The 600 Group PLC

Building a platform for growth

Unaudited Interim Results for the six months ended 29 September 2018

The 600 Group PLC ("the Group"), the diversified industrial engineering company (AIM: SIXH), today announces its unaudited interim results for the six months ended 29 September 2018.

Financial highlights

- Revenues increased 2% to $32.8m (FY 18 H1 : $32.2m)
- Underlying* operating profit up 20% to $1.98m (FY18 H1 : $1.64m)
- Underlying* pre-tax profit up 36% to $1.46m (FY18 H1 : $1.07m)
- Group order book up 5% provides continued good visibility
- Interim dividend of 0.25p per share (FY18 H1: zero)

Strategic & operational highlights

- Continued reduction in fixed overheads provides increased operational flexibility
- $270m pension scheme liabilities buy-in de-risks balance sheet
- Expected post-tax cash surplus of between $4m -$5m to be repaid to the Group on final scheme wind-up
- Investment in new people and strengthened management team with senior promotions
- Continued new product development and customer offering improvement across both divisions
- Enhanced direct sales and distribution resource to support organic growth

*from continuing operations, before special items.

Paul Dupee, Executive Chairman of the Group, commented:

"We are pursuing a strategy to build a global industrials business. In the period we made further progress in de-risking the Group, both operationally and financially, as we create a more flexible platform from which to leverage the strength of the Group's brands and grow the business into increasingly diversified niche markets worldwide."

"As previously announced, the buy-out of the Group's $270m pension liabilities will significantly de-risk the Group's balance sheet, with the expected $4m - $5m post-tax cash surplus providing improved financial flexibility."

"Despite certain macro-economic and political uncertainties across our end markets, enquiry and quotation activity remains good with revenue visibility underpinned by an improved orderbook. I am also pleased to announce an interim dividend of 0.25p per share, reflecting the Board's confidence in the Group's prospects and the significant opportunity ahead."

Reconciliation of underlying profit before taxation:

	26 Weeks ended 29 September 2018 $m	26 Weeks ended 30 September 2017 $m
Revenues	**32.80**	**32.19**
Cost of sales	**(21.00)**	**(21.10)**
Gross profit	**11.80**	**11.09**
Net operating costs	**(9.82)**	**(9.45)**
Underlying operating profit	**1.98**	**1.64**
Bank and loan note interest expense (net)	**(0.52)**	**(0.57)**
Underlying profit before tax	**1.46**	**1.07**
Other items:		
Interest on pension surplus	**0.65**	**0.86**
ProPhotonix sale	**-**	**1.26**
Pensions charge	**(1.31)**	**-**
Other Special items	**0.32**	**(0.40)**
Amortisation of shareholder loan costs	**(0.14)**	**(0.12)**
	(0.46)	**1.60**
Reported profit before tax	**0.98**	**2.67**

More Information on the group can be viewed at:

Enquiries:

The 600 Group PLC Tel: 01924 415000
Paul Dupee, Executive Chairman
Neil Carrick, Finance Director

Instinctif Partners Tel: 0207 457 2020
Mark Garraway
James Gray

Spark Advisory Partners Limited (NOMAD) Tel: 020 3368 3553
Matt Davis
Miriam Greenwood

WH Ireland (Broker) Tel: 020 7220 1666
Adam Pollock

The 600 Group Plc

Executive Chairman's Statement for the six months ended 29 September 2018

Overview

I am pleased to report that we have continued to make good progress in improving the Group's profitability and increasing revenues during the six month period ended 29 September 2018.

In the period, the Group undertook a transformational pensions transaction which freed the Group from the risks associated with $270m of scheme liabilities, significantly de-risking the Group's balance sheet and entirely securing the UK scheme for its some 2,000 pensioners and 800 deferred members through a buy-in insurance policy with Pension Insurance Corporation Plc. Once individual policies have been issued to all members - expected to take several months - the buy-out will be complete and the scheme can be wound up. Pursuant to the full wind-up and less the statutory tax charge of 35%, the Group expects to receive a one-off cash payment from surplus funds currently estimated to be $4m - $5m, providing improved financial flexibility.

To underpin our strategy to grow the Group into a global industrials business, we have continued to invest in new people as well as strengthening our senior management team. As noted in our announcement on 24 October 2018, Terry Allison has been appointed to the newly created role of Chief Operating Officer for the Group and Don Haselton to the newly created role of Manager Director-Development. We are also pleased to announce that Zelco Galic, an engineer with extensive operational and managerial experience in Australia and the USA, has joined the Group as the new Managing Director for our Australian operations, which is our main gateway into the large South East Asian market.

