Driving transformational business outcomes with ingenious automation and packaging machinery

Annual Report and Accounts 2019

impactful innovation

Mpac Group plc is an international company, listed on the London Stock Exchange (symbol: MPAC), with a long and proud history of delivering innovation and excellence on a global basis. The business is focused on creating high speed production lines that package the products that millions of people worldwide depend on. **Making an iMpacT.**

Find out more online
mpac-group.com

Full line solutions
p10

Strategy
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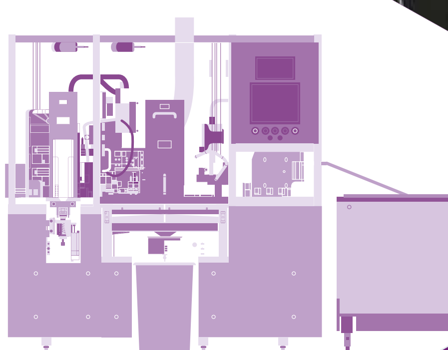

Key Opportunities
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HIGHLIGHTS

Order intake

£87.6m

(2018: £63.8m)

Revenue

£88.8m

(2018: £58.3m)

Underlying earnings per share[1]

39.5p

(2018: 4.5p per share)

Cash

£18.9m

(2018: £27.9m)

- Continued progress on the Group's strategic initiatives
- Increase in order intake of 37% to £87.6m (2018: £63.8m)
- Revenue growth of 52% to £88.8m (2018: £58.3m)
- Underlying profit before tax of £7.5m (2018: £1.4m)
- Statutory profit before tax of £5.4m (2018: loss £7.4m)
- Underlying earnings per share of 39.5p (2018: 4.5p)
- Basic earnings per share of 29.7p (2018: loss of 30.1p)
- Cash of £18.9m (2018: £27.9m)
- The Board has decided to recommend a final dividend payment of 1.5p per share (2018: nil)

CONTENTS

Notes

[1] Adjusted to exclude non-underlying items as disclosed in note 5 to the financial statements.

OUR BUSINESS AT A GLANCE

ONE MPAC

Mpac Group plc is focused on providing full line packaging and automation solutions in the growth sectors of Healthcare, Pharmaceutical and Food & Beverage.

The Group leverages its engineering expertise with cutting-edge manufacturing technologies and proven machinery designs, and supports its customers with world class services, delivered locally.

AUTOMATION AND PACKAGING MACHINERY

Mpac serves customer needs for Ingenious, Innovative Automation and Packaging Machinery encompassing: Make, Pack, Monitor and Service. We design, precision engineer and manufacture high speed packaging solutions, first-of-a-kind machinery and high specification automation, secondary packaging equipment and end-of-line robotics with integrated testing solutions. In addition, we provide complete turnkey solutions including the design and integration of packaging systems.

Our sectors

HEALTHCARE

Supporting healthcare industries as diverse as contact lenses, facial tissues and personal care. Mpac supplies innovative first-of-a-kind machinery as well as standard packing and testing equipment.

Read more P13

PHARMACEUTICAL

To meet our customers' diverse and specialised demands, Mpac offers a first-of-a-kind service for novel dosing and packaging. Process assurance via standard and custom test equipment is available.

Read more P13

FOOD AND BEVERAGE

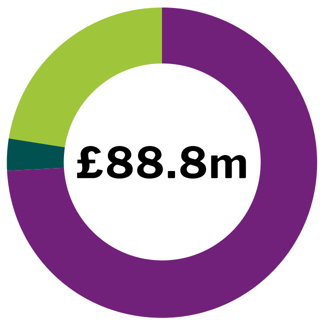
Providing innovative solutions for secondary and end-of-line packaging. Cartoning and case packing of bags, stick packs, pouches, flow wrapped products, bottles and more to our customers' requirements.

Read more P13

Where we operate

Revenue by sector (£m)

Healthcare	£66.1m
Pharmaceutical	£2.9m
Food and Beverage	£19.8m



Revenue by region (£m)

Americas	£56.8m
Europe, Middle East & Africa	£24.8m
Asia Pacific	£7.2m

The Group serves its customers through its wide geographic spread of sales, service and manufacturing locations.

We support our international customer base through shared resources and infrastructure.

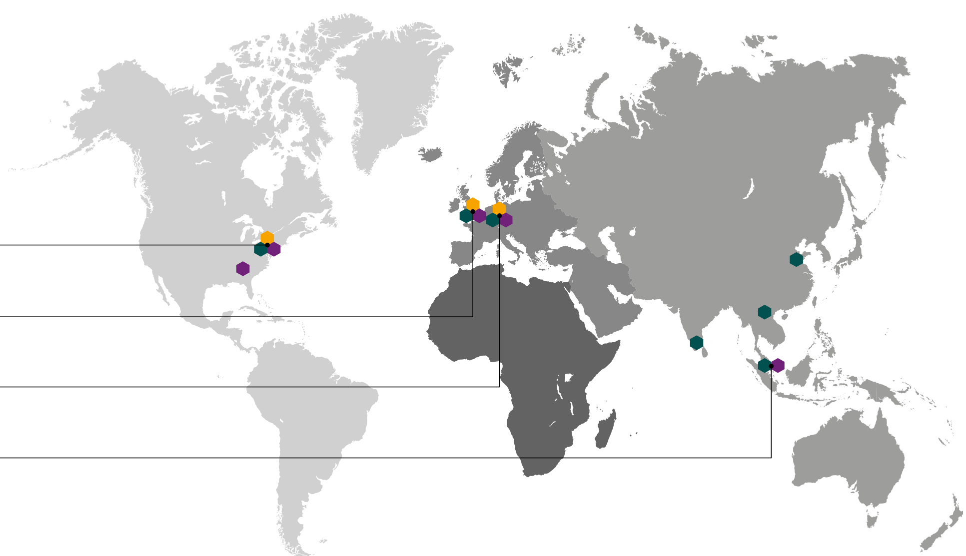
Americas
Established for more than 50 years in the region, the Group operates from its facilities in Ontario, Canada.

Europe, Middle East & Africa
The Group supports both its multinational and regional customers from its sites in the UK and the Netherlands; together with extensive sales, engineering and field support services deployed across the region.

Asia Pacific
The Group supports the region from its principal base in Singapore as well as through its field service engineers and agents across Asia Pacific.

Global reach

- Manufacturing
- Sales
- Customer support



Mississauga (CA),
89 staff

Coventry &Tadcaster (UK),
205 staff

Wijchen (NL),
165 staff

Singapore,
12 staff

CHAIRMAN'S INTRODUCTION

ANDREW KITCHINGMAN
CHAIRMAN

2019 has been a year of realisation of our long-term strategy into the financial performance of the Group. In 2016 the Board appointed Tony Steels as Chief Executive Officer, who initiated an ambitious new strategic direction for the Group based around leveraging the latent potential from the growth sectors in which we operate. The output of this review was a clearly defined set of strategic objectives aimed at transforming the performance of the Group over a five-year period.

The result of this strategy is apparent with a step change in financial performance of existing businesses, the acquisition of Lambert Automation (Lambert) completed in 2019 and fully integrated by the end of the year and further significant progress made in the Group operating as a single entity business across a global platform.

Our strategy to focus on high growth pharmaceutical, healthcare and food and beverage sectors is underpinned by the deployment of a comprehensive product development roadmap and a focus on software and platform developments.

On pages 21 to 22 I discuss corporate governance and the Board's activities during the year.

SUMMARY OF RESULTS

The strong performance in the year is reflected in the order intake for the Group of £87.6m (2018: £63.8m) being 37% above prior year and Group revenues of £88.8m (2018: £58.3m) being 52% above the prior year. Underlying operating profit was in line with revised market expectations at £7.7m (2018: £1.4m). Group cash ended the year at £18.9m (2018: £27.9m).

ACQUISITIONS

In May 2019 the Group acquired Lambert for initial consideration of £15.0m. Lambert was founded in 1973 and is a provider of technology leading automation solutions to the medical and consumer healthcare sectors. Lambert is based in Tadcaster, UK and employs approximately 160 staff.

The acquisition represents a compelling fit with Mpac's strategic intent of being a market leader in the provision of full-line packaging solutions for the pharmaceutical, healthcare and food and beverage sectors.

DIVIDEND

Having considered the trading results for 2019, together with the opportunities for investment in the growth of the Group, the Board is recommending a final dividend of 1.5p per share. No interim dividend was paid in 2019. The Board is delighted to be returning to the dividend list now that the Group is generating positive net cashflows. Subject to approval at the Annual General Meeting on 6 May 2020 the final dividend will be paid on 15 May 2020 to ordinary shareholders registered at the close of business on 17 April 2020, at a cost of £0.3m.

OUTLOOK

The Group now operates in a range of attractive global sectors which are expected to grow in real terms for the foreseeable future. We are still a small player in that large, growing global marketplace and there is much still to go for.

I consider that the prospects for the Group over the short and medium term are very positive, as the revenue and profit growth initiatives put in place by the leadership team continue to develop, and I look forward to reporting on the progress that will be made during 2020.

ANDREW KITCHINGMAN
Chairman
3 March 2020

OPERATING REVIEW

TONY STEELS
CHIEF EXECUTIVE

I am pleased to present my report as Chief Executive of Mpac Group plc. Reflecting on the progress that was made in 2019, it can only be described as a transformational year for Mpac. We have made significant progress in our key strategic initiatives and have delivered order intake and revenue growth, the successful acquisition and integration of Lambert Automation Limited ('Lambert') alongside a significantly improved financial performance, underpinned by a high quality order book.

The Group entered 2019 with an excellent orderbook which needed a combined One Mpac approach in order to convert these orders into delivered solutions on time and to the projected margins. The global team delivered on this challenge, utilising the global supply chain and multi-site capability to ensure the customers' needs were met in full and the financial results were delivered for Mpac.

The acquisition of Lambert in May 2019 was a strategic milestone for the Group. Lambert is a compelling fit with Mpac's strategic intent of being a market leader in the provision of full-line packaging solutions for the pharmaceutical, healthcare and food and beverage sectors. Lambert typically works upstream in its customers' product and production lifecycle, its integration into the Group enables Mpac to offer a more comprehensive and broader range of automation and packaging solutions to its customers. Mpac now has a presence in the medical and healthcare product assembly and packaging market, fulfilling the expected increase in demand for wellness products. The integration of Lambert into the Group is complete, with the initial synergies realised and has started to deliver commercial synergies through cross-selling of projects and in providing access to a wider global sales and service infrastructure. During the year the business was rebranded as Mpac Lambert.

The Board initiated an external mid-term review of the strategic plan, which confirmed the fundamentals are on track and guided to an increased focus on the healthcare sector with the ability to provide a full solution to our customers with the capabilities of Mpac Lambert added to the Group, together with further development of the service proposition embracing the Industry 4.0 potential.

Whilst we continue the search for further complementary acquisition targets, management focus remains on delivering organic growth by extending our commercial reach to new customers and with new products and services, supported by a comprehensive development roadmap. The focus of our innovation initiatives in 2019 was directed towards enhancing our range of end-of-line packaging solutions and in developing a unique human machine interface ('HMI') to enhance customers operational efficiency.

Industry 4.0 is the term coined for the fourth industrial revolution and marks the change of industry towards a more flexible approach to the supply of goods and automatic control of the production process. To meet our customers' demands and expectations, Mpac, as a leader in innovation is developing and delivering features such as 'overall equipment effectiveness' monitoring, predictive maintenance, video instructions and facilitating connectivity via multiple devices through an enhanced HMI. We expect to further showcase these developments at trade shows throughout 2020 and initial customer reaction has been extremely positive.

The nature of the business is project based and, by definition, variable month on month in terms of order intake. A strong focus on our prospects pipeline together with strategic initiatives of operating as a single entity business, One Mpac and driving growth in recurring Service revenue is being implemented to mitigate against variable project demand and deliver consistent financial performance.

I am excited about the next phase for the Group and am extremely pleased about what has been accomplished so far. I believe that we are firmly on track to deliver our long-term strategic plans and to take advantage of our enhanced position in growth sectors.

TRADING

The trading performance in 2019 was very strong. Overall order intake for the Group grew by 37% to £87.6m (18% growth excluding the effect of the Lambert acquisition ('like-for-like'), with a significant increase in order intake from our Service business.

The Group entered 2020 with an order book of £52.2m, broadly similar to the opening order book, but with a significantly diversified customer base, reducing our reliance on any individual customer. We remain vigilant to project execution risk and are confident that the 2019 closing order book can be delivered at sold margins. The timing of conversion of prospects to orders continues to vary based on our customers' investment plans. Conversion rates were strong in the second half of 2019, giving confidence in the future prospects of the Group.

Group revenues of £88.8m represented an increase of 52% compared to the previous year (24% like-for-like). Original Equipment revenue grew by 50% to £69.4m, supported by strong growth in the healthcare sector. Service revenue grew by 60% to £19.4m, with significant growth being generated in the Americas.

During 2019 market expectations were upgraded a number of times and, assisted by the earnings enhancing Lambert acquisition, I am delighted to report that underlying profit before tax for the year was £7.5m compared to £1.4m in 2018.

Following the acquisition of Lambert and investment in working capital to support the Group's continued growth the Group cash ended the year at £18.9m (2018: £27.9m) providing the Group with the financial resources required to invest in the strategic initiatives which will deliver profitable growth in future years.

STRATEGIC DEVELOPMENTS

Further significant progress has been made during 2019 to deliver our five-year strategic plan, originally launched in 2017. As 2019 represented the mid-point in execution of the strategic plan, we commissioned a third-party review of the commercial strategy to assess progress to date and validate the longer term goals. The results confirmed that Mpac remains on track to meet its broader objectives and that the growth opportunity from the sectors in which we operate is aligned to its long-term goals.

I believe that it is due to the implementation of the strategic plans and our continued focus on increasing the scale and diversity of the Group that the business was able to deliver order intake, revenue and underlying profitability growth above previous years and that the recent trajectory is expected to continue into 2020.

RESTRUCTURING

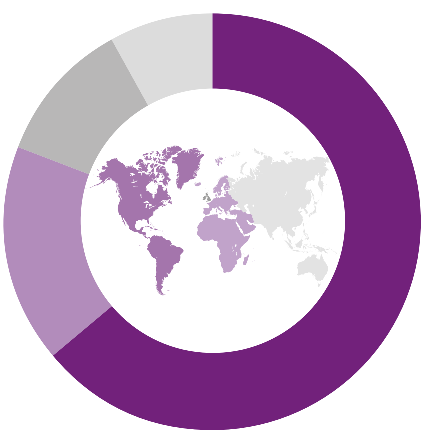
During the year the Group took the necessary restructuring actions associated with the integration of Lambert to deliver profitable growth whilst ensuring financial performance across the Group met or exceeded expectations. The Group is committed to ensuring that all aspects of the organisation support the future growth of the business and the targets continue to be met.

