Chairman's Statement

Introduction

The business has made further substantial progress in the first half of this financial year with improved trading results, improved margins and an improved order book. The markets we are working in show no signs of the recessionary tendencies being experienced elsewhere in the economy and we continue to run the business with a growth strategy that encompasses organic, acquisition and strategic partnership opportunities.

Trading Results

We are delighted to report much improved interim trading results, slightly ahead of management expectations. Revenue increased 86% at £41.5m (2007: £22.3m) and adjusted profit before taxation and amortisation at £1.9m up 116% from the 2007 comparative of £0.9m. The result for the six months to 31 March 2008 incorporates full contributions from Jex Engineering and Steels Engineering which were not included for the entire 2007 comparative. The most accurate indicator of our improvement is fully diluted earnings per share which increased by 45% to 6.70p (2007: 4.61p).

We are reporting this year in two divisions which more appropriately reflects how the Group is managed and how our individual businesses interact and focus on their key markets.

Nuclear Services

Nuclear Services now incorporates Jordan Nuclear, Jordan Manufacturing and Steels Engineering Services primarily focusing on turnkey projects to the civil and military nuclear markets.

Revenue in the Nuclear Services Division stood at £18.1m an increase of 39% on 2007 revenue of £13.0m. Operating profit totalled £1.3m compared to £0.9m an increase of 46%. Operating margin increased to 7.4% for the current year compared to 7.0% last year. These results underline the considerable growth in our Nuclear Services business. The number of employees working within Nuclear Services now totals 425 compared to 143 when the current group management commenced in October 2005.

Engineering Services

Engineering Services includes Jex Engineering, Jordan Engineering and Booth Industries which operate in the oil and gas, speciality chemical, food and pharmaceutical markets.

Revenue in this division stood at £23.3m, up 152% from the 2007 comparative of £9.3m. Operating profit totalled £1.7m, up 181% from the 2007 comparative of £0.6m. Operating margin increased to 7.5% in 2008 from 6.7% in 2007.

Operating Review

Overall we are highly satisfied with trading in the first half of the financial year. We have six businesses operating at the highest level within their sectors and the synergies identified on the acquisition of Steels and Jex are now beginning to bear fruit. The Board could not be more pleased with the way in which our two acquisitions have settled into the Group.

Nuclear Services

Civil Nuclear

SPRS has made a significant contribution to the financial performance of Nuclear Services in the first half. Since 1 April 2008 we have been working under a novated contract directly with Sellafield Limited. Anticipated completion of the contract is 31 January 2009. One of the challenges of the business has been to replace this major contract and we are pleased with the progress that we have made in selling our nuclear services to a wider audience.

We are pleased that Jordan Nuclear has this year received the Resident Engineer's Award at Sellafield in recognition of their commitment to health and safety and their excellence as a contractor.

Military Nuclear

Steels has made a very pleasing contribution to first half profits. Our investments since acquisition and AWE's increasing confidence in Steels, has resulted in us operating at a run rate more than double that on acquisition in January 2007. Our project and re-kit services have grown significantly in the period and we anticipate strong demand in the next two years in those restricted areas where security clearance is required. We are pleased that Steels has been awarded Contractor of the Year status at Aldermaston.

Specialist Manufacturing

Financial performance in Specialist Manufacturing was slightly behind management expectations in the first half due to a delay in the award of a major contract which has now been received. However, the quality of work done by this operating unit during the last two years has now enabled us to secure orders that should maintain production at full capacity for the next four years.

<u>Engineering Services</u>

Food, Chemical & Pharmaceutical

We have been delighted with the performance and progress of Jex since the business was acquired at the end of May 2007. In addition to making a significant contribution to the financial performance of the Group, Jex has also been successful in obtaining preferred bidder status for the carbon fibre line at the Humberbank facility of Bluestar, the Chinese chemical manufacturer. This contract is due to be signed shortly and is the first major step in the diversification strategy which we employed post-acquisition. We have also received our first design contract in the pharmaceuticals market which we are also targeting for new business.

Oil & Gas

Another satisfying performance by Jordan Engineering with increased activity in the tank refurbishment market. Given the issues surrounding UK energy security together with ongoing health and safety demands this market looks set to provide significant opportunities over the next few years. The continuing increase in oil prices should also provide further opportunity for Jordan Engineering due to client's increased focus on UK production efficiency.

Specialist Manufacturing

Booth Industries has performed in line with management expectations which is commendable given that no major contract was in production during the first half of the year. This has now changed and projects totalling £4.3m have been won in the last two months with the prospect of further major work for the HEFF facility at Aldermaston for which we have already undertaken the design.

Financial Position

During the first half of the financial year we have remained cash positive throughout. On average during the period our cash deposit amounted to approximately £5.2m. Cash generated from operations in the first half was £2.7m compared to £0.7m in 2007. The net increase in cash and cash equivalents was £1.7m (2007: £0.3m). We anticipate that the business should continue to remain cash generative notwithstanding investment to support the growth in our manufacturing operations to service several major contracts recently won.

The effective rate of tax is 18% of profit before tax and reflects further recognition of historical tax losses this year. At 31 March 2008 we have £2.6m of tax losses unrecognised in our deferred taxation account. Due to the nature of these losses we anticipate the benefit from the recognition of these tax losses to become less significant in future years.

We have reported this period's results in accordance with IFRS (International Financial Reporting Standards) as required. The transition from UK GAAP (UK Generally Accepted Accounting Practice) to IFRS was covered in our announcement of 14 April 2008.

Prospects

We continue to experience growth in our core markets notwithstanding the difficulties in the economy in general. This underlines the special nature of our business and the special nature of the markets that we are working in. There is a growing appreciation amongst our client base of the merits of the Redhall brand and this is leading us to larger tendering opportunities and larger contract wins. Our order book now stands at approximately £85m compared to £60m at this time last year.

We were pleased to announce, on 3 April 2008, the signing of the Memorandum of Understanding with our French counterpart ONET Technologies which has given our nuclear offering in the UK and Europe considerably greater scope. During the summer we shall be bidding for two major projects at Sellafield for which we have pre-qualified totalling in excess of £200m in association with our partner ONET. We are also talking to ONET about projects in Europe and they are assisting our specialist manufacturing unit in its expansion into the French nuclear market.

We were delighted to be able to announce last month the award of preferred bidder status for the supply of Spent Fuel Storage Facilities for use on the Sellafield site. We can confirm that this contract should be signed shortly with an estimated initial value of £22m. This contract will provide the backbone to our manufacturing operations in Yate for the next four years.

In Military Nuclear we are pleased that Steels has recently undertaken work for British Energy and continues to work towards the increased diversification of our client base outside of AWE into a broader based offering for the wider MOD market.

In Engineering Services we continue to develop the speciality chemical and pharmaceutical markets and anticipate the carbon fibre and waste to energy markets in particular making a major contribution to future workload. In oil and gas the tank refurbishment market affords major opportunity.

In specialist manufacturing we are pleased with Booth Industries order book and in particular the potential at AWE looks outstanding until 2014. We are currently in discussion with AWE on a framework agreement to assist them in design, manufacture and installation.

We continue to seek complementary acquisitions and in particular, we remain interested in adding more electrical contracting skills to our portfolio. We may also add to our specialist fabrication capacity given the order book for the next four years.

We have an expanding market, solid trading with improving margins, a firm order book, an untarnished reputation, no debt, strong institutional support, a quality European partner and an ability to attract additional quality engineering staff. We are in a position to move on from the solid base that we have created during the last two years.

David Jackson

Chairman & Chief Executive

5 June 2008