To support organic growth, we have also continued to invest in new product developments in both divisions to continue our strategic goal of leveraging the strength of the Group's brands into increasingly diversified niche markets worldwide.

Despite certain macro-economic and political uncertainties across our end markets slowing customers' purchase decisions, enquiry and quotation activity remains good with revenue visibility underpinned by an improved orderbook, up 5% on this time last year.

Results and dividend

Revenue was $32.8m (FY 18 H1: $32.2m) with net underlying operating profit (excluding special items) up 20% to $1.98m (FY18 H1:$1.64m).

After taking account of interest on bank borrowings and loan notes, the underlying Group pre-tax profit before special items was $1.5m (FY18 H1: $1.1m) and $0.98m (FY 18 H1: $2.7m including the ProPhotonix profit on disposal) after special items.

Special Items have been noted separately to provide a clearer picture of the Group's underlying trading performance. In the current period share option costs, costs for the actuarial effects of members taking transfers from the scheme prior to the buy-in policy purchase, the amortisation of intangible assets acquired, amortisation of loan note expenses and the pensions credit interest on the scheme surplus, which are all non-cash costs, are included in special items. In addition, an historical VAT credit recovered on pension costs has been recorded and a cost of dilapidation for leasehold premises has also been recognised. (see note 3)

In the prior year a credit of $1.3m was included as a result of the sale of the Group's holding in ProPhotonix Ltd at the end of August 2017. Reorganisation and redundancy costs as a result of the finalisation of the integration of the TYKMA and Electrox businesses and costs incurred in restructuring the UK machine tools business were also incurred in the prior year.

The total profit attributable to shareholders of the Group for the financial period was $1.2m (FY18 H1: $2.4m), providing earnings of 1.03 cents (equivalent to 0.76p) per share (FY18 H1: 2.26cents (equivalent to 1.75p). The underlying earnings per share (excluding the pension interest and other special items) were 1.25c (equivalent to 0.92p) (FY18 H1: 1.02c (equivalent to 0.79p).

The Board is pleased to be able to continue to improve returns for shareholders and has declared an interim dividend of 0.25p per share payable on 28 December 2018, to shareholders on the register at 30 November 2018.

Financial position

Net assets decreased in the six month period by $30.4m to $28.3m, largely as a result of the pension asset decrease. Net assets excluding the effect of pension schemes (and associated taxation) increased by $0.5m to $24.9m as a result of net profit generation and allowing for the final dividend payment which was paid at the end of September 2018.

Stock levels fell by $0.5m from the March year end despite support for new product launches. Trade debtors remain under control and the level of creditors have been reduced during the period by $2.6m. The restored dividend was paid to shareholders in September which cost $0.74m and $0.9m was expended on capital expenditure of which $0.5m was on the Industrial Laser software upgrade.

Payments in respect of the restructuring of the UK machine tools business and the closure and move of the TYKMA Electrox UK operation into the UK machine tools business, which were in creditors at March 2018, amounted to $0.8m during this period. As a consequence of these cashflows net debt at the end of September 2018 was $17.1m (March 2018 $15.6m).

UK annual working capital facilities were renewed in September 2018 with HSBC to support the UK machine tool business and Bank of America have agreed an increase to their annual working capital facilities for Clausing and TYKMA in the USA in November.

UK pension scheme

The adjustment to the accounting valuation of the UK pension scheme reflects the buy in of the insurance policy in July 2018 to fully cover all the liabilities of the scheme. The insurance policy fully removes all the future risks of life expectancy changes and investment risk from the scheme and eliminates from the Company a potential burden which was over ten times its market value. Given the policy is now the primary asset of the scheme and exactly matches all liabilities it is measured at the same value as the liabilities, which are valued under the prescribed accounting assumptions under IAS 19 until the individual policies are issued to members and the scheme wound up. It should be noted that the cost of achieving this beneficial situation is normally higher than both the accounting basis and the more prudent trustees funding basis reflecting the capital requirements of the insurer to meet the inherent risks over the remaining lifetime of the members.

The change in valuation and actuarial movements of $43.5m and the associated deferred taxation of $15.2m have been shown in the Statement of Comprehensive Income and the resultant surplus of $6.9m (which includes an estimate of ongoing expenses until wind-up) shown on the Consolidated Balance sheet.

The surplus will be repaid to the Company once the individual annuity policies have been issued to all members and the scheme finally wound up which, after the statutory tax deduction of 35%, is expected to be between $4m and $5m.