ACQUISITION STRATEGY

The Board continues to evaluate potential acquisition opportunities, the focus of which is to find businesses that will enhance our customer proposition in packaging solutions by extending our product range and our access to broader sectors and add value to the Group.

MOVING FORWARD

We continue to pursue our strategic goals, which were recalibrated during the year, and build on the strong foundations made towards achieving the three strategic priorities: Going for Growth, Make Service a Business and Operational Efficiency. Further information on these strategic priorities is provided in the Strategic Update.



Revenue by geography

North America	64%
Europe	17%
UK	11%
Asia Pacific	8%

Revenue

£88.8m

(2018: £58.3m)

Order intake

£87.6m

(2018: £63.8m)

Healthcare sector revenue

£66.1m

(2018: £20.2m)

SUSTAINABILITY

At Mpac our sustainability vision is broadening and growing with us. We promise to do our part in protecting the planet's future; partnering with our customers to support their reduction in packaging materials usage and the effective adoption of biodegradable and recyclable materials. Mpac's evolving flexibility and innovative solution designs offer our customers opportunities to achieve their sustainability goals. Mpac encourages internal activities which support the culture and adoption of continuous improvement in sustainability.

BUSINESS REVIEW

The Group aims to achieve double digit percentage revenue growth over the medium-term, culminating in delivering an improved return on sales, targeted at 10%. To support this intent, we manage the business in two parts, Original Equipment ('OE') and Service and across three regions, Americas, EMEA and Asia.

Individual contracts received by the OE business, and to a lesser extent the Service business, can be large. Accordingly, a few significant orders can have a disproportionate impact on the growth rates seen in individual sectors from year to year.

Revenue by region was split as follows; Americas £56.8m (2018: £26.9m), EMEA £24.8m (2018: £24.7m) and Asia £7.2m (2018: £6.7m).

Revenue by sector was split as follows; food & beverage £19.8m (2018: £32.5m), healthcare £66.1m (2018: £20.2m) and pharmaceuticals £2.9m (2018: £5.6m).

Original Equipment

OE revenues of £69.4m were 50% and £23.2m ahead of prior year (20% on a like for like basis). OE order intake of £65.0m was 25% and £13.0m ahead of prior year (£4.2m and 8% higher on a like for like basis).

Our focus on our three key sectors continued to drive our success, with an outstanding performance in the healthcare sector as well as revenue in the region from Mpac Lambert contributing to Americas OE revenue in the period increasing to £45.8m from £20.5m in 2018.

EMEA revenue in the period was £17.6m compared to £20.1m in 2018. Revenue from first of a kind equipment showed a reduction in the year, reflecting a lower proportion of revenue from projects to the mainly UK customer base.

Asia revenue, predominantly driven by the food and beverage sector, increased 7% to £6.0m, compared to £5.6m in 2018.

Overall order prospects remain strong, especially in the healthcare sector and activity levels across the OE business remain high, such that the business is well positioned moving into 2020.

Service

Order intake for the Service division grew significantly in 2019 to £22.6m from £11.9m in the prior year. The growth in order intake predominantly originated from the Americas and healthcare sector where we extended our Service offering to include production support agreements.

Revenue in 2019 of £19.4m was £7.3m or 60% above the prior year, again driven by the Americas and healthcare sector. As revenue from OE continues to grow, further commercial opportunities arise to offer customers revenue generating support for our equipment.

Americas revenue in the year was £11.0m compared to £6.4m in 2018. EMEA revenue in the year was £7.2m compared to £4.6m in 2018. Asia revenue of £1.2m was unchanged compared to 2018.

CORONAVIRUS

We remain in close contact with our supply chain in China and, whilst there was a delayed return to work after the national holidays, production has restarted and we do not currently expect a delay to the supply of parts. Our supply chain from China currently represents a small element of our global supply chain. Travel restrictions to Asia have been put in place for our own employees.

We continue to monitor the situation carefully across our customer, supplier and employee base to understand the risk, especially with our key OEM suppliers and the impact of delays in their supply chain, particularly relating to electronic and other specialist components originating from China or other affected areas.

Certain customers with sites in Asia are implementing travel restrictions for their staff which has the potential to impact on the timing of order placement or project acceptance for a small number of projects.

OUTLOOK

Significant progress has been made in the execution of our long-term strategy and we continue to focus on the growth sectors in which the Group currently operates: the pharmaceutical, healthcare and food and beverage sectors. The Group has both the financial and managerial resource available to develop the business, with the prime focus being on organic growth. This will be delivered through the leveraging of its global position, development of its products and an improved and expanded service offering to its customers. We continue to evaluate potential complementary acquisition opportunities.

The global marketplace is beginning to be influenced by the requirements associated with Industry 4.0 and customer demands associated with these developments fit well with the value that Mpac has to offer and the technology Mpac has in development.

Through the One Mpac business model and a rich history of innovative packaging machinery and automation solutions, we are in an enviable position to serve our customers with efficient, connected and reliable solutions.

The Group entered 2020 with a similar scale of order book to the previous year but with a broader portfolio of customers, alongside an updated technology and product portfolio delivered by our innovation roadmap. 2020 has started well with this foundation and a strong operational and management team and after taking into consideration our view of the impact of the spread of the coronavirus, the Group's future prospects remain positive.

STRATEGY UPDATE

Our strategic review identified three key initiatives to drive growth:

Going for Growth – Offering customers comprehensive “Make, Pack, Monitor, Service” solutions in our target sectors.

Make Service a Business – Providing customers with a comprehensive portfolio of service products to ensure they maximise their return on investment.

Operational Efficiency – Operational excellence and flexibility of supply chain to increase responsiveness to investment cycles.

Going for Growth

Our five-year strategic plan is to develop the business through organic growth in our target growth sectors of pharmaceutical, healthcare and food and beverage. To enable this, we created a global sales approach under our single entity model, One Mpac, offering innovative packaging machinery solutions from our extensive portfolio of engineered modules. The strategy and objectives were validated during 2019 with the support of a third-party assessment of our approach. We remain confident that the overall growth targets remain accessible, underpinned by the execution of our technology and innovation roadmap which will accelerate progress in achieving our strategic aims in the growth sectors of pharmaceutical, healthcare and food and beverage.

Order intake and revenues increased in 2019, providing the necessary scale for the Group. We have continued to deploy our commercial excellence programme to new members of our sales team and further development of strategic selling to key accounts. The Group made a major investment in the USA sales team during the year which has already positively impacted growth and improved prospects. The acquisition of Mpac Lambert provides a step change opportunity to cross sell automation and packaging solutions to common customers and our commercial teams from across the Group are generating qualified opportunities to leverage the Group’s extended product, solutions and technology offering. Cross selling of the existing product and service offering to new and existing customers is a clear target, ensuring we better understand their evolving needs and extend our customer proposition with a broader solution approach.

The Group has undertaken a review of our market approach and digital platform customer proposition and as a result, Mpac Lambert has launched an Mpac branded website (www.mpac-lambert.com) and aligned its commercial approach to the wider Mpac Group which has been positively received. Further investment in our online presence will continue in 2020.

We will continue our commercial excellence programme with further training modules aimed at increasing our win ratio and expanding our customer base through our geographic reach.

Innovation remains the key to long term sustainable growth and during the year we developed equipment to expand our end of line packaging offering alongside innovations focussed on improved machine performance together with the Industry 4.0 enabled technology.

Make Service a Business
Our customers have an extensive globally installed base which they expect to run continuously at high levels of overall equipment efficiency. The trends towards Industry 4.0 and its enabling technological platforms support our strategy to work with our customers to ensure they maximise their return on investment throughout the life-cycle of the equipment. We offer comprehensive service, monitoring and maintenance programmes to maximise uptime and minimise cost of production through our global service business.

The focus remains to ensure that the Service business teams work closely with every customer to understand their current and future needs and to tailor contracted service programme agreements aimed at customer productivity improvements. Working across our strategic lines, our Excellence in Service programme is an initiative focused on quick response and high spare part availability for our global customers, which has already begun to increase service revenue.

Service business growth will be supported by new OE product launches during the year, the technology within which will enable customers to optimise their production processes and improve product quality through greater equipment connectivity, data extraction and interpretation as well as enable Mpac to deliver a wider range of more planned service.

Operational Efficiency
Our consistent aim is to be a customer focused, responsive and flexible Group achieved through organisational excellence, underpinned by a global supply chain and supported by a single business model, 'One Mpac'. The cross utilisation of resources is now the norm as opposed to an exception.

During 2019 we commenced a project to harmonise our global ERP landscape and to leverage the work previously completed in deploying common engineering design platforms to our manufacturing sites. Additionally, operational integration of Lambert's project management and engineering systems and processes has started, for completion in 2020.

The acquisition of Lambert presented an opportunity to access an established low-cost supply chain in our existing businesses, the benefits of which started to be realised in 2019.

MPAC BUSINESS MODEL 'ONE MPAC'

We have operations around the world and industry-leading technologies. None of that is possible, of course, without the intelligence and commitment of our people. Having a highly skilled, technical workforce in place and ensuring everyone can contribute at their highest level and grow in their position over the long term enables us to win as a team. Through 'One Mpac', we are developing leaders, whilst engaging and empowering our global workforce. With strong leaders, engaged people and common processes we strengthen the organisation and create value for our customers and shareholders.

TONY STEELS
Chief Executive
3 March 2020

Full line solutions

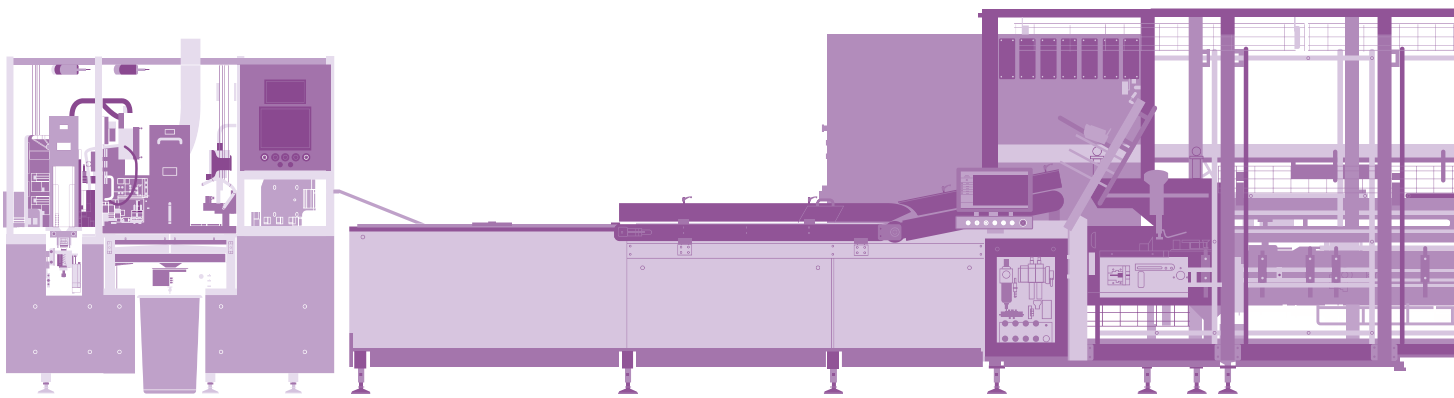
INGENIOUS AUTOMATION PROVIDING FULL LINE SOLUTIONS FOR THE HEALTHCARE SECTOR

The acquisition of Lambert in 2019 provides Mpac with additional capacity and technology to accelerate the development of an integrated full automation and packaging platform solution focussed upon customers in the Healthcare sector. Our full line solutions incorporate both Lambert and Langen equipment and technology, presenting Mpac to the sector as a full production line solutions provider.

Growth in number of engineers within product development 2019 v 2018

62%

Common and integrated control systems are deployed throughout the production line, seamlessly and efficiently handling the customer's product with maximum overall equipment efficiency, supported by a single point of contact for aftersales support.



INVESTING IN THE FUTURE AND SUSTAINABILITY

Mpac fully supports the manufacturer's need to be able to react to predicted and unpredicted changes in both the packing processes and the wider markets. The machines used by our customers must be flexible and adaptable to react to these challenges. To future proof our customers' investment we design machinery and solutions with features which allow swift identification of efficiency and productivity improvements within their production environment. An application of this flexible approach is providing our customers with options to reduce dependency on single-use plastics and increasing the range of sustainable packaging machinery solutions.

Revenue from new product development

£5.9m

Environmental and sustainability concerns from our customers and end consumers necessitate flexible packaging processes. The focus on reducing packaging materials and removing packaging stages has led to a revolution within the industry which Mpac is well placed to meet the demands of with both existing and future solutions. Our strategy for innovation is designed to deliver flexible and rapid solutions to meet the fast pace of change in our customers' markets.

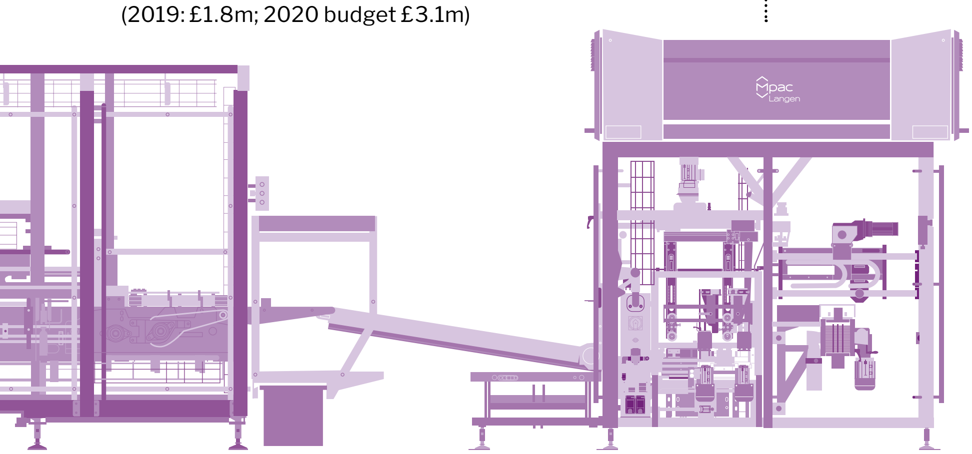
AN INNOVATION AND TECHNOLOGY ROADMAP TO SUPPORT OUR STRATEGY GOAL

Mpac has a proud history as a leader in packaging machinery technology and product development. Innovation is core to our growth strategy and is the lifeblood of the Group. Our innovation team is globally located and has a track record of delivering ambitious development programmes, ensuring Mpac continues to offer customers future proof technology. The innovation team is organised into two teams, one focussed on developing the next generation of cartoners and case packers for our Langen customers and the other developing full line primary and automation solutions for our Lambert customers.

