

5 September 2019

AIM: MPAC



This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014

Mpac Group plc
(“Mpac”, “Company” or “Group”)

Mpac, the global packaging and automation solutions group, today announces its results for the six months to 30 June 2019

Highlights

- Increase in Group sales of 62% to £45.8m (2018: £28.2m), including £5.5m from the acquisition of Lambert Automation Group (“Lambert”)
- Underlying profit before tax of £4.5m (2018: £nil)
- Good progress made in executing Original Equipment orders during the first half of 2019, with a favourable repeat project mix generating improved margins
- Profits for the full year expected to be significantly above current market expectations
- On track to deliver the anticipated benefits from the acquisition of Lambert
- Overall order intake in the first half of 2019 is 54% above the first half of 2018. Services order intake growth was particularly strong in the first half, up 75% on the same period of 2018
- Order book at 30 June 2019 is broadly comparable to June 2018 on a like for like basis
- Underlying earnings per share of 21.3p (2018: loss of 1.6p)
- Statutory profit before tax of £2.9m (2018 loss: £0.6m). Basic earnings per share of 12.7p (2018: loss of 3.9p)
- Net cash of £9.6m (30 June 2018: £24.9m; 31 December 2018: £27.0m). Cash flows consistent with the improved trading performance of the Group and the acquisition of Lambert
- Triennial valuation of the UK pension scheme completed, and recovery plan agreed, with a gross reduction of contributions of £9.7m compared to the previous agreement

Tony Steels, Chief Executive, commented:

“I am really pleased with the results for the first half of the year which demonstrate the value of the strategic objectives we have been working hard to implement. The recent acquisition of Lambert is progressing to plan and has been well received by our current customers and potential new customers, increasing our prospects to provide full turnkey solutions. We remain focused on continuing to deliver on our strategic objectives supported by sound business fundamentals and growth markets.”

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HALF-YEAR MANAGEMENT REPORT

Introduction

Mpac serves customers' needs for ingenious, innovative packaging machinery and automation encompassing, Make, Pack, Monitor and Service. We design, precision engineer and manufacture high speed automation and packaging solutions, with embedded process monitoring systems. The addition of Lambert to the Group in May 2019 further strengthens our position in the market to deliver complete solutions for factory automation and process innovation. With the acquisition we now provide complete turnkey solutions including the design and integration of packaging systems and a lifetime service for our machinery.

The Group's packaging machinery and automation business is focused on the high growth pharmaceutical, healthcare and food and beverage markets, which we expect to enjoy long term growth rates of between 4% to 6%.

The opportunities for the Group are based on the following fundamental strengths:

- Robust long-term growth drivers in our target markets
- Heritage of innovative, high speed packaging machinery and automation solutions
- Global reach with embedded local presence providing exceptional service to our customers
- A talented and engaged workforce

As outlined at the time of the Company's final results, Mpac started 2019 with a significantly higher order book than at the start of 2018. The quality of this opening order book is the driver behind the financial performance achieved in the first half of the year. However, there remains the potential for forecast orders to be delayed due to general economic uncertainty for the medium term, driven by macro-economic and political circumstances outside of the control of the Group. Therefore, the Board anticipates that, while the results for 2019 will be above current market expectations, primarily as a result of an increased number of repeat projects and by operational efficiencies, the medium-term economic outlook, driven by macro-economic factors, is less certain.

Strategic Progress

We have made further good progress in delivering upon our strategic plans. Growth at the target levels continues, underpinned by a commercial excellence programme and innovation roadmap. 'Service as a Business' is becoming embedded within the culture of the Group and operational efficiencies have been achieved resulting in improved margins and profitability.

The acquisition of Lambert provides the Group with a significant increase in scale and resource and positions the Group to be able to offer full turnkey automation and packaging solutions to our customers and a further presence in the strategically important healthcare market. Current and potential customers have expressed enthusiasm to work with our larger Group on relevant and larger scaled projects. Cost and efficiency synergies from the acquisition are on plan and we expect to deliver further savings over the medium term.

Our aim to operate as a single entity business model, 'One Mpac' is progressing well and we have concluded on a project to harmonise our engineering platforms across the regions. Resources will be further utilised across the businesses more effectively, leading to efficiency gains, customer benefits such as reduced project delivery periods and an order book that is of higher quality and lower project complexity.

Make Service a Business has gained significant traction in the first half of the year with the results of the strategy having a material impact on the financial performance of the Group. Several long-term service agreements, generating recurring income, have been implemented and service order intake is above the prior year across all regions.

A new senior management team in Canada is now embedded and is providing the leadership necessary to support our strategic ambitions. Our planned expansion in the USA market is progressing well, starting with an enlarged sales team.

Financial results

The Group entered the year with a strong order book and accordingly sales in the six months to 30 June 2019 were £45.8m (2018: £28.2m), a 62% increase on the same period in the prior year. Order intake in the first half of 2019 was 54% above the same period in 2018, although order intake was significantly higher in the second half of 2018. Currently, the order book is broadly in line with the level at the end of June 2018 and, although the Group has a robust level of prospects, the conversion of prospects to orders is more difficult to predict in the current environment as customers defer discretionary investments. The current order book has been reviewed in detail to confirm that projects remain on track within contractual terms.

