



## **CHAIRMAN'S STATEMENT**

The second quarter has delivered a disappointing result, as economic conditions begin to affect Group performance and most particularly that of North Midland Building Limited. Group revenue for the half year declined to £103.5 million from £107.3 million for the comparable period last year, with profitability reduced to £0.79 million from £1.98 million. The results include non-recurring losses of £0.97 million incurred in the closure of the Telent/BT contract in the Eastern Region.

A marginally improved, but unsatisfactory, performance was delivered by the parent company with overall profits up by 67.5% to £0.14 million on revenue of £67.14 million (2007 - £71.1 million), in spite of the Utilities Division returning a loss of £0.39 million, due to the closure of the aforementioned contract. Due to decreasing volumes and increased operating costs, this company decided to terminate the contract and forego the extensions offered. The Highways and Civil Engineering Divisions delivered results comparable to those of last year. North Midland Building Limited, however, was severely affected by the economic downturn, with the cancellation of projects and profitability fell to £0.17 million from £1.4 million in the previous year, on revenue of £14.55 million (2007 - £21.4 million). Nomenca, the M & E subsidiary, performed well and produced a profit of £0.48 million on revenue of £21.8 million (2007 - £19.5 million), a result which was in line with forecast.

As ratified at the Annual General Meeting, the purchase of the minority interest in North Midland Building Limited was completed in this period.

Cash flow in the first half showed a substantial outflow of £6.84 million, resulting in a closing overdraft of £4.34 million, which is well within the Group's bank facilities. Of the outflow, £1.79 million related to the purchase of the minority interest in North Midland Building Limited, £0.77 million to the payment of dividends and £0.9 million in taxation liabilities with the balance largely representing an increase in working capital. In the light of the current economic climate, certain clients are extending payment terms wherever possible, whereas we are endeavouring to maintain payments to our supply chain in accordance with our normal terms.

As reported in my previous statement, negotiations continue with regard to the contractual problems on the schemes at Fiddlers Ferry Power Station and Halifax Sewerage Treatment Works, but it is too early to predict what the eventual outcome on these contracts will be. The current anticipated outturn remains the same as at 31 December 2007

The overall economic picture is becoming increasingly difficult, with a general decline in tendering opportunities, project cancellations due to funding problems and rapidly increasing costs, most particularly in energy and materials. However, the Group order book is still adequate and to a certain extent insulated by the number of framework contracts currently secured, although volumes on these are being lowered. There is a need to enhance the size of the order book in the immediate future to achieve targets. The overall cost base has been reviewed and, sadly, a redundancy programme has been implemented.

In view of the economic conditions currently prevailing, the result for the full year will not meet the current market forecast of £5 million. Based on current trading and orders on hand, the result for the full year is anticipated to fall short of the result achieved in 2007. However, the Group balance sheet remains strong and the Group would expect to exit the current economic downturn in a stronger relative market position.

In order to maintain a return to shareholders, the Board recommends an interim dividend of 2.5p (2007 – 2.5p) per share, which will be paid on 3 October 2008 to the shareholders on the register on 12 September 2008.

R Moyle  
Chairman  
North Midland Construction PLC

## **UNAUDITED CONDENSED GROUP INCOME STATEMENT**

The unaudited Group results for the half year ended 30 June 2008 are shown below together with the unaudited Group results for the half year ended 30 June 2007 and the audited Group results for the year ended 31 December 2007.

	<b><u>Six Months Ended 30 June</u></b>		<b><u>Year Ended</u></b>
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>31 December</u></b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Revenue	103,533	107,259	211,294
Other operating income	115	217	276
	<u>103,648</u>	<u>107,476</u>	<u>211,570</u>
Raw material and consumables	(19,881)	(17,332)	(35,482)
Other external charges	(56,114)	(64,763)	(127,639)
	<u>27,653</u>	<u>25,381</u>	<u>48,449</u>
Employee costs	(24,081)	(20,984)	(40,637)
Depreciation of property, plant & equipment	(945)	(808)	(1,695)
Other operating charges	(1,679)	(1,554)	(2,816)
Group operating profit	<u>948</u>	<u>2,035</u>	<u>3,301</u>
Finance costs	(156)	(57)	(181)
Profit before tax	<u>792</u>	<u>1,978</u>	<u>3,120</u>
Tax (Note 3)	(238)	(593)	(928)
Profit for the period	<u>554</u>	<u>1,385</u>	<u>2,192</u>
Attributed to:-			
Minority interest	84	234	571
Equity holders of the parent	<u>470</u>	<u>1,151</u>	<u>1,621</u>
	<u>554</u>	<u>1,385</u>	<u>2,192</u>
Earnings per share (Note 2)	4.80p	11.74p	16.54p
Dividend per share (Note 4)	6.00p	6.00p	8.50p