Growth in total product development budgeted for in 2020

72%

(2019: £1.8m; 2020 budget £3.1m)



THE FUTURE OF INNOVATION AND AUTOMATION: INDUSTRY 4.0

Core to our innovation strategy is delivering an advanced HMI with all automation and packaging machines to ensure that our customers benefit from the shift in performance available to them from Industry 4.0. The next phase in our development roadmap of Industry 4.0 enhancements is focussed on providing platforms with the ability to unlock the potential from the vast amount of data generated during production. The potential benefits from accessing this data include increased machine uptime via preventative maintenance software and service, video instructions and enhanced operator usability.

KEY INNOVATION HIGHLIGHTS FROM 2019

» Development of flagship ALISIO top load casepacker

» Implementation of user friendly advanced HMI

» Launch of Industry 4.0 development features

» Extension of Maestro cartoner platform to incorporate tissue formats

» Further enhancements to SOLANO sideload casepacker

Our mission

To be a global leader of high speed packaging solutions focused on attractive growth sectors enhanced by a world class service offering to ensure maximum return on customer investments;

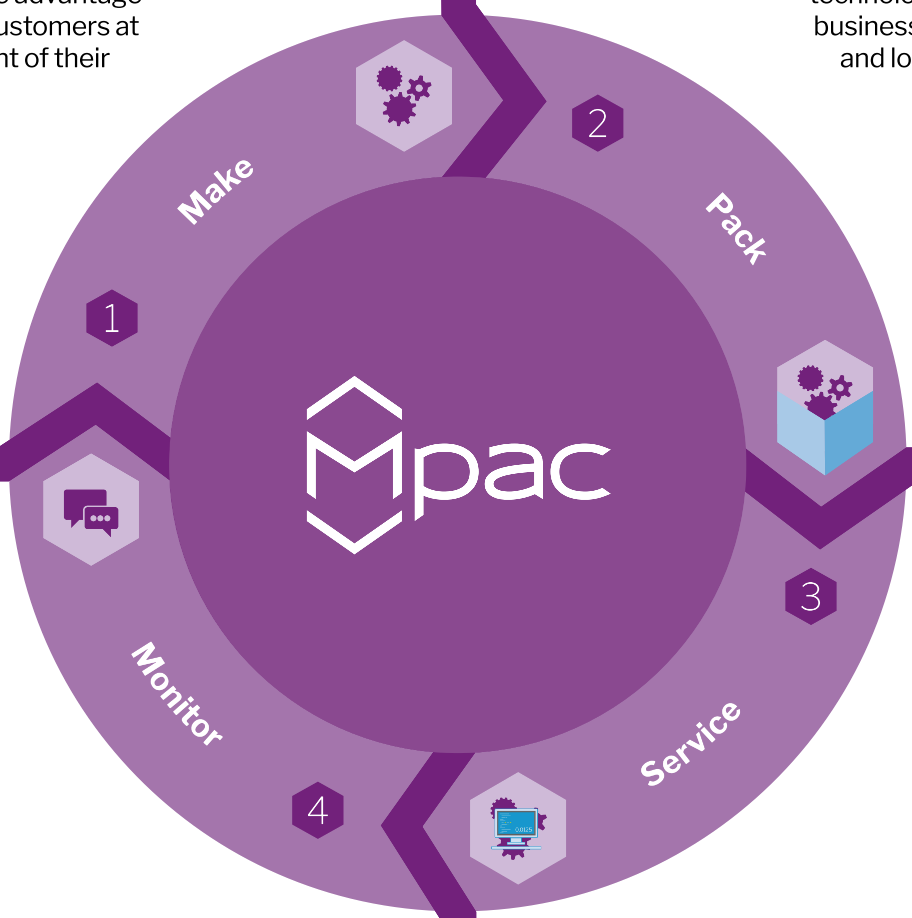
What we do

1

Creating and enabling new ideas that give a competitive advantage and keep customers at the forefront of their markets.

2

Provider of high speed processing and packing technologies that drive business performance and long-term value.



4

Condition monitoring technologies are incorporated into the solutions we provide to ensure product quality and compliance.

3

Providing lifetime service and sustaining excellence, globally, quickly and efficiently.

Customer focused, responsive and flexible through operational excellence underpinned by a global competitive supply chain and internal activities optimised to maximise efficiency;

Address our customers' unmet needs by leveraging market leading technology, innovation and application know-how.

The One Mpac business model was introduced in 2018 aimed at ensuring we deliver consistent high quality services to our customers globally and wherever they choose to locate a manufacturing site.

The Group offers its customers a packaging solution customised to their requirements using a portfolio of proven modules augmented with a customer specific product package handling solution.

The implementation of our One Mpac business model is well progressed covering contract engineering and project management. During 2020 we will continue to focus on procurement and manufacturing, through to assembly, test and then site delivery and customer acceptance. Common processes are all monitored and controlled by effective project management. Service support is then provided through the life of the product at the customers' sites.

The capital equipment market is cyclical by its nature with a high need for responsiveness and flexibility to adapt to customer demands and lead time needs, seizing the opportunities as they arise.

The group is now able to exploit synergies, utilising best practice across the sites and a shared services resource in order to improve the operational efficiencies.

This creates a model whereby we can increase utilisation with the ability to expand capacity with increased demand and reduce capacity in periods of lower demand.

Our sectors

HEALTHCARE

Supporting healthcare Industries as diverse as contact lenses, facial tissues and dentifrice. Mpac supplies innovative first-of-a-kind machinery as well as standard packing and testing equipment.

PHARMACEUTICAL

To meet our customers' diverse and specialised demands, Mpac offers a first-of-a-kind service for novel dosing and packaging. Process assurance via standard and custom test equipment is available.

FOOD AND BEVERAGE

Providing innovative solutions for secondary and end-of-line packaging. Cartoning and case packing of bags, stick packs, pouches, flow wrapped products, bottles and more to our customers' requirements.

Our values

INTEGRITY

Deliver on our promise, respect and value others

EXCELLENCE

Always striving to be better

PASSIONATE

Be energised to deliver

INNOVATION

Identify a need, think outside of the box and deliver solutions

COLLABORATION

Working together without boundaries for the collective goal

Strategic priorities

Going for Growth

2019 PROGRESS
- Lambert acquisition
- Innovation to expand the case packing range
- New customer acquisition
- Increased US sales presence

FUTURE PLANS
- Full solutions offering to healthcare customers
- Integrated packaging solutions
- Industry 4.0 commercialisation
- Global key account management

Make Service a Business

2019 PROGRESS
- Regional service management and footprint
- Traction with contractual agreements
- Focussed operational excellence
- Expanded resources fully deployed

FUTURE PLANS
- Upgrade programmes
- Life-cycle ROI proposition
- Service systems enhancements
- Product innovation - Industry 4.0

Operational Efficiency

2019 PROGRESS
- Global supply chain
- Engineering systems platform complete
- Global resource pooling
- Common project management processes
- Cross business resource utilisation

FUTURE PLANS
- Flexible resource model
- Phased ERP launch
- Supply chain efficiency
- Talent development and retention

Key opportunities

The sector and customer demands are continually evolving, with a clear need for full solutions to their automation and packaging requirements supported by a comprehensive service proposition to ensure maximised return on investments. Demand for data capture and traceability throughout the product life-cycle is also an increasing trend. By utilising the impressive array of innovative engineering solutions and technology throughout the Mpac sites, supported by a focused product development roadmap targeted on the attractive growth sectors, we are well positioned to deliver growth beyond industry forecasts.

The Group offers first-of-a-kind innovative solutions, working with the customers' product development engineers and marketing functions on the next generation of innovative products. By partnering with these key global customers, Mpac is well positioned to support the customer from prototype to series production. This capability will be leveraged across our global sales team and into our global key accounts and prospects. In particular, Service represents a key opportunity based on a substantial installed base and a growing demand for bespoke support from our customers.

A detailed review of our customers' support requirements has been undertaken to assess the potential additional revenue opportunities and a customer focused approach to transition to contractual agreements aimed at improved equipment utilisation and therefore customer return on investment.

Product innovation and development is key to sustained growth in the large and attractive sectors we operate in. Our current product development roadmap is under continued review to ensure it is realigned to effectively support customer trends in the identified growth sectors. The focus for innovation in the coming years will be on software enhancements to support our customers short term needs as well as regional nuances, alongside a longer term roadmap to ensure we supplement the full solution objective in our target sectors and address emerging customer demand for increased data capture to support maximised utilisation and product conformity.

The 'One Mpac' business model with a regionally focused, single business entity model has been implemented and continues to be enhanced. This is supported by a global service business, operations and shared services function. Customer responsiveness and reduced lead times are key competitive advantages and as such we need to continuously improve. By working on a global basis, operations and shared services will be better able to increase operational efficiencies, whilst simultaneously creating a flexible and responsive manufacturing base and supply chain to quickly adapt to changes in customer demand and investment cycles.

FINANCIAL REVIEW

WILLIAM WILKINS
GROUP FINANCE DIRECTOR

REVENUE AND OPERATING RESULTS

Group revenue in the year was £88.8m (2018: £58.3m). Revenue in the Original Equipment ('OE') division was £69.4m (2018: £46.2m) and revenue in the Service division was £19.4m (2018: £12.1m). Gross profit was £26.0m (2018: £14.0m) and underlying selling, distribution and administration costs were £18.3m (2018: £12.6m).

Underlying operating profit was £7.7m (2018: £1.4m). Underlying profit after tax was £7.8m (2018: £0.9m) and statutory profit for the period was £5.9m (2018: £6.0m loss).

NON-UNDERLYING ITEMS

The loss before tax for the year from non-underlying items was £2.1m (2018: £8.8m). This comprised £1.9m of costs, interest and amortisation relating to the acquisition of Lambert (2018: £nil), a credit of £1.1m (2018: £nil) relating to past service gains following an exercise to offer members of the US pension scheme alternative options, £0.8m (2018: £0.7m) of administration costs and interest relating to the Group's defined benefit pension schemes, a provision of £0.2m (2018: £nil) relating to the 2017 disposal of the tobacco business and restructuring costs of £0.3m (2018: £0.8m). In 2018 £7.3m of past service costs for GMP pension scheme equalisation were recognised.

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 costs, restructuring costs and acquisition-related charges 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.

RESTRUCTURING

The Group undertook a limited number of restructuring initiatives during the year to reshape the Group to achieve its strategic objectives and support its ongoing growth, with changes made within the UK Head Office and Coventry site.

INTEREST AND TAXATION

Net financing income was £0.1m (2018: £0.2m), which includes a net financing income of £0.4m (2018: £0.2m) on pension scheme balances. Underlying financing costs increased by £0.1m during the year as a result of the adoption of IFRS 16 Leases. The tax credit on underlying profit before tax was £0.3m (2018: tax charge £0.5m), mainly due to a number of one-off events and the relative changes in the global location of the Group revenue. The total tax credit on the Group's profit before tax was £0.5m (2018: £1.4m).

DIVIDENDS

Having considered the trading results for 2019, together with the opportunities for investment in the growth of the Group, the Board is recommending recommencement of divident payment with a final dividend of 1.5p per ordinary share. No interim dividend was paid in 2019. Subject to approval at the Annual General Meeting on 6 May 2020 the final dividend will be paid on 15 May 2020 to ordinary shareholders registered at the close of business on 17 April 2020, at a cost of £0.3m.

CASH, TREASURY AND FUNDING ACTIVITIES

Cash at the end of the year was £18.9m (2018: £27.9m). Net cash inflow before reorganisation was £5.1m (2018: £1.1m), after an increase in working capital of £2.1m (2018: £1.9m decrease) and defined benefit pension payments of £2.9m (2018: £3.0m). Reorganisation payments of £1.0m (2018: £1.0m) were made in the year. Net taxation receipts were £1.0m (2018: £1.0m paid). Capital expenditure on property, plant and equipment was £1.4m (2018: £1.1m), capital expenditure on assets under construction was £0.6m (2018: £nil) and capitalised product development expenditure was £0.3m (2018: £0.3m).

The acquisition of Lambert brought a step-change in the levels of working capital required in the Group. The business was acquired with an unusually high level of cash (£6.2m) due to the timing of customer orders. These orders have progressed during the year, increasing the working capital in use to close to the expected level for the enlarged Group.

The acquisition of Lambert resulted in an immediate net cash outflow of £10.6m. Deferred consideration of up to £3.0m is expected to fall due over the coming three years, predominantly in 2022. It is pleasing to report that the acquired business continues to perform ahead of the criteria required for full payment of the deferred consideration.

The Group entered into a five-year funding agreement with HSBC during the year, which provides the Group with a £10.0m revolving credit facility to support future growth. This facility also provides a number of other opportunities to more proactively manage the Group's cash and ensure that the Group is well placed to react to opportunities, both organic and acquisition related, as they arise.

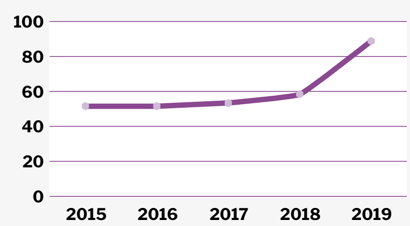
There were no significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed, and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (mainly forward foreign exchange

Reconciliation of underlying profit before tax to profit/(loss) before tax	**2019 £m**	2018 £m
Underlying profit before tax	**7.5**	1.4
Non-underlying items		
UK Defined benefit pension scheme – past service cost GMP equalisation	**–**	(7.3)
US Defined benefit pension scheme – past service gain from options exercise	**1.1**	–
Defined benefit pension schemes – other costs and interest	**(0.8)**	(0.7)
Reorganisation costs	**(0.3)**	(0.8)
Acquisition costs and acquired intangible asset amortisation	**(1.9)**	–
Provision in respect of discontinued operation	**(0.2)**	–
Profit/(loss) before tax	**5.4**	(7.4)

Key performance indicators

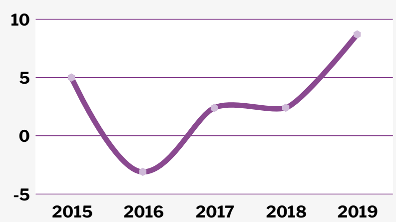
Revenue (£m)

£88.8m



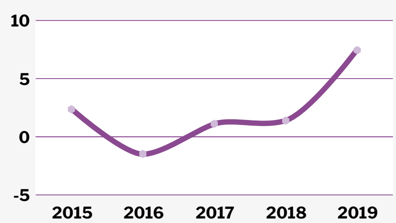
Underlying operating return on sales (%)

8.7%



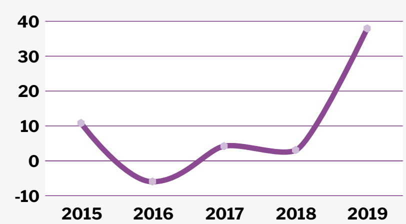
Underlying profit before tax (£m)

£7.5m



Underlying EPS (p)

39.5p



contracts) solely for the purpose of minimising currency exposures on sales or purchases in other than the functional currencies of its various operations.