Operating activities

Machine tools and precision engineered components

Revenues in our UK business grew strongly at 10% compared to the prior year and this, combined with the restructuring undertaken in the previous financial year and the revised management team led by Terry Allison, produced a significant improvement in the business resulting in a 6.3% operating margin against a break-even result for the same period last year. The Australian business also continued its recovery with a further 11% improvement on the prior year revenues. The USA business, however, remained flat with the concerns of a trade war slowing down customers decision making process.

Despite certain macro-economic and political uncertainties across our end markets slowing customers' purchase decisions, enquiry and quotation activity remains good and the division as a whole is reporting order books up 3% on this time last year.

The worldwide machine tool industry was estimated by Oxford Economics at nearly $88bn in annual sales in its Autumn 2018 report with mid-single digit growth expected across our current markets of operation although the UK growth may suffer depending on the outcome of Brexit. In this context the division continues to seek opportunities to leverage our industry-recognised brands and expand our worldwide distribution network.

Underpinning organic growth is a focus on product development, which has continued during the period particularly in the UK with the newly re-branded 'Colchester Machine Tool Solutions' launching new products that add to the higher end capabilities of the brand's product line-up. To further improve growth, additional resource has also been put into direct sales in the UK market and a new distribution partnership established in Germany.

The results of the division were as follows:

	FY19 H1 *$m*	**FY18 H1** *$m*
Revenues	23.11	21.98
Operating profit*	1.53	0.98
Operating margin*	6.6%	4.5%

*from continuing operations, before special items.

Industrial Laser systems

US sales in the period suffered from a slowing of customer orders because of concerns over a trade war. The division's results comparatively are also impacted by a one-off large order of $0.8m that fell in the first half of the prior year and whilst there are several of these types of projects currently being quoted none came to fruition in the first half of this financial year. Quotation activity in this division has also been good and the recent International Manufacturing Technology Show in Chicago, where several new products were launched, was very successful. The division's combined order book is currently up over 10% on this time last year providing good revenue visibility.

The use of industrial lasers for material processing has continued to expand worldwide providing a large and growing market opportunity with laser systems fast becoming a mainstream and integral manufacturing process covering the areas of laser machining, including cutting and drilling, marking, ablation and a host of other niche applications. To harness this opportunity the division has continued to upgrade its proprietary software to enhance its customer offering and providing ever more sophisticated, value-add and unique solutions to customers requirements.

The results of this Division were as follows:

	FY19 H1 *$m*	**FY18 H1** *$m*
Revenues	9.69	10.21
Operating profit*	1.12	1.44
Operating margin*	11.6%	14.1%

*from continuing operations, before special items.

Summary and outlook

We are pursuing a strategy to build a global industrial business. In the period we made further progress in de-risking the Group, both operationally and financially, as we create a more flexible platform from which to leverage the strength of the Group's brands and grow the business into increasingly diversified niche markets worldwide.

As previously announced, the buy-out of the Group's $270m pension liabilities will significantly de-risk the Group's balance sheet, with the expected $4m - $5m post-tax cash surplus providing improved financial flexibility.

Despite certain macro-economic and political uncertainties across our end markets, enquiry and quotation activity remains good with revenue visibility underpinned by an improved orderbook. I am also pleased to announce an interim dividend of 0.25p per share, reflecting the Board's confidence in the Group's prospects and the significant opportunity ahead.

Paul Dupee
Executive Chairman
19 November 2018

Condensed consolidated income statement (unaudited)

