Pressure Technologies

INTERIM REPORT 2020

Leading UK designers and manufacturers of high-integrity, safety critical components and systems serving global supply chains in oil and gas, defence, industrial gases and hydrogen energy markets.

Pressure Technologies (AIM: PRES), the specialist engineering group, announces its interim results for the 26 weeks to 28 March 2020.

Please visit our website for more information: www.pressuretechnologies.com

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The operational changes and strategic progress made over the past year have put the Group in a stronger position to face the challenges and uncertainty in the current trading environment.

The impact of Covid-19 continues to be felt to varying degrees across our markets. Strong order books in both divisions at the half year are encouraging, but it remains difficult to foresee how the pandemic and an uncertain oil and gas market will impact performance throughout the remainder of the year, particularly in the PMC division.

Management actions will seek to preserve cash and core capability in the business, without undermining the strategic and operational progress already made in both divisions to establish resilience and a foundation for future growth. New long-term strategic supply agreements with key customers demonstrate the progress being made and we remain focussed on advancing further with the Group's strategic plans.

I am proud to see the tremendous commitment and hard work of our teams across the Group as we continue to support business continuity for our customers during this period.

Chris Walters
Chief Executive

FINANCIAL RESULTS*

Group revenue

£13.9M
(2019: £14.5m)

Gross profit

£4.0M
(2019: £5.0m)

Adjusted operating loss

£(0.1)M
(2019: profit £1.3m)

Reported loss before tax

£(1.5)M
(2019: profit £0.1m)

* All results presented for continuing operations only.

Reported basic loss per share

(5.9)P
(2019: earnings per share 1.6p)

Adjusted operating cash inflow**

£1.4M
(2019: outflow £1.6 m)

Bank facility drawn at

£9.3M
(2019: £10.8m)

- Bank facility covenants relaxed to give flexibility during period of Covid-19 uncertainty.
- Post period end £0.6 million cash proceeds from the sale of 2.5 million shares in Greenlane Renewables Inc.

** Continuing operations only excluding cash outflow for exceptional costs.

OPERATIONAL HIGHLIGHTS

- Overall Group revenue was significantly lower than prior year period due to phasing of large defence contracts and the impact of Covid-19 restrictions in March 2020.
- Strong order intake in PMC underpinned a 12% increase in external revenue, while operational delivery issues and increased indirect costs adversely impacted margin performance.
- Significant improvement of on-time delivery performance in PMC, with lower levels of overdue orders, shorter lead times and higher customer satisfaction levels.
- PMC order book in excess of £5.0 million at the half-year end, but recent intake levels lower than run rate, with uncertainty in oil and gas markets expected to continue through the second half.
- Loss-making Quadscot site closed in June 2020, with orderbook and customers transferred and consolidated into other PMC sites.
- Growing diversification and sustainability in both divisions, with further progress made in new customer acquisitions, long-term supplier agreements and new market development.
- Five-year framework agreement secured by CSC with Shell to become their approved supplier of ultra-large cylinders for hydrogen refuelling stations across Europe.
- Continued investment in people and HR practices, helping to drive cultural change that is delivering stronger colleague engagement and improvements to customer service.
- Current capital investment programme completed, with £1.2 million spent across both divisions on new machining centres and IT infrastructure.

Sir Roy Gardner
Independent Non-Executive Chairman

Over the past six months, we have continued to demonstrate the strategic potential in both divisions, with increased sales from existing customers across a broader product range, new customer acquisitions and major contract wins in target markets.

Our Covid-19 Response

To read more see page 08

Having joined the Board of Pressure Technologies in January 2020, my first few months as Chairman have given me a good insight into this business as we continue to navigate through unprecedented times. Pressure Technologies has a long heritage in the markets that it serves and under new leadership the Group has outlined a clear growth strategy to realise its significant potential and good progress is being made.

Covid-19 has brought challenges to nearly all global industries and few businesses are immune. I would like to acknowledge the hard work of our employees and the support from our valued customers and suppliers. Businesses and their employees are being truly tested and I have been impressed and reassured by the leadership and the commitment shown by all colleagues to maintain safety and business continuity throughout this recent period.

While the crisis has resulted in economic headwinds and uncertainty for some of our markets and customers, the operational changes and strategic progress made over the past year have helped put the Group in a stronger position to cope with the uncertainty.

Trading review

Overall Group revenue for the period was £13.9 million (2019: £14.5 million), gross profit £4.0 million (2019: £5.0 million) resulting in an overall adjusted operating loss of £0.1 million (2019: profit £1.3 million).

The Chesterfield Special Cylinders division (CSC) delivered revenue of £6.3 million (2019: £7.7 million) and an adjusted operating profit of £0.4 million (2019: £1.4 million), both in line with expectations and reflecting the phasing of large defence contracts between half-year periods. Gross margin of 33% (2019: 39%) reflected the expected margins for sectors supplied in the period and at the period end £2.8m of contracted revenue remains to be invoiced on projects which are in progress. Return on sales was 7% (2019: 18%).

Strong order intake within the Precision Machined Components division (PMC) over the past six months across a broadening customer base underpinned a 12% increase in external revenue to £7.6 million (2019: £6.8 million). Despite this progress, a significant delay to the output of new large complex components, the onboarding of new customers and the late commissioning of new machining centres adversely impacted gross margins in the first quarter. Recovery of output and margin performance in the second quarter was slower than expected and gross margin reduced to 25% for the first half (2019: 31%). This, along with higher indirect costs from the investment in sales and engineering functions, resulted in a significantly lower adjusted operating profit of £0.3 million (2019: £0.8 million) and return on sales was 4% (2019: 11%).

Chesterfield Special Cylinders

Significant management changes in December 2019 have already helped drive operational improvements, better customer service and stronger colleague engagement across the division.

We continue to make good progress with UK and export naval contracts, which will see us supply bespoke, safety critical systems for the UK's Dreadnought submarine and Type-26 frigate programmes as well as the French navy's Barracuda programme. In June 2020, CSC has secured an order for the supply of cylinders to the Dreadnought class submarine programme, covering the raw material milestone for the second boat set which confirms commitment from UK MOD and BAE Systems to the programme.

Allied to this activity, is our market development of prospective Asian customers, including a collaboration on a significant new build submarine programme.

We remain on track to complete the significant contract with EDF Energy for the supply of high-pressure nitrogen storage solutions to four UK nuclear power stations. This sector remains a focus area for further growth, with good prospects in the pipeline.