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 IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2019 and was based on the information used for the funding valuation work as at 30 June 2018, updated to reflect both conditions at the 2019 year end and the specific requirements of IAS 19. The smaller US defined benefit schemes were valued as at 31 December 2019, using actuarial data as of 1 January 2017, updated for conditions existing at the year end. Under IAS 19 the Group has elected to recognise all actuarial gains and losses outside of the income statement.

The IAS 19 valuation of the UK scheme resulted in a net surplus at the end of the year of £20.4m (2018: £20.5m) which is included within the Group's and Company's assets. The value of the scheme's assets at 31 December 2019 was £423.6m (2018: £398.2m) and the value of the scheme's liabilities was £403.2m (2018: £377.7m). The scheme was largely protected from the sharp reduction in the main discount rate by the liability matching strategy agreed between the trustee and the Company, which was implemented early in 2019 and continues to evolve as the scheme matures.

The IAS 19 valuations of the US pension schemes showed an aggregated net deficit of £3.1m (2018: £6.2m) with total assets of £10.4m (2018: £16.3m). This halving of the deficit was achieved through a combination of a successful exercise undertaken to provide scheme members with alternative options for their scheme benefits and strong asset returns. The options exercise resulted in the scheme being halved in size, with the consequent reduction in both the liability of the Group and the risk to which the Group is exposed.

During the year the Company made payments to the UK defined benefit scheme of £1.9m (2018: £1.9m) in respect of the deficit recovery plan. The Company paid a one-off amount to the Fund of £0.1m (2018: £0.1m), representing 10% of the net proceeds in the year (after costs and taxation) from the sale of the Instrumentation & Tobacco Machinery division. Payments of £0.9m (2018: £1.0m) were made to the US schemes in the year.

In 2019 the UK scheme's triennial valuation as at 30 June 2018 was completed, with the reported deficit reducing to £35.2m (30 June 2015: £69.6m). The contributions remained at the same level, but the recovery period reduced to six years and one month (30 June 2015: 14 years 2 months). Further details are shown in note 24.

EQUITY

Group equity at 31 December 2019 was £47.5m (2018: £40.6m). The movement arises mainly from the profit for the period of £5.9m, a net actuarial loss in respect of the Group's defined benefit pension schemes of £0.2m and currency translation gains on foreign currency net investments of £1.0m; all figures are stated net of tax where applicable.

S172 OF THE COMPANIES ACT

Disclosures related to s172 of the Companies Act are contained within the Director's Report on page 41.

WILLIAM WILKINS
Group Finance Director
3 March 2020

PRINCIPAL RISKS AND UNCERTAINTIES

The Board regularly considers the main risks that the Group faces and how to mitigate those risks. The principal risks and uncertainties to which the business is exposed are summarised as follows.

Risk	Mitigation
ECONOMIC AND MARKET CYCLES	
The Group is potentially affected by global and local economic cycles and changes in a number of industrial sectors, including the Pharmaceutical, Healthcare and Food and Beverage industries. Such potential changes include those arising as a consequence of governmental activities, such as regulation and taxation.	Customers, suppliers and Group operations are geographically diverse and the Group sells a range of products and services to a number of industries in all parts of the world.
'BREXIT'	
The impact on the Group of the UK leaving the EU is uncertain.	'Brexit' risk is partially mitigated by matching the locations of customers and production within the Mpac Langen business, flexible production facilities across three continents along with limited reliance upon the UK market. The issue is being closely monitored by the leadership team, with contingency plans being continuously evolved to ensure our customers continue to enjoy seamless service.
REGULATORY CHANGE	
The Group may be affected by changes in global or national regulations across any of its key sectors, examples of which include changes in regulations which significantly change the demand for our customer's products or restrictions upon/changes to the methods of packaging and distribution.	The Group's products are used to produce and package a very wide range of products and restrictions or changes to any one product, especially within our key sectors where individuals are reliant upon the sector on a daily basis, provides some mitigation against sudden change. The Group has extensive knowledge and experience in designing machines to accept all kinds of products and packaging materials, including those with the lowest environmental impact and machines designed to minimize packaging material usage whilst maintaining the customer's product in perfect condition.
LOSS OF TRADING PARTNERS	
The Group faces the general risk of trading partners, including both customers and suppliers, ceasing to operate; the loss of any such partner could have an adverse effect on the Group's operating results and financial condition, including potentially affecting the viability of a subsidiary company. A number of customers operate in countries which may face a higher degree of political risk than others.	The Group has a diversified base of customers. In certain years sales to a customer may be more than 15% of Group revenue, although the sales would typically be both original equipment and service, and to a number of different geographic regions. The Group regularly reviews its trading relationships with suppliers with the aim of ensuring that alternative sources of supply are available.
LARGE ONE-OFF PROJECTS	
The Group undertakes large, one-off projects for its customers each year. Several risks follow from the nature of this type of business, including the potential for cost over-runs and delays in performing the contract, with a consequent impact on cash flows and profits. Also, the Group is prone to potentially large fluctuations in business levels, as demand can be volatile.	The Group utilises good project management practices, including regular technical and commercial reviews of its major projects. Resource capacity is regularly reviewed, alongside reviews of order prospects lists.

Risk	Mitigation
LOSS OF A KEY FACILITY The Group operates a number of sites around the world and the loss of any one of them would interrupt a revenue stream and could potentially have an adverse effect on the Group's operating results and financial condition. The Group, and the Group's customers and suppliers, may also be affected by sudden restrictions in global logistics.	Disaster recovery plans are in place for each site. IT infrastructures are designed to have minimal inter dependence across the Group, thereby not exposing a number of facilities to the failure of one central system. The diverse locations and common skill sets around the Group, along with the Group's investments in communication technology, means that production could be moved from one site to another at short notice in the event that a site or its region were unable to function for a period of time.
EXCHANGE RATE MOVEMENTS The majority of the Group's trading is conducted outside of the UK and in currencies other than sterling. Consequently, its financial performance is affected by fluctuations in foreign exchange rates, particularly as a result of changes in the relative values of the US dollar, Canadian dollar, euro, and sterling.	The Group has a wide supply base in different countries and monitors the relative values of currencies in making purchasing decisions. The Group enters into forward foreign exchange contracts to minimise currency exposures on sales and purchases in other than the functional currencies of its operations.
IT SECURITY The Group holds sensitive data relating to its employees, customers and suppliers as well as intellectual property and financial data. Should security infringement occur the Group risks loss of customers, disruption of normal operations, fines and reputational damage.	The Group continually reviews the effectiveness of its IT security controls in consultation with external experts and invests in industry best practice security software. The security arrangements of the Group's IT assets prevent unauthorised access to core IT hardware. IT infrastructures are designed to have minimal inter dependence across the Group.
AVAILABILITY OF FUNDING The banking facilities in place prove insufficient for the needs of the Group to meet its growth objectives.	The Group conducted an in-depth review of its requirements and put in place a £10.0m revolving credit facility with HSBC during 2019. As at 31 December 2019, the Group holds cash balances of £18.9m. It is considered that the Group has sufficient cash resources to carry on in operational existence for the foreseeable future without the use of the new facility, which thus provides a substantial buffer against the Group being constrained by restricted availability of funding.

Risk	Mitigation
LIABILITIES OF THE GROUP SPONSORED DEFINED BENEFIT PENSION SCHEMES	
The Group is responsible for the funding of a defined benefit pension scheme in the UK, which pays a levy to the Pension Protection Fund of an amount outside the control of the Group, as well as three smaller such schemes in the USA. Changes in the value of the liabilities of the pension schemes, which were valued in aggregate at £416.7m at 31 December 2019 in accordance with IAS 19, as a consequence of changes in interest rates and mortality rates, amongst others, and changes in the value of the assets of the pension schemes, which were valued in aggregate at £434.0m at 31 December 2019, are largely outside the control of the Group. The valuation of these schemes impact on the value of capital employed in the Group and the extent to which, as a matter of law, it has available as distributable profits. The Group has responsibility for the adequate funding of the pension schemes and is currently paying to the UK scheme £1.9m per annum in respect of deficit funding following an actuarial funding valuation as at 30 June 2018. The UK scheme is subject to a full actuarial funding valuation as at 30 June 2021 which will help inform its funding requirements over the subsequent periods.	The Group and the pension schemes implement liability reduction strategies where such opportunities exist and the Group maintains regular dialogue with its pension advisors on such matters. Regular meetings are held with the trustee of the UK pension scheme, to input into their asset investment decisions and to apprise the trustee of the progress of the Group to help inform them in making decisions which may impact the scheme funding requirements. In particular, the Group and the trustees of the schemes have an active programme of risk mitigation for the schemes, including seeking to match investments to the underlying liabilities and to provide options for the membership which can benefit both themselves and the schemes. However, many factors which impact the valuations and funding requirements of the pension schemes are outside the control of the Group.
LITIGATION	
The Group from time to time may be subject to claims from third parties in relation to its current and past operations, which could result in legal costs and rulings against it that may have a material effect on the Group's operating results and financial condition.	The Group has a comprehensive risk management and review process which is aimed at minimising the risk of such claims arising as a consequence of its actions. Insurance policies are in place to cover some such incidences and third-party legal assistance is sought as required.

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

ANDREW KITCHINGMAN
CHAIRMAN

> We are committed to excellence in corporate governance and maintain clear policies and practices that promote good corporate governance.

As Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level. It therefore gives me pleasure to introduce our governance statement.

The Company is listed on AIM and since September 2018 has been required to provide a statement of its compliance with a recognised corporate governance code. My colleagues share the view that sound governance is fundamental to the successful growth of the business. After the Company's admission to AIM in 2014, the Board continued to follow the principles of the UK Corporate Governance Code, as appropriate to the size and nature of the Group. Following a review earlier in the year, the Board has decided to apply the QCA Corporate Governance Code, an updated version of which was published in April 2018 (the 'QCA Code').

THE QCA'S TEN PRINCIPLES OF CORPORATE GOVERNANCE

The Board believes that it applies the ten principles of the New QCA Code but recognises the need to continue to develop governance practices and disclosures in some areas in order to ensure we continue to apply the principles going forward. The policies, procedures and relevant systems we have implemented to date have given us a firm foundation for our governance structure, which is described on page 22. The Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group.

ANDREW KITCHINGMAN
Chairman
3 March 2020

DELIVER GROWTH

The Board has collective responsibility for setting the strategic aims and objectives of the Group. Our strategy is articulated on pages 12 to 14 and on our website. In the course of implementing our strategic aims, the Board takes into account expectations of the Company's shareholders and also its wider stakeholders and social responsibilities.

The Board also has responsibility for the Group's internal control and risk management systems. The Board regularly reviews the risks faced and ensures the mitigation strategies in place are the most effective and appropriate to the Group's operations.

1 Establish a strategy and business model which promote long-term value for shareholders.

2 Seek to understand and meet shareholder needs and expectations.

3 Take into account wider stakeholder and social responsibilities and their implications for long-term success.

4 Embed effective risk management, considering both opportunities and threats, throughout the organisation.

DYNAMIC MANAGEMENT FRAMEWORK

As Chairman, I regularly consider the operation of the Board as a whole and the performance of the directors individually. The directors attend seminars from time to time as appropriate, have regular updates at Board meetings to assist with training and awareness of compliance issues facing boards of quoted companies and also are made aware of developments in governance generally. The Board carries out a formal review annually in respect of its performance over the previous year. The evaluation is informed by detailed questionnaires completed by each director which are then summarised on an anonymous basis, considered by the Board and action taken as appropriate. All appointments to the Board will be on merit, but with due consideration to the need for diversity on the Board. Such appointments will be made to complement the existing balance of skills and experience on the Board.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. The Non-Executive Directors regularly attend the Group's offices and other Group events. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture.

5 Maintain the Board as a well-functioning, balanced team led by the Chair.

6 Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

8 Promote a corporate culture that is based on ethical values and behaviours.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

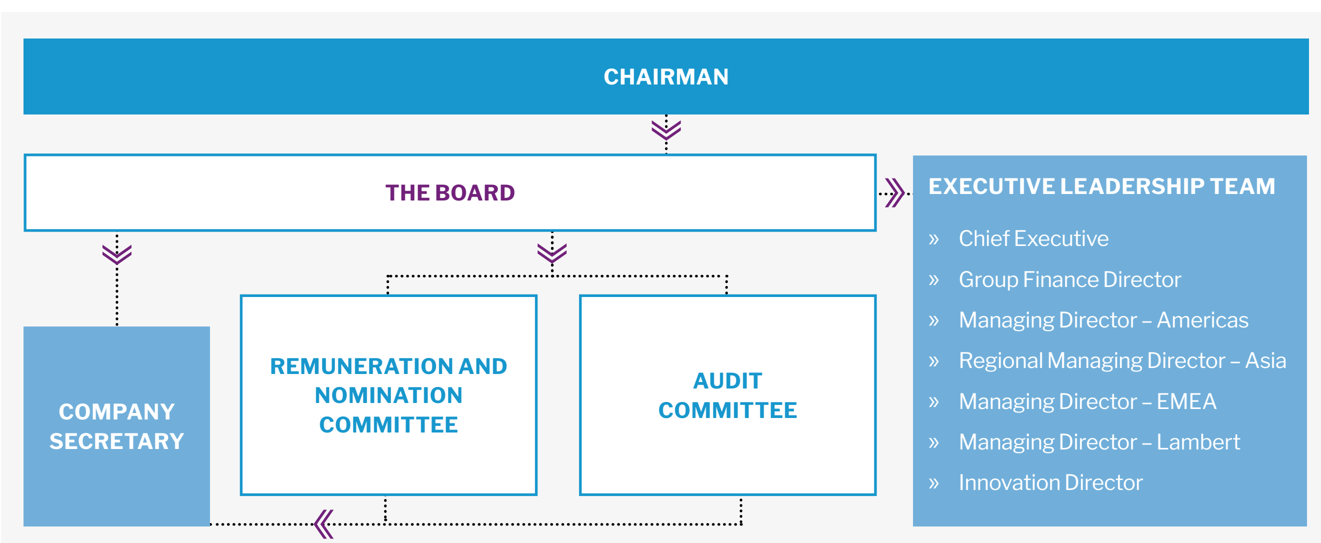
BUILD TRUST

During the year the Board has continued to review governance and the Group's corporate governance framework. The Board will continue to monitor its application of the New QCA Code and revise its governance framework as appropriate as the Group evolves.