For the 26 week period ended 29 September 2018

	Before Special Items 26 weeks ended 29 September 2018 $000	**Special Items 26 weeks ended 29 September 2018 $000**	**After Special Items 26 weeks ended 29 September 2018 $000**	Before Special Items 26 weeks ended 30 September 2017 $000	Special Items 26 weeks ended 30 September 2017 $000	After Special Items 26 weeks ended 30 September 2017 $000	After Special Items 52 weeks ended 31 March 2018 $000
Continuing							
Revenue	**32,797**	**-**	**32,797**	32,188	-	32,188	66,014
Cost of sales	**(20,997)**	**-**	**(20,997)**	(21,095)	-	(21,095)	(42,972)
Special Items in cost of sales	**-**	**-**	**-**	-	-	-	(764)
Gross profit	**11,800**	**-**	**11,800**	11,093	-	11,093	22,278
Net operating expenses	**(9,818)**	**-**	**(9,818)**	(9,448)	-	(9,448)	(18,812)
Special Items in operating expenses	**-**	**(995)**	**(995)**	-	(398)	(398)	(1,126)
Operating profit/(loss)	**1,982**	**(995)**	**987**	1,645	(398)	1,247	2,340
Profit on ProPhotonix disposal	**-**	**-**	**-**	-	1,256	1,256	1,256
Interest on pension surplus	**-**	**649**	**649**	-	862	862	1,741
Financial income	**-**	**649**	**649**	-	862	862	1,741
Bank and other interest	**(523)**	**-**	**(523)**	(573)	-	(573)	(1,182)
Special Items	**-**	**(138)**	**(138)**	-	(118)	(118)	(290)
Financial expense	**(523)**	**(138)**	**(661)**	(573)	(118)	(691)	(1,472)
Profit before tax	**1,459**	**(484)**	**975**	1,072	1,602	2,674	3,865
Income tax charge	**(50)**	**231**	**181**	-	(300)	(300)	(816)
Profit for the period attributable to equity holders of the parent	**1,409**	**(253)**	**1,156**	1,072	1,302	2,374	3,049
Basic EPS	**1.25p**	**(0.22)c**	**1.03c**	1.02c	1.24c	2.26c	2.80c
Diluted EPS	**1.24c**	**(0.22)c**	**1.02c**	1.02c	1.24c	2.26c	2.78c

Condensed consolidated statement of comprehensive income (unaudited)

For the 26 week period ended 29 September 2018

	26 weeks Ended 29 September 2018 $000	26 weeks Ended 30 September 2017 $000	52 weeks Ended 31 March 2018 $000
Profit for the period	**1,156**	2,374	3,049
Other comprehensive (expense)/income:			
Items that will not be reclassified to the Income Statement:			
Release of available for sale reserve on ProPhotonix disposal	**-**	(1,465)	(1,465)
Re-measurement of the net defined benefit asset	**(43,476)**	(9,756)	(19,659)
Deferred taxation	**15,217**	3,415	6,852
Total items that will not be reclassified to the Income Statement:	**(28,259)**	(7,806)	(14,272)
Items that are or may in the future be reclassified to the Income Statement:			
Foreign exchange translation differences	**(2,611)**	3,356	4,109
Total items that are or may be reclassified subsequently to the Income Statement:	**(2,611)**	3,356	4,109
Other comprehensive (expense)/income for the period, net of income tax	**(30,870)**	(4,450)	(10,163)
Total comprehensive (expense)/income for the period	**(29,714)**	(2,076)	(7,114)

Condensed consolidated statement of financial position (unaudited)

As at 29 September 2018

	As at 29 September 2018 $000	As at 30 September 2017 $000	As at 31 March 2018 $000
Non-current assets			
Property, plant and equipment	**3,914**	4,405	4,111
Goodwill	**10,329**	10,329	10,329
Other Intangible assets	**864**	364	407
Employee benefits	**6,889**	61,325	54,319
Deferred tax assets	**4,827**	5,085	5,102
	26,823	81,508	74,268
Current assets			
Inventories	**19,090**	18,256	19,597
Trade and other receivables	**9,910**	9,672	10,266
Cash and cash equivalents	**754**	664	1,676
	29,754	28,592	31,539
Total assets	**56,577**	110,100	105,807
Non-current liabilities			
Employee benefits	**(1,309)**	(1,385)	(1,225)
Loans and other borrowings	**(11,381)**	(12,040)	(12,251)
Deferred tax liability	**(2,489)**	(21,339)	(19,020)
	(15,179)	(34,764)	(32,496)
Current liabilities			
Trade and other payables	**(6,371)**	(6,435)	(9,205)
Income tax payable	**62**	-	(291)
Provisions	**(302)**	(270)	(53)
Loans and other borrowings	**(6,474)**	(4,876)	(5,025)
	(13,085)	(11,581)	(14,574)
Total liabilities	**(28,264)**	(46,345)	(47,070)
Net assets	**28,313**	63,755	58,737

Shareholders' equity			
Called-up share capital	**1,746**	1,746	1,746
Share premium account	**2,885**	2,885	2,885
Revaluation reserve	**700**	1,062	759
Equity reserve	**201**	201	201
Translation reserve	**(5,767)**	(2,861)	(4,565)
Retained earnings	**28,548**	60,722	57,711
Total equity	**28,313**	63,755	58,737

Consolidated statement of changes in equity (unaudited)

