MS INTERNATIONAL plc

Unaudited Interim Condensed

Group Financial Statements

28th October, 2017

EXECUTIVE DIRECTORS
Michael Bell
Michael O'Connell
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NON EXECUTIVE
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PRINCIPAL OPERATING DIVISIONS
Defence
Forgings
Petrol Station Branding
Petrol Station Superstructures

Chairman's Statement

For the first half year ended 28th October 2017, profit before taxation increased to £1.64m (2016 - £0.61m) on a notable uplift in revenue to £34.63m (2016 - £25.00m). Earnings per share amounted to 7.8p (2016 – 3.3p).

We continue to make good overall progress. I believe this gratifying achievement, in the face of testing conditions in some markets, reflects positively on two of our fundamental strengths. Firstly, our long established policy to constantly review our capabilities, and if necessary adjust and adapt that serves us well by ensuring we are aligned to changing market conditions and demands, and secondly, our diversified operating structure, that can deliver significant advantages when trading conditions are varied.

The balance sheet remains robust with net cash amounting to £14.53m. Considerable investment continues across the four divisions, most notably on the new fork-arm facility in the United States but also in product and business development across the Group to support the long term development and success of our businesses. Maintaining these valuable investment programmes at the expense of short term profit, is undoubtedly important to sustaining our long term progress. Cash at the last year end was £15.21m.

The 'Defence' division's global markets remain challenging owing to ubiquitous defence budget constraints, though perhaps none more prevalent currently than the UK MoD. Media reports and comments on the topic have been widely chronicled recently. That said, on a positive note, we are pleased to report that during the period we finalised the renegotiation, and subsequent receipt, of a two year extension to our contract for the support and maintenance of the existing seventy- two MSI-DS 30mm naval guns systems, fitted across the Royal Navy's fleet. We take immense pride and are most appreciative of the tribute that the MoD made in one of their 'in house' publications announcing the placing of this contract with MSI, and I quote '*…..not only provides excellent value for money for the MoD, but also delivers the support necessary to ensure this key weapon capability remains fully operational for Royal Navy front line units'*.

On the downside, as has already been reported by other SME's of specialist defence equipment, it is incumbent upon me to advise shareholders that our other order intake from the UK MoD over the period has descended to disappointing levels. Procurement programmes are being delayed, suspended, postponed or cancelled.

Our truly internationally recognised, and highly regarded naval weapon system emanates from our long standing philosophy and commitment to 'private venture funding' for the initial product development which is constantly followed up by progressive and innovative product upgrades, that consequently provide added safeguards to the retention of our intellectual property rights. Without doubt, the on-going marketing, sales and after sales product support provided by MSI to not only the UK MoD but also to our numerous overseas navy and shipbuilding customers, regularly contributes to the UK's export earnings and enhances the global recognition and respect of high quality British inventiveness, innovation and engineering.

Our consistent and considerable private investment in the design and development of a comprehensive range of naval gun systems over recent years, has provided us with some exciting new products now on offer to the wider international defence market. The impact of these new products is, to date, most encouraging, albeit the cycle time from product availability to a contract award and then delivery can be extremely protracted.

The 'Forgings' division again lifted revenue as the new facility in the United States progressively came on line with a truly excellent state-of-the art production capability providing us with a competitive, US manufactured, product in that substantial marketplace. Clearly, there remains more to do, and some costs to absorb, in order to elevate the facility to a position where it can maximise its potential within this extensive market, but we are confident of progress. In the UK we have maintained our policy of investing progressively to upgrade our fork-arm manufacturing facilities to enhance our capabilities and international competitiveness. In South America, where we have operations in Brazil and Argentina, the advantages of having an indigenous manufacturing facility enables us to successfully maintain our leading market position despite the economies of both nations being slow.

The 'Petrol Station Superstructures' division revenues in both the UK and Europe reflected a somewhat less buoyant market situation than at this time last year. Nevertheless, in the UK a recent upturn in order intake indicates an improving trend towards a more active second half to the year. Conversely, indications suggest that our Poland operation may remain subdued for the remainder of the year. It is to be appreciated that both businesses operate successfully on relatively short term order books, so lack of clear visibility of future prospects is not unusual.

