566	16,521
Cash flows from investing activities				
Purchase of property, plant and equipment		(8,321)	(6,253)	(15,145)
Proceeds from sale of plant and equipment		2,687	2,728	5,957
Acquisitions net of cash acquired		(4,647)	55	(204)
Net cash used in investing activities		(10,281)	(3,470)	(9,392)
Cash flows from financing activities				
(Repurchase) / sale of own shares		(1,123)	(53)	153
Repayment of borrowings		-	(100)	(111)
Repayment of loan notes		(125)	(95)	(120)
Payment of finance lease liabilities		(30)	(146)	(156)
Dividends paid		-	-	(2,231)
Net cash used in financing activities		(1,278)	(394)	(2,465)
Net (decrease)/increase in cash and cash equivalents		(3,360)	3,702	4,664
Cash and cash equivalents at beginning of period		5,755	1,087	1,087
Effect of exchange rate fluctuations on cash held		-	5	4
Cash and cash equivalents at end of period		2,395	4,794	5,755

1. Basis of Preparation

EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the Group, for the year ending 31 March 2006, be prepared in accordance with accounting standards adopted for use in the European Union (EU) further to the IAS Regulation (EC 1606/2002) ("accounting standards adopted by the EU").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that either are adopted by the EU and effective (or available for early adoption) at 31 March 2006 or are expected to be adopted and effective (or available for early adoption) at 31 March 2006, the Group's first annual reporting date at which it is required to use accounting standards adopted by the EU. Based on these recognition and measurement requirements the board has made assumptions about the accounting policies expected to be applied when the first annual financial statements are prepared in accordance with accounting standards adopted by the EU for the year ending 31 March 2006. These are set out below in note 2.

The accounting standards adopted by the EU that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2006.

The effect of IFRS, including the required reconciliations, on the Group's comparative figures were set out in our recent announcement "The Impact of International Financial Reporting Standards" which was issued on 18 November 2005.

2. Accounting Policies

Vp's accounting policies have been applied consistently to all periods presented and are in line with those applied in the last annual financial statements for the year ended 31 March 2005, with the exception of the following changes to the accounting policies which have been adopted in order to comply with IFRS.

Goodwill

Goodwill represents the excess of the fair value of the purchase price over the fair value of the net assets acquired as part of a business combination. Goodwill is assumed to have an indefinite useful economic life and under IFRS 3, "Business Combinations", is not amortised, but is reviewed annually for impairment and carried in the balance sheet at cost less any accumulated impairment losses.

The Group has applied the exemption under IFRS 1 that allows goodwill in respect of acquisitions made prior to 1 April 2004 to remain at deemed cost as stated under UK GAAP, that is net of amortisation to that date.

Dividends

In accordance with IAS 10, "Events after the Balance Sheet Date", dividends declared after the balance sheet date are not accrued at that balance sheet date because the liability does not represent an obligation as defined by IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Each dividend will therefore be recognised in the period in which it is approved rather than in the period to which it relates.

Share Based Payments

IFRS 2, "Share-based Payments", requires that the fair value of share options be charged to the Income Statement based upon their fair value at the date of grant. The charge is recognised evenly over the vesting period of the options.

The fair values are calculated using an appropriate option pricing model. The Group's Approved, Unapproved and Save as you Earn (SAYE) schemes have been valued using the Black-Scholes model and the Income Statement charge is adjusted to reflect the expected number of options that will vest based on expected levels of performance and the expected number of employees leaving the Group. The fair values of the Group's Long Term Incentive Plan (LTIP) and Share Matching options are calculated using a discounted grant price model again adjusted for expected performance and employees leaving the Group.

The Group has chosen to adopt the exemption whereby IFRS 2 is only applied to options granted after 7 November 2002.