As at 29 September 2018

	Ordinary share capital $000	Share premium account $000	Revaluation reserve $000	Available for sale reserve $000	Translation reserve $000	Equity reserve $000	Retained Earnings $000	Total $000
At 1 April 2017	**1,629**	**1,484**	**797**	**1,446**	**(6,724)**	**201**	**65,461**	**64,294**
Profit for the period	—	—	—		—	—	2,374	2,374
Other comprehensive income:								
Foreign currency translation	—	—	265	19	3,863	—	(791)	3,356
Net defined benefit asset mvmt	—	—	—	—	—	—	(9,756)	(9,756)
ProPhotonix disposal	—	—	—	(1,465)	—	—	—	(1,465)
Deferred tax	—	—	—	—	—	—	3,415	3,415
Total comprehensive income	**—**	**—**	**265**	**(1,446)**	**3,863**	**—**	**(4,758)**	**(2,076)**
Transactions with owners:								
Share capital subscribed for	117	1,401	—	—	—	—	—	1,518
Credit for share-based payments	—	—	—	—	—	—	19	19
Total transactions with owners	**117**	**1,401**	**—**	**—**	**—**	**—**	**19**	**1,537**
At 30 September 2017	**1,746**	**2,885**	**1,062**	**—**	**(2,861)**	**201**	**60,722**	**63,755**
Profit for the period	—	—	—	—	—	—	675	675
Other comprehensive income:								
Foreign currency translation	—	—	(303)	—	(1,704)	—	2,760	753
Net defined benefit asset mvmt	—	—	—	—	—	—	(9,903)	(9,903)
Deferred tax	—	—	—	—	—	—	3,437	3,437
Total comprehensive income	**—**	**—**	**(303)**	**—**	**(1,704)**	**—**	**(3,031)**	**(5,038)**
Transactions with owners:	—	—	—	—	—	—	—	—
Credit for share-based payments	—	—	—	—	—	—	20	20
Total transactions with owners	—	—	—	—	—	—	20	20
At 31 March 2018	**1,746**	**2,885**	**759**	**—**	**(4,565)**	**201**	**57,711**	**58,737**
Profit for the period	—	—	—	—	—	—	1,156	1,156
Other comprehensive income:								
Foreign currency translation	—	—	(59)	—	(1,202)	—	(1,350)	(2,611)
Net defined benefit asset mvmt	—	—	—	—	—	—	(43,476)	(43,476)
Deferred tax	—	—	—	—	—	—	15,217	15,217
Total comprehensive income	**—**	**—**	**(59)**	**—**	**(1,202)**	**—**	**(28,453)**	**(29,714)**
Transactions with owners:	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	(738)	(738)
Credit for share-based payments	—	—	—	—	—	—	28	28
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**(710)**	**(710)**
At 29 September 2018	**1,746**	**2,885**	**700**	**-**	**(5,767)**	**201**	**28,548**	**28,313**

Condensed consolidated cash flow statement (unaudited)

For the 26 week period ended 29 September 2018

	26 weeks ended 29 September 2018 $000	26 weeks ended 30 September 2017 $000	52 weeks ended 31 March 2018 $000
Cash flows from operating activities			
Profit for the period	**1,156**	2,374	3,049
Adjustments for:			
Amortisation of development expenditure	**5**	34	71
Depreciation	**295**	293	596
Net financial income	**12**	(171)	(269)
Net pension charge	**1,308**	-	-
Other special items	**294**	378	991
Profit on disposal of fixed assets	**(343)**	-	-
ProPhotonix profit	**-**	(1,256)	(1,256)
Equity share option expense	**28**	19	39
Income tax expense/(credit)	**(181)**	301	816
Operating cash flow before changes in working capital and provisions	**2,574**	1,972	4,037
(Increase) /decrease in trade and other receivables	**(108)**	(125)	(445)
(increase)/decrease in inventories	**80**	(1,951)	(2,970)
(Decrease) in trade and other payables	**(2,531)**	(572)	1,169
Employee benefit contributions	**(13)**	(81)	(143)
Restructuring and redundancy expenditure	**-**	(65)	-
Cash generated from/(used in) operations	**2**	(822)	1,648
Interest paid	**(523)**	(573)	(1,183)
Income tax paid	**(382)**	-	-
Net cash flows from operating activities	**(903)**	(1,395)	465
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**344**	-	285
Proceeds from sale of ProPhotonix	**-**	1,972	1,972
Purchase of property, plant and equipment	**(404)**	(257)	(694)
Development expenditure capitalised	**(497)**	(8)	(87)
Net cash from investing activities	**(557)**	1,707	1,476
Cash flows from financing activities			
Net proceeds from issue of ordinary shares	**-**	1,517	1,517
Dividends paid	**(736)**	-	-
Proceeds from/(Net repayment of) external borrowing	**1,328**	(2,439)	(2,985)
Net finance lease expenditure	**(21)**	(38)	(56)
Net cash flows from financing activities	**571**	(960)	(1,524)
Net increase/(decrease) in cash and cash equivalents	**(889)**	(648)	417
Cash and cash equivalents at the beginning of the period	**1,676**	1,352	1,352
Effect of exchange rate fluctuations on cash held	**(33)**	(40)	(93)
Cash and cash equivalents at the end of the period	**754**	664	1,676

