PINPOINT-INVEST-EXIT

2020 Interim Report

About

Avingtrans plc has a proven strategy of “buy and build” in highly regulated engineering markets, a strategy it has named “Pinpoint-Invest-Exit”. Significant shareholder value is delivered through a clear strategy, a strong balance sheet and an agile and experienced management team.

www.avingtrans.plc.uk

Avingtrans plc

(“Avingtrans” or the “Group”)

Interim results for the six months ended 30 November 2019

Avingtrans PLC (AIM: AVG), the international engineering group which designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy and medical sectors, today announces its interim results for the six months ended 30 November 2019.

Financial Highlights

- Revenue increased by 15.0% to £54.8m (2019* H1: £47.7m)
    - Revenue from Energy Steel & Booth acquisitions was £7.0m
- Gross Margin improved slightly to 25.8% (2019 H1: 25.7%)
- Adjusted** EBITDA increased to £4.6m (2019 H1: £3.6m)
    - Includes anticipated H1 EBITDA losses from Energy Steel and Booth of £0.8m
- Profit before Tax reduced to £0.3m (2019 H1 £0.6m)
    - Dampened by the anticipated H1 loss before tax of £0.9m at Energy Steel and Booth and £0.1m IFRS 16 impact. Adjusted** Profit Before Tax £1.7m (2019 H1: £1.6m)
- Adjusted** Diluted earnings per share were 5.1p (2019 H1: 4.5p)
- Cash outflow from operating activities was £2.1m (2019 H1: £1.7m inflow)
- Net Debt pre IFRS16 £8.3m (31 May 2019: £2.0m)
- Interim dividend increased by 7.1% to 1.5p per share (2019 H1: 1.4p)

** 2019 H1 not restated for IFRS16*
*** Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items*

Operational Highlights
Energy

- Energy revenues increased by 18.7%, mainly driven by Booth and Energy Steel acquisitions
- Aftermarket performance continuing to improve across all business units
- Sellafield 3M3 (three-metre-cubed box) steady – meeting customer expectations
- Expanding orders in nuclear sector in the UK, USA and Asia
- Ormandy Group performance improving incrementally
- Hydrocarbons - margins continue to improve for Original Equipment and Aftermarket
- Both Booth and Energy Steel are responding to management rigour and recovering as anticipated
- In the period, Booth secured a contract for safety doors with the UK government, worth £7.2m
- Post-period end, HT China won a £2.2m pump order for a solar power plant in Dubai

Medical

- Divisional revenues reduced slightly, as the planned transition to new markets continues
- New orders for NMR service have been building, but more slowly than expected
- Metalcraft China’s results were somewhat suppressed by H1 customer delays
- Work on MRI systems options is on-going. The prototype system has produced first images
- Composite Products performance was again stable in the period, with good prospects.

Commenting on the results, Roger McDowell, Chairman, said:

“Another solid period of progress saw the group meeting expectations. The former Hayward Tyler Group ("HTG") businesses are now fully integrated into Avingtrans and continuing to improve overall, under the investment and development phase of our PIE strategy. In due course, this will enable us to fully realise the underlying value of the Hayward Tyler and Peter Brotherhood businesses. We continue to make good progress with new orders – especially in nuclear. Since their acquisition in June 2019, both Booth Industries and Energy Steel have responded to our well-honed PIE process and recovery is underway. The budding medical division has made good progress in the development of new MRI and NMR products.”

“Each year brings fresh challenges and opportunities, we remain robust and confident about our prospects in both the Energy and Medical sectors. The positive crop of orders underpins our on-going confidence in the outlook.”

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About Avingtrans plc:
Avingtrans designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy, medical and industrial markets worldwide.
Business units

Hayward Tyler – Luton & East Kilbride, UK and USA, China and India
Specialises in the design, manufacture and servicing of performance-critical motors and pumps for challenging environments.

Energy Steel, Inc - Lapeer, Michigan, USA
Provider of custom fabrications for the nuclear industry, specialising in: OEM parts obsolescence; custom fabrications; engineering design solutions; product refurbishment; on-site technical support.

Stainless Metalcraft Ltd – Chatteris, UK and Chengdu, China
Provider of safety-critical equipment for the energy, medical, science and research communities, worldwide, specialising in precision pressure and vacuum vessels and associated fabrications, sub-assemblies and systems.

Booth Industries - Bolton, UK
Designs, manufactures, installs and services doors and walls which can be tailored to be: blast &explosion proof; fireproof; acoustically shielded; high security/safety; or combinations of the above.

Ormandy Group, Bradford, UK
Design, manufacturers and servicing of off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products

Peter Brotherhood – Peterborough, UK
Specialises in the design, manufacture and servicing of performance-critical steam turbines, turbo gen-sets, compressors, gear boxes and combined heat and power systems.

Composite Products Ltd – Buckingham, UK
Centre for composite technology, parts and assemblies, serving customers in industrial markets.

Scientific Magnetics – Abingdon, UK
Designs and manufactures superconducting magnet systems and associated cryogenics for a variety of markets including MRI and provides services for Nuclear Magnetic Resonance instruments.

Tecmag Inc, Houston, USA
Designs, manufactures and installs instrumentation, including consoles, system upgrades, and probes, mainly for Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems.

Crown International Ltd – Portishead, UK
Designs and manufactures market-leading pole and support systems for roadside signage and safety cameras, rail track signalling and gantries.

Chairman's Statement

It is once again pleasing to report that our first half performance was solid and comfortably met management expectations. The shift towards a balance of original equipment and aftermarket opportunities continues - and has our full attention.

Regarding the recent acquisitions of Booth and Energy Steel (both acquired in June 2019), we are pleased with the recovery and the build-up of a solid order book in each case. In particular, Booth secured a long-term contract for safety doors with the UK Government, worth £7.2m – a tremendous win, given its financial condition prior to acquisition. We are gratified that these two businesses are recuperating well and local management is responding to the proven Avingtrans PIE strategy. Green shoots of regrowth are now clearly visible in each case.

Within our Energy divisions, we are building a bigger, stronger nuclear sector capability, be it in decommissioning, life extension, or in new build opportunities. We have enjoyed first-rate contract wins in Europe, Asia and North America in the period, both in the EPM and PSRE divisions.

Conventional hydrocarbon markets have seen improvement – particularly in aftermarket sales. Operational progress is generally good and we continue to strengthen the aftermarket organisations, with Peter Brotherhood experiencing a strong first half. It was also pleasing to see Hayward Tyler in China record its biggest contract win to date (£2.2m) for a new concentrated solar power project in Dubai. This represents a further important incursion into the growing market for renewable energy.