Lambert, acquired on 1 May 2019, for an initial consideration of £16.8m, following adjustments for cash and working capital, has performed strongly during its initial period of ownership and will be materially earnings enhancing throughout 2019 and beyond. Further commercial and operational synergies are expected to be delivered over the medium term. Non-recurring costs associated with the acquisition were £0.8m.

Underlying operating profit before tax was £4.5m (2018: £nil). After a net tax charge of £0.3m (2018: £0.3m), the underlying operating profit after tax for the period was £4.2m (2018: underlying loss £0.3m). The underlying earnings per share was 21.3p (2018: loss of 1.6p).

The underlying results are stated before pension related charges of £0.2m (2018: £0.4m), comprising charges in respect of administering the Group's defined benefit pension schemes of £0.4m (2018: £0.5m) and financing income on pension scheme balances of £0.2m (2018: £0.1m), a provision in respect of discontinued operations of £0.3m, acquisition costs of £0.8m (2018: £0.1m), amortisation of acquired intangible assets of £0.2m and restructuring costs of £0.1m (2018: £0.1m).

On a statutory basis, the profit after tax for the period was £2.6m (2018: £0.9m loss). The basic earnings per share amounted to 12.7p (2018: loss of 3.9p).

Finances

Net cash at 30 June 2019 was £10.5m (30 June 2018: net cash of £25.8m; 31 December 2018: £27.9m) after a net cash payment for the acquisition of Lambert of £10.6m. Net cash outflow from operating activities in the first half of the year was £5.7m. This is after an increase in working capital levels of £9.0m, reflecting growth in sales from working through the Group's order backlog and after deficit recovery payments to the Group's defined benefit pension schemes of £1.3m. Tax paid in the period was £0.3m. Capital and product development expenditure was £1.2m net.

The Group maintains bank facilities appropriate to its expected needs. In the UK, on 28 June 2019, the Group entered into committed secured borrowing facilities with HSBC UK Bank Plc of £10m. These facilities, which are committed until June 2022, are subject to covenants covering interest cover and adjusted leverage and are both sterling and multi-currency denominated.

Dividend

Having considered the trading results to 30 June 2019, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay an interim dividend. No dividends were paid in 2018. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of trading performance and the pension fund as and when the Board believes it is prudent to do so.

Operating performance

The Group manages the business in two parts (OE and service) and across three regions (Americas, EMEA and Asia Pacific). Individual contracts received by the OE business and the Service business can be sizeable. Accordingly, one significant order can have a disproportionate impact on the growth rates seen in individual markets year on year.

Original Equipment (OE)

The Group made sound progress in both securing significant growth in OE order intake in the first half of 2019 and in generating an increase in OE gross margin. Order intake was approximately 42% above the same period in 2018. At the end of June 2019, the OE order book is broadly in line with the level at June 2018.

OE revenue in the Americas region increased from £9.1m in 2018 to £27.2m in the current period. The EMEA regional performance reduced by 32% to £7.9m (2018: £11.7m). Sales in the Asia Pacific region grew steadily to £3.1m (2018: £2.4m) an increase of 29%.

Sales to the Healthcare sector increased by over 200%, driven by the large contracts won in late 2018 and early 2019. Sales to the Food and Beverage and Other markets also showed steady progress. Pharmaceutical revenue was adversely affected by the timing of contracts within the industry and is expected to recover in the second half of the year.

OE gross margin in the period was 27.2% (£10.4m) (2018: 18.0% (£4.2m)) with the increase in profitability the result of delivering the higher opening OE orderbook at contract margins. The 2018 comparative performance included a significant cost contingency driven by two technically challenging legacy contracts. There are no equivalent costs associated with legacy contracts included within the gross margins reported to June 2019.

Service

Services order intake in the period was 75% higher than in 2018. The increase was the result of additional focus on making 'Make Service a Business' across all regions and an improved offering in conjunction with new machine sales. This led to a 52% increase in service revenues, with the improvement being broadly equal between the Americas and EMEA regions. Service sales in Asia Pacific improved more steadily but still showed progress, growing at 20% over 2018.

The increased revenue from services generated a gross margin in the period of £2.7m (2018: £1.7m). Improved operational and supply chain efficiency led to an increase in service margin in the period to 36% (2018: 34%).

Investment Property

The Group owns an investment property and land comprising of 10 acres in Monks Risborough, Buckinghamshire, UK, which is held at a net book value of £0.8m and is not required for the Group's operations. The Group was not successful in its recent efforts to have the site designated for residential housing development but will continue to explore all high-value options for the investment.

It is difficult to be precise about the future value of the land if planning approval was obtained for housing. It is not the Group's current intention to redevelop the site itself.

Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members. The Company is responsible for the payment of a statutory levy to the Pension Protection Fund.

The IAS 19 valuation of the UK scheme at 30 June 2019 shows a surplus of £29.3m (£19.2m net of deferred tax), compared with a surplus of £20.5m (£13.2m net of deferred tax) at 31 December 2018. The main driver of the increase in the surplus was the strong asset performance, partially offset by a decrease in the discount rate.