Despite several opportunities in late 2019, the oil and gas market has deteriorated sharply, with several ultra-large cylinder prospects being deferred to 2021 and beyond. Further progress was made during the period in the hydrogen refuelling market, which remains an area of strategic focus and significant growth potential. Recent contract wins for McPhy Energy and Haskel Hydrogen Systems represent continued market penetration within this growing market.

In May 2020, CSC was also pleased to be awarded a £0.6 million revenue contract by a new customer, Parker, to provide ultra-large cylinders for a major wastewater treatment project in Abu Dhabi. This significant contract represents a new market for CSC's ultra-large cylinders and through-life support services.

As testament to the progress made in this sector, since the period end we were pleased to have signed a five-year framework agreement with Shell, under which CSC becomes the approved supplier of Type 1 steel cylinders to prospective operators of Shell-branded hydrogen refuelling stations across Europe. While the number of potential refuelling stations to be built over the next few years remains uncertain, the selection of CSC as preferred supplier is a major strategic step.

Integrity Management services performed well during the period, with new contract wins for in-situ revalidation projects and testing of diving support vessels in Azerbaijan and Dubai. These services are highly valued by existing customers and have tremendous growth potential in the UK and worldwide. However, Covid-19 enforced travel restrictions towards the end of March 2020 caused disruption and delays, with the deferral of several deployments, albeit some UK defence related deployments have been able to continue in line with supporting national infrastructure during the Covid-19 outbreak. We anticipate that Covid-19 restrictions will continue to impact performance in the second half of the year, but periodic inspection regimes will require revalidation once travel restrictions are safely lifted.

Precision Machined Components

The operating result in the period was disappointing, however we continue to make strategic progress across this division as changes made over the past year deliver operational improvements. The divisional leadership structure and new management appointments are driving important cultural change that is more focused on performance and customer service.

A stronger sales team and maturing sales processes have underpinned increased sales effectiveness and better customer relationship management. This has been evidenced primarily through an increase in sales revenue and order intake in the period, but also through positive customer feedback and new customer acquisition. At the end of the first half of the year, the PMC order book value was in excess of £5.0 million however intake has fluctuated in Q3 and there is uncertainty in orderbook development which is expected to continue through the second half.

Investment in new skills and systems for production planning, engineering, quality control and purchasing functions are starting to show returns through operational efficiencies, better utilisation, cost savings and margin improvements, significantly improving on-time delivery performance for key customers during the period.

Oil and gas remains the primary market for this division and excellent progress has been made to extend and diversify the customer base within this market. We have made further progress over the period in strengthening our relationships with our major OEM customers in these markets and remain focused on achieving key supplier status to these accounts as they look to rationalise their supplier base.

Dominance of the top three customers by revenue has also reduced from 83% to 69% over the last two years. Diversification of product scope also continues, with a far broader range of components now being delivered to established and newly acquired customers.

With the current low oil price impacting demand for drilling and exploration projects, we have increased our focus on decommissioning opportunities and accelerated our evaluation of new geographies and adjacent markets, such as renewable energy, nuclear power and defence, where we have an established customer base with CSC.

In December 2019, we reported that further changes had been made to improve operational and financial performance at the Quadscot Precision Engineers facility in Blantyre, South Lanarkshire, after more than four years of loss-making performance. These changes failed to deliver significant improvement and the decision was taken to consolidate Quadscot's operations, order book and customers into the Roota Engineering facility in Rotherham, South Yorkshire. This decision followed a period of collective staff consultation that concluded on 12 June 2020 and the site is now closed.

Balance Sheet and Liquidity

As at 28 March 2020 the Group's £12.0 million Revolving Credit Facility (RCF) was drawn at £9.3 million, down from £10.8 million at 28 September 2019. Cash and cash equivalents increased in the period to £2.6 million (28 September 2019: £2.2 million) taking the net RCF debt down from £8.6 million at 28 September 2019 to £6.7 million at 28 March 2020. The reduction in net RCF debt is predominantly due to the receipt in February 2020 of a £2.1 million repayment of the Greenlane Renewables Inc. Promissory Note and associated interest which was used to repay a tranche of drawn RCF. Positive operating cash inflow has been partially utilised in net capital investment of £0.7 million, leaving a £0.4 million increase in cash and cash equivalents in the period.

Finance leases at 28 March 2020 totalled £2.9 million, up slightly from £2.8 million at 28 September 2019 with further leases of £0.5 million for key capital equipment in PMC off-set by lease repayments in the period.

IFRS 16 was adopted in the period and as a result £1.2 million of 'Right-of-use asset' debt has been recognised in respect of the leases, predominantly in respect of property, that were previously classed as operating leases.

Total net borrowings, excluding right of use assets, has therefore reduced to £9.6 million at 28 March 2020 from £11.4 million at 28 September 2019.

We continue to be in regular and constructive dialogue with Lloyds Bank regarding ongoing facility requirements and the impact of Covid-19 disruption on operations and the leverage covenant, which is tested quarterly. In support of the Group, Lloyds Bank have agreed a waiver of the June 2020 test and an increase in the test point for the September and December 2020 quarter ends, to give additional headroom given the uncertainty in the outlook for EBITDA and associated cash flow.

The Directors have assessed the risks presented by Covid-19 and re-forecast the original 2020 Budget and the 2021 and 2022 Projections ("the forecasts") to reflect the current and likely future impact of Covid-19 on the Group's operations and financial results.

These baseline forecasts reflect:

- Limited impact of Covid-19 on the CSC division, other than a significant temporary reduction in the level of Integrity Management business due to UK and global travel restrictions and potential supply chain disruption.
- Some reductions in the level of activity across the PMC division as a result of Covid-19, reflecting the impact of a reduction in revenue, supply chain disruption and some limited employee absence.
- The enactment of a number of cash deferral measures.

Throughout the forecast period, the Group generates underlying operating profit and is cash-generative, and along with the amendments to the RCF, therefore believe there is sufficient liquidity and covenant headroom for the foreseeable future.

On 15 June 2020, the Group received un-forecast cash proceeds of £0.6 million from the sale of 2,525,610 shares in Greenlane Renewables Inc. ('Greenlane') which has further reduced the drawn RCF debt at 22 June 2020 to £8.9 million. The Group continues with its strategy to liquidate its remaining investment in Greenlane at the earliest opportunity.