Metalcraft is meeting customer expectations for Sellafield, in relation to 3M3 boxes, including customer design changes, so this programme remains on track. However, it is somewhat disappointing that Sellafield has delayed the next 3M3 box tender process until late calendar 2021. This has no impact on our forecasts, since we anticipate customer delays in such projects.

Ormandy's progress in re-establishing a leading position in the Heating, Ventilation and Air Conditioning (HVAC) market has been solid. We remain convinced that Ormandy will produce a significant uplift in the value of our investment, following the initial hard pruning it was subjected to, after acquisition in February 2018.

Within our embryonic Medical & Industrial Imaging division, Scientific Magnetics and Tecmag are making steady progress toward the realisation of new product offerings in the Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) markets. This is a long-term cross-pollination endeavour, but we feel confident that this activity will bear fruit for investors in due course. Metalcraft China's results are stable and gradually improving. Composite Products had a reasonable first half with growing business with Rapiscan, its biggest customer, as installations at airports continue worldwide.

Existing shareholders know that our proven "buy and build" strategy is called "PIE" (Pinpoint-Invest-Exit). This strategy - as it applies to regulated engineering niche markets - continues to blossom. We are now deeply embedded in the investment and development stage of the Booth and Energy Steel acquisitions, which we expect to boost profitable growth in each case. Progress has been as expected, with some notable early evidence particularly at Booth and we continue with our targeted recovery plans, to enable these businesses to achieve their full market potential.

Global events have increased uncertainty, but we are not unduly concerned. We do not expect Brexit to have any significant impact on our operations and our European exposure is relatively limited. The tariff wars seem to be abating and we believe that the coronavirus risk in China can be largely mitigated, although there may be some disruption in our supply chain. With our Chinese factories recently reopened after the extended new year holiday, this could have some effect on the full year, but we believe that any impact will be contained and not material.

The Board has, for the ninth successive year, declared an increased interim dividend, of 1.5 pence per share (2019 H1: 1.4p), emphasising our commitment to consistently improve returns to our shareholders.

In conclusion, I would like to take this opportunity again to thank all of our employees (including those at Booth and Energy Steel) for their persistence, diligence and commitment to delivering world-class engineering products and services to our customers. I look forward to the rest of this year with relish.

Roger McDowell
Chairman
25 February 2020

Strategy and business review

Group Performance

Avingtrans is now cemented into a business model which drives original equipment design and manufacture and associated aftermarket services, affording the Group an improving margin mix, both in the near and longer term. The Group's Energy divisions, comprising Engineered Pumps and Motors and Process Solutions and Rotating Equipment, now form the bulk of Avingtrans' operations. Effective long-term nurturing of the Group's smaller Medical and Industrial Imaging division also remains a core focus for management.

Strategy

Avingtrans is an international precision engineering group, operating in differentiated, specialist markets, within the supply chains of many of the world's best known engineering original equipment manufacturers (OEMs). Our core strategy is to build market-leading niche positions in our chosen market sectors – currently focused on the Energy and Medical sectors. Over the longer term, our acquisition strategy has enabled our businesses to develop the critical mass necessary to achieve leadership in our chosen markets.

Our strategy remains consistent with previous statements. The Group's constant objective is to continue the proven strategy of "buy and build" in regulated engineering markets, where we see consolidation opportunities, potentially leading to significantly increased shareholder returns over the medium to long term. At the appropriate time, we will seek to crystallise these gains with periodic sales of businesses at advantageous valuations and return the proceeds to shareholders. We call this strategy PIE – "Pinpoint-Invest-Exit". Previous deals – e.g. the disposal of Sigma in 2016 – have clearly demonstrated the success of this approach, producing substantial increases in shareholder value. We have built strong brands and value from smaller constituent parts; we have demonstrated well-developed deal-making skills and prudence in the acquisition of new assets.

The Board continues to focus on improvements in HTG's operations, along with improving the performance of Booth and Energy Steel. This programme is progressing to plan. The objective for the Group is to become a leading supplier in the energy and medical markets of low volume, operation critical products, with a reputation for high quality and delivery, on-time and on-budget. The Group has production facilities in its three key geographical markets (the Americas, Asia and Europe) with higher volume/lower cost facilities in Asia, and product development and realisation in the UK and the USA. The Group intends to invest in breakthrough and disruptive technologies in the energy and medical markets.

Avingtrans' primary focus in Energy is the nuclear sector – harvesting opportunities in decommissioning, life extension and "new nuclear" markets. We are also engaged with a variety of other niches in the renewable energy sector. In addition, the Directors will continue to build on our footprint in the wider power and energy sectors. In particular, the provision of traditional power generation, motor solutions, steam turbines, combined heat and power units and gas to power units, in various sectors, with a principal focus on the power, hydrocarbon, marine, water and industrial sectors.

After the HTG acquisition in 2017, to maximise long term shareholder value via our PIE strategy, we reorganised the Energy assets of the Group into two distinct divisions:

- Engineered Pumps and Motors (EPM) consists of Hayward Tyler's units in the UK, USA, China and India and Energy Steel, acquired in June 2019.
- Process Solutions and Rotating Equipment (PSRE) consists of Metalcraft's energy assets, including Maloney, plus Peter Brotherhood, Ormandy, Crown the Fluid Handling business in Scotland and also Booth Industries, acquired in June 2019.

In parallel, the focus of the Group's Medical division - known as Medical and Industrial Imaging (MII) - is to become a market leader in the production of high integrity components and systems for medical, scientific and industrial equipment manufacturers in specific niche markets, including: MRI (Magnetic Resonance Imaging) derivatives, proton therapy, NMR (Nuclear Magnetic Resonance) and industrial imaging modalities, such as x-ray. This division consists of Metalcraft's medical assets in the UK and China, plus Scientific Magnetics and Composite Products and Tecmag in the USA.

Our core businesses have the capability to engineer products in developed markets and to produce those products partly, or wholly, in Asia, where appropriate. This allows us and our customers to access low cost sourcing at minimum risk, as well as positioning us neatly in the development of the Chinese, Indian and other Asian markets for our products. We are very well established in China, providing integrated supply chain options for our blue-chip customers.

An overarching strategic theme for Avingtrans, is to proactively nurture and grow the proportion of our business stemming from aftersales. We are targeting both our own installed base and the wider installed base of such equipment, in areas where we can offer an advantage to our end-user customers. This focus applies equally to our Energy and Medical businesses.

Energy - Engineered Pumps and Motors ("EPM")

For Hayward Tyler ("HT"), the main priorities remain to strengthen the aftermarket capabilities and to maximise opportunities in the nuclear life extension market. The division delivered a solid first half performance, despite seeing some short-term contract award delays.

At HT Luton, aftermarket activities continue to build, including the servicing of 3rd party equipment. The £10m contract in Sweden with Vattenfall for the Forsmark plant (for nuclear life extension) is underway and proceeding to plan, whilst further defence orders have been received and are being executed on target.