The Board recognises the importance of maintaining regular dialogue with institutional shareholders to ensure that the Group's strategy is communicated and to understand the expectations of our shareholders.

10 Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Our Board and Committee Structure



BOARD OF DIRECTORS

1 ANDREW KITCHINGMAN FCA

Independent Non-Executive Chairman

Appointment: Andrew Kitchingman was appointed Chairman of the Board on 19 April 2018. He joined the Board on 11 May 2016 as a non-executive director.
Committees: Member of the Audit Committee and Remuneration and Nomination Committee.
Skills and experience: Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales and formerly worked in senior positions in corporate finance with a number of firms, including KPMG, Hill Samuel, Albert E Sharp, Brewin Dolphin and WH Ireland.

Key strengths:

» Strong experience of financial control and good corporate governance

» Expertise in equity and debt capital raising

» Mergers & acquisitions

Other commitments: Non-executive director of Andrew Sykes Group plc, Morhomes plc, Lon-Pro Holdings plc, Incommunities Group Limited. Chairman of British Board of Agrement and a director of The Cathedral Choir School Ripon Limited.

2 DR TONY STEELS

Chief Executive

Appointment: Tony Steels joined the Company and was appointed to the Board as Chief Executive on 6 June 2016.
Skills and experience: Tony previously held a number of senior UK and international management positions, most recently at Cytec Industries, Umeco plc and Georg Fischer AG. He has degrees in both Engineering and Management augmented with over 30 years industrial management experience.

Key strengths:

» Capital Equipment Industry experience of more than 15 years

» Delivery of strategic transformations and sustainable profitable growth

» Extensive senior executive international business development

» Selection and development of high-performance leadership teams

3 WILL WILKINS FCCA

Group Finance Director

Appointment: Will Wilkins joined the Mpac Group Board as Group Finance Director on 22 June 2018.
Skills and experience: Will is a Chartered Certified Accountant and prior to his appointment, he held a variety of senior positions with the Company including Group Financial Controller and Group Operations Director. He previously held a senior financial position at BSH Home Appliances and began his career at Grant Thornton in 1992.

Key strengths:

» Extensive experience at improving business systems, processes and controls

» More than 25 years proven track record as a senior finance professional with strong financial reporting discipline

» Cross functional practical experience in operations and finance

4 JOHN DAVIES

Independent Non-Executive Director

Appointment: John Davies joined the Board on 27 January 2011 as a non-executive director.
Committees: Chairman of the Remuneration and Nomination Committee and member of the Audit Committee.
Skills and experience: John is a non-executive director of Redde Northgate plc and he was formerly non-executive Chairman of Autologic Holdings plc, Managing Director of Lloyds TSB's Asset Finance division, Head of Consumer Finance for Standard Chartered Bank and Managing Director of United Dominions Trust, a subsidiary of Lloyds TSB Bank plc.

Key strengths:

» Proven track record of developing companies through acquisition and mergers

» International business experience

» Strong financial analysis and financial control skills

» Experience of negotiating and managing joint ventures

Other commitments: Non-executive director of Redde Northgate plc.

5 DOUG ROBERTSON

Independent Non-Executive Director

Appointment: Doug Robertson joined the Mpac Group Board on 1 November 2018 as a non-executive director.
Committees: Chairman of the Audit Committee and member of the Remuneration and Nomination Committee.
Skills and experience: Doug was Group Finance Director of SIG plc until he retired from the role in January 2017. Prior to joining SIG, Doug was Group Finance Director of Umeco plc and Seton House Group Limited. He spent his early career with Williams plc in a variety of senior financial and business roles.

Key strengths:

» Extensive multinational financial management experience in both public and private companies

» Strategic planning

» Acquisitions and divestments

Other commitments: Non-executive director at HSS Hire Group plc and Zotefoams plc.

CORPORATE GOVERNANCE REPORT

COMPOSITION AND INDEPENDENCE OF THE BOARD

The Board consists of five directors: The Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. All of the Non-Executive Directors are considered independent.

Details of each Director's experience and background are given in their biographies on page 23. The skill-set and experience of Board members is relevant for the current position of the Company and covers areas including financial management and control, capital raising, capital goods industries, banking, engineering, strategic planning, business development, mergers and acquisitions and international management.

APPOINTMENTS TO THE BOARD AND RE-ELECTION

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as directors to the Remuneration and Nomination Committee. Further details on the role of the Remuneration and Nomination Committee may be found on page 32.

All directors will offer themselves for annual re-election, in accordance with best practice in corporate governance.

The Board considers all directors to be effective and committed to their roles.

DIVISION OF RESPONSIBILITIES

The Chairman and Chief Executive have separate, clearly defined roles. The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company and the Chief Executive is responsible for implementing the Group's strategy and for its operational performance.

EXECUTIVE DIRECTORS

The Executive Directors are full time employees of the Company and have entered into service agreements with the Company.

NON-EXECUTIVE DIRECTORS

Each of the Non-Executive Directors has entered into a letter of appointment with the Company which set out the duties of the Director and commitment expected. They are expected to commit at least 24 days per annum to their role and are specifically tasked with:

- bringing independent judgement to bear on issues put to the Board;
- applying their knowledge and experience in considering matters such as strategy, company performance, use of resources and standards of conduct; and
- ensuring high standards of financial probity and corporate governance.

HOW THE BOARD OPERATES

The Board is responsible for:

- developing Group strategy, business planning, budgeting and risk management;
- monitoring performance against budget and other agreed objectives;
- setting the Group's values and standards, including policies on employment, health and safety, environment and ethics;
- relationships with shareholders and other major stakeholders;
- determining the financial and corporate structure of the Group (including financing and dividend policy);
- major investment and divestment decisions, including acquisitions, and approving material contracts; and
- Group compliance with relevant laws and regulations.

The Board retains control of certain key decisions through the schedule of matters reserved for the Board. It has delegated other matters, responsibilities and authorities to each of the Audit and Remuneration and Nomination Committees and these are documented in the Terms of Reference of each of those committees. Anything falling outside of the schedule of matters reserved or the committee Terms of Reference falls within the responsibility and authority of the Chief Executive, including all executive management matters.

Day to day management of the Company's business is delegated to the Executive Directors and in turn to senior members of the leadership team in accordance with a clear and comprehensive statement of delegated authorities.

The Board meets at regular intervals and met eight times during the year. Directors also have contact on a variety of issues between formal meetings and there is also regular contact with the Executive Leadership Team and the wider senior leadership of the Group.

An agenda and accompanying detailed papers, covering key business and governance issues and including reports from the Executive Directors and other members of senior management, are circulated to the Board in advance of each Board meeting. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. A calendar of matters to be discussed at each meeting is prepared to ensure that all key issues are captured.

At each meeting, the Board reviews comprehensive financial and trading information produced by the management team and considers the trends in the Company's business and its performance against strategic objectives and plans. It also regularly reviews the work of its formally constituted standing Committees as described below and compliance with the Group's policies and obligations.

All Directors are expected to attend all meetings of the Board and any committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on paper to be considered at the meeting to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate. The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also an Executive Leadership Team composed of the Chief Executive and Group Finance Director and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

Attendance at Board and Committee meetings by the Directors is shown below.

	Board	Audit Committee	Remuneration and Nomination Committee
Andrew Kitchingman	8/8	4/4	5/5
John Davies	8/8	4/4	5/5
Doug Robertson	8/8	4/4	5/5
Tony Steels	8/8	–	–
Will Wilkins	8/8	–	–

THE MAIN ACTIVITIES OF THE BOARD DURING THE YEAR

There are a number of standing and routine items included for review on each Board agenda. These include the Chief Executive's trading update, a health and safety report, operations reports, financial reports, governance and investor relations updates. In addition, key areas put to the Board for consideration and review included:

- approval of annual and half year report and financial statements;
- dividends;
- review and approval of budget;
- review against strategy;
- going concern and cash flow;
- material customer proposals;
- consideration of banking arrangements;
- investor relations;
- acquisitions and integration;
- review of corporate governance and group policies;
- review of AGM business;
- outcomes from the Board evaluation process; and
- briefings and review of conflicts of interest.

During the year, a strategy meeting was held with members of the Board and senior management, giving the Board greater visibility and understanding over the Group's business and the steps being taken to execute its strategy. Board meetings were held at the Group's facilities in Wijchen, the Netherlands and Mississauga, Ontario, Canada and the Chairman and Non-Executive Directors were invited to participate in senior leadership meetings.

CORPORATE GOVERNANCE REPORT CONTINUED

THE BOARD COMMITTEES

There are two Board Committees, the Audit Committee and the Remuneration and Nomination Committee. Both Committees are composed of the three Non-Executive Directors.

Each committee has approved Terms of Reference setting out their responsibilities which were reviewed and approved by the Board during the year and are available on the Company's website www.mpac-group.com.

Details of the operation of the Board Committees are set out in their respective reports below. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

EXTERNAL ADVISERS

The Board seeks advice on various matters from its nominated adviser Shore Capital and Corporate Limited (and previously Panmure Gordon & Co) and other advisers as appropriate. The Board also sought remuneration advice from KPMG LLP during the year.

DEVELOPMENT, INFORMATION AND SUPPORT

Directors keep their skillset up to date with a combination of attendance at industry events, individual reading and study and experience gained from other board roles. The Company Secretary ensures the Board is aware of any applicable regulatory and governance changes and developments and updates the Board as and when relevant. Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. Directors also have direct access to the advice and services of the Company Secretary.

The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles.

DIRECTORS' INDUCTION

When Directors join the Board, they receive an induction covering topics such as the operation of the Board, Directors' responsibilities, insider dealing, AIM Rules and governance.

CONFLICTS OF INTEREST

Under the Articles, the Directors may authorise any actual or potential conflict of interest a Director may have and may impose any conditions on the Director that are felt to be appropriate. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and they are not counted in the quorum.

A process is in place to identify any of the Directors' potential or actual conflicts of interest.

PERFORMANCE EVALUATION

The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. The Board carries out an evaluation process each year in respect of its performance over the previous year. The evaluation is informed by a detailed Board effectiveness questionnaire completed by each director and covering topics such as the composition of the Board, the quality and timeliness of information provided, relationships between the Board, shareholders and employees and succession planning. The results are collated and reported to the Board for discussion.

An evaluation process has been undertaken in respect of 2019 and the results discussed by the Board.

ACCOUNTABILITY

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad-hoc reports. There are clearly defined authority limits throughout the Group, including matters reserved specifically for the Board.

RISK MANAGEMENT AND INTERNAL CONTROL

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the Strategic report on pages 18 to 20. Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

FINANCIAL AND BUSINESS REPORTING

The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects in all half-year, final and any other ad-hoc reports and other information as may be required from time to time. The Board receives a number of reports, including those from the Audit Committee, to enable it to monitor and clearly understand the Group's financial position.

BUSINESS ETHICS

The Board is committed to the Group operating to the highest standards of ethical behaviour. The Group's Ethics policy, which was reviewed by the Board during the year, sets out certain principles that the Board expects all businesses within the Group to adhere to and certain values that should be embodied in the day-to-day activities of the Group. It expects all employees of the Group, led by the members of the Board and the Group's senior management, to encourage and support all other employees in acting in accordance with the policy. In support of this policy and its principles, the Board has published guidance in the Group Ethics policy, which is available on the Company's website at www.mpac-group.com/mpac-group-policies.

WHISTLEBLOWING

The Company has a whistleblowing procedure, details of which are provided to all employees. Staff may report any suspicion of fraud, financial irregularity or other malpractice to a senior manager, executive director, the Company Secretary or an independent helpline. The policy is reviewed by the Audit Committee every year and updated as required. Details of any matters raised under this procedure are reported to the Audit Committee.

SHAREHOLDERS

The Company welcomes contact with its shareholders and the Group Finance Director's contact details are set out in the Investors section of our website: www.mpac-group.com/investors/ir-contacts. Directors are available to discuss any matters that shareholders might wish to raise. They maintain communication with institutional shareholders, other investors and analysts through meetings, particularly following publication of the Group's interim and full year preliminary results.

Investor relations activity and a review of the shareholder register are quarterly items on the Board's agenda. The Board also regularly receives copies of analysts' and brokers' briefings.

The Company strives to provide a clear, balanced and comprehensive level of information and written material. The Company maintains a corporate website which contains regularly updated regulatory and other information. The Annual Report and Accounts is a key communication document and is also available on the Company's website. The Company also issues both statutory and non-statutory regulatory news announcements throughout the year to update on financial, operational and other matters. The Company offers its larger shareholders, either directly or via its broker, face-to-face meetings on a bi-annual basis at a minimum to present and discuss performance and other matters and obtain any feedback. These meetings are hosted by the Company's Chief Executive and Group Finance Director. The Company also hosts a briefing for analysts, arranged by the Company's financial public relations adviser, twice a year to coincide with the announcement of its half year and full year financial results to present and discuss the same matters.

All shareholders are encouraged to attend the Annual General Meeting (AGM) at which the Group's activities will be considered and questions answered. The Directors are available to listen to the views of shareholders informally immediately following the AGM.

This year's AGM will be held on Wednesday 6 May 2020. The Notice of Annual General Meeting is set out on pages 105 to 110 and will be available on the Company's website at www.mpac-group.com. Separate resolutions are provided on each issue so that they can be given proper consideration.

I would like to thank all employees for their efforts in contributing to the impressive performance of the Group in 2019 and the continued success of the business.

ANDREW KITCHINGMAN
Chairman
3 March 2020

AUDIT COMMITTEE REPORT

DOUG ROBERTSON
CHAIRMAN OF THE AUDIT COMMITTEE

"I am pleased to present my report as Chairman of the Audit Committee for the year ended 31 December 2019.

MEMBERSHIP

The Committee's members are the Non-Executive directors, whose biographies are set out on page 23. The members of the Committee are all independent, non-executive directors.

MEETINGS AND ATTENDANCE

The Committee met four times during the year. All members of the Committee at the time of each meeting were present at the meetings. The Chief Executive, Group Finance Director, Secretary, senior member of the internal audit function and representatives of the external auditors (when half-year accounts, year-end accounts or external audit plan proposals are considered) are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

DUTIES

The duties of the Committee are as set out in its Terms of Reference which are available on the Company's website at www.mpac-group.com. The Terms of Reference are reviewed annually and approved by the Board.

The main items of business considered by the Committee during the year included:

- review of the year-end audit plan, and consideration of the scope of the audit, Group accounting policies and the external auditor's fees
- review of the annual report and financial statements, including consideration of the significant accounting issues relating to the financial statements, and the going concern review
- consideration of the external audit report and management representation letter
- review and approval of the interim financial statements and the external auditor's report
- review of the risk management and internal control systems
- assessment of external audit effectiveness
- consideration of the internal audit review by BDO LLP
- review of whistleblowing arrangements
- review of the Committee's Terms of Reference

EXTERNAL AUDITOR

The Committee has reviewed the auditor's independence and performance to date, and has recommended to the Board that they should be re-appointed for the 2020 audit. A resolution to appoint Grant Thornton UK LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting on Wednesday 6 May 2020.