Covid-19

As a supplier to customers who support UK Critical National Infrastructure and Strategic Defence Contracts, we have worked hard to ensure business continuity whilst maintaining our primary focus on safeguarding the health and wellbeing of our teams.

We have written and implemented specific policies which have successfully allowed us to adapt working practices to meet UK government guidelines on workforce protection, enabling social distancing across all our facilities, encouraging working from home wherever roles permit and promoting employee health and wellbeing across the business. Investments made in our central group functions including Human Resources and IT infrastructure over the course of the previous year have underpinned the support we have been able to offer our teams through this difficult period, reinforced by regular and open communications with colleagues working both on site and at home.

Whilst both divisions experienced some early operational disruption and capacity issues during March as the UK entered lockdown, we have been able to keep all sites open and operational, working on the basis of 'business as usual, with caution'.

Covid-19 continued

It remains difficult to predict the duration and severity of the impact that Covid-19 will have on the business. We have continued to support our customers, maintaining close dialogue with them throughout the period and remain focused on safely delivering their orders. However, our Integrity Management business in the CSC division continues to be impacted by the domestic and international travel restrictions which have resulted in the postponement of several deployments. Whilst some domestic deployments are now resuming as UK lockdown restrictions begin to lift, these will continue to be limited due to the necessary ongoing health and safety constraints.

This uncertainty is compounded by a depressed oil price which has resulted in some oil and gas customers deferring project spend and applying pricing pressure throughout the supply chain. We continue to monitor this closely and remain focused on the diversification of our customer portfolio, in line with our growth strategy.

Whilst this uncertainty remains, we are taking a number of prudent measures to manage cost and conserve cash and core capability in the business without undermining the progress already made in both divisions to establish resilience and a foundation for future growth in strategic focus areas. We continue to review possible scenarios should there be further changes to trading conditions and will take actions should the market conditions require us to do so.

Health and Safety

On 26 November 2019, the Group confirmed that its CSC business had been found guilty of a charge brought by the Health & Safety Executive (HSE) pursuant to Section 2 of the Health and Safety at Work Act 1974 following a fatal accident in June 2015. On 13 January 2020, the Group was sentenced to a fine of £0.7 million along with prosecution costs of £0.2 million. The Company has been given by the Court a period of four years over which to pay the combined fine and costs, which it will do from operational cash flows.

The Group fully respects the verdict of the jury and deeply regrets the events that resulted in the death of our colleague and long-standing employee John Townsend, which has left a terrible gap in the lives of his family, friends and colleagues, with whom our deepest sympathies remain.

This tragic incident occurred over five years ago in June 2015 and in the period since then we have made significant changes and improvements to the way we operate at the CSC site and across all Group sites. The health and safety of our people is of paramount importance and these enhanced measures, which are being consistently applied across the business, will help ensure that this is continually reinforced throughout every area of our operations. We will continually assess our health and safety measures and implement changes where necessary.

Following several key Health and Safety personnel appointments across the PMC business last year, we have been pleased to see significant improvements in our health and safety maturity and KPIs for the division. The appointment of a new Health and Safety Manager at CSC at the end of the period completes the strengthening of our Quality, Health, Safety and Environmental teams and supports effective safety leadership that underpin our commitment to the highest safety standards across the Group.

Board

I was delighted to join the Board of Pressure Technologies in January 2020. The Group has a long heritage in its core markets, and I look forward to working with the Executive team and my fellow Non-Executive Directors as the Group continues to make further progress against its strategy for growth. I would particularly like to thank Neil MacDonald for his services to the group since his appointment in June 2013 and wish him well on his retirement from the Board.

As part of our plans to further strengthen the Board and reinforce governance, the Group was pleased to announce the appointment of Tim Cooper as Non-Executive Director in January 2020 and today confirms that Mike Butterworth will join the Board as Non-Executive Director and Chair of the Audit and Risk Committee with immediate effect. Both Tim and Mike bring complementary skills and experience which will be invaluable as we grow the business and realise its significant potential.

Outlook

The impact of Covid-19 continues to be felt to varying degrees across our markets and uncertainty remains over the pace of recovery and possible operational disruption. Both divisions remain in close contact with customers and suppliers and we will continue to take all appropriate steps to maintain business continuity and safely deliver customer orders.

Despite strong order books in both divisions at the half year, it remains difficult to predict the length and depth that the impact of Covid-19 and oil and gas market uncertainty will have on performance throughout the remainder of the year.

The PMC order book is currently valued in excess of £4.0 million. Order intake since the half-year end has been lower than run rate, but we are encouraged by recent levels of enquiry and pipeline development alongside new strategic supply agreements with key OEM customers. With a solid defence order book and recent major orders from target sectors, the outlook for CSC remains positive, notwithstanding the delays to Integrity Management projects due to Covid-19 restrictions.

Whilst the Board continues to review possible scenarios and determine the actions we may take as the outlook becomes clearer, market forecasts remain withdrawn. Management actions will seek to preserve cash and core capability in the business without undermining the progress already made in both divisions to establish resilience and a foundation for future growth in strategic focus areas.

The Group remains focussed on delivering further progress against its strategic plans as the year progresses.

Sir Roy Gardner
Independent Non-Executive Chairman

Covid-19 has brought challenges to nearly all global industries and few businesses are immune. Businesses and their employees are being truly tested and I have been impressed and reassured by the leadership and the commitment shown by all colleagues to maintain safety and business continuity throughout this recent period.

Sir Roy Gardner
Chairman

OVERVIEW

As a supplier to customers who support UK Critical National Infrastructure and Strategic Defence Contracts, we have worked hard to ensure business continuity whilst maintaining our primary focus on safeguarding the health and wellbeing of our teams.

Investments made in our central group functions including Human Resources and IT infrastructure over the course of the previous year have underpinned the support we have been able to offer our teams through this difficult period, reinforced by regular and open communications with colleagues working both on site and at home.

OUR PRIORITIES

Business as usual with caution and all sites operational
Whilst both our divisions experienced some early operational disruption and capacity issues during March as the UK entered lockdown, we have been able to keep all sites open and operational working on the basis of 'business as usual, with caution'.

We have continued to support our customers, maintaining close dialogue with them throughout the period and remain focused on safely delivering their orders. The depressed oil price has resulted in some oil and gas customers deferring project spend and applying pricing pressure throughout the supply chain. We continue to monitor this closely and remain focused on the diversification of our customer portfolio, in line with our growth strategy.