HT Inc in Vermont (USA) continues to see solid order intake in the nuclear life extension market in the USA - and again with KHNP, South Korea, where we continued to book new orders in the period, though there were some customer contract delays which impacted the H1 result. HT Inc's new R&D opportunities - in next generation nuclear power and concentrated solar power - are also making good progress. Notably, the business won its first order for the experimental nuclear fusion reactor "ITER" currently under construction in France.

HT Kunshan (China) has the factory fully operational and recently won the biggest ever contract in China (worth £2.2m) for specialist pumps to be installed in a major new concentrated solar power plant in Dubai. This marks an important seeding of the renewables market and we expect more to follow in the coming years.

Meanwhile, in India, HT's new rewind centre, has started to win orders, again with aftermarket potential in mind.

Energy Steel ('ES') in Michigan (USA), is recovering as anticipated, with the HT team having increased the focus on customer service excellence and expanding the sales footprint in nuclear aftermarket opportunities in north America and beyond. Cross-fertilisation opportunities are also now being harvested between HT and ES.

Energy – Process Solutions and Rotating Equipment ("PSRE")

PSRE is also increasingly focused on aftermarket where feasible, which is gradually improving the margin mix. Overall, the division had a very good first half, much improved on the prior year.

Metalcraft's progress with the Sellafield 3M3 boxes has been steady, despite customer design changes, and we are producing boxes consistently. The next 3M3 box contract tender was expected in this calendar year. However, Sellafield recently signalled a delay until next year. Whilst this is somewhat disappointing, we are well organised to pursue this contract and it does not impact on our forecasts, which allow for unexpected customer delays.

Peter Brotherhood ('PB') continued to focus profitably on aftermarket activities and capitalised on its government contracts, minimising our dependence on new hydrocarbon related prospects. Work on the floating production platform contract has gone well. PB's results have been consistently robust of late and the prospects for the year are good. Several other opportunities are being pursued, to further broaden the footprint of PB, including in defence.

Ormandy's performance has improved slowly but steadily since acquisition in February 2018 and we remain confident about the order and prospect pipeline, with our efforts focused on strengthening Ormandy's sales organisation, to further capitalise on its market strengths in the HVAC sector.

Since its acquisition in June 2019, Booth Industries has been on a rapid recovery curve and has responded very well to the proven Avingtrans PIE methods. A bumper crop of orders is building-up, for delivery over the next two years or so. We have rationalised the operations to remove unneeded space, as well as planning to consolidate operations at the Nelson Street facility in Bolton, with a new building extension being grafted onto the existing site. It seems that the blast and security doors niche which Booth occupies is one which we can defend vigorously, to rebuild Booth into a leader in its chosen markets.

The Fluid Handling business in Scotland has been a consistently good performer since acquisition and has fitted well into our ambitions to build a wider nuclear capability. After period end, this unit won its biggest ever order (£1m) for Sellafield, to repair and upgrade remotely monitored valves. Further nuclear life extension and decommissioning opportunities are being pursued.

Finally, whilst Crown had a relatively subdued first half, due to delays in the award of various road infrastructure contracts (including for "Smart Motorways"), prospects remain promising, including in new market areas. Results are expected to improve in the second half, although its impact on Group results will not be material.

Medical and Industrial Imaging ("MII")

MII is a division in pro-active transition. We have been pivoting away from the custom business previously targeted by Scientific Magnetics (SM) and working towards new products in Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR), including service and support offerings with our US partner, MR Resources. These potentially exciting developments are taking some time to bear fruit, but our strategic progress is consistent.

The prior year acquisition of Tecmag in the USA was strategically important. Tecmag produces electronics and software for MRI and NMR systems. It is an important piece in the jigsaw, facilitating our ability to produce complete MRI and NMR systems. Tecmag is operating at close to break-even with legacy product sales, whilst working with Scientific Magnetics on the products of the future. The strategy for SM and Tecmag requires further investment and patience before we see the results (notably in the MRI market) but the potential rewards are great enough for us to undertake this journey with continued enthusiasm.

Metalcraft's UK business with Siemens for MRI components was positive and progress in China with other customers such as Alltech and QOne, was steady, although some customer induced delays produced less revenue than anticipated at this unit.

Finally, Composite Products had a solid first half, with deliveries to Rapiscan increasing and showing promise for next year. Other smaller accounts also supported revenues, with good prospects in the pipeline.

Markets

Global demand for energy continues to grow at a consistent rate as prosperity increases and the world's population rises. Two main global themes that continue to dominate the outlook for energy consumption are:

- Energy transition – the continued shift in demand from the US and Europe to fast growing Asian markets.
- Fuel mix – the on-going shift in supply to lower carbon fuels and renewables.

Nuclear

The Group has positioned itself as a leading supplier across the nuclear fuel cycle. The UK continues to dominate global spend in decommissioning and reprocessing and the excellent progress made by Metalcraft on the strategic partnership for waste containers for Sellafield is a highlight, positioning the Group as a leader in the field. With this solid platform to build upon, the Group is engaged with key stakeholders to expand its offering. We see on-going success in conducting engineering design and qualification studies for obsolete equipment on critical systems.

Governments are seeking to extend the life of nuclear assets through refurbishment programmes and the Group is ideally placed to benefit from this trend, as evidenced by recent contract wins in South Korea, Sweden and the USA.

Whilst the UK Government continues to reaffirm its commitment to new nuclear, the industry remains highly uncertain. Hinkley Point C is underway, albeit with significant delays, still with some potential niche opportunities for the Group.

The development of Small Modular Reactor (SMR) and Advanced Modular Reactor (AMR) technology remains a promising opportunity for the Group, albeit longer term. With a good product and capability fit and a footprint in the UK and USA, the Group has successfully positioned itself as a key player in this developing market and the recent contract win for the ITER fusion project by HT Inc is testament to this success. We have fully funded development programmes for molten salt equipment and a broad range of existing products and fabrications.

Power Generation

The share of energy used for power generation remains a key Group focus.

- **Hydrocarbons –** The Group maintains a stable position in the still significant hydrocarbon power market and has value-engineered its products and localised these in China. Opportunities exist for new power plants across Asia in addition to retrofitting systems to existing plants, to reduce harmful emissions.
- **Renewables –** Most of the products for hydrocarbons have direct benefits to the Group product lines that can be deployed for concentrated solar power (CSP), biomass and waste to energy. Our fully funded development programmes for molten salt applications benefit both nuclear and CSP applications. The Chinese EPCs look set to dominate the CSP market, for example by building the largest CSP plant in the world in Dubai, where we recently secured an important order for next generation pumps.