The UK scheme was subject to a formal triennial actuarial valuation as at 30 June 2018, which was completed in the first half of 2019. The principal terms of the deficit funding agreement between the Company and the Trustees are set out in note 7. The next funding valuation will be carried out no later than at 30 June 2021 and the agreement between the Company and the Fund will be reassessed at each of those valuations.

The actuarial deficit in the UK scheme reduced from £69.9m at 30 June 2015 to £35.2m at 30 June 2018 in the formal triennial valuation. The actuarial deficit is now expected to be eliminated in July 2024, compared to August 2029 under the previous valuation, representing a gross saving of £9.7m. The current annual deficit recovery payments have been maintained but will now cease more than five years earlier than was agreed under the previous valuation.

The net valuation of the USA pension schemes at 30 June 2019, with total assets of £17.6m, showed a deficit of £6.1m, which was unchanged from 31 December 2018.

The aggregate expense of administering the pension schemes was £0.4m (2018: £0.5m). The net financing income on pension scheme balances was £0.2m (2018: £0.1m).

Acquisition strategy

The Board will continue to evaluate potential acquisition opportunities that strategically fit and will enhance our global presence in packaging solutions serving the Pharmaceutical, Healthcare, Food and Beverage markets.

Outlook

It has been a positive start to the year with the sound foundations established in 2018 flowing through into 2019, resulting in an improved financial performance. Additionally, an increase in the number of repeat projects and in operational efficiencies generated incremental margins and consequently the expected results for the full year 2019 are above current market expectations. The order book and future prospects remain strong, underpinned by long term growth factors in our target markets.

Execution of the Group's strategic plans is beginning to have a tangible impact and the Group is in an excellent position to benefit from further commercial successes in the second half of the year.

The acquisition of Lambert provides a significant step forward in being able to deliver full turnkey solutions to our customers and to compete for large scale commercial opportunities. The integration plans are on track to deliver the expected results from the acquisition in 2019.

The Group has both the financial and managerial resources available to develop its business, with the prime focus being on organic growth, through leveraging of its global position, development of its products and most particularly through an improved service offering to its customers. In conjunction with this, we are looking at a number of acquisition opportunities which will be complementary to the Group's existing operations.

General market uncertainty has increased with global FMCG companies under pressure to eliminate plastic in consumer products leading to investment delays whilst they develop new solutions. Order intake is also variable and sensitive to geo-political events and recent signs of slowing growth resulting in delayed investment decisions.

Overall progress in the development of the Group's business is expected to continue and the Board believes that short term prospects remain positive.

Tony Steels

Chief Executive

4 September 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months to 30 June 2019 (unaudited)			6 months to 30 June 2018 (unaudited)			
	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m	Underlying £m	Non- underlying (note 5) £m	Total £m
Revenue							
Cost of sales	4	45.8 (32.7)	-	45.8 (32.7)	28.2 (22.3)	-	28.2 (22.3)
Gross profit		13.1	-	13.1	5.9	-	5.9
Distribution expenses		(3.1)	-	(3.1)	(2.4)	-	(2.4)
Administrative expenses		(5.0)	(1.8)	(6.8)	(3.3)	(0.7)	(4.0)
Other operating expenses		(0.4)	-	(0.4)	(0.2)	-	(0.2)
Operating profit/(loss)	4, 5	4.6	(1.8)	2.8	-	(0.7)	(0.7)
Financial income	6	-	0.2	0.2	-	0.1	0.1
Financial expenses	6	(0.1)	-	(0.1)	-	-	-
Net financing income	4, 6	(0.1)	0.2	0.1	-	0.1	0.1
Profit/(loss) before tax	4	4.5	(1.6)	2.9	-	(0.6)	(0.6)
Taxation	8	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Profit/(loss) for the period		4.2	(1.6)	2.6	(0.3)	(0.6)	(0.9)
Earnings/(loss) per ordinary share							
Basic	9			12.7p			(3.9)p
Diluted	9			12.6p			(3.9)p

The Group has initially applied IFRS 16 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

12 months to 31 December 2018 (audited)				
	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m
Revenue				
Cost of sales	4	58.3 (44.3)	- -	58.3 (44.3)
Gross profit				
		14.0	-	14.0
Distribution expenses		(5.0)	-	(5.0)
Administrative expenses		(7.2)	(9.0)	(16.2)
Other operating expenses		(0.4)	-	(0.4)
Operating profit/(loss)				
	4, 5	1.4	(9.0)	(7.6)
Financial income	6	0.1	0.2	0.3
Financial expenses	6	(0.1)	-	(0.1)
Net financing income				
	4, 6	-	0.2	0.2
Profit/(loss) before tax				
	4	1.4	(8.8)	(7.4)
Taxation	8	(0.5)	1.9	1.4
Profit/(loss) for the period				
		0.9	(6.9)	(6.0)
Profit per ordinary share				
Basic	9			(30.1)p
Diluted	9			(30.1)p