Our Integrity Management business continues to be impacted by the domestic and international travel restrictions which have resulted in the postponement of several deployments. Whilst some domestic deployments are now resuming as UK lockdown restrictions begin to lift, these will continue to be limited due to the necessary ongoing health and safety constraints.

Keeping employees safe whilst supporting UK Critical National Infrastructure
As we navigate through these new uncertain times, the health, safety and wellbeing of our teams has been of paramount importance. We have written and implemented specific policies which have successfully allowed us to adapt working practices to meet UK government guidelines on workforce protection, enabling social distancing across all our facilities, encouraging working from home wherever roles permit, promoting employee health and wellbeing across the business and safeguarding employees who met vulnerable and extremely vulnerable category criteria.

We would like to acknowledge the hard work of our employees and the support from our valued customers and suppliers.

Pressure Technologies is an essential supplier to critical sectors and customers worldwide. During Covid-19 restrictions, we remain open and operational, while working safely and responsibly on site and from home.

Stay safe, take care, stay in touch.

Please visit our website for more information:
www.pressuretechnologies.com/coronavirus/

HOW DOES IT IMPACT STAKEHOLDERS?

Protecting our financial strength
We have taken a number of prudent measures to manage cost and conserve cash and core capability in the business without undermining the progress already made in both divisions to establish resilience and a foundation for future growth in strategic focus areas. We continue to review possible scenarios should there be further changes to trading conditions and will take actions should the market conditions require us to do so.

EMPLOYEES

Our internal effort to protect our people has been our priority, from regular engagement with all our colleagues to education on health and hygiene measures and the reconfiguration of sites and offices and working practices to support social distancing. Staff benefits were adapted with the extension and enhancement of sick pay policies to provide reassurance and comfort.

CUSTOMERS

We have proactively worked with our customers to minimise disruption and support them wherever possible and have kept them regularly updated on our activity throughout the crisis.

SUPPLIERS

We have good relationships with our suppliers and have continued to keep in close contact during this period minimising disruption to our own supply chains.

SHAREHOLDERS

We have sought to engage proactively with shareholders throughout this period, releasing an RNS announcement in relation to the crisis and participating in numerous calls to keep them appraised of our activity.

Sir Roy Gardner
Independent Non-Executive Chairman

Appointed
January 2020

Relevant strengths
- 40 years' experience in leading FTSE 250 companies.
- Recognised by Harvard as one of the world's leading wealth creators.
- Multi-industry expertise.

Relevant experience
- Fellow of the Chartered Association of Certified Accountants, City & Guilds Institute and Energy Institute.
- Leads and chairs large international businesses, many of them providing services to, or regulated by, governments.
- Chair of Serco plc and the Senior Non-Executive Director of Mainstream Renewable Power Limited.
- Previously Chief Executive of Centrica plc, Chairman of Manchester United plc, Chairman of Compass Group plc and Senior Independent Director of William Hill plc.

External commitments
- Chairman of the Board of Governors at St. Albans School.
- Tireless fundraiser for many charities and most notably was President of Carers UK, Chairman of the Employers Forum on Disability and Chairman of The Princess Royal's Development Trust.

Chris Walters
Chief Executive

Appointed
September 2018

Relevant strengths
- Business regeneration and growth.
- Engineering expertise and credentials.
- Energy and marine sector knowledge and network.
- Multi-division, multi-region operations management.

Relevant experience
- Master's degree-qualified Chartered Engineer with over 25 years of experience. MBA from Imperial College, London.
- Fellow of the Royal Institution of Naval Architects and Fellow of the Institution of Marine Engineers, Science & Technology.
- Background in engineering design, construction and through-life integrity management for marine and oil & gas operational assets.
- Senior executive career with Lloyd's Register Group, including roles in the UK and overseas and the management of the Group's global marine and oil & gas certification businesses.
- Chief Executive and co-owner of VCT-backed oil & gas technology SME, TSC Inspection Systems.

External commitments
- Trustee of the Royal National Lifeboat Institution (RNLI) and member of the Technical Committee.
- Freeman of the Company of Cutlers in Hallamshire.

Joanna Allen
Chief Financial Officer

Appointed
July 2015

Relevant strengths
- IFRS financial reporting for AIM companies.
- M&A, in particular financial due diligence.
- Management information and data analytics.
- Audit.

Relevant experience
- AIM company board and committees, in particular Audit and Risk Committee function and effectiveness.
- Audit and Transaction Services Director with PwC, focused on manufacturing and engineering clients.
- Shortlisted in the 2018 and 2017 Northern Finance Director Awards and the 2018 Yorkshire Finance Leader Awards.
- Qualified Chartered Accountant with the ICAEW.
- Degree in Business Studies from the University of Sheffield.

External commitments
- Governor of Sheffield Hallam University.
- Vice-chair of Governors at Hunter's Bar Infant School in Sheffield.
- Freeman of the Company of Cutlers in Hallamshire.

Brian Newman
Senior Independent Non-Executive Director

Appointed
September 2015

Relevant strengths
- Engineering expertise.
- Knowledge of global industrial businesses, including cross-border M&A.
- Divisional management experience.

Relevant experience
- A Chartered Engineer with a degree in Engineering from Cambridge University & MBA from Penn State University, USA.
- Former Divisional Director at two FTSE 100 companies, latterly at Melrose plc as EMEA Managing Director at its subsidiary, Bridon International Group.
- Former Divisional Managing Director at international engineering group GKN plc, with responsibility for its global Wheels and Axles Divisions.
- Over 40 years' experience in engineering having also previously served on the boards of two listed companies.

External commitments
- Non-Executive Director with The Shrewsbury and Telford Hospital NHS Trust, The Woodard Corporation Ltd and a number of other organisations.

KEY

Executive Directors: 2
Non-Executive Directors: 4

Tim Cooper
Independent Non-Executive Director

Appointed
January 2020

Relevant strengths
- Strong commercial expertise in industrial markets.
- Operational management in manufacturing organisations.
- Growing international, technically based businesses.

Relevant experience
- Over 40 years' of international business experience in FTSE plc. Venture Capital and privately-owned companies.
- Former Executive Director of Victrex plc for seven years and has previously held Managing Directorships of Umeco plc, Tellermate plc and Avery Berkel Limited.
- BA (Hons) in Business Studies.
- Institute of Directors Certificate in Company Direction.