POLICIES FOR NON-AUDIT SERVICES AND ENGAGEMENT OF FORMER EMPLOYEES OF THE EXTERNAL AUDITOR

The Committee has developed policies relating to the employment of former employees of the external auditor and the engagement of the auditors, or advisors related to the auditors, on non-audit services. These policies, which have been adopted formally by the Board, require, inter alia, the Committee's consent to any engagements or employment, with appropriate confirmation of independence from the auditors and the approval of the Committee. These policies were reviewed during the year.

EXTERNAL FINANCIAL REPORTING

The committee reviews all areas of the Group's external financial reporting, with particular focus on judgemental areas such as going concern, pension fund valuation and contract accounting.

AUDIT PROCESS

The external auditor prepares an audit plan for its review of the full-year financial statements, and the audit plan is reviewed and agreed in advance by the Committee. Prior to approval of the financial statements, the external auditor presents its findings to the Committee, highlighting areas of significant financial judgement for discussion.

INTERNAL AUDIT

The Committee considers annually how the internal audit function operates in the Group, including its Terms of Reference and whether this gives sufficient assurance that the business and controls of the Group are reviewed adequately. The Committee also approves the internal audit work plan each year. This function is part of the Group's finance department and its senior member reports to the Committee at each meeting on its activities and has direct access to me as required at all times.

During the year, the principal activities have included a review of the internal audit provision, following which the Committee approved the engagement of BDO LLP to conduct an internal audit review at the Company's three main operating locations. The findings from the review are monitored by the internal audit function and progress reported to the Committee at each meeting.

WHISTLEBLOWING

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is an annual item on the Committee's agenda, and any reported incidents will be notified to the Committee. During the year under review, there were no reported incidents.

AUDIT COMMITTEE REPORT
CONTINUED

SIGNIFICANT ISSUES CONSIDERED IN RELATION TO THE FINANCIAL STATEMENTS

Significant issues and accounting judgements are identified by the finance team and the external audit process and then reviewed by the Audit Committee. The significant issues considered by the Audit Committee in respect of the year ended 31 December 2019 are set out above.

Significant issue/ accounting judgement identified	How it was addressed
Acquisition accounting, including the valuation of intangible assets	External experts were used to ensure that the valuation methods employed were appropriate, the disclosures meet the requirements and the asset lives are appropriate.
Valuation of contracts and provisioning	The valuation of contracts is carefully monitored throughout the year, utilising both accounting data and inputs from all aspects of the business, to ensure contracts are valued appropriately at all times.
Pension accounting	External experts are used on an ongoing basis to value the scheme in line with IAS19 and ensure a consistent and appropriate level of disclosure.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group has established a system of risk management and internal controls. The Committee is responsible for reviewing the systems of risk management and internal control and has reviewed management's progress in implementing and maintaining such control systems during the year. The Committee is satisfied that the internal control systems are operating effectively.

The Board has taken and will continue to take appropriate measures to ensure that the chances of financial irregularities occurring are reduced as far as reasonably possible by improving the quality of information at all levels in the Group, fostering an open environment and ensuring that financial analysis is rigorously applied. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The major elements of the system of internal control are as follows:

- major commercial, strategic and financial risks are formally identified, quantified and assessed during the annual budgeting exercise and presented to and discussed with executive directors, after which they are considered by the Board;
- there is a comprehensive system of planning, budgeting, reporting and monitoring. This includes monthly management reporting and monitoring of performance and forecasts. Monthly reviews are embedded in the internal control process and cover each principal site. Monthly reviews require the Executive Leadership Team to consider, among other things, business development, financial performance against budget and forecast, health and safety and capital expenditure proposals, as well as a review of longer-term business development and all other aspects of the business. In addition, quarterly business reviews are carried out at each principal site and are attended by the executive directors and local management teams as appropriate;
- there is an organisational structure with clearly defined lines of responsibility and delegation of authority;
- each site is required to comply with defined policies, financial controls and procedures and authorisation levels which are clearly communicated;
- a programme of internal control reviews and specific investigations is carried out. These are followed up during regular executive management visits. The internal control reviews include assessments of compliance with Group policies and procedures and findings are reported to the Audit Committee and Board as appropriate; a formal risk management audit is regularly carried out by group personnel and external risk management consultants, which covers physical damage, environmental and health and safety risks together with business continuity issues; and
- formal reports including recommendations are sent to each site for action and reported back to group management. Progress reports are issued to the Board for review and monitoring.

ACTIVITIES DURING THE YEAR

A summary of the Committee's principal activities in 2019 is set out below.

Month	Principal activities
MARCH	» Review of financial reporting, including material judgements and estimates, goodwill impairment review assumptions, going concern assumptions, draft Annual Report and Accounts 2018, governance reports, draft preliminary results announcement, representation letter to the external auditors and the audit report. » Consideration of the external auditors' activities, effectiveness, objectivity and independence. » Consideration of the re-appointment of Grant Thornton UK LLP as external auditors. » Review internal audit plan for the year.
MAY	» Approval of the internal audit work plan for the year. » Consideration of the effectiveness of the external audit process. » Review of results of internal control self-assessments.
AUGUST	» Review of financial reporting, including consideration of the going concern assumptions, the draft half-year announcement and the external auditors' review report of the half-year condensed set of financial statements. » Consider purchase price allocation report in respect of acquisition of Lambert Automation Ltd. » Consider plan for external control reviews. » Review of results of internal control self-assessments.
NOVEMBER	» Review and approval of the external audit plan for 2019 financial reporting. » Consideration of and approval of external audit fee quotation for 2019 financial reporting. » Consider findings of external control reviews. » Review of system of internal controls and risk management processes. » Review of Committee terms of reference for Board approval. » Review of whistleblowing arrangements. » Review of anti-bribery and corruption policy and procedures. » Annual Committee performance evaluation.

DOUG ROBERTSON
Chairman of the Audit Committee
3 March 2020

REMUNERATION AND NOMINATION COMMITTEE REPORT

JOHN DAVIES
CHAIRMAN OF THE REMUNERATION AND NOMINATION COMMITTEE

> The Committee deals with all aspects of remuneration of the executive directors and certain senior managers and identifying and nominating members of the Board.

As Chairman of the Remuneration and Nomination Committee (the Committee) and on behalf of the Board, I am pleased to present our report which is presented in three sections: the Remuneration and Nomination Committee report, the Remuneration report and the forward-looking Remuneration policy.

The Remuneration report, on pages 34 to 35, details the amounts earned by the directors in respect of the period to 31 December 2019 and is subject to an advisory shareholder vote. The Remuneration policy, on pages 36 to 40, will be put to a binding vote at the Annual General Meeting on 6 May 2020, which if approved, will then be effective for a period of up to a further three years from that date.

REMUNERATION AND NOMINATION COMMITTEE

Membership

The members of the Committee are the non-executive directors, whose biographies are set out on page 23. The members of the Committee are all independent, non-executive directors.

Meetings and attendance

The Committee meets as often as required and at least twice a year.

The Committee met five times during the year. All members of the Committee at the time of each meeting were present at the meetings. The Chief Executive, Group Finance Director and Company Secretary are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

Duties

The duties of the Committee are as set out in its Terms of Reference which is available on the Company's website at www.mpac-group.com/investors. The Terms of Reference are reviewed annually and approved by the Board.

The Committee deals with all aspects of remuneration of the executive directors and certain senior managers and identifying and nominating members of the Board.

The main items of business considered by the Committee during the year focused on remuneration matters, including:

» approving bonus payments to executive directors under the Management Incentive Bonus Scheme 2018, following assessment of 2018 performance against agreed objectives and approving the performance criteria for the 2019 annual bonus;
» approving awards under the Deferred Share Plan;
» the approval of a new Long Term Incentive Plan for Executive Directors and senior management;
» approval of Executive Directors' and certain senior managers salary increases;
» succession planning;
» re-election of directors at the AGM; and
» reviewing the Committee's Terms of Reference.

With respect to its nomination responsibilities, there have been no external appointments to the Board during the year. The Committee considered the renewal of the letter of appointment for Mr Kitchingman, which ended in May 2019, for a further term of three years.

During the year, the Committee also discussed succession solutions for the senior leadership positions within the business. The importance of identifying internal candidates and forming development paths for potential successors formed part of the discussions. Succession plans for the Executive Directors and senior leadership positions are reviewed on an annual basis.

LTIP

During the year, a Long Term Incentive Plan (the "LTIP") was introduced to incentivise the Executive Directors and certain senior managers. The Committee engaged KPMG LLP to provide advice during the development of the LTIP.

ANNUAL REMUNERATION REPORT

Directors' total remuneration

The remuneration of the executive directors for the years 2019 and 2018 is made up as follows:

Executive directors' remuneration as a single figure

2019	Salary £000	All benefits[a] £000	Short-term incentive scheme[c] £000	Deferred share plan[d] £000	Pension[e] £000	Total £000
T Steels	**243**	**31**	**293**	**48**	**56**	**671**
W C Wilkins	**172**	**18**	**215**	**45**	**17**	**467**

2018	Salary £000	All benefits[a] £000	Termination payments[b] £000	Short-term incentive scheme[c] £000	Deferred share plan[d] £000	Pension[e] £000	Total £000
T Steels	237	14	–	24	105	24	405
J R Haughey (resigned 22 June 2018)	120	9	33	–	–	12	174
W C Wilkins (appointed 22 June 2018)	76	7	–	30[f]	–	7	120

a Benefits include:
Dr Steels, Mr Wilkins and Mr Haughey – car allowance payments, income replacement insurance and private medical cover;
b Mr Haughey resigned as a director of the Company on 22 June 2018 and as an employee on 31 August 2018. The termination payment represents pay in lieu of notice and reflects the principle of mitigation;
c The performance criteria for the short-term incentive scheme is described in the Remuneration policy on page 39.
d The amounts represent the values of the awards made in the form of conditional grants which are exercisable no earlier than three years from the date of grant. The share price at the date of grant in 2019 was 134.7p (2018: 178.9p).
e The values in respect of Dr Steels are the amounts contributed by the Company into the Company's Personal Pension Plan on his account and a payment made to cover the impact of a restriction on tax relief on contributions. The values in respect of Mr Wilkins and Mr Haughey are the amounts contributed by the Company into the Company's Personal Pension Plan on their accounts.
f Includes an amount related to the period prior to Mr Wilkins appointment as a director.

The remuneration of the non-executive directors for the years 2019 and 2018 is made up as follows:

Non-executive directors' remuneration as a single figure

	2019			2018		
	Fees £000	**All taxable benefits £000**	**Total £000**	Fees £000	All taxable benefits £000	Total £000
P J Moorhouse (resigned 19 April 2018)	**–**	**–**	**–**	25	–	25
J L Davies	**51**	**–**	**51**	50	–	50
A J Kitchingman	**76**	**–**	**76**	65	–	65
D G Robertson (appointed 1 November 2018)	**51**	**–**	**51**	8	–	8

Directors' interests in shares

The beneficial interests of directors holding office at 31 December 2019 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

	Held at 1 January 2019	Acquired in the year	Held at 31 December 2019
T Steels	**18,650**	**–**	**18,650**
A J Kitchingman	**6,451**	**6,682**	**13,133**

No director holds, or held at any time during the year, a beneficial interest in the Company's preference shares. There were no changes in the directors' interests in shares between 31 December 2019 and 2 March 2020.

Incentive scheme – Deferred share plan

Details of conditional grants of Mpac Group plc ordinary shares under the Company's Deferred share plan yet to vest for each director who held office during the year and who is eligible to participate in the plan are as follows:

	Date of award	Basis of award (% of salary)	Number of shares	Face value at grant (£000)
T Steels	1 May 2019	20.0%	35,409	48
T Steels	13 March 2018	45.0%	58,811	105
T Steels	8 June 2017	38.5%	113,924	90
W C Wilkins	1 May 2019	30.0%	33,407	45
W C Wilkins	13 March 2018		7,713	14

Mr Wilkins' shares awarded on 13 March 2018 were awarded whilst he was an employee, but not a director, of the Company.

Awards are made following the achievement of personal objectives linked to long-term strategic initiatives. The earliest date that awards can vest is three years from the date of award.

Long Term Incentive Plan

During the year, awards were made in respect of the Company's Long Term Incentive Plan (LTIP). Details of conditional grants of Mpac Group plc ordinary shares under the LTIP yet to vest for each director who held office during the year and who is eligible to participate in the plan are as follows:

	Date of award	Number of shares	Face value at grant (£000)	% of salary	End of three-year performance period
T Steels	12 June 2019	210,000	349	143%	31 Dec 2021
W C Wilkins	12 June 2019	120,000	199	111%	31 Dec 2021

Face value of awards at the date of grant is calculated based on the closing share price of 166p per ordinary share.

Performance metrics selected reflect underlying business performance. 70% of the award of shares is based on cumulative Earnings Per Share ('EPS') performance over a three year period. 30% of the award of shares is based on average Return On Capital Employed ('ROCE') over the same three year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20% no award will be made in respect of ROCE.

A cap of £5 per ordinary share exists at the time of vesting such that the number of shares vesting is reduced accordingly.

Awards will normally remain subject to a holding period of two years commencing on the vesting date with the exception of sales to cover related personal tax liabilities.

Payments to past directors

In 2018 Mr Haughey received remuneration for the period from the date he ceased to be a director, on 22 June 2018, until the date his employment ceased on 31 August 2018.

REMUNERATION AND NOMINATION COMMITTEE REPORT CONTINUED

REMUNERATION POLICY

This part of the Remuneration and Nomination Committee's report sets out the Remuneration policy which was determined by the Company's Remuneration and Nomination Committee and approved by the Board at their meetings on 21 January 2020 and which will be subject to a binding vote at the Annual General Meeting on 6 May 2020, and will be effective until no later than 6 May 2023. The policy is not subject to audit.

The Remuneration policy is designed to ensure that the remuneration packages offered, and the terms of the contracts of service, are competitive and are designed to attract, retain and motivate executive directors of the right calibre. To achieve these goals, the Remuneration and Nomination Committee's policy is to establish fixed salary at around half of the total obtainable in the case of excellent performance, with recognition and reward for achieving performance targets annually and growth in the long-term.

Key changes to the Remuneration policy are the inclusion of the Long-Term Incentive Plan and the removal of the share-based element of the Short-Term Incentive Plan. The Short-Term Incentive Plan had previously included a share-based element because the Company didn't operate a long-term incentive plan.

