MS INTERNATIONAL plc

Unaudited Interim Condensed
Group Financial Statements
31st October, 2015

MSI

EXECUTIVE DIRECTORS

Michael Bell

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PRINCIPAL OPERATING DIVISIONS

Defence

Forgings

Petrol Station Superstructures

MSI

Chairman's Statement

It is pleasing to report that the Group has made progress over a broad front. A satisfactory, albeit modest, recovery in half year revenue and profit has been achieved whilst across the divisions there was marked progress in our product development programmes, production facility developments and the successful integration of our recent European mainland acquisition.

For the first half year ended 31st October 2015, profit before taxation increased to £0.40m (2014 – £0.07m) on revenue of £23.98m (2014 – £21.74m). Earnings per share amounted to 2.4p (2014 – 0.6p).

The balance sheet remains strong with substantial net cash and short term deposits amounting to £11.45m, after the cash impact of the acquisition of £2.61m, compared to £12.49m at the same time last year.

Though some of our markets remain challenging, there was an upturn in revenue at 'Defence' in line with the phasing of order book delivery requirements. 'Forgings' revenue declined, reflecting a progressive general lacklustre level of activity in global markets and some weakness in the particular sectors we serve; a position further exacerbated by a disadvantageous UK currency exchange rate. 'Petrol Station Superstructures' experienced some flatness in demand for new forecourt developments but was boosted by the integration and better than anticipated first time contribution from the forecourt corporate branding and image business of Petrol Sign BV, based in the Netherlands and acquired in June.

Innovative, technology driven, internationally competitive product development programmes continue unabated at 'Defence', alongside the recruitment of additional engineers, business development personnel and the upgrading of previously underutilised manufacturing facilities. Funding these developments, whilst not inconsiderable, will we believe, complement and enhance our present product range by providing a broader spectrum of naval weapon systems and enhance domestic and international marketing opportunities. The initial rewards of this policy are already coming to the fore, demonstrated in the half year by achieving an exemplary performance in completing the on time deliveries, installations and customer final acceptance sea trials of our first new MSI-DS 20mm naval gun systems for an overseas customer.

Previously reported plans to expand 'Forgings' capacity and capability in the United States, have progressed to the stage where we have acquired a property to develop, which is conveniently close to our existing over-stretched premises in South Carolina. Making this major investment in a much larger, purpose designed and superior equipped facility will enable the division to achieve levels of business beyond our current abilities.

The successful integration of Petrol Sign BV into our 'Petrol Station Superstructures' division is gathering momentum. The enlarged division now has the ability to offer corporate branding and signage services to its original customer base, either separately or as part of an overall construction package, on both new build stations and the maintenance, repair and rebranding of existing sites. Equally the division has the opportunity to cross sell structures to Petrol Sign's customer base. I am delighted to see that this enhanced capability is being extremely well received by the market. Furthermore, as part of this process, 'Petrol Sign' business operations are being established in both Germany and the United Kingdom.

The Government's recently announced Strategic Defence and Security Review 2015 confirmed a ten year commitment to increased spending on defence. In addition there is a commitment to maintain and support the current number of Royal Navy surface warships, uphold the current naval ship building programme and assist companies such as ours to grow and compete in the world defence equipment markets. This engenders confidence to pursue our policy of continuous

Chairman's Statement

(continued)

improvement in our business and our earnest endeavours to meet customers' expectations. Elsewhere around the world, there are increasing signs of a greater awareness of the many current regional threats that exist to international stability, which could well result in further spending on defence initiatives.

Clearly, the Group is ready and in a good position to take advantage of any opportunities presented and we look forward to the future with optimism. All matters considered, the Board has declared a maintained interim dividend per share of 1.5p (2014-1.5p), payable to shareholders on 4th January 2016.