Oil & Gas
The oil price was stable during the period (albeit exhibited increasing volatility post period end), but the landscape remains highly competitive. The lifetime cost of ownership for capital equipment remains high on the agenda, which suits our high-end product portfolio.

- **Upstream –** The Group has had an offering from topside systems through to submersible and subsea pumping solutions. New product initiatives have filled out the product range to give a more balanced portfolio.
- **Midstream –** The midstream market for the Group is principally focused on floating production and transportation vessels for oil (FPSO) and liquefied natural gas (FLNG). Project timing is difficult to predict for us, but some major awards have been announced and the prospects are improving. China will become a major player in producing the vessels for this market and business development is underway.
- **Downstream –** India continues to rise as a major player in the downstream market, where rising income levels translate into more vehicles on the road. From its installed base, the Group aims to develop a more coherent Middle East strategy. This will be key to growth in this market.

Aftermarket – Energy
The drive for safety, efficiency and reliability is a consistent theme for end user customers. In Asian markets, continual pressure on operational expenditure is challenging preventative maintenance decisions and drives a purchase cost focused decision-making process. However, in Europe, Middle East and the Americas, operators are focused on through-life cost. All end users are demanding fast, reliable response times and local solutions to keep plants operating and the Group continues to build upon its local presence through agents and strategic partnerships.

Securing the existing installed base remains the highest priority across the Group. We have focused operational teams in each key location. The challenge is to respond quicker and to provide effective, local solutions.

Innovative technologies, processes and business models remain key to the Group's response to the evolving market landscape. Increasing the mean time between failure and the efficiency of the Group's installed base - and that of other OEMs - is a key theme being developed across the business, to produce a more comprehensive service offering.

MRI - The demographics of a growing and ageing world population are an important driver for the medical imaging and diagnostics markets. New entrants are also emerging for MRI systems in China and India, which we see positively, since it indicates that the sector will continue to spend money on developing new products and imaging techniques. The helium free technology under development at Scientific Magnetics will find niche MRI applications in areas where helium cannot be used for cooling, or is simply too expensive, though it remains difficult to specify the quantum of the opportunity for the Group at this point.

NMR - In the adjacent Nuclear Magnetic Resonance (NMR) instruments market, we have been supplying cryogenic vessels to new entrant QOne in China and working with them on magnet design and supply. A well-established field base of NMR instruments in Europe is poorly serviced in certain areas, after the demise of Varian/Agilent. With our US partner, MR Resources, we are gradually building a Europe-wide NMR service and support business, which should ultimately provide a solid aftermarket opportunity for the medical division.

Security - High security and integrity doors are a new market for the Group, following the acquisition of Booth in the period. Global safety and security concerns, as well as risk mitigation on large infrastructure projects, are key drivers for growth at Booth and we are cultivating these opportunities prudently. Threat detection standards for hold baggage handling at airports have been tightened everywhere around the world – especially in Europe and the USA. With many millions of bags flowing through airport security and border crossings every day, hold baggage screening devices have to comply with threat detection standards without impacting throughput. Rapiscan, the biggest customer for Composite Products, is a market leader in this sector, whose presence is increasing as new standards are rolled out.

Financial Performance

New standards adopted by the Group

IFRS 16

The adoption of IFRS 16 from 1 June 2019 has resulted in the inclusion of £8.0m of right-of-use assets in property, plant and equipment in the interim financial statements at 1 June 2019 together with a lease liability of £9.7m.

In the six months to 30 November 2019 the impact of IFRS16 on the Consolidated Income Statement was as follows, operating profit was increased by £0.1m, interest payable was increased by £0.2m, resulting in a net reduction to profit before tax of £0.1m.

Net cash inflow from operating activities for the six months to 30 June 2019 increased by £0.3m as a result of the principle payments made on lease liabilities being reclassified from cash generated from operations to financing activities. Net cash outflow from financing activities increased by £0.3m as a result of the above. There is no impact on the net change in cash and cash equivalents as a result of the implementation of IFRS 16. Further information can be found in the notes to the interim financial statements.

The Group adopted IFRS 16 on 1 June 2019 under the modified retrospective approach. Comparative information has not been restated and continues to be reported under IAS 17. The reclassifications and the adjustments arising from the new leasing rules (inclusion of £8.0m right-of-use assets, associated lease liability of £9.7m and £1.7m derecognised accrued rent and lease incentives) are therefore recognised in the opening balance sheet on 1 June 2019 with no impact on Retained Earnings or Net Assets.

Key Performance Indicators

The Group uses a number of financial key performance indicators to monitor the business, as set out below.

Revenue:

Overall Group revenue increased 15% to £54.8m (2019 H1: £47.7m), driven mainly by the revenue from the acquisitions of Booth (£4.2m) and Energy Steel (£2.8m) in June 2019.

Gross margin ('GM')

GM increased modestly to 25.8% (2019 H1: 25.7%) this was subdued by the impact of the Energy Steel and Booth acquisitions. If these were excluded, underlying GM would have been 26.1%, a further improvement, due to the improving mix in the proportion of revenue derived from aftermarket services when compared to prior year.

Profit margin: underlying 51% increase, as incremental improvements bed-in (excluding Booth and Energy Steel expected losses)

Adjusted EBITDA (note 4) increased to £4.6m (2019 H1: £3.6m), as anticipated the acquisitions of Energy steel and Booth produced a drag of £0.8m (note 8), mostly offset by the impact of IFRS16 (note 1) £0.7m. Before acquisitions and IFRS16, Adjusted EBITDA would have been £4.7m (2019 H1: £3.6m), as on-going improvements in costs and margins gradually begin to feed through and as our drive to increase aftermarket sales continues.

Adjusted operating profit before tax (note 4) was £1.7m (2019 H1: £1.6m), although, if the operating losses before tax emanating from the Energy Steel and Booth acquisitions (note 8 £0.9m) were excluded, the underlying adjusted operating profit would have risen by 63.1% to £2.6m.

Tax: future profits and cash protected by available losses

The effective rate of taxation at Group level was a 16% tax charge. A reduction from H1 FY19, due to lower level oversea taxes in the first half, offset by a tax charge, due to the utilisation of losses previously recognised as a deferred tax asset. A deferred tax credit from the amortisation of business intangibles has also further reduced the tax charge in the period. The Group tax position will continue to be aided in the coming years by the utilisation of losses available in the UK and China.

Adjusted Earnings per Share (EPS): further improvement

Adjusted diluted earnings per share for continuing operations improved once again, to 5.1p (2019 H1:4.5p) as higher margin aftermarket and cost savings work through. If the H1 losses from the Energy Steel and Booth acquisitions (note 8 £0.8m) and IFRS16 £0.1m) were excluded, adjusted diluted earnings per share would have risen 78% to 8.0p.