The Group has initially applied IFRS 16 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2019 (unaudited) £m	6 months to 30 June 2018 (unaudited) £m	12 months to 31 Dec 2018 (audited) £m
Profit/(loss) for the period	2.6	(0.9)	(6.0)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Actuarial gains	7.9	17.3	8.3
Tax on items that will not be reclassified to profit or loss	(2.7)	(6.1)	(2.9)
	5.2	11.2	5.4
Items that may be reclassified subsequently to profit or loss			
Currency translation movements arising on foreign currency net investments	0.4	(0.5)	(0.6)
Effective portion of changes in fair value of cash flow hedges	0.6	(0.5)	(1.0)
	1.0	(1.0)	(1.6)
Other comprehensive income/(expense) for the period	6.2	10.2	3.8
Total comprehensive income/(expense) for the period	8.8	9.3	(2.2)

All income for the period was derived from continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
6 months to 30 June 2019							
Balance at 1 January 2019	5.0	26.0	1.1	3.9	(0.8)	5.4	40.6
Profit for the period	-	-	-	-	-	2.6	2.6
Other comprehensive income for the period	-	-	0.4	-	0.7	5.2	6.3
Total comprehensive income for the period	-	-	0.4	-	0.7	7.8	8.9
Total transactions with owners, recorded directly in equity	-	-	-	-	-	-	-
Balance at 30 June 2019	5.0	26.0	1.5	3.9	(0.1)	13.2	49.5
6 months to 30 June 2018							
Balance at 1 January 2018	5.0	26.0	1.7	3.9	0.2	6.0	42.8
Loss for the period	-	-	-	-	-	(0.9)	(0.9)
Other comprehensive income/(expense) for the period	-	-	(0.5)	-	(0.5)	11.2	10.2
Total comprehensive income/(expense) for the period	-	-	(0.5)	-	(0.5)	10.3	9.3
Total transactions with owners, recorded directly in equity	-	-	-	-	-	-	-
Balance at 30 June 2018	5.0	26.0	1.2	3.9	(0.3)	16.3	52.1
12 months to 31 December 2018							
Balance at 1 January 2018	5.0	26.0	1.7	3.9	0.2	6.0	42.8
Profit for the period	-	-	-	-	-	(6.0)	(6.0)
Other comprehensive income/(expense) for the period	-	-	(0.6)	-	(1.0)	5.4	3.8
Total comprehensive expense for the period	-	-	(0.6)	-	(1.0)	(0.6)	(2.2)
Total transactions with owners, recorded directly in equity	-	-	-	-	-	-	-
Balance at 31 December 2018	5.0	26.0	1.1	3.9	(0.8)	5.4	40.6

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 (unaudited) £m	30 June 2018* (unaudited) £m	31 Dec 2018* (audited) £m
	Notes			
Non-current assets				
Intangible assets		17.1	0.9	1.0
Property, plant and equipment		6.2	4.0	4.4
Investment property		0.8	0.8	0.8
Right of Use Assets	3	5.1	-	-
Other receivables		0.1	0.8	-
Employee benefits	7	29.3	35.1	20.5
Deferred tax assets		1.7	1.7	1.7
		<u>60.3</u>	<u>43.3</u>	<u>28.4</u>
Current assets				
Inventories		7.3	4.9	3.3
Trade and other receivables		23.5	11.8	16.9
Contract assets		9.7	6.2	5.5
Current tax assets		0.8	0.1	0.8
Cash and cash equivalents		10.5	25.8	27.9
		<u>51.8</u>	<u>48.8</u>	<u>54.4</u>
Current liabilities				
Trade and other payables		(27.2)	(14.2)	(14.7)
Contract liabilities		(7.1)	(5.5)	(11.6)
Current tax liabilities		(0.4)	(0.6)	(0.4)
Provisions		(1.2)	(0.7)	(1.1)
Lease liabilities	3	(0.9)	-	-
		<u>(36.8)</u>	<u>(21.0)</u>	<u>(27.8)</u>
Net current assets		<u>15.0</u>	<u>27.8</u>	<u>26.6</u>
Total assets less current liabilities		<u>75.3</u>	<u>71.1</u>	<u>55.0</u>
Non-current liabilities				
Interest-bearing loans and borrowings		(0.9)	(0.9)	(0.9)
Lease Liabilities	3	(4.2)	-	-
Employee benefits	7	(6.2)	(5.8)	(6.2)
Deferred tax liabilities		(11.9)	(12.3)	(7.3)
Deferred acquisition consideration		(2.6)	-	-
		<u>(25.8)</u>	<u>(19.0)</u>	<u>(14.4)</u>
Net assets	4	<u>49.5</u>	<u>52.1</u>	<u>40.6</u>
Equity				
Issued capital		5.0	5.0	5.0
Share premium		26.0	26.0	26.0
Reserves		5.3	4.8	4.2
Retained earnings		13.2	16.3	5.4
Total equity		<u>49.5</u>	<u>52.1</u>	<u>40.6</u>