Remuneration packages

The main components of the package for each executive director are:

i. Basic salary

Basic salary is determined by taking into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and other technology industries.

ii. Incentive schemes

The executive directors participate in a short-term incentive scheme in which the minimum bonus payable is nil and the maximum bonus payable is 120% of relevant salaries. The incentive is payable wholly in cash. The targets against which performance is judged are primarily the Group's key financial performance indicators and personal objectives. The directors' personal objectives are commercially sensitive and therefore remain, and are expected to continue to remain, confidential to the Company. In some years the targets may be varied to reflect particular objectives determined by the Committee.

iii. Long Term Incentive Plan (the "LTIP")

A new LTIP, which was adopted by the Board on 10 June 2019, has been introduced to incentivise executive directors and certain senior managers over the longer term and encourage retention. 70% of the award of shares is based on cumulative Earnings Per Share ("EPS") performance over a three year period. 30% of the award of shares is based on average Return On Capital Employed ("ROCE") over the same three year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20% no award will be made in respect of ROCE.

An award granted under the LTIP in the form of a conditional right giving the participant a right to acquire ordinary shares in the Company if certain conditions are met. Awards were made covering a three year period. Awards will normally vest following the end of the three year performance period, once it is determined whether and to what extent the performance conditions have been achieved. Awards will normally remain subject to a holding period of two years commencing on the vesting date. Standard malus, clawback and leaver provisions apply.

iv. Pensions

Directors may choose to join the Mpac Group Personal Pension Plan, which is a defined contribution scheme. Additionally, life assurance and income protection policies are put in place for the executive directors.

Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled employees who are incentivised to deliver the Company's strategy. The current service contracts were concluded with Dr Steels on 6 June 2016 and with Mr Wilkins on 22 June 2018. These service contracts are terminable on notice of one year given by the Company and six months given by the director. In the event of termination by the Company, the Company has the option of making a payment of liquidated damages equivalent to the value of 12 months' salary, or the balance of the period to the date of expiry if less, or of negotiating appropriate compensation reflecting the principle of mitigation. In the event of a change of control in the Company, if the Company terminates an executive director's contract within six months of the change of control, or if an executive director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of 12 months' salary. The purpose of the change of control clause, which is reviewed regularly, is that the contracts should provide reasonable and appropriate security to the director concerned and to the Company.

Any commitment contained within the current directors' service contracts, or a current employee's contract of employment who is subsequently promoted to the role of director, will be honoured even where it may be inconsistent with the Company's Remuneration policy.

Letters of appointment

The non-executive directors are not issued with a separate service contract on appointment. The terms of their appointment are set out in their letter of appointment. The Company does not make termination payments to non-executive directors in the event that a non-executive director's appointment is terminated by the Company.

Recruitment

The Committee reserves the right to make payments outside the Remuneration policy in exceptional circumstances. The Committee would only use this right where it believes that this is in the best interests of the Company and when it would be disproportionate to seek the specific approval of the shareholders in a general meeting.

When hiring a new executive director, the Committee will use the Remuneration policy to determine the executive director's remuneration package. To facilitate the hiring of candidates of the appropriate calibre to implement the Group's strategy, the Committee may include any other remuneration component or award not explicitly referred to in this Remuneration policy sufficient to attract the right candidate. In determining the appropriate remuneration the Committee will take into consideration all relevant factors (including the quantum and nature of the remuneration) to ensure the arrangements are in the best interests of the Company and its shareholders.

The Committee may buy-out incentive arrangements forfeited on leaving a previous employer after taking account of relevant factors including the form of the award, any performance conditions attached to the award and when they would have vested. The Committee may consider other components for structuring the buy-out including cash or share awards where there is a commercial rationale for this.

Where the recruitment requires the individual to relocate appropriate relocation costs may be offered.

Recruitment awards will normally be liable to forfeiture or clawback if the executive director leaves the Company within the first two years of their employment. Any such awards will be linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Termination

The Committee reserves the right to make additional liquidated damages payments outside the terms of the directors' service contracts where such payments are made in good faith in order to discharge an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment.

Non-executive directors

The fees of non-executive directors are determined by the Board based upon comparable market levels. The non-executive directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

Future Remuneration policy table

The following table provides a summary of the key components of the remuneration package for directors:

Salary

PURPOSE AND LINK TO STRATEGY	This is a fixed element of the executive directors' remuneration and is intended to be competitive and attract, retain and motivate.
OPERATION	Takes into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and technology industries.
OPPORTUNITY	Salary is normally reviewed annually. Ordinarily, salary increases will be in line with increases awarded to other employees within the Group. However, increases may be made above this level at the Remuneration and Nomination Committee's discretion to take account of individual circumstances such as: » increase in scope and responsibility; » to reflect the individual's development and performance in the role; and » alignment to market level.
PERFORMANCE METRICS	Not applicable, although individual performance is one of the considerations in determining the level of salary

Benefits

PURPOSE AND LINK TO STRATEGY	The benefits provided to the executive directors are intended to be competitive and attract and retain the right calibre of candidate.
OPERATION	Benefits are paid to the executive directors in line with market practice.
OPPORTUNITY	Benefits are set at a level which the Remuneration and Nomination Committee considers: » are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and » provide a sufficient level of benefit based upon the role and individual circumstances.
PERFORMANCE METRICS	Not applicable.

Short-term incentive scheme

PURPOSE AND LINK TO STRATEGY	The short-term incentive scheme is intended to reward executive directors for the performance of the Group in the financial year.
OPERATION	The Remuneration and Nomination Committee reviews the financial performance of the Group following the end of each financial year and determines the payments to be made.
OPPORTUNITY	Maximum of 120% of salary.
PERFORMANCE METRICS	The targets against which performance is judged are primarily the Group's key performance metrics in each financial year set annually by the Remuneration and Nomination Committee as well as personal objectives. In some years the targets for the short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee retains the ability to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition/ divestment of a Group business, a change in prevailing market conditions, or a change in regulation which affects the Group) which cause the Remuneration and Nomination Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Long Term Incentive Plan ("LTIP")

PURPOSE AND LINK TO STRATEGY	The LTIP is intended to incentivise executive directors and certain senior managers over the longer term in direct alignment with shareholders' interests and encourage retention.
OPERATION	An award granted under the LTIP in the form of a conditional right giving the participant a right to acquire ordinary shares in Company if certain conditions are met. Awards were made covering a three year period. Awards will normally vest following the end of the three year performance period, once it is determined whether and to what extent the performance conditions have been achieved. Awards will normally remain subject to a holding period of two years commencing on the vesting date with the exception of sales to cover related personal tax liabilities. Standard malus, clawback and leaver provisions apply.
OPPORTUNITY	The normal maximum award, covering the three year plan period, is 300% of salary based on the value of the award at the date of grant.
PERFORMANCE METRICS	Performance metrics selected reflect underlying business performance. 70% of the award of shares is based on cumulative Earnings Per Share ("EPS") performance over a three year period. 30% of the award of shares is based on average Return On Capital Employed ("ROCE") over the same three year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20% no award will be made in respect of ROCE.

Pension

PURPOSE AND LINK TO STRATEGY	The payment of a pension benefit is intended to form an integral part of an executive director's remuneration package that is competitive and attracts, retains and motivates the director.
OPERATION	Directors may join the Mpac Group Personal Pension Plan, or alternatively, in lieu of payments to the pension scheme, the Company may pay additional emoluments.
OPPORTUNITY	Any percentage increase in pension contributions will not exceed the percentage increase in salary.
PERFORMANCE METRICS	Not applicable.

Non-executive directors' fees

PURPOSE AND LINK TO STRATEGY	To attract and retain non-executive directors of the right calibre.
OPERATION	The fees of non-executive directors are determined by the Board based upon comparable market levels. The non-executive directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP
The Group applies the same key principles to setting remuneration for its employees as those applied to the directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key employees and the impact such policy has on the continued success of the Group.

By order of the Board

JOHN DAVIES
Chairman of the Remuneration and Nomination Committee
3 March 2020

DIRECTORS' REPORT

BUSINESS REVIEW

The directors' business review is set out as part of the Strategic report with the results of the Group being set out in the Consolidated income statement on page 54 and in its related notes.

GOING CONCERN

The Group's activities together with the factors likely to affect its future development, performance and position are as described within the Strategic report on pages 2 to 20. The directors have considered the trading outlook of the Group for a 24 month period ending 31 December 2021, its financial resources including its cash resources and access to borrowings, as set out in note 20 to the accounts on pages 79 to 80, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 82 to 87. 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 financial statements.

FUTURE DEVELOPMENTS

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic report on pages 2 to 20.

DIRECTORS

Biographical details of the Directors currently serving on the Board and their dates of appointment are set out on page 23.

The Directors who served during the year are as follows:

Executive Directors	Non-Executive Directors
Tony Steels	John Davies
Will Wilkins	Andrew Kitchingman
	Doug Robertson

The Company's approach to the appointment and replacement of Directors is governed by its Articles of Association (together with relevant legislation) and takes into consideration any recommendations of the QCA Code.

Subject to any restrictions in its Articles of Association and the Companies Act 2006, the Directors may exercise any powers which are not reserved for exercise by the shareholders.

The Company maintained Directors' and Officers' Liability Insurance cover throughout 2019. The Articles of Association of the Company permit it to indemnify the Company's officers, and officers of any associated company, against liabilities arising from conducting Company business, to the extent permitted by law. The Company's Articles of Association and Directors' Service Contracts, are available for inspection during normal business hours at the Company's registered office and will be available at the AGM.

DIRECTORS AND DIRECTORS' INTERESTS

Directors' interests in the Company's shares as at 31 December 2019 are shown on page 35 in the Remuneration report. There are no shareholding requirements for directors.

SUBSTANTIAL SHAREHOLDINGS

At 3 March 2020, the Company had been notified, or is aware of, the following interests in the issued ordinary share capital of the Company:

	Number of ordinary shares	% of issued ordinary shares
Schroder Investment Management Limited	4,463,152	22.1
River and Mercantile Asset Management LLP	1,003,991	5.0
Mr G V L Oury	1,250,000	6.2

RESULTS AND DIVIDENDS

The Group's profit for the year was £5.9m (31 December 2018: £6.0m loss). Having considered the trading results for 2019, together with the opportunities for investment in the growth of the Group, the Board has decided that it is appropriate to propose a final dividend of 1.5p per ordinary share to all shareholders on the register of members at the close of business on 17 April 2020. No interim dividend was paid in 2019.

Dividends on the 6% preference shares are due for payment on 30 June and 31 December in each year and in 2019 amounted to £0.1m (2018: £0.1m).

RESEARCH AND DEVELOPMENT
Group policy is to retain and enhance its market position through the design and development of specialist machinery, instrumentation and services. To achieve this objective, engineering and product development facilities are maintained in the UK and overseas. Research and development expenditure for the Group incurred in 2019, net of third-party income, amounted to £1.1m (2018: £1.2m), of which £0.8m (2018: £0.9m) was charged to the consolidated income statement and £0.3m (2018: £0.3m) was capitalised and included in development costs.

SHARE CAPITAL
At 31 December 2019, the Company's issued share capital was £5,042,885 divided into 20,171,540 ordinary shares of £0.25 each. Details of movements in issued share capital in the year are set out in note 25 to the financial statements. Authority for the purchase of up to 3,000,000 ordinary shares for cancellation was granted at the 2019 Annual General Meeting and this authority expires at the end of the 2020 AGM. The directors consider it appropriate to seek further authority from the shareholders at the forthcoming Annual General Meeting for the Company to purchase its own shares.

Resolution 15, which will be proposed as a special resolution, will seek the necessary authority to enable the Company to purchase for cancellation ordinary shares in the market for a period of up to 12 months from the date of the meeting, upon the terms set out in the resolution, up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the notice convening the Annual General Meeting. No shares were purchased by the Company under the equivalent resolution during the year.

EES Trustees International Limited holds shares as trustee in connection with the Company's long-term incentive arrangements for the benefit of the Group's employees; at 2 March 2020 it held 337,716 shares. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 1.7% of the issued share capital.

Information about the Company's share capital is given in note 25 to the accounts on pages 87 to 88.

DISCLOSURE OF INFORMATION TO THE AUDITOR
As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all reasonable steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information to establish that the Group's auditors are aware of that information.

AUDITOR
Grant Thornton UK LLP has indicated its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING
The Annual General Meeting will take place on 6 May 2020. Notice of the meeting can be found on pages 105 to 110.

POLITICAL DONATIONS
The Company made no political donations during the year to 31 December 2019.

FINANCIAL INSTRUMENTS
The financial risk management objectives of the Group, including details of the exposure of the Company and its subsidiaries to financial risks including credit risk, interest rate risk and currency risk, are provided in note 26 of the financial statements.

SOCIAL, COMMUNITY AND HUMAN RIGHTS EMPLOYMENT POLICIES
The Group is committed to developing its employment policies in line with best practice and providing equal opportunities for all, irrespective of gender, age, marital status, sexual orientation, ethnic origin, religious belief or disability. Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities.

Every reasonable effort is made to support those who become disabled, either in the same job or, if this is not practicable, in suitable alternative work.

EMPLOYEE INVOLVEMENT
Emphasis is placed on training, effective communication and the involvement of employees in the development of the business. Information is regularly provided on the progress of the Group through local review meetings, briefings and consultative bodies. Involvement in the achievements of the business is encouraged through other means appropriate to each location.

STAKEHOLDER ENGAGEMENT AND KEY DECISIONS

Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decisions are set out in the Strategic Report on pages 2 to 20.

ETHICS POLICY
The Group's Ethics policy was reviewed, updated and reissued in February 2019. The Ethics policy, which is distributed to every Group employee and is available on the Group's website at www.mpac-group.com, sets out the values which Mpac Group plc seeks to encourage and certain principles governing the way it does business.

SUSTAINABILITY POLICY

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, efforts are made to minimise waste arising from operations, to recycle materials wherever possible and to consider alternative methods of design or operation.

The Group aims both to reduce its costs by these means and to promote good practice in use of resources at sustainable levels.

ANNUAL QUANTITY OF EMISSIONS

Mpac Group plc has chosen to report emissions for the Group on a voluntary basis as set out below. Emissions are measured as tonnes of CO_2 equivalent resulting directly from the Group's purchase of electricity and the combustion of fuel arising from the activities of the Group for which it is responsible, and an intensity ratio has also been included.

2019	Emissions (tonnes of CO_2 equivalent)	Intensity ratio (tonnes of CO_2 equivalent per employee[a])
Purchased electricity	805	
Combustion of fuel	436	
Total	1,241	3.1
Total 2018	890	2.9

a Calculated using average number of employees in the year.

S172 OF THE COMPANIES ACT

Disclosures related to s172 of the Companies Act came into force on 1 January 2019 and require a specific reference to how the board promotes the success of the Company for the benefit of its members as a whole.

