LPA GROUP PLC

Preliminary results for the year ended 30 September 2010

LPA Group plc ("LPA" or the "Group"), the LED lighting and electro-mechanical engineering group, announces its results for the year ended 30 September 2010, which for reasons previously reported proved to be extremely challenging. The current financial year has started positively with a substantially improved performance compared with the same period last year and some important new contracts.

KEY POINTS

- Revenue up 7.3% to £14.7m (2009: £13.7m)
- Loss before taxation of £458,000 (2009: profit of £187,000)
- Loss per share of 3.35p (2009: earnings per share of 1.24p)
- Maintained final dividend of 0.40p, total for the year 0.40p (2009: 0.90p)
- Sales of LED lighting products increased 38% to £1.63m (2009: £1.18m)
- Strong year-end order book at £15.4m (2009: £16.8m)
- Much improved start to current financial year

Peter Pollock, Chief Executive, comments:

"Approximately £2.3m of production orders, which were delayed and had such a negative impact on the whole of last year, will largely be delivered during the current year giving a healthy base level of activity. The recently announced major LED lighting order for SNCF (French Railways) is an important break-through and one of a number of large opportunities we are seeking to secure this year. Overall, performance has improved substantially, but there is further to go. We look forward to the current year and beyond with much more confidence."

27 January 2011

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Chairman's Statement

Results

The Group suffered very badly from the previously reported sudden and protracted delay in production orders, which shifted approximately £2.3m of scheduled deliveries out of the year under review into later periods. Although sales increased by £1.0m to £14.7m the extra sales were at lower margins and capacity and the cost base had been expanded to cope with the higher anticipated levels of output. This resulted in a severe imbalance and created a loss before tax of £458,000 (2009: profit of £187,000). Despite the significant trading loss, the increase in gearing was limited to 47.5% from 31.3%. The order book at the end of the year amounted to £15.4m (2009: £16.8m).

Dividends

An interim dividend was not paid for the year under review. However, given the prospects for a good recovery in the current year your Board considers it appropriate to pay a final dividend and proposes to maintain it at 0.40p, giving a total for the year of 0.40p (2009: 0.90p). Subject to approval by shareholders at the annual general meeting, to be held at 12.00 noon on 3 March 2011 at the offices of College Hill Associates Limited, London, the final dividend will be paid on 25 March 2011 to shareholders registered at the close of business on 4 March 2011. The Board will keep future dividend policy under review.

Board and management

The Board has remained unchanged throughout the year. Per Staehr, whose initial appointment was due to expire at the conclusion of the forthcoming annual general meeting has consented to serve for a further three years and it is expected that he will now retire at the conclusion of the annual general meeting in 2014.

George Renshaw, Group Sales and Marketing Executive and Managing Director of LPA Channel Electric, retired at the end of December 2010. We thank him for his excellent service over the last eleven years and wish him a long and happy retirement. A successor has been appointed at LPA Channel Electric and his Group sales and marketing responsibilities have been temporarily assumed by the Chief Executive.

Employees

During an extremely challenging year our employees have once again striven and succeeded in satisfying customers' requirements and have again proven to be our most important asset. On behalf of the Board I would like to thank them for their continued dedication and loyalty.

Outlook

Compared with the very difficult trading conditions suffered a year ago, the challenges of the first quarter of this financial year have been straightforward and we have made positive progress. We have a good order book for delivery in this financial year and have capacity to satisfy further orders. The uncertainty created by the UK Government spending review undermined confidence in the rail and aerospace and defence sectors, but these appear now to be recovering.

The major contract announcement for French railway operator SNCF is very encouraging news for our LED lighting business, for which we have great expectations. There are other major opportunities, which we hope we will secure in the fullness of time. We expect to make sound progress this year.

Michael Rusch
Chairman
27 January 2011

Chief Executive's Review

Trading results

The re-scheduling of approximately £2.3m of activity from the year to September 2010 into later periods severely affected our trading performance. Capacity had been put in place to meet the scheduled load, which disappeared at short notice. Worse, the re-scheduling was expected to be short lived, but in actuality it persisted throughout the year.