Funding and Liquidity: net debt under control

Net debt was £17.7m, however, this includes an increase of £9.4m on adoption of IFRS16. On a like for like basis net debt had, as expected, risen to £8.3m (31 May 2019: £2.0m) following the investment in both Booth and Energy Steel. Cash outflow from operating activities in the period was £2.1m (2019 H1: £1.7m inflow). As expected, both Booth and Energy Steel required working capital transfusions in the period, though the required support (in part by the remortgage of the Booth freehold property) turned out to be less than anticipated overall. During the period, £4.0m net was invested in capital expenditure and project development costs, of which, £1.3m and £0.3m respectively was for the Booth freehold property and plant and equipment.

Dividend: steady progress continues for the ninth year

The Board proposes to continue with our progressive dividend policy for the ninth year. Therefore, we are pleased to be able to recommend an improved interim dividend of 1.5 pence per share (2019 H1: 1.4 pence per share). We intend to continue on this progressive path, subject to the outcome of acquisition activities in the coming years. The dividend will be paid on 19 June 2020, to shareholders on the register at 29 May 2020.

People

There was one change at senior management level in the period. Colin Elcoate resigned from his role as Chief Commercial Officer on 31 July 2019, having assisted Avingtrans with the successful transition of the HT China business. The Board thanks Colin for all his support during the transition of HTG into Avingtrans and wishes him well in his new role outside the Group. In China, Colin was replaced as General Manager of HT Kunshan by Alvin Sim, who will consolidate the position of the Chinese team in their broadening role in the EPM division's future. There were no other senior management changes.

We continue to strengthen the management teams in the three divisions, with further key appointments being made in the period and with an on-going emphasis on the importance of the Aftermarket opportunities. Skills availability is always challenging, yet we do not expect to be materially constrained by any skills shortages. We continue to invest significant effort in developing skills, both through structured apprenticeship programmes and graduate development plans across a number of business units. The Group continues to be recognised nationally for the strength of its apprenticeship training schemes.

Health, Safety and Environment (HSE)

The Group takes HSE matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different businesses. Often, a key investment need in smaller acquisitions is to spread HSE best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions (eg HTG) generally have well developed HSE practices and we seek to learn from these in other business units. Health and Safety incident reporting has improved across the Group and incident trends have generally been improving over recent years. Near miss reporting and knowledge exchange is also positively encouraged, to facilitate learning and improvement. At Board level, Les Thomas has HSE oversight and he conducts inspections with local management as appropriate.

The Group's environmental policy is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report, the Group has not incurred any significant fines or penalties, nor been investigated for any significant breach of HSE regulations.

Social Responsibility

The Group maintains the highest ethical and professional standards across all of its activities and social responsibility is embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business. Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is largely beyond our control.

Ethical policy
The Group complies with the Bribery Act 2010. We do not tolerate bribery, corruption or other unethical behaviour on the part of any of our businesses or business partners in any part of the world. Employee training has been completed in all areas of the business to ensure that the Act is complied with.

Outlook

Avingtrans is an international engineering group which designs, manufactures and supports original equipment in niche engineering markets in the Energy and Medical sectors. We expect that our more recent acquisitions (eg of Booth and Energy Steel) will afford our investors another opportunity to build lasting value with us, in an exciting portfolio of specialist engineering markets. As ever, we will seek to be frugal and to harvest value and return capital, as and when the timing is right.

Our strategy continues to produce significant new business wins which support our results and provide good visibility of longer-term earnings – e.g. the contract in the period for Booth with the UK Government. We have an enviable customer base which we can continue to build upon and differentiated product niches, where the Group can be sustainably world leading. We continue to be well placed to benefit from macro-economic trends in our markets and from market consolidation, particularly across the Energy sector.

As previously noted, we do not expect Brexit to have a material impact on our operations and our European exposure is relatively limited. Appropriate mitigating actions and pruning have been implemented, where warranted. US/China tariff wars now seem to be abating, but we had essentially alleviated this risk in any event. The coronavirus disruption may have some impact on our Chinese operations, but, again, mitigating actions are underway to limit any material risk.

Our larger businesses – Metalcraft, Hayward Tyler and Peter Brotherhood - are leaders in their chosen markets, striving to provide customers with consistent quality and delivery, as part of a world class journey. We believe that Scientific Magnetics and Tecmag can be key to growth of the Medical division - as it pursues new markets - and can enable enhanced value for shareholders in the longer term.

With attractive structural growth markets, durable customer relationships and long-term contracts, we remain optimistic about the future of the Group. In our acquisition activities, we seek to conduct our efforts rigorously and efficiently, with an enduring ethos that any deal should be for the benefit of all stakeholders and should enable the realisation of value, consistent with our PIE strategy. Trading to date gives the Board confidence in its ability to achieve market expectations.

Roger McDowell
Chairman
25 February 2020

Steve McQuillan
Chief Executive Officer
25 February 2020

Stephen King
Chief Financial Officer
25 February 2020

Consolidated Income Statement (Unaudited)
for the six months ended 30 November 2019

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Revenue	**54,842**	47,696	105,516
Cost of sales	**(40,713)**	(35,422)	(77,314)
Gross profit	**14,129**	12,274	28,202
Distribution costs	**(2,611)**	(2,396)	(4,722)
Other administrative expenses	**(10,653)**	(8,881)	(19,852)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items	**2,254**	1,879	5,805
Amortisation of intangibles from business combinations	**(931)**	(768)	(1,595)
Other non-underlying items	**(60)**	(39)	(98)
Exceptional items	**(398)**	(75)	(484)
Operating profit	**865**	997	3,628
Finance income (Note 5)	**76**	-	132
Finance costs (Note 5)	**(601)**	(348)	(616)
Profit before taxation	**340**	649	3,144
Taxation (Note 3)	**(54)**	(197)	(633)
Profit after taxation from continuing operations	**286**	452	2,511
Profit per share:			
From continuing operations			
- Basic (Note 6)	**0.9p**	1.5p	8.0p
- Diluted (Note 6)	**0.9p**	1.4p	8.0p

Consolidated statement of comprehensive income (Unaudited)
for the six months ended 30 November 2019

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Profit for the period	**286**	452	2,511
Items that will not be subsequently be reclassified to profit or loss			
Remeasurement of net defined benefit liability	**-**	-	(581)
Income tax relating to items not reclassified	**-**	-	99
Items that may/will subsequently be reclassified to profit or loss			
Exchange differences on translation of foreign operations	**5**	316	445
Total comprehensive profit for the period	**291**	768	2,474