Notes relating to the condensed consolidated financial statements
For the 26-week period ended 29 September 2018

1. Basis of preparation and accounting policies
These interim consolidated financial statements have been prepared using accounting policies based on International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 March 2018 Annual Report. The financial information for the half years ended 29 September 2018 and 30 September 2017 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited.

The annual financial statements of The 600 Group plc ('the Group') are prepared in accordance with IFRS as adopted by the European Union. The comparative financial information for the year ended 31 March 2018 included within this report does not constitute the full statutory Annual Report for that period. The statutory Annual Report and Financial Statements for 2018 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 March 2018 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) - (3) of the Companies Act 2006.

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 April 2018, and will be adopted in the 2019 financial statements. New standards impacting the Group that will be adopted in the annual financial statements for the year ended 30 March 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 *Financial Instruments*; and
- *IFRS 15 Revenue from Contracts with Customers*

Details of the impact of these two standards are given below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to have a material impact on the Group.

IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) have been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has not resulted in a change to the impairment provision at 1 April 2018

IFRS 15 *Revenue from Contract with Customers*

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various Interpretations previously issued by the IFRS Interpretations Committee, noting the Group has adopted the modified retrospective approach. There is no material impact on any revenue stream for the Group given that machines are recorded as revenue on dispatch and with spares and maintenance recorded at the appropriate time as work is done.

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 30 March 2019 (the date on which the company's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The most significant of these is IFRS 16 *Leases* (mandatorily effective for periods beginning on or after 1 January 2019).

2. SEGMENT ANALYSIS
IFRS 8 – "Operating Segments" requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources.

The Executive Directors consider there to be two continuing operating segments being machine tools and precision engineered Components and industrial laser systems.

The Executive Directors assess the performance of the operating segments based on a measure of operating profit/(loss). This measurement basis excludes the effects of Special Items from the operating segments. Head Office and unallocated represent central functions and costs.

The following is an analysis of the Group's revenue and results by reportable segment:

	Continuing			
26 Weeks ended 29 September 2018	**Machine Tools & Precision Engineered Components**	**Industrial Laser Systems**	**Head Office & unallocated**	**Total**
Segmental analysis of revenue	**$000**	**$000**	**$000**	**$000**
Total revenue	**23,112**	**9,685**	**-**	**32,797**
Operating profit/(loss) pre special items	**1,527**	**1,121**	**(666)**	**1,982**
Special items	**(1,003)**	**-**	**8**	**(995)**
Operating profit/(loss)	**524**	**1,121**	**(658)**	**987**
Other segmental information:				
Reportable segment assets	**38,353**	**9,274**	**8,950**	**56,577**
Reportable segment liabilities	**(10,467)**	**(5,017)**	**(12,780)**	**(28,264)**
Intangible & Property, plant and equipment additions	**264**	**637**	**-**	**901**
Depreciation and amortisation	**153**	**146**	**1**	**300**

2. SEGMENT ANALYSIS (continued)

26 Weeks ended 30 September 2017	Continuing			
	Machine Tools & Precision Engineered Components	Industrial Laser Systems	Head Office & unallocated	Total
Segmental analysis of revenue	$000	$000	$000	$000
Total revenue	21,981	10,207	-	32,188
Operating profit/(loss) pre- special items	985	1,438	(778)	1,645
Special items	(144)	(210)	(44)	(398)
Operating profit/(loss)	841	1,228	(822)	1,247
Other segmental information:				
Reportable segment assets	37,094	10,510	65,128	112,732
Reportable segment liabilities	(30,231)	(5,071)	(11,639)	(46,941)
Intangible & Property, plant and equipment additions	51	214	-	265
Depreciation and amortisation	176	126	-	302