Routine orders, which had dried up as the recession developed, recovered slightly although not to the pre-recession levels. Most encouragingly sub-contract metal work, which is a good measure of conditions in the engineering industry, has picked up recently. The order for the West Coast Mainline additional coaches was the most significant contract to report in the period. The LED lighting order for SNCF, won at the end of calendar year 2010, is very exciting.

The additional sales achieved during the last financial year related to projects at lower added value than routine business which remained depressed.

Design and development continued on new LED lighting products and large rail projects. Sales and marketing expenditure was maintained in our effort to grow the business in new markets.

Details of the financial performance are contained in the Chairman's Statement and the Financial Review.

Markets

The global rail transport market is expanding rapidly as is the manufacturing capacity to satisfy it, particularly in China. Despite the recent announcements by the UK Government of new rail vehicle contracts, these follow a period of inactivity and continue the feast and famine pattern that we have had to learn to deal with. It is at this time very unlikely that there will be sufficient capacity in the UK to satisfy these contracts within the available time period and this will inevitably lead to some of the contracts being awarded to non-UK manufacturers. It is possible, however, that potential successful foreign bidders will be persuaded to purchase some components in the UK and even to assemble the product in the UK. In any case we have marketed our products with all potential bidders and will pursue any opportunities on offer.

Given the relatively small size of the UK market and its variable demand we need to continue our efforts to develop selected export markets. These efforts have achieved excellent results to date and, if options are exercised, potentially offer very large long term order books for the Group.

We remain heavily involved in the Australian market, where we supply several customers and end users in the rail and airport market. The recent LED lighting order for SNCF is the result of several years' effort and represents an important breakthrough with much potential for the future. Europe, as a market, is becoming more receptive to our LED lighting products. The Green credentials of our products are encouraging customers to consider them as an alternative to traditional products even where there is a price premium.

There is serious competition from overseas suppliers of LED lighting, however the quality and adherence with industry standards of their products is very variable. The Group has positioned itself at the quality end of the market where compliance and reliability are pre-requisites.

The UK defence and aerospace markets remain very important to us and we continue to supply connectors to the aircraft ground support market world-wide.

Design and development

We have added LumiMatrix, a panel light only 30mm thick to our LumiSeries range of energy saving LED-based lighting products. Our products are now available in both Direct Current and Alternating Current variants. Sales of LED lighting products increased by 38% during the year to £1.63m (2009: £1.18m).

Electro-mechanical design and development activity has been focussed on satisfying major rail projects requirements and developing aircraft ground power supply products.

Structure and costs

Maintaining capacity to meet the Group's customers' requirements, when their schedules have been changing rapidly, has been very difficult and costly. We will review our structure and focus in the light of the likely future markets for our products given the Government's commitment to purchase new rail vehicles. We have continued to invest for the future in sales & marketing and design & development.

Strategy

We are committed to deliver shareholder value over the medium term, however, the effect of the Government spending review on our home market and the strength of sterling versus other currencies in export markets will be important influences on our customers. We will continue to reduce our exposure to the sub-contract market, which has been very volatile, and will focus more resource on the after market for our products.

In addition we are continuing to prepare the Saffron Walden property for sale, as and when market conditions allow, and are migrating activities from the site where possible, whilst retaining the essential skills of our workforce in the locality.

Peter Pollock
Chief Executive
27 January 2011

Financial Review

Accounts preparation

The accounts have been prepared under the principles of International Financial Reporting Standards (IFRS).

Financial performance

The principal feature was that despite sales increasing by £1.0m (7.3%) to £14.72m (2009: £13.72m) in the current year, an operating loss of £371,000 was suffered as compared to a profit of £205,000 in 2009, the result of both lower margins and increased costs. The margin and cost positions were anticipated at the start of the year but it was expected that already secured rail projects would not be subject to the delays in fact experienced and that project sales would, as a consequence, be more than £2.3m higher than that actually achieved.