External commitments
- Non-Executive Director of Renold plc and Chair of their Remuneration Committee.

Mike Butterworth
Independent Non-Executive Director

Appointed
June 2020

Relevant strengths
- 18 years' experience in Chair of Audit Committee and Non-Executive Director roles.
- Cross-sector expertise.
- Chief Financial Officer of FTSE 250 company.

Relevant experience
- Qualified chartered accountant with an Honours degree in Philosophy, Politics and Economics from the University of Oxford.
- Former Chief Financial Officer at Incepta Group plc and Cookson Group plc, a FTSE 250 business.
- Former Non-Executive Director and Chair of the Audit Committee of Kin and Carta plc, Johnston Press plc and Cambian Group plc.
- Former Senior Independent Director at Kin and Carta plc and Johnston Press plc.

External commitments
- Non-Executive Director and Chair of the Audit Committee of Stock Spirits Group plc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 28 March 2020

	Notes	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Revenue from continuing operations		**13,901**	14,484	28,291
Cost of sales	4	**(9,924)**	(9,440)	(19,119)
Revenue from continuing operations		**3,977**	5,044	9,172
Administration expenses		**(4,038)**	(3,696)	(6,938)
Operating (loss)/profit before amortisation and exceptional charges		**(61)**	1,348	2,234
Separately disclosed items of administrative expenses:				
Amortisation	5	**(932)**	(911)	(1,832)
Other exceptional charges	6	**(956)**	(122)	(450)
Operating (loss)/profit from continuing operations		**(1,949)**	315	(48)
Finance costs		**(102)**	(226)	(467)
Other financial items	7	**578**	—	—
(Loss)/profit before taxation from continuing operations		**(1,473)**	89	(515)
Taxation	8	**372**	209	126
(Loss)/profit for the period from continuing operations		**(1,101)**	298	(389)
Discontinued operations				
Loss for the period from discontinued operations		—	(2,338)	(1,203)
Loss for the period attributable to owners of the parent		**(1,101)**	(2,040)	(1,592)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Currency transaction differences on translation of foreign operations		**(10)**	117	(140)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of discontinued foreign operations		**—**	—	325
Total comprehensive income for the period attributable to the owners of the parent		**(1,111)**	(1,923)	(1,407)
Basic (loss)/earnings per share				
From continuing operations	9	**(5.9)p**	1.6p	(2.1)p
From discontinued operations	9	**—**	(12.6)p	(6.5)p
From loss for the period		**(5.9)p**	(11.0)p	(8.6)p
Diluted (loss)/earnings per share				
From continuing operations	9	**(5.9)p**	1.6p	(2.1)p
From discontinued operations	9	**—**	(12.6)p	(6.5)p
From loss for the period		**(5.9)p**	(11.0)p	(8.6)p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 March 2020

	Notes	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Non-current assets				
Goodwill	10	**9,510**	9,510	9,510
Intangible assets	10	**5,715**	7,298	6,598
Property, plant and equipment and right of use assets	10	**15,711**	12,355	14,042
Deferred tax asset		**278**	402	278
Asset held for sale		**—**	6,801	—
Other long-term financial assets		**5,928**	—	7,350
		37,142	36,366	37,778
Current assets				
Inventories		**6,665**	4,276	5,115
Trade and other receivables		**12,284**	8,244	9,541
Cash and cash equivalents	11	**2,598**	4,363	2,208
Current tax		**221**	28	95
		21,768	16,911	16,959
Total assets		**58,910**	53,277	54,737
Current liabilities				
Trade and other payables		**(12,325)**	(6,389)	(7,360)
Borrowings – asset finance and right of use asset leases	11	**(1,026)**	(365)	(656)
Borrowings – revolving credit facility	11	**—**	—	(10,800)
Current tax liabilities		**—**	(1)	—
		(13,351)	(6,755)	(18,816)
Non-current liabilities				
Other payables		**(698)**	(178)	(158)
Borrowings – asset finance and right of use asset leases	11	**(3,102)**	(1,571)	(2,116)
Borrowings – revolving credit facility	11	**(9,319)**	(11,800)	—
Deferred tax liabilities		**(1,411)**	(1,449)	(1,561)
		(14,530)	(14,998)	(3,835)
Total liabilities		**(27,881)**	(21,753)	(22,651)
Net assets		**31,029**	31,524	32,086
Equity				
Share capital		**930**	930	930
Share premium account		**26,172**	26,172	26,172
Translation reserve		**(290)**	(348)	(280)
Retained earnings		**4,217**	4,770	5,264
Total equity		**31,029**	31,524	32,086

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 26 weeks ended 28 March 2020

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 28 September 2019 (audited)	930	26,172	(280)	5,264	32,086
Share based payments	—	—	—	54	54
Transactions with owners	—	—	—	54	54
Loss for the period – continuing operations	—	—	—	(1,101)	(1,101)
Exchange differences arising on retranslation of foreign operations	—	—	(10)	—	(10)
Total comprehensive income	—	—	(10)	(1,101)	(1,111)
Balance at 28 March 2020 (unaudited)	930	26,172	(290)	4,217	31,029

For the 26 weeks ended 30 March 2019

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 29 September 2018 (audited)	930	26,172	(465)	6,756	33,393
Share based payments	—	—	—	54	54
Transactions with owners	—	—	—	54	54
Profit for the period – continuing operations	—	—	—	298	298
Loss for the period – discontinued operations	—	—	—	(2,338)	(2,338)
Exchange differences arising on retranslation of foreign operations	—	—	117	—	117
Total comprehensive income	—	—	117	(2,040)	(1,923)
Balance at 30 March 2019 (unaudited)	930	26,172	(348)	4,770	31,524

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued

For the 26 weeks ended 28 March 2020

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 29 September 2018 (audited)	930	26,172	(465)	6,756	33,393
Share based payments	—	—	—	100	100
Transactions with owners	—	—	—	100	100
Loss for the period – continuing operations	—	—	—	(389)	(389)
Loss for the period – discontinued operations	—	—	—	(1,203)	(1,203)
Exchange differences arising on translating foreign operations	—	—	(140)	—	(140)
Exchange differences on translation of discontinued foreign operations	—	—	325	—	325
Total comprehensive income	—	—	185	(1,592)	(1,407)
Balance at 28 September 2019 (audited)	930	26,172	(280)	5,264	32,086