## **UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b><u>Six Months ended 30 June 2008</u></b>			<b><u>Six Months to</u></b>	<b><u>Year Ended</u></b>
	<b><u>Total Attributable</u></b>	<b><u>Minority</u></b>	<b><u>Total</u></b>	<b><u>30 June</u></b>	<b><u>31 December</u></b>
	<b><u>to Equity Holder</u></b>	<b><u>Interest</u></b>	<b><u>Equity</u></b>	<b><u>2007</u></b>	<b><u>2007</u></b>
	<b><u>of the Parent</u></b>			<b><u>Total</u></b>	<b><u>Total</u></b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Balance at 31 December 2007	17,810	1,259	19,069	17,935	17,935
Profit for the half year	470	84	554	1,385	2,192
Dividends	(588)	(180)	(768)	(743)	(1,058)
Purchase of minority interest	-	(631)	(631)	-	-
Balance at 30 June 2008	<u>17,692</u>	<u>532</u>	<u>18,224</u>	<u>18,577</u>	<u>19,069</u>

The total attributable to equity holders of the parent is the aggregate of share capital, capital redemption reserve and retained earnings. Share capital of £980,000 and capital redemption reserve of £20,000 have not changed during the half year ended 30 June 2008.

## **UNAUDITED CONDENSED GROUP BALANCE SHEET**

The unaudited condensed Group Balance Sheets at 30 June 2008 and 30 June 2007 are shown below together with the audited Group Balance Sheet at 31 December 2007.

	<b><u>30 June</u></b>		<b><u>31 Dec</u></b>
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2007</u></b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Non-Current Assets</b>			
Goodwill (Note 5)	1,267	106	106
Property, plant and equipment	11,347	9,195	11,135
	<u>12,614</u>	<u>9,301</u>	<u>11,241</u>
<b>Current Assets</b>			
Inventories	1,138	1,296	1,714
Construction contracts	11,185	9,543	9,850
Trade and other receivables	44,059	43,643	44,532
Cash and cash equivalents	-	-	2,501
	<u>56,382</u>	<u>54,482</u>	<u>58,597</u>
<b>Total Assets</b>	<u>68,996</u>	<u>63,783</u>	<u>69,838</u>
<b>Equity &amp; liabilities</b>			
<b>Equity attributable to equity holders of the Parent</b>			
Share capital	980	980	980
Capital redemption reserve	20	20	20
Retained earnings	16,692	16,585	16,810
	<u>17,692</u>	<u>17,585</u>	<u>17,810</u>
Minority interest	532	992	1,259
<b>Total equity</b>	<u>18,224</u>	<u>18,577</u>	<u>19,069</u>
<b>Non-current liabilities</b>			
Obligation under finance leases – due after one year	1,216	952	1,041
Provisions	396	452	429
Deferred tax	110	70	110
	<u>1,722</u>	<u>1,474</u>	<u>1,580</u>
<b>Current liabilities</b>			
Trade & other payables	43,320	39,461	47,061
Current tax payable	252	600	895
Obligations under finance leases - due within one year	1,139	1,015	1,233
Bank overdrafts	4,339	2,656	-
	<u>49,050</u>	<u>43,732</u>	<u>49,189</u>
<b>Total liabilities</b>	<u>50,772</u>	<u>45,206</u>	<u>50,769</u>
<b>Total equity &amp; liabilities</b>	<u>68,996</u>	<u>63,783</u>	<u>69,838</u>