The 'Petrol Station Branding' division made a very significant contribution to the Group's results. A highly commendable performance was achieved as an estate-wide rebranding programme for a major petrol station client in Germany gained considerable traction especially during the summer months when conditions for installation operations are more favourable. Complementing that momentum, the newly established UK arm of the division, trading under the name of 'Petrol Sign', has achieved outstanding progress in establishing a highly regarded position in our domestic market.

Overall, we believe that across the Group we are continuing to make good progress - despite some very challenging market conditions - through maintaining an outstanding service and after sales support to our customers. These attributes and persistence in seeking and identifying new opportunities to expand our diverse operations, contribute to the continued benefit of both customers and shareholders alike.

All matters considered the Board has declared an increased interim dividend per share of 1.75p (2016-1.5p) payable to shareholders on 29th December 2017.

Michael Bell
29th November 2017

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INDEPENDENT REVIEW REPORT TO MS INTERNATIONAL plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28th October 2017 which comprises the Interim condensed consolidated income statement, Interim condensed consolidated statement of comprehensive income, Interim condensed consolidated statement of financial position, Interim Group statement of changes in equity, Interim Group cash flow statement and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standards 34, “Interim Financial Reporting,” as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28th October 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Sandra Thompson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditors
Newcastle
29th November, 2017

Interim condensed consolidated income statement

	26 weeks ended 28th Oct., 2017 unaudited £000	26 weeks ended 29th Oct., 2016 unaudited £000
Products	**28,173**	18,070
Contracts	**6,456**	6,925
Revenue	**34,629**	24,995
Cost of sales	**(25,926)**	(18,002)
Gross profit	**8,703**	6,993
Distribution costs	**(1,575)**	(1,613)
Administrative expenses	**(5,354)**	(4,657)
Operating profit	**1,774**	723
Finance (expense)/income	**(43)**	11
Other finance costs - pension	**(91)**	(124)
Profit before taxation	**1,640**	610
Taxation	**(356)**	(70)
Profit for the period attributable to equity holders of the parent	**1,284**	540
Earnings per share: basic and diluted	**7.8p**	3.3p

Interim condensed consolidated statement of comprehensive income

	26 weeks ended 28th Oct., 2017 unaudited £000	26 weeks ended 29th Oct., 2016 unaudited £000
Profit for the period attributable to equity holders of the parent	**1,284**	540
Exchange differences on retranslation of foreign operations	**215**	1,391
Other comprehensive income	**215**	1,391
Remeasurement gains/(losses) on defined benefit pension scheme	**1,268**	(871)
Deferred taxation on remeasurement gains/losses on defined benefit pension scheme	**(216)**	73
Other comprehensive income/(loss)	**1,052**	(798)
Total comprehensive income for the period attributable to equity holders of the parent	**2,551**	1,133

Interim condensed consolidated statement of financial position

	28th Oct., 2017	29th April, 2017
	unaudited	audited
ASSETS	**£000**	£000
Non-current assets		
Property, plant and equipment	**19,302**	19,099
Intangible assets	**5,157**	5,301
Deferred income tax asset	**1,045**	1,272
	25,504	25,672
Current assets		
Inventories	**11,693**	10,145
Trade and other receivables	**10,430**	11,393
Income tax receivable	**294**	199
Prepayments	**958**	943
Cash and short-term deposits	**14,535**	15,210
	37,910	37,890
TOTAL ASSETS	**63,414**	63,562
EQUITY AND LIABILITIES		
Equity		
Issued capital	**1,840**	1,840
Capital redemption reserve	**901**	901
Other reserve	**2,815**	2,815
Revaluation reserve	**4,257**	4,257
Special reserve	**1,629**	1,629
Currency translation reserve	**911**	696
Treasury shares	**(3,059)**	(3,059)
Retained earnings	**21,225**	19,962
Total Equity	**30,519**	29,041
Non-current liabilities		
Defined benefit pension liability	**6,149**	7,485
Deferred income tax liability	**1,332**	1,449
	7,481	8,934
Current liabilities		
Trade and other payables	**24,875**	25,464
Income tax payable	**539**	123
	25,414	25,587
TOTAL EQUITY AND LIABILITIES	**63,414**	63,562

