

REACT Group PLC

INTERIM RESULTS FOR THE 6 MONTHS ENDED 31 MARCH 2018

REACT Group PLC ("REACT" or "the Company") announces its interim results for the six months ended 31 March 2018.

During the six months ended 31 March 2018 market conditions have been difficult and the Company has also gone through a period of significant change. Following the acquisition of the specialist cleaning business from Autoclenz Limited ("Autoclenz") in 2015, Autoclenz continued to provide financial and administrative support to the Company under a service agreement entered into at that time. This service agreement was terminated at the start of the current financial year and in November 2017 the Company moved into leased premises in Swadlincote. As a consequence the Company is investing in financial and other systems to improve the quality of its management information and to ensure its administration systems are scalable and will remain "fit for purpose" as the business grows. There have also been significant changes in the management of the business with the appointment of an Interim Head of Operations, with extensive general management experience, in April 2018. The finance team has also been strengthened with the appointment of a full time Group Financial Controller in April 2018, and although it is still early days, we are already seeing the benefits of this investment with improved debt collection and a number of operational efficiencies having been identified, since the half year end.

On the existing business the new management team is conducting a review of operations to identify cost savings and opportunities for growth in order to stem the losses and return the Company to profitability. As part of this review it became apparent that the asbestos side of the business was not making a contribution and, as a consequence, given the onerous compliance obligations for licence holders, and the risks associated with this type of business, the Board has taken the decision to contract out any future requirement for asbestos removal to specialist companies rather than dealing internally.

Going forward our sales effort will continue to target larger contracts which will generate a more predictable revenue stream, albeit at a lower margin than the 24 hour emergency and specialist cleaning part of the business. As previously reported, we have had some success with the award of two major hospital contracts, £200,000 in September 2017 and a further £206,000 in March 2018 as well as a contract for £225,000 with a major highways construction company for the decontamination and deep cleaning of amenity and picnic sites which was awarded in May 2018. The full benefits of these contracts will not come through until the second half of the current financial year.

Financial review

During the six months ended 31 March 2018 turnover amounted to £1.47m (six months ended 31 March 2017: £1.27m; year ended 30 September 2017: £2.64m), an increase of 16% over the comparative period for the prior year. This increase was due primarily to the new contract for the provision of janitorial services and other ad-hoc work to a major London hospital which was secured in September 2017. Gross margins have fallen due the change in mix between the higher margin 24 hour emergency and specialist cleaning part of the business and the provision of janitorial services, as well as price pressure generally in the industry as a whole.

Administrative costs amounted to £667,000 (six months ended 31 March 2017: £500,000; year ended 30 September 2017: £1,223,000) and include £91,000 (six months ended 31 March 2017: £nil, year ended 30 September 2017: £15,000) of non-recurring exceptional costs. The increase over the comparative period for the prior year is primarily due to costs associated with taking on the new premises and providing our own administrative support. The exceptional costs include a bad debt from a major FM company that has recently gone into receivership, recruitment fees and other employee related costs associated with the changes in the management of the business during the period under review.

After administration costs the operating loss from continuing operations amounted to £327,000 (six months ended 31 March 2017: £164,000, year ended 30 September 2017: £393,000). The cash balance at 31 March stood at £464,000 (30 September 2017: £631,000).

Board changes

As previously announced Chris Barnes will leave the Company on 30 June 2018. A search is currently underway to identify a new non-executive director with sales and marketing experience to strengthen the Board.

Brokers

On 30 June 2018 the service contract with Whitman Howard Limited will come to an end, by mutual agreement, and Peterhouse Capital Limited will continue as our sole broker. The Board believes that, given the Company's current size and status, it only requires one broker at present. The Board would also like to thank the team at Whitman Howard for their help in recent years.

Outlook

A number of changes have taken place in the management and operations of the business since the end of the period under review which the Board believes will enable the Company to effectively implement a growth strategy going forward. As previously advised we will continue to focus our efforts on the core specialist cleaning business with a view to securing additional contracts with major FM companies and public sector organisations to improve the quality of our customer base and increase the level of recurring revenue. There are still a number of significant challenges facing the business but the Board is optimistic the changes being made will deliver value for shareholders in the future.

To conclude I would like to thank all of our staff and shareholders for their support and look forward to updating shareholders on our progress in due course.

Gill Leates

Chairman

21 June 2018

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Consolidated Statement of Comprehensive Income For the six months ended 31 March 2018

Note	6 months ended 31 March 2018	6 months ended 31 March 2017	Year ended 30 September 2017
	£'000	£'000	£'000

Continuing Operations

Revenue	1,470	1,270	2,645
Cost of Sales	(1,130)	(934)	(1,815)
Gross Profit	340	336	830
Administrative expenses	(667)	(500)	(1,223)
Exceptional costs included in administrative expenses	(91)	-	(15)
Operating loss	(327)	(164)	(393)
Income tax credit	21	-	-
Loss for the period from continuing operations	(306)	(164)	(393)
Loss for the period from discontinued operations	-	(28)	(45)
Loss for the period	(306)	(192)	(438)
Other Comprehensive Income	-	-	-
Loss for the financial period attributable to equity holders of the company	(306)	(192)	(438)
Basic and diluted loss per share	4		
From continuing operations	(0.11p)	(0.06p)	

			(0.14p)
	-	(0.01p)	
From discontinued operations			(0.02p)

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Consolidated Statement of Financial Position As at 31 March 2018