**UNAUDITED CONDENSED GROUP CASH FLOW STATEMENT**

	<b>Six Months Ended 30 June</b>		<b>Year Ended</b>
	<b>2008</b>	<b>2007</b>	<b>31 December</b>
	<b>£'000</b>	<b>£'000</b>	<b>2007</b>
			<b>£'000</b>
<b>Cash flows from operating activities</b>			
Operating profit	948	2,035	3,301
Adjustments for:			
Depreciation of property, plant and equipment	945	808	1,695
(Gain) on disposal of property, plant and equipment	(100)	(29)	(108)
(Decrease) in provisions	(33)	(9)	(32)
<b>Operating cash flows before movements in working capital</b>	<u>1,760</u>	<u>2,805</u>	<u>4856</u>
Decrease/(increase) in inventories	576	(250)	(668)
(Increase) in construction contracts	(1,335)	(2,534)	(2,841)
Decrease/(increase) in receivables	473	(10,798)	(11,687)
(Decrease)/increase in payables	(3,741)	2,462	10,062
<b>Cash (used in) operations</b>	<u>(2,267)</u>	<u>(8,315)</u>	<u>(278)</u>
Tax paid	(882)	(963)	(963)
Interest paid	(156)	(57)	(181)
<b>Net cash (used in) from operating activities</b>	<u>(3,305)</u>	<u>(9,335)</u>	<u>(1,422)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(443)	(655)	(2,509)
Proceeds on disposal of property, plant and equipment	117	35	120
Purchase of minority	(1,791)	-	-
<b>Net cash (used in) investing activities</b>	<u>(2,117)</u>	<u>(620)</u>	<u>(2,389)</u>
<b>Cash flows from financing activities</b>			
Equity dividend paid	(588)	(588)	(833)
Dividend paid to minority interests	(180)	(155)	(225)
Repayments of obligations under finance leases	(650)	(610)	(1,282)
<b>Net cash (used in) financing activities</b>	<u>(1,418)</u>	<u>(1,353)</u>	<u>(2,340)</u>
<b>Net (decrease) in cash and cash equivalents</b>	<u>(6,840)</u>	<u>(11,308)</u>	<u>(6,151)</u>
<b>Cash and cash equivalents at 1 January 2008</b>	<u>2,501</u>	<u>8,652</u>	<u>8,652</u>
<b>(Bank overdrafts)/cash and cash equivalents at 30 June 2008</b>	<u>(4,339)</u>	<u>(2,656)</u>	<u>2,501</u>

**NOTES**

1. **Basis of preparation**  
The unaudited condensed Group financial statements for the half year ended 30 June 2008 included in this report have been prepared in accordance with the International Financial Reporting Standards (IAS34 – ‘Interim Financial Reporting’).

The unaudited condensed Group financial statements were approved for issue by the Board on 28 August 2008. The full year figures for 2007 included in this report do not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985. A copy of the Company’s statutory accounts for the year ended 31 December 2007 has been delivered to the Registrar of Companies. The independent auditors’ report on those accounts was unqualified.

The unaudited condensed Group financial statements have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts 2007.

2. **Earnings per share**  
The basic and diluted earnings per share are the same and have been calculated on profits of £470,000 (2007 - £1,151,000) and 9,800,000 shares in issue.

3. **Taxation**  
In respect of the six months ended 30 June 2008, corporation tax has been provided at 30% (2007 – 30%) of the profit without deferment.

4. **Dividends**  
During the half year ended 30 Jun 2008 the company paid the previous period final dividend of 6.0p per share, total £588,000 (half year ended 30 June 2007 6.0p per share, total £588,000).

5. **Goodwill**  
At the Extraordinary General Meeting held on 29 May 2008 an ordinary resolution to purchase the 15% minority interest in the subsidiary North Midland Building Limited for £1,730,202 was approved.

The purchase price, together with related costs, over the fair value of assets acquired, gave rise to goodwill of £1,161,000. All consideration and related costs were satisfied in cash.

An impairment review of the goodwill figure has been carried out in the light of past performance and forecast future performance. Based on this review, the Directors consider that no provision for impairment is necessary.

6. **Related parties and Joint Operations**

The Group’s related parties are key management personnel who are the executive directors, non-executive directors and divisional managers.

Additionally, the Group has a 50% interest in a joint operation with Biwater Treatment Limited.

The condensed Group financial statements for the half year ended 30 June 2008 incorporate the following relating to the joint operation:-

	<b>Six Months to 30 June</b>		<b>Year Ended</b>
	<b>2008</b>	<b>2007</b>	<b>31 December</b>
	<b>£’000</b>	<b>£’000</b>	<b>2007</b>
			<b>£’000</b>
Revenue	14,594	-	11,038
Expenses	13,604	-	10,300
Assets	5,591	-	1,093
Liabilities	5,591	-	1,093

7. **Contingent Liabilities**

The Office of Fair Trading (OFT) has concluded its initial investigation into the construction industry and this Group is on their list of 112 companies under further investigation. Three outstanding allegations remain against the Group. A hearing was attended with the OFT in July 2008. The Group has defended its position and the result is still pending.

8. **Seasonality**

The Group's activities are not subject to significant seasonal variations.

A copy of this circular will be sent to all shareholders on 29 August 2008 and copies will be available from the registered office, Nunn Close, The County Estate, Huthwaite, Sutton-in-Ashfield, Nottinghamshire, NG17 2HW, for 14 days from today's date. This report will also be available on the Group's website ([www.northmid.co.uk](http://www.northmid.co.uk)).