* The Group has initially applied IFRS 16 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months to 30 June 2019 (unaudited) £m	6 months to 30 June 2018 (unaudited) £m	12 months to 31 Dec 2018 (audited) £m
Notes			
Operating activities			
Operating profit/(loss)	2.8	(0.7)	(7.6)
Non-underlying items included in operating profit	1.8	0.7	9.0
Amortisation	0.1	0.1	0.2
Depreciation (including right of use assets from 1 January 2019)	0.7	0.4	0.6
Other non-cash items	(0.2)	-	-
Defined benefit pension payments	(1.3)	(1.0)	(3.0)
Working capital movements:			-
- (increase)/decrease in inventories	(3.2)	(0.1)	1.7
- (increase)/decrease in trade and other receivables	(1.3)	3.3	(1.3)
- increase in contract assets	(3.2)	(2.4)	(1.3)
- increase/(decrease) in trade and other payables	8.0	(1.6)	(1.4)
- (decrease)/increase in contract liabilities	(9.6)	(1.6)	4.1
- increase in provisions	0.3	-	0.1
Cash (used)/generated from operations before reorganisation	(5.1)	(2.9)	1.1
Reorganisation costs paid	(0.3)	(0.7)	(1.0)
Cash flows from operations	(5.4)	(3.6)	0.1
Taxation paid	(0.3)	(0.1)	(1.0)
Cash flows from operating activities	(5.7)	(3.7)	(0.9)
Investing activities			
Proceeds from sale of property, plant and equipment	-	0.1	0.1
Acquisition of property, plant and equipment	(1.1)	(0.5)	(1.1)
Capitalised development expenditure	(0.1)	(0.1)	(0.3)
Payment for acquisition of subsidiary, net of cash acquired	16 (10.6)	-	-
Cash flows from investing activities	(11.8)	(0.5)	(1.2)
Financing activities			
Interest paid	(0.1)	-	(0.1)
Cash flows from financing activities	(0.1)	-	(0.1)
Net decrease in cash and cash equivalents	11 (17.6)	(4.2)	(2.2)
Cash and cash equivalents at 1 January	27.9	30.3	30.3
Effect of exchange rate fluctuations on cash held	0.2	(0.3)	(0.2)
Cash and cash equivalents at period end	10.5	25.8	27.9

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. General information

The half-year results for the current and comparative period are unaudited but have been reviewed by the auditors, Grant Thornton LLP, and their report is set out after the notes. The comparative information for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's statutory accounts for the year ended 31 December 2018 are available from the Company's registered office at 13 Westwood Way, Westwood Business Park, Coventry, CV4 8HS or from the Group's website at www.mpac-group.com.

Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed set of financial statements.

The condensed set of financial statements was approved by the Board of directors on 4 September 2019.

2. Basis of preparation

(a) Statement of compliance

The condensed set of financial statements for the 6 months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the EU. It does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2018. This is the first set of the Group's financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in note 3.

(b) Judgements and estimates

The preparation of the condensed set of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed set of financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were of the same type as those that applied to the financial statements for the year ended 31 December 2018 with the addition of the fair values for the acquisition of Lambert and around IFRS 16.

In this respect, management have made judgements regarding the provisional fair value of assets and liabilities acquired in the period, including the identification and estimate of the fair value of the intangible assets. Workings to obtain the fair value of these intangible assets are largely based on management's estimates of attributable cash flows, discounted to their present value. Details of the acquired assets, including the intangible assets, are set out in note 16.

In respect of IFRS 16, management have made judgements regarding the appropriate interest rates to be applied and the expected terms of the leases where break clauses under Mpac's control exist. Details of the impact of IFRS 16 are set out in note 3.

Mpac is subject to a number of risks which could have a serious impact on the performance of the business. The Board regularly considers the principal risks that the Group faces and how to mitigate their potential impact. The key risks to which the business is exposed are set out on pages 20 and 21 of the Group's 2018 Annual Report and Accounts.

3. Significant accounting policies

Except as described below, the accounting policies, presentation and methods of computation applied by the Group in this condensed set of financial statements are the same as those applied in the Group's latest audited financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements for the year ending 31 December 2019.

Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

IFRS 16 - Leases

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. The effect of initially applying this standard is to increase both the assets and liabilities of the Group through the recognition on the balance sheet of the operating leases in respect of rented properties and vehicles.

The group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

	£m
Operating lease commitments disclosed as at 31 December 2018	4.2
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(0.3)
Less short-term and low value leases recognised on a straight-line basis as expense	(0.1)
Lease liability recognised as at 1 January 2019	3.8

Of which are:	
Current lease liabilities	0.7
Non-current lease liabilities	3.1

Lease liability recognised as at 1 January 2019	3.8
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At the date of acquisition Lambert held £1.9m of right of use assets, consisting of £1.8m of land & buildings and £0.1m of vehicles.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The right of use assets relate to the following asset types:

	30 June 2019 £m	1 January 2019 £m
Properties	4.8	3.5
Plant & Machinery	0.1	-
Vehicles	0.2	0.3
Total right of use assets	5.1	3.8

The undiscounted payments under the leases fall due as follows:

	30 June 2019 £m
Up to one year	0.9
One to five years	3.0
Over five years	1.8
Total undiscounted payments due under leases	5.7

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	1 January 2019 £m
Right of use assets	5.5
Lease liabilities	(5.5)
Net impact upon retained earnings	-

The introduction of IFRS16 did not have an impact upon the Group's recognised deferred tax balances.

Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The impact on the segments affected by the change in policy are:

	Adjusted EBITDA £m	Segment assets £m	Segment liabilities £m
Americas	0.2	1.9	(1.9)
EMEA	0.2	3.2	(3.2)
Asia Pacific	-	-	-
Total	0.4	5.1	(5.1)

Earnings per share was unchanged for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application: and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The Group's leasing activities and how these are accounted for.

The Group leases various factories, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 5 years for equipment and 10-20 years for properties. These may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (where they exist within a lease):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of workshop equipment, office furniture and machines.

4. Operating segments

It is the Group's strategic intention to develop "Make Service a Business", accordingly segmental reporting reflects the split of sales by both Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia. The Group's operating segments reflect the basis of the Group's management and internal reporting structure.

Unallocated costs include distribution and administrative expenditure. Further details in respect of the Group structure and performance of the segments are set out in the half-year management report.

	6 months to 30 Jun 2019			6 months to 30 Jun 2018			12 months to 31 Dec 2018		
	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m
Revenue									
Americas	27.2	3.9	31.1	9.1	2.4	11.5	20.5	6.4	26.9
EMEA	7.9	3.1	11.0	11.7	2.1	13.8	20.1	4.6	24.7
Asia Pacific	3.1	0.6	3.7	2.4	0.5	2.9	5.6	1.1	6.7
Total	38.2	7.6	45.8	23.2	5.0	28.2	46.2	12.1	58.3
Gross profit	10.4	2.7	13.1	4.2	1.7	5.9	9.3	4.7	14.0
Selling, distribution & administration			(8.5)			(5.9)			(12.6)
Underlying operating profit			4.6			0.0			1.4
Unallocated non-underlying items included in operating profit			(1.8)			(0.7)			(9.0)
Operating profit / (loss)			2.8			(0.7)			(7.6)
Net financing expense			0.1			0.1			0.2
Profit/(loss) before tax			2.9			(0.6)			(7.4)

	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
Disaggregation of revenue – Sales by Market sector			
Pharmaceutical	2.0	3.5	5.6
Healthcare	25.3	8.4	13.1
Food and Beverage	14.2	13.5	32.5
Other	4.3	2.8	7.1
Total	45.8	28.2	58.3
Timing of Revenue recognition			
Products and services transferred at a point in time	9.0	6.5	14.0
Products and services transferred over time	36.8	21.7	44.3
Total	45.8	28.2	58.3

Net financing expense includes dividends paid on preference shares and the net interest receivable in respect of the defined benefit pension scheme. The Company has in issue 900,000 6% fixed cumulative preference shares. The preference dividend is payable on 30 June and 31 December and amounted to £0.1m in the 12 months ended 31 December 2018.

	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
Segment assets			
Americas	26.2	13.9	19.7
EMEA	26.6	17.3	9.7
Asia Pacific	0.6	0.6	0.5
Total segment assets	53.4	31.8	29.9
Segment liabilities			
Americas	(19.3)	(7.5)	(18.0)
EMEA	(20.3)	(9.1)	(7.0)
Asia Pacific	(0.2)	(0.6)	(0.2)
Total segment liabilities	(39.8)	(17.2)	(25.2)
Segment net assets	13.6	14.6	4.7
Unallocated net assets	35.9	37.5	35.9
Total net assets	49.5	52.1	40.6

5. Non-underlying items and alternative performance measures

Non-underlying items merit separate presentation in the consolidated income statement to allow a better understanding of the Group's financial performance, by facilitating comparisons with prior periods and assessments of trends in financial performance. Pension administration costs, restructuring costs, acquisition costs, amortisation of intangibles arising on consolidation and profit on disposal of surplus property are considered non-underlying items as they are not representative of the core trading activities of the Group and are not included in the underlying profit before tax measure reviewed by key stakeholders.

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	12 months to 31 Dec 2018 £m
Defined benefit pension scheme administration costs (note 7)	(0.4)	(0.5)	(0.9)
Reorganisation costs	(0.1)	(0.1)	(0.7)
Amortisation of intangibles from business combinations	(0.2)	-	-
Acquisition costs	(0.8)	(0.1)	-
Provision in respect of discontinued operations	(0.3)	-	(0.1)
Net financing income on pension scheme balances	0.2	0.1	0.2
UK Pension scheme – GMP equalisation	-	-	(7.3)
Total non-underlying expenditure before tax	(1.6)	(0.6)	(8.8)

The Group holds a receivable in respect of an amount held in escrow in respect of the consideration for the sale in 2017 of the Instrumentation and Tobacco Machinery business. The Group has made a provision of £0.3m against the receivable in respect of a claim that has been received from the purchaser.

The acquisition of Lambert was completed on 1 May 2019 with transaction related costs totalling £0.8m. These costs are not related to the operation of the business. The amortisation of the acquired Lambert intangibles is also unrelated to the performance of the underlying business. Further detail of the intangible assets is set out in note 16.

The group uses alternative performance measures (APM's), in addition to those reported under IFRS, as management believe these measures enable the users of financial statements to assess the underlying trading performance of the business. The APM's used include underlying operating profit, underlying profit before tax and underlying earnings per share. These measures are calculated using the relevant IFRS measure as adjusted for non-underlying income/(expenditure) listed above.