Summarised consolidated balance sheet (Unaudited)
at 30 November 2019

	30 Nov 2019 £'000	30 Nov 2018 £'000	31 May 2019 £'000
Non current assets			
Goodwill	**23,604**	23,369	23,369
Other intangible assets	**15,455**	15,116	14,483
Property, plant and equipment	**35,624**	27,028	26,576
Deferred tax asset	**1,109**	1,252	1,423
Pension and other employee obligations	**1,427**	1,710	1,299
	77,219	68,475	67,150
Current assets			
Inventories	**13,817**	15,416	14,441
Trade and other receivables	**35,150**	26,632	31,549
Current tax asset	**796**	1,223	234
Derivatives	**29**	-	-
Cash and cash equivalents	**4,579**	4,759	8,909
	54,371	48,030	55,133
Total assets	**131,590**	116,505	122,283
Current liabilities			
Trade and other payables	**(30,242)**	(24,376)	(31,405)
Obligations under leases	**(1,977)**	(932)	(750)
Borrowings	**(5,259)**	(5,594)	(4,945)
Current tax liabilities	**(644)**	(925)	(69)
Provisions	**(5,965)**	(5,926)	(5,340)
Derivatives	**-**	(176)	(44)
Total current liabilities	**(44,087)**	(37,929)	(42,553)
Non-current liabilities			
Borrowings	**(4,294)**	(4,125)	(3,817)
Obligations under leases	**(10,731)**	(1,222)	(1,420)
Deferred tax	**(1,729)**	(2,222)	(2,073)
Contingent consideration	**(256)**	(256)	(256)
Other creditors	**(1,259)**	(3,157)	(2,870)
Total non-current liabilities	**(18,269)**	(10,982)	(10,436)
Total liabilities	**(62,356)**	(48,911)	(52,989)
Net assets	**69,234**	67,594	69,294
Equity			
Share capital	**1,576**	1,568	1,568
Share premium account	**14,038**	14,018	14,018
Capital redemption reserve	**1,299**	1,299	1,299
Translation reserve	**315**	181	310
Merger reserve	**28,949**	28,949	28,949
Other reserves	**180**	180	180
Investment in own shares	**(3,435)**	(3,435)	(3,435)
Retained earnings	**26,312**	24,834	26,405
Total equity attributable to equity owners of the parent	**69,234**	67,594	69,294

Consolidated statement of changes in equity (Unaudited) at 30 November 2019

	Share capital account £'000	Share premium account £'000	Capital redemp-tion reserve £'000	Merger reserve £'000	Trans-lation reserve £'000	Other Reserves £'000	Investment in own shares £'000	Retained Earnings £'000	Total £'000
At 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	24.744	67,140
Shares issued	15	634	-	-	-	-	-	-	649
Dividend paid	-	-	-	-	-	-	-	(403)	(403)
Investment in own shares	-	-	-	-	-	-	(600)	-	(600)
Share-based payments	-	-	-	-	-	-	-	40	40
Transactions with owners	15	634	-	-	-	-	(600)	(363)	(314)
Profit for the period	-	-	-	-	-	-	-	452	452
Other comprehensive income									
Exchange rate gain	-	-	-	-	316	-	-	-	316
Total comprehensive income for the period	-	-	-	-	316	-	-	452	768
At 30 Nov 2018	**1,568**	**14,018**	**1,299**	**28,949**	**181**	**180**	**(3,435)**	**24,834**	**67,594**
At 1 Dec 2018	1,568	14,018	1,299	28,949	181	180	(3,435)	24,834	67,594
Adjustment of transitioning to IFRS 15 and 9	-	-	-	-	-	-	-	651	651
Adjusted equity as at 1 December 2018	1,568	14,018	1,299	28,949	181	180	(3,435)	25,485	68,245
Dividend paid	-	-	-	-	-	-	-	(715)	(715)
Share-based payments	-	-	-	-	-	-	-	58	58
Transactions with owners	-	-	-	-	-	-	-	(657)	(657)
Profit for the period	-	-	-	-	-	-	-	2,059	2,059
Other comprehensive income:									
Actuarial gains on pension scheme	-	-	-	-	-	-	-	(581)	(581)
Deferred tax on actuarial gains from pension scheme	-	-	-	-	-	-	-	99	99
Exchange rate gain	-	-	-	-	129	-	-	-	129
Total comprehensive income for the period	-	-	-	-	129	-	-	1,577	1,706
At 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**310**	**180**	**(3,435)**	**26,405**	**69,294**
At 1 June 2019	1,568	14,018	1,299	28,949	310	180	(3,435)	26,405	69,294
Shares issued	8	20	-	-	-	-	-	-	28
Dividend paid	-	-	-	-	-	-	-	(439)	(439)
Share-based payments	-	-	-	-	-	-	-	60	60
Transactions with owners	8	20	-	-	-	-	-	(379)	(351)
Profit for the period	-	-	-	-	-	-	-	286	286
Other comprehensive income									
Exchange rate gain	-	-	-	-	5	-	-	-	5
Total comprehensive income for the period	-	-	-	-	5	-	-	286	291
At 30 Nov 2019	**1,576**	**14,038**	**1,299**	**28,949**	**315**	**180**	**(3,435)**	**26,312**	**69,234**

Consolidated cash flow statement (Unaudited)
for the six months ended 30 November 2019

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Operating activities			
Cash flows from operating activities	**(1,259)**	2,587	10,468
Finance costs paid	**(639)**	(138)	(608)
Income tax paid	**(76)**	(587)	(589)
Contributions to defined benefit plan	**(127)**	(120)	(243)
Net cash (outflow)/inflow from operating activities	**(2,101)**	1,742	9,028
Investing activities			
Acquisition of subsidiary undertakings (note 8)	**720**	36	(132)
Finance income	**76**	-	131
Purchase of intangible assets	**(847)**	(464)	(848)
Purchase of property, plant and equipment	**(3,121)**	(1,114)	(2,344)
Proceeds from sale of property, plant and equipment	**-**	188	248
Net cash used by investing activities	**(3,172)**	(1,354)	(2,945)
Financing activities			
Equity dividends paid	**(439)**	(403)	(1,118)
Repayments of bank loans	**(312)**	(2,464)	(3,278)
Repayments of obligations under finance leases	**(854)**	(572)	(1,033)
Proceeds from issue of ordinary shares	**27**	48	48
Borrowings raised	**2,900**	636	597
Net cash inflow/(outflow) from financing activities	**1,322**	(2,755)	(4,784)
Net (decrease)/increase in cash and cash equivalents	**(3,951)**	(2,367)	1,299
Cash and cash equivalents at beginning of period	**8,053**	6,565	6,565
Effect of foreign exchange rate changes	**(24)**	50	189
Cash and cash equivalents at end of period	**4,078**	4,248	8,053