Interim Group statement of changes in equity

	Issued capital	Capital redemption reserve	Other reserves	Revaluation reserve	Special reserve	Foreign exchange reserve	Treasury shares	Retained earnings	**Total unaudited**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 29th April, 2017	1,840	901	2,815	4,257	1,629	696	(3,059)	19,962	**29,041**
Profit for the period	-	-	-	-	-	-	-	1,284	**1,284**
Other comprehensive income	-	-	-	-	-	215	-	1,052	**1,267**
	1,840	**901**	**2,815**	**4,257**	**1,629**	**911**	**(3,059)**	**22,298**	**31,592**
Change in taxation rates	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(1,073)	**(1,073)**
At 28th October, 2017	**1,840**	**901**	**2,815**	**4,257**	**1,629**	**911**	**(3,059)**	**21,225**	**30,519**

	Issued capital	Capital redemption reserve	Other reserves	Revaluation reserve	Special reserve	Foreign exchange reserve	Treasury shares	Retained earnings	**Total unaudited**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1st May, 2016	1,840	901	2,815	4,222	1,629	(61)	(3,059)	19,773	28,060
Profit for the period	-	-	-	-	-	-	-	540	540
Other comprehensive income/(loss)	-	-	-	-	-	1,391	-	(798)	593
	1,840	**901**	**2,815**	**4,222**	**1,629**	**1,330**	**(3,059)**	**19,515**	**29,193**
Change in taxation rate	-	-	-	41	-	-	-	-	41
Dividend paid	-	-	-	-	-	-	-	(1,073)	(1,073)
At 29th October, 2016	**1,840**	**901**	**2,815**	**4,263**	**1,629**	**1,330**	**(3,059)**	**18,442**	**28,161**

Interim Group cash flow statement

	26 weeks ended 28th Oct., 2017 unaudited £'000	26 weeks ended 29th Oct., 2016 unaudited £'000
Profit before taxation	**1,640**	610
Adjustments to reconcile profit before taxation to net cash in flows from operating activities		
Depreciation charge	**628**	549
Amortisation charge	**254**	286
Profit on disposal of fixed assets	**(75)**	(19)
Finance costs	**134**	113
Foreign exchange movements	**79**	396
Increase in inventories	**(1,548)**	(2,125)
Decrease/(Increase) in receivables	**963**	(4,887)
Increase in prepayments	**(15)**	(166)
Increase in payables	**770**	3,027
(Decrease)/Increase in progress payments	**(1,359)**	3,156
Pension fund deficit reduction payments	**(159)**	(154)
Cash flows from operations	**1,312**	786
Net Interest(paid)/ received	**(43)**	11
Taxation paid	**(157)**	(73)
Net cash flow from operating activities	**1,112**	724
Investing activities		
Purchase of property, plant and equipment	**(829)**	(2,684)
Sale of property, plant and equipment	**115**	38
Net cash flows used in investing activities	**(714)**	(2,646)
Financing activities		
Dividend paid	**(1,073)**	(1,073)
Net cash flows used in financing activities	**(1,073)**	(1,073)
Movement in cash and cash equivalents	**(675)**	(2,995)
Opening cash and cash equivalents	**15,210**	12,758
Closing cash and cash equivalents	**14,535**	9,763

Notes to the interim Group financial statements

1 Corporate information

MS INTERNATIONAL plc is a public limited company incorporated in England and Wales. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange. The principal activities of the Company and its subsidiaries ("the Group") are described in Note 4.

The interim condensed consolidated financial statement of the Group for the twenty six weeks ended 28th October, 2017 were authorised for issue in accordance with a resolution of the directors on 29th November, 2017.

2 Basis of preparation and accounting policies

The annual consolidated financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The consolidated condensed set of financial statements included in this half-yearly financial report which has not been audited has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union. The accounting policies are consistent with those applied in the Group Annual financial statements for the 52 weeks ended 29th April, 2017.

The interim financial information has been reviewed by the Group's auditors, Ernst & Young LLP, their report is included on page 4. These interim financial statements do not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 29th April, 2017.

There are no accounting standards or interpretations that have become effective in the current reporting period which have had a material effect on the net assets, results and disclosures of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

As at the reporting date, the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

The figures for the year ended 29th April, 2017 do not constitute the Group's statutory accounts for the period but have been extracted from the statutory accounts. The auditor's report on those accounts, which have been filed with the Registrar of Companies, was unqualified and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The implementation of IFRS 9 is not expected to have any impact upon trade receivables, trade payables and cash. The implementation of IFRS 15 on the company's revenue recognition policies and processes are currently being reviewed.