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the 26 weeks ended 28 March 2020

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Cash flows from operating activities			
(Loss)/profit after tax – continuing operations	(1,101)	298	(389)
Loss after tax – discontinued operations	—	(2,338)	(1,203)
Adjustments for:			
Depreciation of property, plant and equipment	855	656	1,377
Finance costs – net	102	226	467
Amortisation of intangible assets	932	911	2,390
Profit on disposal of property, plant and equipment	(10)	(35)	—
Gain on revaluation of equity investment	(578)	—	—
Share option costs	54	54	100
Income tax credit	(372)	(209)	(126)
Changes in working capital:			
Increase in inventories	(1,550)	(472)	(1,234)
(Increase)/decrease in trade and other receivables	(2,457)	(124)	402
Increase/(decrease) in trade and other payables	4,532	(697)	(1,156)
Increase in other long-term payables	700	—	—
Cash flows from operating activities	1,107	(1,730)	628
Finance costs paid net of interest income received	(115)	(201)	(464)
Income tax refunded	96	35	159
Cash flows from discontinued operations	—	301	(2,534)
Net cash inflow/(outflow) from operating activities	1,088	(1,595)	(2,211)
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,246)	(597)	(3,693)
Proceeds from disposal of fixed assets	5	35	—
Proceeds from disposal of other long-term financial assets	2,000	—	—
Cash inflow on disposal of subsidiaries net of cash disposed of	—	—	1,277
Net cash from/(used) in investing activities	759	(562)	(2,416)
Financing activities			
Proceeds from new borrowings	—	500	—
Proceeds from lease financing	514	—	2,002
Repayment of borrowings	(1,971)	(120)	(1,307)
Net cash (outflow)/inflow from financing activities	(1,457)	380	695
Net increase/(decrease) in cash and cash equivalents	390	(1,777)	(3,932)
Cash and cash equivalents at beginning of period	2,208	6,140	6,140
Cash and cash equivalents at end of period	2,598	4,363	2,208

1. Basis of preparation and statement of compliance with IFRS

The Group's interim results for the 26 weeks ended 28 March 2020 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ("IFRS") as adopted by the EU and effective from 29 September 2019. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "Interim financial reporting" and therefore the interim information is not in full compliance with IFRS. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2019 annual report and financial statements, with the exception of the adoption of IFRS 16 'Leases' as detailed below. The Principal Risks and Uncertainties of the Group are also set out in the Group's 2019 annual report and financial statements and, with the exception of risks arising from the Covid-19 pandemic, are unchanged in the period.

The Group's 2019 financial statements for the 52 weeks ended 28 September 2019 were prepared under IFRS. The auditor's report on these financial statements was unmodified and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 and they have been filed with the Registrar of Companies.

The Directors have assessed the risks presented by Covid-19 and re-forecast the original 2020 Budget and the 2021 and 2022 Projections ("the forecasts") to reflect the current and likely future impact of Covid-19 on the Group's operations and financial results. These baseline forecasts reflect:

- Limited impact of Covid-19 on the CSC division, other than a significant temporary reduction in the level of Integrity Management business due to UK and global travel restrictions and potential supply chain disruption.
- Some reductions in the level of activity across the PMC division as a result of Covid-19, reflecting the impact of a reduction in revenue, supply chain disruption and some limited employee absence.
- The enactment of a number of cash deferral measures.

Throughout the forecast period, the Group generates underlying operating profit and is cash-generative.

On 10 December 2019, the Group agreed a two-year revolving credit facility with Lloyds Bank plc for a maximum amount of £12 million up to 9 December 2020 and £10 million up to 9 December 2021. This facility included, inter alia, three financial covenants to be tested quarterly, namely (i) Net debt (on a pre-IFRS 16 basis) to Adjusted EBITDA ('Leverage Covenant'), (ii) Net finance costs (on a pre-IFRS 16 basis) to Adjusted EBITDA, and (iii) CAPEX covenant. In response to the Covid-19 situation, on 26 May 2020 the Group agreed with Lloyds Bank plc the following changes to the financial covenants:

- the testing of the leverage covenant as at 30 June 2020 to be waived.
- the Leverage Covenant as at 30 September and 31 December 2020 to be relaxed to a maximum of 5.0 times (from a maximum of 3.25 times and 3.0 times respectively). The covenant would revert back to the previously agreed level of a maximum of 3.0 times thereafter.
- the Net finance cost to EBITDA and Capex covenants remain unchanged.
- the amount of the facility remains unchanged.

Based on the baseline re-forecasts prepared on the assumptions described above and severe but plausible downside scenario modelling for the PMC division, for the period at least 12 months from the signing of this interim financial information, the Group's net debt would remain within the amount of the facility and the Group would operate within the revised financial covenants.

On 15 June 2020, the Group received un-forecast cash proceeds of £0.6 million from the sale of 2,525,610 shares in Greenlane Renewables Inc. ("Greenlane"). The Group continues with its strategy to liquidate its remaining investment in Greenlane at the earliest opportunity.

1. Basis of preparation and statement of compliance with IFRS continued

On the basis of the above, including consideration as to the ongoing uncertainty as to the future impact of the Covid-19 pandemic, the Group believes it has sufficient headroom to be able to continue its operations for the foreseeable future. The Directors believe that the Group is in a position to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of this interim financial information. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments.

The financial information for the 26 weeks ended 28 March 2020 and 30 March 2019 has not been audited or reviewed and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. The unaudited interim financial statements were approved for issue by the Board of Directors on 22 June 2020.

2. New Standards adopted as at 29 September 2019

IFRS 16 'Leases' replaced IAS 17 'Leases' along with three interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to the arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 29 September 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.25%.

The Group has benefited from the use of hindsight for determining a lease term when considering options to extend and terminate leases.

2. New Standards adopted as at 29 September 2019 continued

The following is a reconciliation between total operating lease commitments as at 28 September 2019 to the leases recognised at 29 September 2019:

	£'000
Balance at 29 September 2018 (audited)	1,348
Recognition exemptions:	
– leases with remaining lease terms of less than 12 months	(16)
Total lease liabilities recognised under IFRS 16 at 29 September 2019	1,332

2.1 Standards and interpretations not yet applied

The following standards and amendments that are effective for the first time in 2020 and could be applicable to the Group are:

- IFRIC 23 – Uncertainty over Income Tax Treatments.
- IFRS 9 – Prepayment Features with Negative compensation (Amendments to IFRS 9).
- IAS 28 – Long-Term Interests in Associates and Joint-Ventures (Amendments to IAS 28).