6. Net financing expense

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	12 months to 31 Dec 2018 £m
Financial income			
Defined benefit pension scheme finance income	0.2	0.1	0.2
	<hr/> 0.2	<hr/> 0.1	<hr/> 0.2
Financial expenses			
Preference dividends and interest paid	(0.1)	-	(0.1)
	<hr/> (0.1)	<hr/> -	<hr/> (0.1)
Net financing income	<hr/> 0.1	<hr/> 0.1	<hr/> 0.1

7. Employee benefits

The Group accounts for pensions under IAS 19 *Employee benefits*. A formal valuation of the UK defined benefit pension scheme (Fund) was carried out as at 30 June 2018. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 July 2024 but subject to reassessment every 3 years, are as follows:

- the Company will continue to pay a sum of £1.9m per annum to the Fund (increasing at 2.1% per annum) in deficit recovery payments;
- if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is below certain levels; and
- payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Fund in any one year.

Formal valuations of the USA defined benefit schemes were carried out as at 1 January 2017, and their assumptions, updated to reflect actual experience and conditions at 31 December 2018 and modified as appropriate for the purposes of IAS 19, have been applied in the condensed set of financial statements.

Profit before tax includes charges in respect of the defined benefit pension schemes' administration costs of £0.4m (2018: £0.5m) and a net financing income on pension scheme balances of £0.2m (2018: £0.1m). Payments to the Group's UK defined benefit pension scheme in the period included £0.9m (2018: £0.9m) in respect of the agreed deficit recovery plan. Payments to the US defined benefit pension plan were £0.1m (2018: £0.1m).

Employee benefits include the net pension asset of the UK defined benefit pension scheme of £29.3m (2018: £35.1m) and the net pension liability of the USA defined benefit pension schemes of £6.2m (2018: £5.8m), all figures before tax.

Employee benefits as shown in the condensed consolidated statement of financial position were:

	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
UK scheme			
Fair value of assets	427.4	410.4	398.2
Present value of defined benefit obligations	(398.1)	(375.3)	(377.7)
Defined benefit asset	29.3	35.1	20.5
USA schemes			
Fair value of assets	17.6	16.0	16.3
Present value of defined benefit obligations	(23.8)	(21.8)	(22.5)
Defined benefit liability	(6.2)	(5.8)	(6.2)
Total net defined benefit asset	23.1	29.3	14.3

8. Taxation

The tax charge for the 6 months to 30 June 2019 amounted to £0.3m (6 months to 30 June 2018: £0.3m; 12 months to 31 December 2018: £1.4m credit) and is calculated as follows:

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	12 months to 31 Dec 2018 £m
Tax charge on underlying profit	(0.3)	(0.3)	(0.5)
Tax credit on non-underlying items	-	-	1.9
Total tax (charge)/credit	(0.3)	(0.3)	1.4

The main rate of UK corporation tax is 19% and will be reduced to 17% from 1 April 2020, as enacted in the Finance Act 2015. The rate of deferred tax liability arising from the surplus in respect of the UK defined benefit pension scheme is 35%.

9. Earnings per share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period excluding shares held by the employee trust in respect of the Company's long-term incentive arrangements. For diluted earnings per ordinary share, the weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

	6 months to 30 June 2019	6 months to 30 June 2018 ¹	12 months to 31 Dec 2018 ¹
Basic – weighted average number of ordinary shares	19,963,922	19,918,951	19,932,786
Diluting effect of shares held by the employee trust	92,857	-	-
Diluted – weighted average number of ordinary shares	20,056,779	19,918,951	19,932,786

¹ The effect of dilution on these periods would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation.

Underlying earnings per share, which is calculated on the earnings before non-underlying items, for the 6 months to 30 June 2019 amounted to 21.3p (6 months to 30 June 2018: loss per share 1.6p; 12 months to 31 December 2018: earnings per share 4.5p).

In the 6 months to 30 June 2019 the effect of dilution was 0.1p per share.

10. Dividends

Having considered the trading results to 30 June 2019, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay an interim dividend. No dividends were paid in 2018. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2019 trading performance and when the Board believes it is prudent to do so.

11. Reconciliation of net cash flow to movement in net funds

	6 months to 30 June 2019 £m	6 months to 30 June 2018 £m	12 months to 31 Dec 2018 £m
Net decrease in cash and cash equivalents	(17.6)	(4.2)	(2.2)
Cash inflow from movement in borrowings	-	-	-
Change in net funds resulting from cash flows	(17.6)	(4.2)	(2.2)
Translation movements	0.2	(0.3)	(0.2)
Movement in net funds in the period	(17.4)	(4.5)	(2.4)
Opening net funds	27.0	29.4	29.4
Closing net funds	9.6	24.9	27.0
Analysis of net funds			
Cash and cash equivalents – current assets	10.5	25.8	27.9
Interest-bearing loans and borrowings – non-current liabilities	(0.9)	(0.9)	(0.9)
Closing net funds	9.6	24.9	27.0

12. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2018.