Michael Bell **30th November, 2015**

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 31st October 2015 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 company 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 Standards 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 31st October 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP
Leeds
30th November, 2015

Interim condensed consolidated income statement

	Notes	26 weeks ended 31st Oct., 2015 Unaudited £'000	26 weeks ended 1st Nov., 2014 Unaudited £'000
Products		**18,217**	14,266
Contracts		**5,764**	7,471
Revenue	4	**23,981**	21,737
Cost of sales		**(18,169)**	(16,937)
Gross profit		**5,812**	4,800
Distribution costs		**(1,582)**	(1,113)
Administrative expenses		**(3,744)**	(3,492)
Operating profit	4	**486**	195
Finance income/(costs)		**17**	(5)
Other finance costs – pension		**(108)**	(119)
Profit before taxation		**395**	71
Taxation	5	**(6)**	24
Profit for the period attributable to equity holders of the parent		**389**	95
Earnings per share: basic and diluted	6	**2.4p**	0.6p

Interim condensed consolidated statement of comprehensive income

	26 weeks ended 31st Oct., 2015 Unaudited £'000	26 weeks ended 1st Nov., 2014 Unaudited £'000
Profit for the period attributable to equity holders of the parent	**389**	95
Exchange differences on retranslation of foreign operations	**(234)**	(69)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(234)**	(69)
Remeasurement gains/(losses) on defined benefit pension scheme	**889**	(1,391)
Deferred taxation on remeasurement gains/losses on defined benefit pension scheme	**(297)**	278
Net other comprehensive income/(loss) not being reclassified to profit or loss in subsequent periods	**592**	(1,113)
Total comprehensive income/(loss) for the period attributable to equity holders of the parent	**747**	(1,087)

Interim condensed consolidated statement of financial position

	Notes	31st Oct., 2015 Unaudited £'000	2nd May, 2015 Audited £'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**15,264**	14,563
Intangible assets	12	**5,533**	3,818
Deferred income tax asset		**–**	93
		20,797	18,474
Current assets			
Inventories		**8,878**	8,464
Trade and other receivables		**11,073**	9,454
Income tax receivable		**–**	40
Prepayments		**919**	590
Cash and short-term deposits	9	**11,449**	17,148
		32,319	35,696
TOTAL ASSETS		**53,116**	54,170
EQUITY AND LIABILITIES			
Equity			
Issued capital		**1,840**	1,840
Capital redemption reserve		**901**	901
Other reserves		**2,815**	2,815
Revaluation reserve		**4,229**	4,146
Special reserve		**1,629**	1,629
Currency translation reserve		**(523)**	(289)
Treasury shares		**(3,059)**	(3,059)
Retained earnings		**20,224**	20,316
Toal Equity		**28,056**	28,299
Non-current liabilities			
Defined benefit pension liability	10	**5,953**	6,877
Deferred income tax liability	5	**1**	–
		5,954	6,877
Current liabilities			
Trade and other payables		**19,044**	18,994
Income tax payable		**62**	–
		19,106	18,994
TOTAL EQUITY AND LIABILITIES		**53,116**	54,170

Interim Group statement of changes in equity

	Issued Capital £'000	Capital redemption reserve £'000	Other reserves £'000	Revaluation reserve £'000	Special reserve £'000	Foreign exchange reserve £'000	Treasury shares £'000	Retained earnings £'000	**Total Unaudited £'000**
At 2nd May, 2015	1,840	901	2,815	4,146	1,629	(289)	(3,059)	20,316	28,299
Profit for the period	–	–	–	–	–	–	–	389	389
Other comprehensive (loss)/profit	–	–	–	–	–	(234)	–	592	358
	1,840	**901**	**2,815**	**4,146**	**1,629**	**(523)**	**(3,059)**	**21,297**	**29,046**
Change in taxation rates	–	–	–	83	–	–	–	–	83
Dividend paid	–	–	–	–	–	–	–	(1,073)	(1,073)
At 31st October, 2015	**1,840**	**901**	**2,815**	**4,229**	**1,629**	**(523)**	**(3,059)**	**20,224**	**28,056**

	Issued Capital £'000	Capital redemption reserve £'000	Other reserves £'000	Revaluation reserve £'000	Special reserve £'000	Foreign exchange reserve £'000	Treasury shares £'000	Retained earnings £'000	**Total Unaudited £'000**
At 3rd May, 2014	1,840	901	2,815	4,146	1,629	(183)	(3,059)	21,054	29,143
Profit for the period	–	–	–	–	–	–	–	95	95
Other comprehensive loss	–	–	–	–	–	(69)	–	(1,113)	(1,182)
	1,840	**901**	**2,815**	**4,146**	**1,629**	**(252)**	**(3,059)**	**20,036**	**28,056**
Dividend paid	–	–	–	–	–	–	–	(1,073)	(1,073)
At 1st November, 2014	**1,840**	**901**	**2,815**	**4,146**	**1,629**	**(252)**	**(3,059)**	**18,963**	**26,983**