The year on year shortfall was most pronounced in the first half of the year, with sales of £6.93m (2009: £7.03m) producing an operating loss of £297,000 (2009: profit of £92,000) and where sales and profits were down on the corresponding period last year by £0.10m and £389,000 respectively. The second half result, sales of £7.79m and an operating loss of £74,000 represented an improvement over the first half but again profitability remained behind the corresponding period last year (2009: sales of £6.69m, profit of £113,000).

Gross margins fell 3.1% to 23.1% (2009: 26.2%) which resulted in a lower gross profit of £3.40m (2009: £3.60m). Key factors here were a shift in product mix (with £1.8m of additional lower added-value rail project sales in the year but with £0.8m fewer sales of higher added-value non-project products) combined with generally lower margins. Other operating expenses were £0.38m above last year at £3.77m (2009: £3.39m). Costs in the year included termination costs of £82,000 (2009: £13,000), share option costs at £47,000 (2009: £64,000) and defined benefit pension scheme expense at £nil (2009: £105,000) reflecting the decision to close the scheme to future accrual at the end of last year.

Within finance costs interest on borrowings rose in the year to £94,000 (2009: £91,000) reflecting higher average borrowings although marginally lower interest rates and the interest cost on pension scheme liabilities rose slightly to £582,000 (2009: £572,000) with the impact of the higher level of liabilities being compensated for by a lower discount rate. Finance income comprised the return on pension scheme assets which was down at £589,000 (2009: £645,000) the consequence of lower expected long-term rates of return albeit on higher opening assets.

With a tax credit of £75,000 (2009: charge of £45,000) the loss for the year was £383,000 (2009: profit of £142,000) representing basic loss per share of 3.35p (2009: earnings of 1.24p).

Balance sheet

At the end of the year shareholders' funds were £3.96m (2009: £4.47m) giving a net asset value per ordinary share of 34.6p (2009: 39.0p). The tangible net asset value per share, calculated excluding intangible assets and the net pension liability from the calculation, was 24.7p (2009: 28.6p).

Property, plant and equipment at 30 September was £1.79m (2009: £2.03m) of which property made up £0.81m and plant and equipment £0.98m. Additions, which remain focused in the areas of production and engineering, were £83,000 (2009: £249,000) and the depreciation charge for the year was £323,000 (2009: £328,000). The carrying value of the Group's freehold properties does not reflect any redevelopment upside.

Net trading assets (defined as inventories plus trade and other receivables, less trade and other payables, provisions and current tax) increased to £2.84m (2009: £2.62m) reflecting the higher year on year final quarter trading.

Net debt rose £0.48m over the year to £1.88m and gearing worsened to 47.5% (2009: 31.3%).

Intangible assets which total £1.33m (2009: £1.29m) comprise goodwill and capitalised development costs. Goodwill was unchanged at £1.23m (2009: £1.23m) and largely relates to the Group's investment in Excil Electronics: there was no impairment charge in the year (2009: £nil). Capitalised development costs at the end of the year were £96,000 (2009: £59,000) and relate to the development of LED lighting products.

The pension liability included in the balance sheet, net of deferred tax, was £199,000 (2009: £97,000). The change comprised an actuarial loss of £107,000 (2009: £505,000) recognised in the statement of comprehensive income, plus £5,000 credited to the income statement (2009: charge of £44,000), less £nil (2009: £74,000) of contributions received. The overall actuarial loss of £107,000 (2009: £505,000) resulted from the impact of changes to financial assumptions of £575,000 (2009: £250,000) less an experience gain on liabilities of £157,000 (2009: loss of £550,000) less a better than expected asset return of £311,000 (2009: £295,000).

Cash flow

The weak trading performance combined with higher levels of working capital at the year end meant that there was a cash absorption from operating activities of £185,000. With tax paid of £36,000 (2009: £nil) net cash absorbed from operating activities was £221,000 (2009: generation of £871,000).