3 Principal risks and uncertainties

The principal risk and uncertainties facing the Group relate to levels of customer demand for the Group's products and services. Customer demand is driven mainly by general economic conditions but also by pricing, product quality and delivery performance of MS INTERNATIONAL plc and in comparison with our competitors. Sterling exchange rates against other currencies can influence pricing.

Additionally the prosperity of the Group is underpinned by the intellectual property rights of the products which have been developed in house and funded by the Group at considerable cost. Challenges to the ownership of our intellectual property rights have increasingly become a risk. Such threats are monitored and vigorously confronted and defended as they arise.

The Group has considerable financial resources together with long term contracts with a number of customers. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully despite the current uncertain economic outlook.

After making enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

4 Segment information

(a) Primary reporting format - divisional segments

The reporting format is determined by the differences in manufacture and services provided by the Group. The Defence division is engaged in the design, manufacture and service of defence equipment. The Forgings division is engaged in the manufacture of forgings. The Petrol Station Superstructures division is engaged in the design and construction of petrol station Superstructures. The Petrol Station Branding division is engaged in the design and installation of the complete appearance of petrol stations. The Directors are of the opinion that seasonality does not significantly affect these results.

The following table presents revenue and profit information about the Group's divisions for the periods ended 28th October, 2017 and 29th October, 2016.

	Defence		Forgings		Petrol Station Superstructures		Petrol Station Branding		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017 unaudited**	2016 unaudited
	£000	£000 Restated	**£000**	£000 Restated	**£000**	£000 Restated	**£000**	£000 Restated	**£000**	£000
Revenue										
External	**9,133**	10,180	**7,029**	5,936	**6,500**	6,956	**11,967**	1,923	**34,629**	24,995
Total revenue	**9,133**	10,180	**7,029**	5,936	**6,500**	6,956	**11,967**	1,923	**34,629**	24,995
Segment result	**289**	1,202	**(512)**	(443)	**109**	578	**1,888**	(614)	**1,774**	723
Net finance expense									**(134)**	(113)
Profit before taxation									**1,640**	610
Taxation									**(356)**	(70)
Profit for the period									**1,284**	540
Capital expenditure	**-**	159	**479**	2,221	**59**	159	**129**	145		
Depreciation	**79**	109	**240**	159	**161**	156	**80**	50		

The following table presents segment assets and liabilities of the Group's divisions for the periods ended 28th October, 2017 and 29th October, 2016.

	Defence 2017	Defence 2016	Forgings 2017	Forgings 2016	Superstructures 2017	Superstructures 2016	Branding 2017	Branding 2016	Total 2017	Total 2016
Segmental assets	**28,366**	28,629	**4,374**	6,308	**10,052**	7,276	**7,692**	1,718	**50,484**	43,931
Unallocated assets									**12,930**	15,979
Total assets									**63,414**	59,910
Segmental liabilities	**16,476**	13,966	**1,658**	2,444	**2,849**	3,320	**3,142**	901	**24,125**	20,631
Unallocated liabilities									**8,770**	11,118
Total liabilities									**32,895**	31,749

Unallocated assets includes certain fixed assets, intangible assets, current assets and deferred tax assets. Unallocated liabilities includes the defined benefit pension scheme liability and certain current liabilities which primarily relate to operations of Group functions.

Management have revised the allocation of certain Group costs which has led to a restatement of the prior period segment result for the divisions. The total segment result for the Group for the prior period remains unchanged.

5 Income tax

The major components of income tax expense in the consolidated income statement are:

	26 weeks ended 28th Oct., 2017 unaudited £'000	26 weeks ended 29th Oct., 2016 unaudited £'000
Current income tax charge	**481**	123
Current tax	**481**	123
Relating to origination and reversal of temporary differences	**(125)**	(39)
Impact of reduction in deferred tax rate (18% to 17%)	**-**	(14)
Deferred tax	**(125)**	(53)
Total income expense reported in the consolidated income statement	**356**	70

The main rate of corporation tax in the UK reduced to 19% with effect from 1st April, 2017. The rate will be reduced to 17% from 1st April, 2020. Both of these lower rates have been substantively enacted by the balance sheet date. As the majority of the temporary difference will reverse when the rate is 17%, this rate has been applied to the deferred tax assets and liabilities arising at the balance sheet date.