	As at 31 March 2018 £'000	As at 30 September 2017 £'000	As at 31 March 2017 £'000
Assets			
Non-current assets			
Intangibles	1,378	1,400	1,444
Property, plant and equipment	182	232	173
	<u>1,560</u>	<u>1,632</u>	<u>1,617</u>
Current assets			
Trade and other receivables	888	760	1,061
Cash and cash equivalents	464	631	847
	<u>1,352</u>	<u>1,391</u>	<u>1,908</u>
Total assets	<u><u>2,912</u></u>	<u><u>3,023</u></u>	<u><u>3,525</u></u>

Equity

Shareholders' Equity

Called-up equity share capital	689	689
	689	

Share premium account		4,889	4,889
	4,889		
Reverse acquisition reserve		(5,726)	(5,726)
	(5,726)		
Capital redemption reserve		3,337	3,337
	3,337		
Merger relief reserve		1,328	1,328
	1,328		
Share based payments		22	22
	22		
Accumulated losses		(1,935)	(1,689)
	(2,241)		
Total Equity	<u>2,298</u>	<u>2,604</u>	<u>2,850</u>
Liabilities			
Current liabilities			
Trade and other payables	614	398	654
Non-current liabilities			
Deferred tax liability	-	21	21
Total liabilities	<u>614</u>	<u>419</u>	<u>675</u>
Total Liabilities and Equity	<u>2,912</u>	<u>3,023</u>	<u>3,525</u>

REACT Group PLC

Consolidated Statement of Cash Flows For the six months ended 31 March 2018

6 months ended 31 March 2018 £'000	6 months ended 31 March 2017 £'000	Year ended 30 September 2017 £'000
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Net cash used in operating activities	(150)	(78)	(189)
Net cash from investing activities			
Purchases of property, plant and equipment	(17)	(6)	(111)
Net cash outflow from investing activities	(17)	(6)	(111)
Net increase in cash, cash equivalents and overdrafts	(167)	(84)	(300)
Cash, cash equivalents and overdrafts at beginning of period	631	931	931
Cash, cash equivalents and overdrafts at end of period	<u>464</u>	<u>847</u>	<u>631</u>

Reconciliation of operating loss to net cash outflow from operating activities	6 months ended 31 March 2018 £'000	6 months ended 31 March 2017 £'000	Year ended 30 September 2017 £'000
Operating loss from continuing activities	(327)	(192)	(438)
Depreciation and amortisation	79	90	156
Loss on disposal of fixed assets	10	-	14
Operating cash flows before movements in working capital	<u>(238)</u>	<u>(102)</u>	<u>(268)</u>
(Increase)/decrease in receivables	(128)	(273)	28
Increase in payables	216	297	51
Net movement in working capital	<u>88</u>	<u>24</u>	<u>79</u>
Net cash outflow from operating activities	<u>(150)</u>	<u>(78)</u>	<u>(189)</u>

REACT Group PLC

Consolidated Statement of Changes in Equity Six months ended 31 March 2018

	Share Capital	Share Premium	Merger Relief Reserve	Capital Redemption Reserve	Accumulated Deficit	Reverse Acquisition Reserve	Share Based Payments Reserve	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 October 2016	689	4,889	1,328	3,337	(1,497)	(5,726)	22	3,042
Loss for the period	-	-	-	-	(192)	-	-	(192)
At 31 March 2017	689	4,889	1,328	3,337	(1,689)	(5,726)	22	2,850
Loss for the period	-	-	-	-	(246)	-	-	(246)
At 30 September 2017	689	4,889	1,328	3,337	(1,935)	(5,726)	22	2,604
Loss for the period	-	-	-	-	(306)	-	-	(306)
At 31 March 2018	689	4,889	1,328	3,337	(2,241)	(5,726)	22	2,298

REACT Group PLC

Notes to the interim financial statements

1. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and on a historical basis, using the accounting policies which are consistent with those set out in the Group's annual report and accounts for the year ended 30 September 2017. The interim financial information for the six months ended 31 March 2018, which complies with IAS 34 'Interim Financial Reporting' were approved by the Board of Directors on 21 June 2018.

The unaudited interim financial information for the six months ended 31 March 2018 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 30 September 2017 are extracted from the statutory financial statements which have been filed with the Registrar of Companies and contain an unqualified audit report and did not contain statements under Section 498 to 502 of the Companies Act 2006.

2. Principal Accounting Policies

The principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2017 and are those expected to be applied for the year ending 30 September 2018. There are no IFRSs or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the group.

3. Segmental Reporting

In the opinion of the directors, the group has one class of business, being that of specialist cleaning and decontamination services. The group's primary reporting format is determined by the geographical segment according to the location of its establishments. There is currently only one geographic reporting segment, which is the UK. All costs are derived from the single segment.

4. Loss per Share

The loss per ordinary share has been calculated on the loss on ordinary activities after taxation of £306,000 (30 September 2017: £438,000; 31 March 2017 £192,000) using the weighted average number of ordinary shares in issue during the period being 275,407,753 (30 September 2017: 275,407,753; 31 March 2017: 275,407,753).

Basic and diluted earnings per share are the same, since where a loss is incurred the effect of outstanding share options and warrants is considered anti-dilutive and is ignored for the purpose of the loss per share calculation. As at 31 March 2018 there were 18,904,564 (30 September 2017: 18,904,564; 31 March 2017: 18,904,564) outstanding share warrants and options which are potentially dilutive.

Copies of this Interim Report are available from the Company Secretary, 115 Hearhcote Road, Swadlincote, Derbyshire DE11 9BE and on the Company's website www.reactplc.co.uk.

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