52-weeks ended 31 March 2018	Continuing			
	Machine Tools & Precision Engineered Components	Industrial Laser Systems	Head Office & unallocated	Total
Segmental analysis of revenue	$000	$000	$000	$000
Total revenue per statutory accounts	45,222	20,792	—	66,014
Operating Profit/(loss) before special Items	2,904	2,867	(1,541)	4,230
Special Items	(883)	(767)	(240)	(1,890)
Group profit/(loss) from operations	2,021	2,100	(1,781)	2,340
Other segmental information:				
Reportable segment assets	40,320	9,867	55,620	105,807
Reportable segment liabilities	(28,153)	(5,826)	(13,091)	(47,070)
Intangible & Property, plant and equipment additions	146	544	4	694
Depreciation and amortisation	362	294	-	656

3. SPECIAL ITEMS

In order for users of the financial statements to better understand the underlying performance of the Group the Board have separately disclosed significant costs associated with the ongoing restructuring of the Group and associated redundancy costs incurred in the period. In addition, the non-cash charges for share based payments, amortisation of intangible assets acquired and amortisation of loan note costs have been included.

	29 September 2018	30 September 2017	31 March 2018
	$000	$000	$000
Items included in cost of sales – redundancy and restructuring	**-**	-	(764)
Items included in operating profit:			
Pension charge	**(1,308)**	-	-
Reorganisation ,restructuring and redundancy costs	**(39)**	(354)	(1,036)
Profit on sale of plant and equipment	**344**	-	-
Dilapidation costs	**(272)**	-	-
Historic VAT recovery	**331**	-	-
Share option costs	**(29)**	(19)	(39)
Amortisation of intangible assets acquired	**(22)**	(25)	(51)
	(995)	(398)	(1,126)
Items included in financial (income)/expense:			
Pensions interest on surplus	**649**	862	1,741
Amortisation of loan note expenses	**(138)**	(118)	(243)
Pensions interest on deficit	**-**	-	(47)
	(138)	(118)	(290)
Profit on ProPhotonix sale	**-**	1,256	1,256

4. FINANCIAL INCOME AND EXPENSE

	29 September 2018	30 September 2017	31 March 2018
	$000	$000	$000
Interest on Pension surplus	**649**	862	1,741
Financial income	**649**	862	1,741
Bank overdraft and loan interest	**(26)**	(127)	(234)
Loan note interest	**(496)**	(441)	(925)
Other finance charges	**-**	-	(8)
Finance charges on finance leases	**(1)**	(5)	(15)
Pensions interest on deficit	**-**	-	(47)
Amortisation of loan note costs	**(138)**	(118)	(243)
Financial expense	**(661)**	(691)	(1,472)

5. TAXATION

	29 September 2018 $000	30 September 2017 $000	31 March 2018 $000
Current tax:			
Corporation tax at 19% (2017: 20%):	**-**	-	-
Overseas taxation:			
– current period	**(50)**	-	(340)
Total current tax charge	**(50)**	-	(340)
Deferred taxation:			
– current period	**231**	(300)	252
– effect of rate change in USA	**-**	-	(630)
– prior period	**-**	-	(98)
Total deferred taxation charge	**231**	(300)	(476)
Taxation charged to the income statement	**181**	(300)	(816)

6. EARNINGS PER SHARE

The calculation of the basic earnings per share of 1.25c (2017: 1.02c) is based on the earnings for the financial period attributable to the Parent Company's shareholders of a profit of $1,179,000 (2017 $2,372,000) and on the weighted average number of shares in issue during the period of 112,973,341 (2017 104,831,330). At 29 September 2018, there were 6,650,000 (2017: 6,650,000) potentially dilutive shares on option and 43,950,000 (2017: 43,950,000) share warrants exercisable at 20p. The weighted average effect of these as at 29 September 2018 was 1,187,462 shares (2017: 716,915) giving a diluted earnings per share of 1.03c (2017: 2.26c).

.

	29 September 2018	30 September 2017	31 March 2018
Weighted average number of shares	**Shares**	Shares	Shares
Issued shares at start of period	**112,973,341**	104, 357,957	104,357,957
Effect of shares issued in the period	**-**	473,373	4,544,378
Weighted average number of shares at end of period	**112,973,341**	104,831,330	108,902,335
Weighted average number of 6,650,000 potentially dilutive shares	**1,187,462**	716,915	790,601
Total Weighted average diluted shares	**114,160,803**	105,548,245	109,692,936