Cashflows from operating activities (Unaudited)
for the six months ended 30 November 2019

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Profit before income tax from continuing operations	**340**	649	3,144
Adjustments for:			
Depreciation of property, plant and equipment	**2,101**	1,568	3,240
Amortisation of intangible assets	**221**	183	393
Amortisation of intangibles from business combinations	**931**	768	1,595
Profit on disposal of property, plant and equipment	**-**	(18)	(13)
Finance income	**(76)**	-	(132)
Finance expense	**601**	348	616
Share based payment charge	**60**	40	98
Changes in working capital			
Decrease/(increase) in inventories	**1,791**	(3,514)	(2,213)
(Increase)/decrease in trade and other receivables	**(2,911)**	5,774	1,158
(Decrease)/increase in trade and other payables	**(3,802)**	(2,550)	4,150
Decrease in provisions	**(450)**	(710)	(1,458)
Other non cash changes	**(65)**	49	(110)
Cash (outflow)/inflow from operating activities	**(1,259)**	2,587	10,468

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Cash and cash equivalents			
Cash	**4,579**	4,759	8,909
Overdrafts	**(501)**	(511)	(856)
	4,078	4,248	8,053

Notes to the half year statement
30 November 2019

1. Basis of preparation

The Group's interim results for the six month period ended 30 November 2019 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, or expected to be adopted and effective, at 31 May 2020. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim financial reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 26 February 2020 and will shortly be available on the Group's website at www.avingtrans.plc.uk.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's annual report and financial statements for the year ended 31 May 2020.

The statutory accounts for the year ended 31 May 2019, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditor's Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

IFRS 16
The adoption of IFRS 16 had a material impact on the Group's interim financial statements with the recognition of new right-of-use ("ROU") assets and lease liabilities on the Group's Consolidated Statement of financial position. The nature of expenses related to those leases has also changed as the straight-line operating lease expense in previous Consolidated Income Statements has been replaced with a depreciation charge for ROU assets and interest expense on the associated lease liabilities. The Group's leases primarily comprise of ROU assets relating to land & buildings, motor vehicles and equipment.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or changed before 1st January 2019, and as a result we have not reassessed whether a contract is or contains a lease on transition.
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group have chosen to value all leases at 1 June 2019 and have not elected go back to the commencement of the lease term. As a consequence, the adoption of IFRS 16 has not given rise to any adjustments to opening retained earnings at 1 June 2019.

The Group has also elected to make use of the following exemptions provided by IFRS 16:

- Leases with a determined lease term of 12 months or less from the commencement of the lease will be treated as short term and therefore not included in the right-of-use asset or lease liability. Instead, lease costs will be recognised on a straight line basis across the life of the lease.
- Leases for which the underlying asset is of low value when new will be exempt from the requirements to value a right-of-use asset and lease liability. Instead, lease costs will be recognised on a straight line basis across the life of the lease.
- Lease and non-lease components will not be separated; therefore, each lease component and any associated non-lease component will be accounted for as a single component.
- Where applicable, IFRS 16 will be applied to a portfolio of leases with similar characteristics.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group presents ROU assets in property, plant and equipment and leased liabilities in the Statement of Financial Position.

Lease assets are initially recognised at cost, however on implementation are measured at the present value of the lease liability at 1 June 2019 adjusted for any accrued or prepaid rent plus any lease incentives. Lease assets are depreciated over the term of the lease and the cost is adjusted to reflect any re-measurement of the lease liability.

Notes to the half year statement
30 November 2019

Impact of the adoption of IFRS 16 Leases

Impact on the Statement of financial position:

- £8.0m of ROU assets have been capitalised. The majority of this figure relates to land & building leases across the Group.
- £9.7m of additional lease liabilities were recognised of which £1.4m was classified as short-term and £8.3m as long-term.
- £1.7m of accrued rent and lease incentives were de-recognised.
- There has been no impact on retained earnings as all leases have been valued at 1 June 2019.

Impact on the Income statement:

- The impact on the Income Statement for the six months to 30th November 2019 is an increase in operating profit of £0.1m compared to the operating profit had IAS 17 continued to apply. This is made up of a reduction in operating lease rentals of £0.8m offset by a depreciation charge of £0.7m.
- Additional lease liabilities brought onto the balance sheet have increased interest payable in the period by £0.2m, and the overall impact on profit before/after tax is a reduction of £0.1m.

Impact on the Statement of cash flows:

- Net cash inflow from operating activities for the six months to 30 June 2019 increased by £0.3m as a result of the principle payments made on lease liabilities being reclassified from cash generated from operations to financing activities.
- Net cash outflow from financing activities increased by £0.3m as a result of the above.
- There is no impact on the net change in cash and cash equivalents as a result of the implementation of IFRS 16.

2. Segmental analysis

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
6 months to 30 November 2019					
Original equipment	**4,624**	**19,385**	**5,613**	**-**	**29,622**
Aftermarket	**17,651**	**7,569**	**-**	**-**	**25,220**
Revenue	**22,275**	**26,954**	**5,613**	**-**	**54,842**
Operating (loss)/profit	**(301)**	**1,740**	**(6)**	**(568)**	**865**
Net finance costs					**(525)**
Taxation					**(54)**
Profit after tax from continuing operations					**286**

Energy-EPM results include the acquisition of Energy Steel which contributed £2,819,000 revenue, operating loss £700,000 and £613,000 loss after tax (note 8). Excluding amortisation of business combination intangibles of £417,000.

Energy-PRSE results include the asset acquisition of Booth Industries which contributed £4,243,000 revenue, operating loss £198,000 and £212,000 loss after tax (note 8).

Notes to the half year statement
30 November 2019

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
Year ended 31 May 2019					
Original equipment	13,888	31,527	12,048	-	57,463
Aftermarket	35,069	12,884	100	-	48,053
Revenue	48,957	44,411	12,148	-	105,516
Operating profit/(loss)	2,874	1,939	(204)	(981)	3,628
Net finance costs					(484)
Taxation					(633)
Profit after tax from continuing operations					2,511

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
6 months to 30 November 2018					
Original equipment	7,576	11,978	6,147	-	25,701
Aftermarket	15,175	6,737	83	-	21,995
Revenue	22,751	18,715	6,230	-	47,696
Operating profit/(loss)	891	1,052	(207)	(739)	997
Net finance costs					(348)
Taxation					(197)
Profit after tax from continuing operations					452

3. Taxation

The taxation charge is based upon the expected effective rate for the year ended 31 May 2020.