Financial Instruments

The Group's only financial instrument is an interest rate swap. Under IAS 39, "Financial Instruments: Recognition and Measurement" this is accounted for in the balance sheet at fair value and any movement in fair value is taken to the Income Statement, unless the transaction is designated as part of a hedging relationship in which case any changes to that fair value are accounted for in equity and then released to the Income Statement to match the settlement of interest under the swap.

Employee Benefits

Under IAS 19, "Employee Benefits" the Group's pension deficits are recorded as balance sheet liabilities and the actuarial gains and losses associated with this liability are to be recognised in the Statement of Recognised Income and Expense as they arise. All actuarial gains and losses at 1 April 2004, the date of transition to IFRS, were recognised. Actuarial gains and losses occur when the actual returns on scheme assets differ from those initially expected by the actuary.

Taxation

The charge for taxation is based on the results for the year and takes into account full provision for deferred taxation due to temporary timing differences between the carrying value of an asset or liability and its tax base.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

3. Income Taxes

Income tax on profit before tax is based on an effective tax rate of 29% to reflect the estimated tax charge for the full year.

4. Statement of Changes in Equity

	Six months to 30 Sep 2005 (unaudited) £000	Six months to 30 Sep 2004 (unaudited) £000	Full year to 31 Mar 2005 (unaudited) £000
Total recognised income and expense for the period	3,831	3,523	6,295
Tax movements to equity	50	171	241
Share option charge in the period and gains/losses on share options and disposal of shares	229	157	276
Net movement in shares held by Vp Employee Trust at cost	(1,123)	(53)	153
Dividends to shareholders	(1,740)	(1,452)	(2,214)
Change in equity during the period	1,247	2,346	4,751
Equity at the start of the period	55,866	51,115	51,115
Equity at the end of the period	57,113	53,461	55,866

5. Earnings Per Share

Earnings per share have been calculated on 43,502,560 shares (2004: 43,232,175) being the weighted average number of shares in issue during the period. Diluted earnings per share have been calculated on 44,995,224 shares (2004: 44,785,682).

6. Dividends

The Directors have declared an interim dividend of 1.95 pence (2004: 1.75 pence) per share payable on 6 January 2006 to shareholders on the register at 9 December 2005. The cost of dividends in the Statement of Changes in Equity reflects the adjustments for the interim and final dividends waived by the Vp Employee Trust in relation to the shares it holds for the Group's share option schemes.

7. Reconciliation of profit before tax to net cash generated from operations

	Six months to 30 Sep 2005 (unaudited) £000	Six months to 30 Sep 2004 (unaudited) £000	Full year to 31 Mar 2005 (unaudited) £000
Cash flows from operating activities			
Profit before tax	5,486	4,935	10,032
Depreciation	5,655	5,709	11,045
Profit on sale of tangible fixed assets	(1,010)	(405)	(1,190)
Interest expense	134	156	308
Increase in inventories	(204)	(80)	(94)
Increase in trade and other receivables	(2,183)	(1,367)	(251)
Increase in trade and other payables	1,863	335	298
Cash generated from operations	9,741	9,283	20,148

8. Analysis of Net Debt (unaudited)

	As at 1 Apr 05 £000	Cash Flow £000	Acquisitions £000	As at 30 Sep 05 £000
Cash in hand and at bank	5,755	(3,360)	-	2,395
Medium term loan	(8,000)	-	-	(8,000)
Loan notes	(125)	125	-	-
Finance leases and hire purchases	(67)	30	(51)	(88)
	<u>(2,437)</u>	<u>(3,205)</u>	<u>(51)</u>	<u>(5,693)</u>

Comparative Figures

The comparative figures for the financial year ended 31 March 2005 are not the Group's statutory accounts for that financial year. Those accounts which were prepared under UK GAAP have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

Introduction

We have been engaged by the company to review the financial information set out on pages 3 to 7 and 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.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

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 which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRS as adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information 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 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 30 September 2005.

KPMG Audit Plc
Chartered Accountants
Leeds

1 December 2005

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