Interim Group cash flow statement

	26 weeks ended 31st Oct., 2015 Unaudited £'000	26 weeks ended 1st Nov., 2014 Unaudited £'000
Profit before taxation	**396**	71
Adjustments to reconcile profit before taxation to net cash in flows from operating activities		
Depreciation charge	**525**	575
Amortisation charge	**154**	159
Administration expenses- pension fund	**175**	219
Profit on disposal of fixed assets	**(42)**	(29)
Finance costs	**91**	124
Foreign exchange movements	**(78)**	41
Decrease/(increase) in inventories	**544**	(700)
Increase in receivables	**(1,243)**	(3,911)
Increase in prepayments	**(329)**	(294)
(Decrease)/increase in payables	**(196)**	2,317
(Decrease)/increase in progress payments	**(461)**	1,459
Pension fund expenses and deficit reduction payments	**(318)**	(264)
Cash flows from operations	**(782)**	(233)
Interest received/(paid)	**17**	(5)
Taxation paid	**(86)**	(135)
Net cash flow from operating activities	**(851)**	(373)
Investing activities		
Acquisition of Petrol Sign BV (see note 12)	**(2,608)**	–
Purchase of property, plant and equipment	**(1,210)**	(487)
Sale of property, plant and equipment	**43**	137
Net cash flows used in investing activities	**(3,775)**	(350)
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	**(5,699)**	(1,796)
Opening cash and cash equivalents	**17,148**	14,286
Closing cash and cash equivalents	**11,449**	12,490

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 31st October, 2015 were authorised for issue in accordance with a resolution of the directors on 30th November, 2015.

2 Basis of preparation and accounting policies

The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The 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 2nd May, 2015.

The interim financial information has been reviewed by the Group's auditors, Ernst & Young LLP, their report is included on page 3. 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 2nd May, 2015.

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.

The figures for the year ended 2nd May, 2015 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.

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.

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.

Notes to the interim Group financial statements

(continued)

4 Segment information

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 Forecourt Structures division is engaged in the design and construction of petrol station forecourt structures. 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 31st October, 2015 and 1st November, 2014.

	Defence		Forgings		Petrol Station Superstructures		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
							Unaudited	Unaudited
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Revenue								
External	**9,228**	6,811	**6,062**	7,744	**8,691**	7,182	**23,981**	21,737
Total revenue	**9,228**	6,811	**6,062**	7,744	**8,691**	7,182	**23,981**	21,737
Segment result	**(163)**	(1,112)	**(321)**	628	**970**	679	**486**	195
Net finance expense							**(91)**	(124)
Profit before taxation							**395**	71
Taxation							**(6)**	24
Profit for the period							**389**	95
Capital expenditure	**145**	80	**807**	280	**234**	53		
Depreciation	**116**	108	**177**	214	**146**	141		

The following table presents segment assets and liabilities of the Group's divisions for the periods ended 31st October, 2015 and 1st November, 2014.

	Defence 2015	Defence 2014	Forgings 2015	Forgings 2014	Petrol Station Superstructures 2015	Petrol Station Superstructures 2014	Total 2015	Total 2014
Segmental assets	**26,500**	25,203	**5,305**	6,495	**6,949**	6,929	**38,754**	38,627
Unallocated assets							**14,362**	14,711
Total assets							**53,116**	53,338
Segmental liabilities	**13,592**	11,687	**1,205**	2,146	**3,304**	3,874	**18,101**	17,707
Unallocated liabilities							**6,959**	8,648
Total liabilities							**25,060**	26,355

Notes to the interim Group financial statements

(continued)

5 Income tax

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

	26 weeks ended 31st Oct., 2015 Unaudited £'000	26 weeks ended 1st Nov., 2014 Unaudited £'000
Current income tax charge	**128**	69
Current tax	**128**	69
Relating to origination and reversal of temporary differences	**(98)**	(93)
Impact of reduction in deferred tax rate (20% to 18%)	**(24)**	–
Deferred tax	**(122)**	(93)
Total income expense/(credit) reported in the consolidated income statement	**6**	(24)

Deferred taxation has been provided at 18%.