Notes to the half year statement
30 November 2019

4. Adjusted Earnings before interest, tax, depreciation and amortisation

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Profit before tax from continuing operations	**340**	649	3,144
Share based payment expense	**60**	40	98
Acquisition costs	**282**	75	89
Restructuring costs	**116**	-	395
Gain/(loss) on derivatives	**(74)**	42	(83)
Unwinding of discounting on dilapidation provision	**44**	50	85
Amortisation of intangibles from business combinations	**931**	768	1,595
Adjusted profit before tax	**1,699**	1,624	5,323
Finance income	**(76)**	-	(132)
Finance cost	**402**	348	616
Finance cost - IFRS16	**199**	-	-
Gain/(loss) on derivatives/unwinding of discounting on dilapidation provision	**30**	(92)	(2)
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**2,254**	1,880	5,805
Depreciation	**1,351**	1,568	3,240
Depreciation - IFRS16	**750**	-	-
Amortisation of other intangible assets	**221**	183	393
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**4,576**	3,631	9,438

5. Finance income and costs

	6 months to 30 Nov 2019 £'000	6 months to 30 Nov 2018 £'000	Year to 31 May 2019 £'000
Finance income			
Bank balances and deposits	**2**	-	4
Interest from other	**74**	-	128
	76	-	132
Finance costs			
Interest on banking facilities and finance lease agreements	**557**	256	531
Finance charges relating to the unwinding of provisions	**44**	42	85
Losses/(gain) on the fair value of derivative contracts	**-**	50	-
	601	348	616

Notes to the half year statement
30 November 2019

6. Earnings per share

Basic earnings per share is based on the earnings attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the CSOP and ExSOP share options.

	6 months to 30 Nov 2019 No	6 months to 30 Nov 2018 No	Year to 31 May 2019 No
Weighted average number of shares – basic	**31,364,098**	31,087,029	31,225,440
Share Option adjustment	**598,382**	396,851	340,920
Weighted average number of shares – diluted	**31,962,480**	31,483,880	31,566,360
	£’000	£’000	£’000
Earnings from continuing operations	**286**	452	2,511
Share based payments	**60**	40	98
Acquisition costs	**282**	75	89
Restructuring costs	**116**	-	395
(Gain)/loss on derivatives	**(74)**	42	(83)
Unwinding of discounting on dilapidation provision	**44**	50	85
Amortisation of intangibles from business combinations	**931**	768	1,595
Adjusted earnings from continuing operations	**1,645**	1,427	4,690
From continuing operations:			
Basic earnings per share	**0.9p**	1.5p	8.0p
Adjusted basic earnings per share	**5.2p**	4.6p	15.0p
Diluted earnings per share	**0.9p**	1.4p	8.0p
Adjusted diluted earnings per share	**5.1p**	4.5p	14.9p

The Directors believe that the above adjusted earnings per share calculation from continuing operations is the most appropriate reflection of the Group performance.

7. Net debt and gearing

The gearing ratio at the year-end is as follows:	**30 Nov 2019 £'000**	30 Nov 2018 £'000	31 May 2019 £'000
Debt	**(22,262)**	(11,873)	(10,932)
Cash at bank	**4,579**	4,759	8,909
Net debt	**(17,683)**	(7,114)	(2,023)
Equity	**69,234**	67,594	69,294
Net debt to equity ratio	**25.5%**	10.5%	2.9%

The period to 30 November 2019 above is affected by the impact of IFRS 16. The prior periods at 30 Nov 18 and 31 May 19 have not been restated for IFRS16.

Excluding the impact of IFRS 16 net debt at 30 November 2019 would have been £8,270,000, a gearing ratio of 11.9%.

Notes to the half year statement
30 November 2019

8. Acquisition of subsidiary

Business combination – Energy Steel
On 24 June 2019 the Group acquired 100 percent of the shares of US-based Energy Steel & Supply Co. ("Energy Steel"). This acquisition expands the Company's nuclear capabilities and product lines for new and existing customers. Energy Steel forms part of the Group's Energy-EPM division. The provisional fair value of net assets acquired at the date of acquisition were as follows:

Fair value of assets and liabilities acquired:

	£'000
Property, plant and equipment	**121**
Deferred tax assets	**16**
Inventories	**1,308**
Trade and other receivables	**1,265**
Current tax assets	**8**
Cash	**1,186**
Obligations under leases	**(391)**
Trade and other payables	**(3,268)**
Provisions	**(1,029)**
Net liabilities	**(784)**
Intangible assets identified –order book	**1,387**
Deferred tax liability on intangible assets identified	**(375)**
Goodwill	**238**
	466
Fair value of consideration transferred:	
Cash paid	**(466)**
Consideration	**(466)**
Cash acquired	**1,186**
Acquisition costs charged to Administrative Expenses	**(144)**
Net cash received relating to the acquisition	**576**

The impact of the Energy Steel acquisition on the Consolidated income statement is as follows:

	£'000
Revenue	**2,819**
Cost of sales	**(2,253)**
Gross profit	**566**
Overheads (excluding £417,000 amortisation of business combination intangibles)	**(1,266)**
Operating loss	**(700)**
Finance income and costs	**-**
Loss before taxation	**(700)**
Taxation	**87**
Overall effect on the Consolidated Income Statement	**(613)**

Acquisition costs arising from this transaction of £144,000 have been included in administration expenses included in overheads before operating profit.

Since acquisition Energy Steel contributed the following to the Group's cashflows:

	£'000
Net cash outflow from operating activities	**(1,475)**
Net cash used by investing activities	**(152)**
Net cash outflow from financing activities	**(105)**

Asset purchase – Booth Industries

On 11 June 2019 the Group acquired the trade and assets of Booth Industries ('Booth') from Administration. Booth design and manufacture bespoke high-integrity doors. Booth has been purchased by the Group's subsidiary, Stainless Metalcraft (Chatteris) Limited and its results will be included within the results of the Energy-PSRE division.

The Group has judged this transaction should be treated as an asset purchase rather than a business combination. This is primarily based on the value of the land & buildings representing the majority of the total consideration paid for the business. A valuation exercise has been performed on the land & buildings by third party experts.

Acquisition costs arising from this transaction of £138,000 have been included in administration expenses included in overheads before operating profit.

Assets purchased comprise of:

	£'000
Property, plant and equipment	**1,602**
Inventories	**280**
	1,882

The impact of the Booth acquisition on the Consolidated income statement since acquisition is as follows:

	£'000
Revenue	**4,243**
Cost of sales	**(3,132)**
Gross profit	**1,111**
Overheads	**(1,309)**
Operating loss	**(198)**
Finance income and costs	**(51)**
Loss before taxation	**(249)**
Taxation	**37**
Overall effect on the Consolidated Income Statement	**(212)**

Since acquisition Booth contributed the following to the Group's cashflows:

	£'000
Net cash outflow from operating activities	**(1,895)**
Net cash used by investing activities	**(6)**
Net cash outflow from financing activities	**(12)**