Deferred taxation has been provided at the rate enacted at the balance sheet date of 17% except for the deferred taxation relating to the amortised intangibles arising on the acquisition of Petrol Sign bv which has been provided at 25%.

6 Earnings per share

The calculation of basic earnings per share is based on:

(a) Profit for the period attributable to equity holders of the parent of £1,284,000 (2016 - £540,000);

(b) 16,504,691 (2016 - 16,504,691) Ordinary shares, being the number of Ordinary shares in issue.

This represents 18,396,073 (2016 - 18,396,073) being the number of Ordinary shares in issue less 245,048 (2016 - 245,048) being the number of shares held within the ESOT and less 1,646,334 (2016 - 1,646,334) being the number of shares purchased by the Company.

7 Dividends paid and proposed

	26 weeks ended 28th Oct., 2017 unaudited £'000	26 weeks ended 29th Oct., 2016 unaudited £'000
Declared and paid during the six month period		
Dividend on ordinary shares		
Final dividend for 2017 - 6.50p (2016 - 6.50p)	**1,073**	1,073
Proposed for approval		
Interim dividend for 2018 - 1.75p (2017 - 1.50p)	**289**	248

Dividend warrants will be posted on 28th December, 2017 to those members registered on the books of the Company on 8th December, 2017.

8 Property, plant and equipment

Acquisitions and disposals:

During the 26 weeks ended 28th October, 2017, the Group acquired assets with a cost of £829,000 (2016 - £2,684,000).

Retranslation of overseas subsidiaries property, plant and equipment cost and depreciation into pounds sterling at the balance sheet date resulted in exchange difference increases of £88,000 to costs and £45,000 to depreciation. These exchange differences were taken directly to currency translation reserve in Equity.

Assets with a net book value of £40,000 (2016 - £19,000) were disposed of by the Group for proceeds of £115,000 (2016 - £38,000) during the 26 weeks ended 28th October, 2017, resulting in a gain on disposal of £75,000 (2016 - £19,000).

9 Cash and cash equivalents

For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

	28th Oct, 2017 unaudited £'000	29th April, 2017 audited £'000
Cash at bank and in hand	**9,196**	9,880
Short term deposits	**5,339**	5,330
	14,535	15,210

10 Pension liability

The Company operates an employee pension scheme called the MS INTERNATIONAL plc Retirement and Death Benefits Scheme ("the Scheme"). IAS19 requires disclosure of certain information about the Scheme as follows:

- Until 5th April, 1997, the Scheme provided defined benefits and these liabilities remain in respect of service prior to 6th April, 1997. From 6th April, 1997 until 31st May 2007 the Scheme provided future service benefits on a defined contribution basis.

- The last formal valuation of the Scheme was performed at 5th April, 2014 by a professionally qualified actuary.

- From April 2016 the Company directly pays the expenses of the Scheme. With effect from April 2015 until April 2023 the deficit reduction payments paid into the Scheme by the Company have been increased to £300,000 per annum, increasing each year during the period at 3% per annum.

- From 1st June, 2007 the Company has operated a defined contributions scheme for its UK employees which is administered by a UK pension provider. Member contributions are paid in line with this scheme's documentation over the accounting period and the Company has no further obligations once the contributions have been made.

- During the period, the Scheme liability has reduced by £1,336,000. A re-measurement gain of £1,268,000 (2016 - loss of £871,000) has been recognised through other comprehensive income and comprises of a £896,000 return on plan assets in excess of net interest and a £372,000 actuarial gain due to changes in financial assumptions. The actuarial gain reflects the higher discount rate in the period which decreased the value placed on the Scheme's liabilities at the period end. The interest cost on the net defined benefit liability of £91,000 has been recognised through the income statement. The liability is reduced by pension fund deficit payments in the period of £159,000 (2016 - £154,000).

11 Commitments and contingencies

The Company is contingently liable in respect of guarantees, indemnities and performance bonds given in the ordinary course of business amounting to £2,410,677 at 28th October, 2017 (2016 - £5,504,107).

In the opinion of the directors, no material loss will arise in connection with the above matters.

The Group and certain of its subsidiary undertakings are parties to legal actions and claims which have arisen in the normal course of business. The results of actions and claims cannot be forecast with certainty, but the directors believe that they will be concluded without any material effect on the net assets of the Group.