These amendments do not have a significant impact on these interim financial statements and therefore the disclosures have not been made.

3. Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the 52 weeks ended 28 September 2019, except for the effects of applying IFRS 16.

3.1 Leases

As described in Note 2, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 29 September 2019

The Group as a lessee

For any new contracts entered into on or after 29 September 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group.
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

3. Significant accounting policies continued

3.1 Leases continued

Accounting policy applicable from 29 September 2019 continued

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

Accounting policy applicable before 29 September 2019

The Group as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards, incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

See the accounting policy note in the year-end financial statements for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)

Revenue by destination – continuing operations

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
United Kingdom	**9,230**	7,696	15,799
European Union	**3,492**	3,294	7,168
Rest of World	**1,179**	3,494	5,324
	13,901	14,484	28,291

Revenue by sector – continuing operations

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Oil and gas	**8,137**	7,704	16,272
Defence	**2,021**	5,384	9,118
Industrial gases	**3,743**	955	2,175
Hydrogen energy	**—**	441	726
	13,901	14,484	28,291

Revenue by activity – continuing operations

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Cylinders	**6,272**	7,651	13,860
Precision Machined Components	**7,872**	7,148	14,449
Intra divisional	**(243)**	(315)	(18)
	13,901	14,484	28,291

The Group's revenue disaggregated by pattern of revenue recognition and category is as follows:

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Sale of goods transferred at a point in time	**8,582**	13,267	23,427
Sale of goods transferred over time	**3,863**	406	1,739
Rendering of services	**1,456**	811	3,125
	13,901	14,484	28,291

4. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) continued

The following aggregated amounts of transaction values relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied as at 28 March 2020:

	Deliverable within next 12 months £'000
Contracted revenue yet to be invoiced – Cylinders	2,819

(Loss)/profit before taxation by activity – continuing operations

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Cylinders	441	1,372	2,089
Precision Machined Components	330	772	1,879
Manufacturing subtotal	771	2,144	3,968
Unallocated central costs	(832)	(796)	(1,734)
Operating (loss)/profit pre amortisation and other exceptional charges	(61)	1,348	2,234
Amortisation (note 5)	(932)	(911)	(1,832)
Other exceptional charges (note 6)	(956)	(122)	(450)
Operating (loss)/profit	(1,949)	315	(48)
Finance costs	(102)	(226)	(467)
Other financial items (note 7)	578	—	—
(Loss)/profit before tax	(1,473)	89	(515)

The Operating (loss)/profit by activity is stated before the allocation of Group management charges which are included within 'Unallocated central costs'.

4. Segmental analysis and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) continued

Earnings before interest, taxation, depreciation, and amortisation (EBITDA) – continuing operations

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Adjusted EBITDA	794	2,004	3,591
Other exceptional charges (note 6)	(956)	(122)	(450)
EBITDA	(162)	1,882	3,141
Depreciation	(855)	(656)	(1,357)
Amortisation (note 5)	(932)	(911)	(1,832)
Interest	(102)	(226)	(467)
Other financial items (note 7)	578	—	—
(Loss)/profit before tax	(1,473)	89	(515)

Amortisation on acquired businesses as set out above consists of the amortisation charged on intangible assets acquired as a result of business combinations in previous periods.

5. Amortisation

Amortisation of intangible assets is shown separately in the Condensed Consolidated Statement of Comprehensive Income. A breakdown of those costs can be seen below.

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Amortisation of intangible assets arising on a business combination	(932)	(911)	(1,832)

6. Other exceptional charges

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are disclosed separately on the face of the Condensed Consolidated Statement of Comprehensive Income.

An analysis of the amounts presented as exceptional items in these financial statements is given below:

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Reorganisation and redundancy	(256)	(122)	(450)
Exceptional insurance credit	169	—	—
HSE Fine	(869)	—	—
	(956)	(122)	(450)

6. Other exceptional charges continued

The reorganisation costs relate to various costs of restructuring across the Group. They are recognised in accordance with IAS 19.

Given that these costs do not relate to underlying trading, the Directors consider it appropriate to disclose these as exceptional items.

HSE Fine

On 26 November 2019, the Group, announced that its subsidiary Chesterfield Special Cylinders ("CSC") had been found guilty of a charge brought by the Health & Safety Executive ("HSE") pursuant to Section 2 of the Health and Safety at Work Act 1974 following a fatal accident in June 2015. The sentencing hearing was held on 13 January 2020 at Sheffield Crown Court, at which a fine of £700,000 was determined and prosecution costs of £169,499 were set. The fine is due to be paid over five six-monthly instalments of £140,000 commencing 31 January 2021.

7. Other financial items

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Gain on revaluation of equity investment	578	—	—

Following the application of IFRS 9, the investment in Greenlane Renewables Inc. is categorised at Fair Value through Profit and Loss (FVTPL). Therefore the investment has been measured at fair value at the period end with any subsequent gain or loss being recognised in profit or loss.

The fair value of the shareholding in Greenlane Renewables Inc. was determined by reference to published price quotations in an active market on the Toronto Stock Exchange (TSX-V) and using a valuation technique to discount relevant future flows of value beyond the period end date.

8. Taxation

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Current tax credit	221	65	(299)
Deferred taxation credit	151	144	94
Taxation credit to the income statement	372	209	(205)

9. (Loss)/earnings per ordinary share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on basic earnings per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Adjusted earnings per share shows earnings per share, adjusting for the impact of the amortisation charged on intangible assets acquired as a result of business combinations and any exceptional items, and for the estimated tax impact, if any, of those costs. Adjusted earnings per share is based on the profits as adjusted divided by the weighted average number of shares in issue.