	29 September 2018 $000	30 September 2017 $000	31 March 2018 $000
Underlying earnings			
Total post tax earnings	**1,156**	2,374	3,049
Share option costs	**29**	20	39
Pensions Interest on surplus/deficit	**(649)**	(862)	(1,694)
Amortisation of Shareholder loan expenses	**138**	118	243
Pensions charge	**1,308**	-	-
Amortisation of intangible assets acquired	**22**	25	51
Other special items	**(364)**	353	1,800
Profit on sale of ProPhotonix	**-**	(1,256)	(1,256)
Associated taxation on special items	**(231)**	300	1,252
Underlying earnings after tax	**1,409**	1,072	3,484
Underlying Earnings Per Share	**1.25c**	1.02c	3.20c

7. RECONCILIATION OF NET CASH FLOW TO NET DEBT

	29 September 2018 $000	30 September 2017 $000	31 March 2018 $000
Increase/(decrease) in cash and cash equivalents	**(889)**	(648)	417
(decrease)/Increase in debt and finance leases	**(1,307)**	2,477	3,041
(decrease)/Increase in net debt from cash flows	**(2,196)**	1,829	3,458
Net debt at beginning of period	**(15,600)**	(17,090)	(17,090)
Loan costs amortisation and adjustments	**(138)**	(118)	(243)
Exchange effects on net funds	**833**	(873)	(1,725)
Net debt at end of period	**(17,101)**	(16,252)	(15,600)

8. ANALYSIS OF NET DEBT

	At 31 March 2018 $000	**Exchange/ Reserve movement $000**	**Other $000**	**Cash flows $000**	**At 29 September 2018 $000**
Cash at bank and in hand	1,536	(23)	—	(889)	**624**
Short term deposits (included within cash and cash equivalents on the balance sheet)	140	(10)	—	—	**130**
	1,676	(33)	—	(889)	**754**
Debt due within one year	(4,984)	44	—	(1,483)	**(6,423)**
Debt due after one year	(842)	25	—	155	**(662)**
Loan Notes due after one year	(11,287)	796	(138)	—	**(10,629)**
Finance leases	(163)	1	—	21	**(141)**
Total	(15,600)	833	(138)	(2,196)	**(17,101)**

9. EMPLOYEE BENEFITS

The Group has defined benefit pension schemes in the UK and USA. The assets of these schemes are held in separate trustee-administered funds. In addition, the Group operates a retirement healthcare benefit scheme for certain of its retired employees in the USA, which is also treated as a defined benefit scheme. The principal scheme is the UK defined benefit pension plan.

The UK scheme secured an insurance policy on 19 July 2018 with Pension Insurance Corporation which matches the scheme liabilities.

Value of UK and USA scheme assets and liabilities for the purposes of IAS 19

	29 September 2018 UK Scheme $000	**29 September 2018 US Scheme $000**	30 September 2017 UK Scheme $000	30 September 2017 US Scheme $000	31 March 2018 UK Scheme $000	31 March 2018 US Scheme $000
Opening Fair value of schemes assets	**326,135**	**1,007**	305,870	1,085	305,870	1,085
Experience adjustments in the period	**(97,666)**	**-**	4,803	-	19,116	(78)
Closing Fair value of schemes assets	**228,469**	**1,007**	310,673	1,085	326,135	1,007
Opening present value of schemes liabilities	**(271,816)**	**(2,232)**	(240,193)	(2,374)	(240,193)	(2,374)
Experience adjustments in the period	**50,236**	**84**	(9,155)	(96)	(31,623)	142
Closing present value of schemes liabilities	**(221,580)**	**(2,316)**	(249,348)	(2,470)	(271,816)	(2,232)
Surplus/(deficit) recognised under IAS 19	**6,889**	**(1,309)**	61,325	(1,385)	54,219	(1,225)

The principal assumptions used for the purpose of the IAS 19 valuation for the UK scheme compared to the 2018 year end were as follows:

	29 September 2018 UK scheme % p.a.	31 March 2018 UK scheme % p.a.
Inflation under RPI	**3.25**	3.25
Inflation under CPI	**2.15**	2.15
Rate of increase to pensions in payment – LPI 5%	**3.15**	3.15
Discount rate for scheme liabilities and return on assets	**2.65**	2.50

The liabilities of the UK scheme are valued under the prescribed requirement of IAS 19 but given all the risk associated with these have been covered by the insurance policy bought in, the insurance asset is valued at the same amount.

10. FAIR VALUE

The group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

Trade and other receivables
Cash and cash equivalents
Trade and other payables
Loans and other borrowings

11. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group remain those set out in the 2018 Annual Report. Those which are most likely to impact the performance of the Group in the remaining period of the current financial year are the exposure to increased input costs, the dependence on a relatively small number of key vendors in the supply chain and a downturn in its customers' end markets particularly in North America and Europe.