The Finance (No 2) Bill 2015 provides that the rate of UK corporation tax will be reduced to 19% from 1st April, 2017 with a further 1% reduction to 18% on 1st April, 2020.

The Bill was substantively enacted at the balance sheet date.

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 £389,000 (2014 – £95,000);

(b) 16,504,691 (2014 – 16,504,691) Ordinary shares, being the number of Ordinary shares in issue.

This represents 18,396,073 (2014 – 18,396,073) being the number of Ordinary shares in issue less 245,048 (2014 – 245,048) being the number of shares held within the ESOT and less 1,646,334 (2014 – 1,646,334) being the number of shares purchased by the Company.

7 Dividends paid and proposed

	26 weeks ended 31st Oct., 2015 Unaudited £'000	26 weeks ended 1st Nov., 2014 Unaudited £'000
Declared and paid during the six month period		
Dividend on ordinary shares		
Final dividend for 2015 – 6.50p (2014 – 6.50p)	**1,073**	1,073
Proposed for approval		
Interim dividend for 2016 – 1.50p (2015 – 1.50p)	**248**	248

Dividend warrants will be posted on 31st December, 2015 to those members registered on the books of the Company on 11th December, 2015.

8 Property, plant and equipment

Acquisitions and disposals

During the 26 weeks ended 31st October, 2015, the Group acquired assets with a cost of £1,210,000 (2014 – £487,000).

Assets with a net book value of £1,000 (2014 – £108,000) were disposed of by the Group for proceeds of £43,000 (2014 – £137,000) during the 26 weeks ended 31st October, 2015, resulting in a gain on disposal of £42,000 (2014 – £29,000).

Notes to the interim Group financial statements

(continued)

9 Cash and cash equivalents

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

	31st Oct., 2015 Unaudited £'000	2nd May, 2015 Audited £'000
Cash at bank and in hand	**6,168**	9,884
Short term deposits	**5,281**	7,264
	11,449	17,148

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.
- The Company has paid contributions into the Scheme for life assurance premiums and other Scheme expenses. In addition, from April 2013, the Company has paid £229,000 per annum of deficit reduction payments into the defined benefit section of the scheme. With effect from April 2015, the deficit reduction payments paid into the scheme by the Company have been increased to £300,000 per annum, increasing thereafter 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.

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 £7,013,513 at 31st October, 2015 (2014 – £5,768,071).

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.

Notes to the interim Group financial statements

(continued)

12 Aquisitions

On the 17th June, 2015, the Company acquired the entire issued share capital of Petrol Sign BV, a company based in the Netherlands.

The consideration for the acquisition was 3,400,000 Euros and was paid in cash on completion.

Petrol Sign BV designs, restyles, produces and installs the complete appearance of Petrol Station Superstructures and Forecourts.

The provisional fair values of the identifiable assets and liabilities of Petrol Sign BV as at the date of acquisition were:

	£'000
Plant and equipment	**169**
Inventories	**958**
Receivables	**376**
Payables	**(707)**
Taxation	**(57)**
Bank overdraft	**(171)**
Intangible assets	**1,869**
Consideration and net assets acquired	**2,437**
Add back bank overdraft	**171**
Per cashflow	**2,608**

The information required in order to identify and value the acquired goodwill and intangible assets was not available for the purposes of the interim accounts as certain information required to complete the valuation of intangibles, such as financial forecasts, have not been previously prepared by the acquired business. As such, the intangible assets have not been separately identified and instead a total balance for intangibles, including goodwill, has been disclosed. As such no amortisation of intangible assets has been charged for the period to 31st October 2015. The process to prepare the required information is ongoing and will be completed in advance of the year end. Accordingly, this will be updated for the year end financial statements.

From the date of acquisition, Petrol Sign BV has contributed £3,012,000 of revenue and a profit of £495,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, Group revenue from continuing operations would have been £24,008,000 and the profit before tax from continuing operations for the Group would have been £405,000.