For the 26 week period ended 28 March 2020

	Continuing £'000	Discontinued £'000	Total £'000
Loss after tax	(1,101)	—	(1,101)
			No.
Weighted average number of shares – basic			18,595,165
Dilutive effect of share options			44,974
Weighted average number of shares – diluted			18,640,139
Basic loss per share	(5.9)p	—	(5.9)p
Diluted loss per share	(5.9)p	—	(5.9)p

The Group adjusted earnings per share is calculated as follows:

	Continuing £'000	Discontinued £'000	Total £'000
Loss after tax	(1,101)	—	(1,101)
Amortisation (note 5)	932	—	932
Other exceptional charges and credits (note 6)	956	—	956
Gain on revaluation of equity investment (note 7)	(578)	—	(578)
Theoretical tax effect of above adjustments	(207)	—	(207)
Adjusted earnings	2	—	2
Adjusted earnings per share – basic and diluted	0.0p	—	0.0p

9. (Loss)/earnings per ordinary share continued

For the 26 week period ended 30 March 2019

	Continuing £'000	Discontinued £'000	Total £'000
Profit/(loss) after tax	298	(2,338)	(2,040)

	No.
Weighted average number of shares – basic	18,595,165
Dilutive effect of share options	—
Weighted average number of shares – diluted	18,595,165

	Continuing	Discontinued	Total
Basic earnings/(loss) per share	1.6p	(12.6)p	(11.0)p
Diluted earnings/(loss) per share	1.6p	(12.6)p	(11.0)p

The Group adjusted earnings/(loss) per share is calculated as follows:

	Continuing £'000	Discontinued £'000	Total £'000
Profit/(loss) after tax	298	(2,338)	(2,040)
Amortisation (note 5)	911	418	1,329
Other exceptional charges and credits (note 6)	122	6	128
Theoretical tax effect of above adjustments	(178)	(72)	(250)
Adjusted earnings/(loss)	1,153	(1,986)	(833)
Adjusted earnings/(loss) per share – basic and diluted	6.2p	(10.7)p	(4.5)p

For the 52 week period ended 28 September 2019

	Continuing £'000	Discontinued £'000	Total £'000
Loss after tax	(389)	(1,203)	(1,592)

	No.
Weighted average number of shares – basic	18,595,165
Dilutive effect of share options	9,234
Weighted average number of shares – diluted	18,604,399

	Continuing	Discontinued	Total
Basic loss per share	(2.1)p	(6.5)p	(8.6)p
Diluted loss per share	(2.1)p	(6.5)p	(8.6)p

9. (Loss)/earnings per ordinary share continued

For the 52 week period ended 28 September 2019

The Group adjusted earnings/(loss) per share is calculated as follows:

	Continuing £'000	Discontinued £'000	Total £'000
Loss after tax	(389)	(1,203)	(1,592)
Amortisation (note 5)	1,832	558	2,390
Other exceptional charges and credits (note 6)	450	(1,401)	(951)
Theoretical tax effect of above adjustments	(434)	(428)	(862)
Adjusted earnings/(loss)	1,459	(2,474)	(1,015)
Adjusted earnings/(loss) per share - basic and diluted	7.8p	(13.3)p	(5.5)p

10. Asset Impairment Review

The Group tests annually for impairment, or more frequently if there are indicators that goodwill, other intangibles and tangible fixed assets might be impaired. The occurrence of the Coronavirus is a global issue affecting every single business sector and every country to some degree. It has already had a significant impact on the global economy, and its impacts are expected to continue for the foreseeable future. Consequently, the impact of the pandemic is considered to be an indicator that the carrying value of our intangible and tangible assets in the Group's only cash generating unit (CGU) – the Precision Machined Components (PMC) division – may be impaired.

In light of the pandemic, the Group has considered a range of economic conditions for the sectors in which the Group operates that may exist over the next three years. These economic conditions, together with reasonable and supportable assumptions, have been used to estimate the future cash inflows and outflows for the PMC CGU over the next three years. The assumptions underlying these forecasts are detailed in note 1 to these interim financial statements.

These forecasts have been approved by management and the Board of Directors, and are based on a bottom up assessment of costs and uses the current and estimated future sales pipeline. The forecasts used for years two to three assume revenue growth, but no long-term rate of growth or inflation is incorporated into the perpetuity calculation at the end of year three. A value in use calculation has been calculated by applying a discount rate of 12.0% (Sept 2019: 14.7%) to the cash flows in these forecasts. The discount rate has reduced from the prior year due to the change in the mix of the Group's businesses following the disposal of the Alternative Energy division in June 2019.

Management's key assumptions are based on their past experience and future expectations of the market over the longer term. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. A baseline re-forecast was produced reflecting management's best estimate of the likely impact of the pandemic on the Group's businesses, along with a more pessimistic but plausible downside scenario in respect of the PMC division.

10. Asset Impairment Review continued

Carrying amount of assets allocated to the PMC CGU

	28 March 2020 £'000
Carrying value of allocated goodwill	9,510
Carrying value of customer relationships and intellectual property	5,097
Carrying value of tangible fixed assets	6,546
Theoretical tax effect of above adjustments	106
	21,259

The value in use calculation for the PMC CGU based on the baseline re-forecast resulted in headroom of £0.3 million over the total carrying value of £21.3 million, such that no impairment is required for the PMC division in these interim results. The recoverable amount is most sensitive to the assumptions regarding expected future cash inflows and the discount rate. Given the limited headroom, a relatively small change in the assumptions used in the baseline forecasts for the division's profitability and/or the discount rate applied to the cash flows could cause the carrying value to exceed the recoverable amount, thus indicating that an impairment may be required. This will be next reviewed at the annual impairment test in September 2020.

11. Reconciliation of net borrowings

	Unaudited 26 weeks ended 28 March 2020 £'000	Unaudited 26 weeks ended 30 March 2019 £'000	Audited 52 weeks ended 28 September 2019 £'000
Cash and cash equivalents	**2,598**	4,363	2,208
Bank borrowings	**(9,319)**	(12,300)	(10,800)
Net debt excluding finance leases	**(6,721)**	(7,937)	(8,592)
Finance leases	**(2,916)**	(1,436)	(2,772)
Right of use asset leases	**(1,212)**	—	—
Net borrowings	**(10,849)**	(9,373)	(11,364)

During the period the bank committed to extend the revolving credit facility termination date to 9 December 2021. Accordingly, the directors have concluded that it is appropriate to present the loan as due for repayment after one year.

12. Dividends

No final or interim dividend was paid for either of the 52 week periods ended 29 September 2018 or 28 September 2019. No interim dividend for the 53 week period ending 3 October 2020 is proposed.

A copy of the Interim Report will be sent to shareholders shortly and will be available on the Company's website: www.pressuretechnologies.com.

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