At 1 January 2019 and 30 June 2019 the Group held all financial instruments at Level 2 (as defined in IFRS 7 *Financial instruments: disclosures*) and there have been no transfers of assets or liabilities between levels of the fair value hierarchy.

Categories of financial instruments	30 June 2019 £m	30 June 2018 £m	31 Dec 2018 £m
Financial assets			
Derivative instruments in designated hedge accounting relationship	-	-	-
Loans and receivables (including cash and cash equivalents)	34.0	33.3	40.9
	34.0	33.3	40.9
Financial liabilities			
Derivative instruments in designated hedge accounting relationship	0.1	0.3	-
Amortised cost	27.0	15.0	15.5
Fair value through profit & loss	2.6	-	-
	29.7	15.3	15.5

Amortised cost comprises interest-bearing loans and borrowings and trade and other payables, excluding foreign currency derivatives.

The Group enters into forward foreign exchange contracts solely for the purpose of minimising currency exposures on sale and purchase transactions. The Group classified its forward foreign exchange contracts used for hedging as cash flow hedges and states them at fair value.

The fair value is the gain/loss on all open forward foreign exchange contracts at the period end. These amounts are based on the market values of equivalent instruments at the period end date and all relate to those forward foreign exchange contracts that have been designated as effective cash flow hedges under IAS 39 *Financial instruments – recognition and measurement*.

13. Related parties

The Group has related party relationships with its directors and with the UK and USA defined benefit pension schemes. There has been no material change in the nature of the related party transactions described in note 31 of the 2018 Annual Report and Accounts, other than in relation to the acquisition of Lambert. No transactions between Lambert and the remainder of the Group took place from 1 January 2018 to the date of acquisition.

14. Half-year report

A copy of this announcement will be made available to shareholders from 5 September 2019 on the Group's website at www.mpac-group.com. This announcement will not be available in printed form.

15. Future accounting policies

There are no changes anticipated to the Group's accounting policies in the foreseeable future.

16. Business combination

On 1 May 2019 Mpac acquired the entire issued share capital of Lambert Automation Limited ("Lambert"), a provider of technology leading automation solutions to the medical and consumer healthcare markets, for an initial consideration of £15m (subject to adjustment for working capital movements) with a further £3.0m subject to Lambert achieving certain earn-out criteria and tax recoveries, which the Group anticipates will be met in full. It is expected that the acquisition will be materially earnings enhancing.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£m
Purchase consideration	
Cash paid	16.8
Contingent consideration (see below)	<u>2.6</u>
Total purchase consideration	<u>19.4</u>

The assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional Fair value £m
Cash and cash equivalents	6.2
Property, plant and equipment	1.1
Trade name	1.4
Customer relationships	4.2
Know-how	4.9
Inventories	0.8
Receivables	4.9
Contract assets	1.0
Payables	(3.8)
Contract liabilities	(5.4)
Deferred tax on intangible assets	(1.8)
Net identifiable assets acquired	<u>13.5</u>
Add: goodwill	5.9
	<u><u>19.4</u></u>

The fair values of all of the acquired assets, including the values of the acquired trade name, customer relationships and know-how of £10.5m, are provisional pending receipt of the final valuations for those assets.

The goodwill is attributable to Lambert's strong position and profitability for the pharmaceutical, healthcare and food and beverage sectors expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

Acquisition-related costs

Acquisition-related costs of £0.8m are included in administrative expenses in profit or loss.

Contingent consideration

The contingent consideration arrangement requires the group to pay the former owners of Lambert five times the average EBITDA of Lambert in excess of £2.5m for three years ending 31 December 2021, up to a maximum payment of £2.5m. There is no minimum amount payable.

A further £0.5m of consideration is contingent upon certain tax receipts from HMRC. This balance, along with the associated receivable, are expected to be settled over the next two years.

The fair value of the contingent consideration arrangement of £2.6m was estimated by calculating the present value of the future expected cash flows. The Group's forecasts identify that the maximum deferred consideration will be payable. Under IFRS3, the company is required to discount the contingent consideration at a rate reflective of the risk of the amounts not falling due. This results in a discount to the total amount of £0.4m, which is expected to be amortised over the period to which the amounts fall due through the interest charge.

Acquired receivables

The fair value of trade and other receivables is £4.9m and includes trade receivables with a fair value of £4.3m. The gross contractual amount for trade receivables due is £4.4m of which £0.1m is expected to be uncollectible.

Revenue and profit contribution

The acquired business contributed revenues of £5.5m and net profit of £1.3m to the group for the period from 1 May 2019 to 30 June 2019. If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax for the half-year ended 30 June 2019 would have been £53.9m and £3.5m respectively.

INDEPENDENT REVIEW REPORT TO Mpac Group plc

Introduction

We have reviewed the condensed set of financial statements in the half-yearly financial report of Mpac Group plc (the 'company') for the six months ended 30 June 2019 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of financial position, condensed consolidated statement of cash flows 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.

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 the AIM rules.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards 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 a conclusion to the company 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'. 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 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 six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Use of our report

This report is made solely to the company, as a body, 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'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company as a body, for our review work, for this report, or for the conclusion we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham, UK
4 September 2019