Capital expenditure was limited to £83,000 (2009: £249,000), asset disposal proceeds were £1,000 (2009: £75,000) and development expenditure capitalised in the year amounted to £42,000 (2009: £60,000).

Debt repayments were in line with last year at £408,000 (2009: £403,000), interest payments on borrowings increased to £86,000 (2009: £80,000) but dividend payments were lower at £46,000 (2009: £103,000) following the decision not to pay an interim dividend.

Overall there was a net decrease in the cash position of £885,000 (2009: increase of £51,000).

Net debt

An analysis of the change in net debt is shown below:

	Bank loan £'000	Finance lease obligations £'000	Cash and cash equivalents £'000	Net debt £'000
At 1 October 2009	938	370	91	1,399
Cash absorbed	-	-	477	477
Repayment of borrowings	(291)	(117)	408	-
Other non-cash items	8	-	-	8
At 30 September 2010	655	253	976	1,884

The bank loan is repayable in 9 quarterly instalments of £73,000 the last being in October 2012, the finance lease obligations are repayable over the next three years, and the bank overdraft of £0.98m (2009: £0.09m) is repayable on demand. At the year-end the Group was holding minimal cash and had £1.02m (2009: £0.91m) of un-drawn overdraft facilities available to it.

Subsequent to the year end the Group has re-negotiated its working capital facilities through to the end of December 2011. These total £3.2m (previously £2.8m) and provide for an overdraft limit of £2.5m (previously: £2.0m) an unchanged guarantee limit of £0.6m and a forward exchange contract facility limit of £0.1m (previously £0.2m). Interest is payable on the overdraft facility at 2.5% over base rate on balances up to £2.0m and at 3.0% thereafter (previously 2.5% on the whole facility).

Treasury

The Group's treasury policy operates within approved Board guidelines and has not changed since 2009. It seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, liquidity and credit risks.

Stephen Brett
Finance Director
27 January 2011

Consolidated Income Statement

For the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Revenue		14,716	13,715
Cost of sales		(11,315)	(10,120)
Gross profit		3,401	3,595
Distribution costs		(1,488)	(1,413)
Administrative expenses		(2,284)	(1,977)
Operating (loss) / profit		(371)	205
Finance costs		(676)	(663)
Finance income		589	645
(Loss) / profit before tax		(458)	187
Taxation		75	(45)
(Loss) / profit for the year		(383)	142
(Loss) / earnings per share	1		
Basic		(3.35p)	1.24p
Diluted		(3.35p)	1.24p

All activities are continuing.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2010

	2010 £'000	2009 £'000
(Loss) / profit for the year	(383)	142
Cash flow hedges:		
(Losses) / gains taken to equity	(10)	74
Transferred to (loss) / profit for the period	(13)	(60)
Tax on cash flow hedges	8	(4)
Actuarial loss on pension scheme	(148)	(702)
Tax on actuarial loss	41	197
Other comprehensive expense net of tax	(122)	(495)
Total comprehensive expense for the year	(505)	(353)
Attributable to:		
- Equity shareholders of the parent	(505)	(353)

Consolidated Balance Sheet

At 30 September 2010

	2010 £'000	2009 £'000
Non-current assets		
Intangible assets	1,330	1,293
Property, plant and equipment	1,791	2,031
Deferred tax assets	218	135
	3,339	3,459
Current assets		
Inventories	2,473	2,495
Trade and other receivables	3,405	2,822
Current tax receivable	18	-
Cash and cash equivalents	5	2
	5,901	5,319
Total assets	9,240	8,778
Current liabilities		
Bank overdraft	(981)	(93)
Bank loans and other borrowings	(407)	(402)
Current tax payable	-	(40)
Trade and other payables	(3,027)	(2,630)
	(4,415)	(3,165)
Non-current liabilities		
Bank loans and other borrowings	(501)	(906)
Provisions	(5)	(5)
Retirement benefits	(276)	(135)
Deferred tax liabilities	(54)	(73)
Other payables	(25)	(26)
	(861)	(1,145)
Total liabilities	(5,276)	(4,310)
Net assets	3,964	4,468
Capital and reserves		
Share capital	1,145	1,145
Share premium account	365	365
Un-issued shares reserve	192	145
Revaluation reserve	308	309
Merger reserve	230	230
Retained earnings	1,724	2,274
Equity attributable to shareholders of the parent	3,964	4,468

Consolidated Cash Flow Statement
For the year ended 30 September 2010

	2010 £'000	2009 £'000
(Loss) / profit for the year	(383)	142
Finance costs	676	663
Finance income	(589)	(645)
Income tax	(75)	45
Operating (loss) / profit	(371)	205
Adjustments for:		
Depreciation	323	328
Amortisation of intangible assets	5	1
(Gain) / loss on sale of property, plant and equipment	(1)	6
Derivative financial instruments	-	(2)
Non-cash charge for equity-settled share-based payments	47	64
Retirement benefits	-	31
	3	633
Movements in working capital:		
Change in inventories	22	(301)
Change in trade and other receivables	(610)	379
Change in trade and other payables	400	160
Cash generated from operations	(185)	871
Income tax paid	(36)	-
Net cash from operating activities	(221)	871
Purchase of property, plant and equipment	(83)	(249)
Proceeds from sale of property, plant and equipment	1	75
Capitalised development costs	(42)	(60)
Net cash from investing activities	(124)	(234)
Repayment of bank loans	(291)	(291)
Repayment of obligations under finance leases	(117)	(112)
Interest paid	(86)	(80)
Dividends paid	(46)	(103)
Net cash from financing activities	(540)	(586)
Net (decrease) / increase in cash and cash equivalents	(885)	51
Cash and cash equivalents at start of the year	(91)	(142)
Cash and cash equivalents at end of the year	(976)	(91)

Reconciliation of cash and cash equivalents	**2010 £'000**	**2009 £'000**
Cash and cash equivalents in current assets	5	2
Bank overdraft in current liabilities	(981)	(93)
Cash and cash equivalents at end of the year	(976)	(91)

Notes

1 – (LOSS) / EARNINGS PER SHARE

The calculation of earnings per share is based upon the loss for the year of £383,000 (2009: profit of £142,000) and the weighted average number of ordinary shares in issue during the year of 11.448m (2009: 11.448m). Due to losses in the current year no dilution arises and diluted earnings per share is therefore shown as the same as basic earnings per share. Last year the weighted average number of ordinary shares diluted for the effect of outstanding share options was 11.463m.

	2010			2009		
	Earnings £'000	**Weighted average number of shares Million**	**Earnings per share Pence**	**Earnings £'000**	**Weighted average number of shares Million**	**Earnings per share Pence**
Basic earnings per share	(383)	11.448	(3.35)	142	11.448	1.24
Effect of share options	-	-	-	-	0.015	-
Diluted earnings per share	(383)	11.448	(3.35)	142	11.463	1.24

2 - INFORMATION

The preceding information does not constitute the Company's statutory accounts for the years ended 30 September 2010 or 30 September 2009 but is derived from those accounts. The 2010 accounts will be posted to shareholders on 7 February 2011 and will be available from the Company Secretary, LPA Group Plc, Debden Road, Saffron Walden, Essex, CB11 4AN and on LPA's website (www.lpa-group.com), shortly thereafter. Statutory accounts for 2009 have been delivered to the Registrar of Companies, and those for 2010 will be delivered following the annual general meeting. The auditors have reported on these accounts and their reports were unqualified and did not contain statements under the Companies Act.

The Chairman's Statement, the Chief Executive's Review, and the Financial Review included in this preliminary announcement form part of the business review included in the 2010 accounts. The business review and other content of this preliminary announcement have been prepared solely for the shareholders of the Company as a body. To the extent permitted by law the Company, its directors, officers and employees disclaim liability to any other persons in respect of the information contained in this preliminary announcement. Sections may include statements containing risks and uncertainties facing the Group, and other forward-looking statements, which by their nature involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The Company undertakes no obligation to update any forward-looking statements.