Mpac Group plc takes decisions for the long term, and the Group aims to uphold the highest standards of conduct. The Board expects all of our colleagues, at every level of the business, to do the same. Similarly, the Board understands that our business can only grow and prosper over the long term if the Group understands and respects the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers and the shareholders to whom we are accountable. This is reflected in our values (see page 13) and this report sets out more detail on how we manage our relationships with them.

The Company Secretary ensures the Board considers the effect of s172 in all of its decisions and that the impact on any of the specified groups is considered.

The Board considers the interests of the Group's employees and other stakeholders, including the impact of its activities on the community, environment and the Group's reputation, when making decisions. The Board, acting fairly between members, and acting in good faith, considers what is most likely to promote the success of the Group for its shareholders in the long term.

Further information in relation to specific considerations of the Board are set out below:

Consideration	Further information
The likely consequences of any decision in the long term;	Pages 21 and 22 set out the corporate governance and management framework, whilst the strategy update is on page 8 to 9.
the interests of the company's employees,	Page 42 sets out the consideration of the interests of the employees.
the need to foster the company's business relationships with suppliers, customers and others,	The operating review, on pages 5 to 9, discusses the need to foster the business's external relationships.
the impact of the company's operations on the community and the environment,	The operating review, on pages 5 to 9, discusses these issues, along with the environmental reporting within the directors' report on page 43.
the desirability of the company maintaining a reputation for high standards of business conduct, and	The corporate governance report, on pages 21 to 27, with specific consideration of business ethics on page 27.
the need to act fairly as between members of the company.	Pages 12 and 13 set out the company's mission and values, whilst the company's ethics policy is discussed within the corporate governance report on page 27.

The Strategic report on pages 2 to 20 and Directors' report on pages 41 to 43 are hereby approved by the Board of Directors.

By Order of the Board

DUNCAN TYLER
Company Secretary
3 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

TONY STEELS
Chief Executive
3 March 2020

WILLIAM WILKINS
Group Finance Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPAC GROUP PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of MPAC Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated income statement, the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity, the Group and Company statements of financial position, the Group and Company statements of cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the group and parent company's business model, including effects arising from Brexit, and analysed how those risks might affect the group and parent company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and parent company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPAC GROUP PLC CONTINUED

Overview of our audit approach

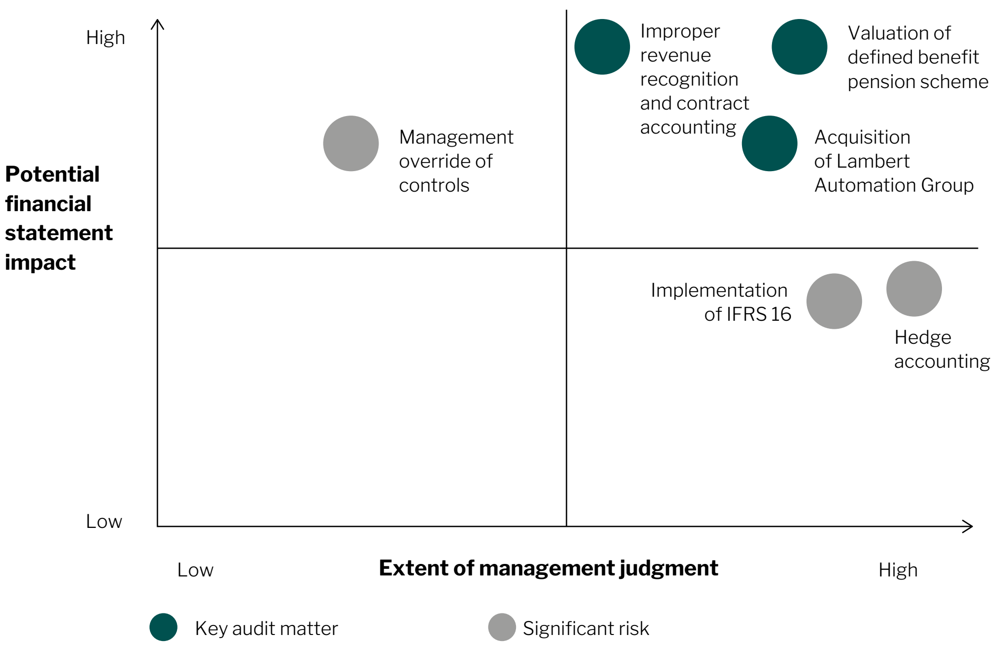
» Overall materiality: £342,000, which represents 5% of the group's profit before taxation and non-underlying items such as acquisition costs, provision in respect of discontinued operations and reorganisation costs;

» Key audit matters were identified as improper revenue recognition and contract accounting, the acquisition of Lambert Automation Limited and the valuation of the defined benefit pension scheme;

» We performed full scope audit procedures on the financial statements of components in the United Kingdom and Grant Thornton member firms performed full scope work over the significant components in Netherlands and Canada. We performed analytical procedures over the component in Singapore.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Improper revenue recognition and contract accounting Revenue is recognised throughout the group as the fair value of consideration received or receivable in respect of the performance of contracts and the sale of spares and services. Determining the amount of revenue to be recognised from the performance of contracts requires management to make significant judgements and estimates as to the stage of completion, the labour hours to complete, the impact of any changes in scope of work and the recoverability of contract assets and receivables balances. There is a significant financial statement impact of the revenue derived from sales of spares and services and performance of contracts, as well as the high level of estimation required in determining the appropriate accounting treatment on contract accounting. There is also a risk of fraud/improper revenue recognition within these revenue streams. We therefore identified improper revenue recognition and contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls; » judgementally selecting a sample of open contracts by reference to materiality and other risk factors including contracts with significant profit and loss balance, contract assets and receivables balances; » for open contracts selected for testing, assessing whether the revenue and profit recognised were in accordance with the group's accounting policies and International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers'. This is completed by agreeing inputs to contract terms and timesheets, re-performing management's calculations and challenging management's assumptions and assertions underpinning their forecast for contracts' future performance. We have completed this by reference to supporting documentation, such as contracts KPIs, historical performance against forecasts, and discussions with key contract accounting personnel; » investigating the recoverability of contract assets and receivables for a sample of contracts by reference to post report date collection; » examining those contracts management identified as being at risk of incurring future losses during the remaining life of the contract, and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence, such as forecast models and post statement of financial position contract performance; » testing a sample of closed contracts and agreeing to the signed agreement including signed contract variations and site acceptance test to ensure the contract is completed and to support occurrence; and » testing a sample of non-contract revenue transactions, covering both spares and service sales, agreeing items selected for testing through to document to support occurrence. The group's accounting policy on long term contracts is shown on page 63 to the financial statements and related disclosures are included in note 1. **Key observations** Based on our audit work, we found that the assumptions and judgements used in management's application of the group's contract accounting were appropriate. We found no material errors in the underlying calculations for the contract samples we have tested.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPAC GROUP PLC CONTINUED

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Acquisition of Lambert Automation Limited During the year, the group acquired the entire share capital of Lambert Automation Limited for a total purchase consideration of £19.4 million. This acquisition has had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets of £16.2 million. The group measures goodwill at the acquisition date as being the fair value of consideration, including the estimated value of deferred and contingent consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed. Goodwill of £5.7 million was recognised as a result of the acquisition of Lambert Automation Limited. Under IAS 38 'Intangible Assets', intangible assets acquired in a business combination are deemed to have a cost to the group equal to their fair value at the acquisition date. Intangible assets of £10.5 million were recognised as a result of the acquisition. These intangibles were valued, based on discounted cash flow forecasts prepared by management, which require judgement by the Directors around key assumptions such as revenue growth, discount rates and long term growth rates. On initial recognition, the assets and liabilities acquired in a business combination are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the group accounting policies. Determining the fair value of certain assets and liabilities requires judgement to be exercised by the Directors, particularly in respect to estimating the value in use of assets acquired. Due to the significant financial statement impact of the acquisition, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified acquisition accounting, including valuation of goodwill and intangibles, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » assessing whether the accounting policies adopted by the directors are in accordance with the requirements of IAS 38; » obtaining an understanding of the acquisition through review of legal agreements; » re-performing management's calculation of the fair value of the consideration, including the estimated value of the deferred and contingent consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed, ensuring this is in accordance with the requirements of IFRS 3 "Business Combinations"; » using our internal valuation expert to evaluate and assess the assumptions used, including discount rates, growth rates and forecast future trading performance, in the calculation of the fair value of the intangibles recognised; » testing significant fair value adjustments made to the assets and liabilities acquired, and challenging management's assumptions in the value in use assigned to certain assets; and » assessing the adequacy of disclosures in respect of the acquisition to ensure these are in accordance with IAS 38 and IFRS 3. The group's accounting policy on acquisition accounting is shown in 'Principal accounting policies – group' to the financial statements on page 62 and related disclosures are included in note 30. **Key observations** Based on our audit work, we found that the assumptions and judgements used in management's accounting treatment of the Lambert Automation Limited acquisition were reasonable. We also note that the valuation of goodwill and intangibles is not materially misstated. We found no material errors in the underlying calculations.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Valuation of defined benefit pension scheme **UK pension scheme** The Group operates a defined benefit pension scheme in the UK that provides benefits to a number of current and former employees. At 31 December 2019, the defined benefit asset was £20.4 million. The total fair (bid) value of scheme assets and present value of defined benefit obligations which form the net asset amount to £423.6 million and £403.2 million respectively. The valuation of the pension liabilities and assets in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the group financial statements. Management also need to interpret the scheme rules in order to assess whether it is appropriate to recognise a pension surplus within the provisions of IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. We therefore identified valuation of the UK defined benefit pension scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls; » evaluating the competence of management's expert; » using an internal actuarial expert to inform our challenge of the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability; » directly confirming the existence and valuation of the pension scheme assets with the group's pension scheme's external asset custodians; and » testing management's assessment as to whether the recognition of the pension scheme surplus is appropriate in accordance with the requirements of IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The group's accounting policy on the defined benefit pension scheme is shown on page 65 to the financial statements and related disclosures are included in note 24. **Key observations** Based on our audit work, we found the valuation methodologies to be balanced and consistent with the expectation of our internal actuarial expert and the recognition of the asset to be appropriate in line with IFRIC 14. We consider that the group's disclosures in note 24 are in accordance with IAS 19. We found no material errors in the calculations we tested.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPAC GROUP PLC CONTINUED

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£342,000 which is 5% of profit before tax and non-underlying items such as acquisition costs, provision in respect of discontinued operations and reorganisation costs. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group. Materiality for the current year is higher than the level that we determined for the period ended 31 December 2018 as a result of the increase in current year's Group profit before tax after excluding non-underlying items and change in benchmark from the prior year where we used 10% of Group profit before tax and non-underlying items.	£70,000 which is determined based on approximately 3% of the parent company's revenue for the year, capped at component materiality. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the parent company. Materiality for the current year is lower than the level that we determined for the period ended 31 December 2018 to reflect the change in benchmark from profit before tax to revenue given that the parent company is in a breakeven position.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of materiality for director's remuneration and related party transactions.	We determined a lower level of materiality for director's remuneration and related party transactions.
Communication of misstatements to the audit committee	£17,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£3,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit
Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. The components of the group were identified by the group audit team based on a measure of materiality, considering each as a percentage of the group's revenues and operating profit, to assess the significance of the component and determine the planned audit response. There was no change to the audit scope from last year other than the inclusion of additional component entity as a result of the acquisition during the year.

An audit of the financial statements for all significant components was determined based on their relative materiality to the group and our assessment of the audit risk.

We performed a full scope audit of the financial statements of the parent company, Mpac Group plc, Mpac Overseas Holdings Limited and Lambert Automation Limited and its subsidiaries in the United Kingdom, and of all other significant component entities in the Mississauga in Canada and Wijchen in Netherlands. The significant components represented 98.5 percent of consolidated revenues.

The non-significant component in Singapore was subject to analytical procedures at a group level over their financial performance and position after taking into account the risks identified above and the significance of the component to the Group.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MPAC GROUP PLC CONTINUED

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

» the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
» the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

» adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
» the parent company financial statements are not in agreement with the accounting records and returns; or
» certain disclosures of directors' remuneration specified by law are not made; or
» we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

REBECCA EAGLE
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham, UK
3 March 2020

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2019

		2019			2018		
	Note	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Revenue	1	**88.8**	**–**	**88.8**	58.3	–	58.3
Cost of sales		**(62.8)**	**–**	**(62.8)**	(44.3)	–	(44.3)
Gross profit		**26.0**	**–**	**26.0**	14.0	–	14.0
Distribution expenses		**(7.2)**	**–**	**(7.2)**	(5.0)	–	(5.0)
Administrative expenses		**(10.3)**	**(2.4)**	**(12.7)**	(7.2)	(9.0)	(16.2)
Other operating expenses	3	**(0.8)**	**–**	**(0.8)**	(0.4)	–	(0.4)
Operating profit/(loss)	1,4	**7.7**	**(2.4)**	**5.3**	1.4	(9.0)	(7.6)
Financial income	8	**–**	**0.4**	**0.4**	0.1	0.2	0.3
Financial expenses	8	**(0.2)**	**(0.1)**	**(0.3)**	(0.1)	–	(0.1)
Net financing (expense)/income		**(0.2)**	**0.3**	**0.1**	–	0.2	0.2
Profit/(loss) before tax		**7.5**	**(2.1)**	**5.4**	1.4	(8.8)	(7.4)
Taxation	9	**0.3**	**0.2**	**0.5**	(0.5)	1.9	1.4
Profit/(loss) for the period		**7.8**	**(1.9)**	**5.9**	0.9	(6.9)	(6.0)
Earnings/(loss) per ordinary share							
Basic	11			**29.7p**			(30.1)p
Diluted	11			**29.4p**			(30.1)p

The Group has initially applied IFRS 16 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	Group		Company	
		2019 £m	2018 £m	**2019 £m**	2018 £m
Profit/(loss) for the period		**5.9**	(6.0)	**0.2**	(5.2)
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Actuarial (losses)/gains	24	**(0.3)**	8.3	**(1.8)**	8.5
Tax on items that will not be reclassified to profit or loss	9	**0.1**	(2.9)	**0.1**	(2.9)
		(0.2)	5.4	**(1.7)**	5.6
Items that may be reclassified subsequently to profit or loss					
Currency translation movements arising on foreign currency net investments		**(0.1)**	(0.6)	**–**	–
Effective portion of changes in fair value of cash flow hedges	26	**1.1**	(1.0)	**0.1**	(0.1)
		1.0	(1.6)	**0.1**	(0.1)
Other comprehensive income/(expense) for the period		**0.8**	3.8	**(1.6)**	5.5
Total comprehensive income/(expense) for the period		**6.7**	(2.2)	**(1.4)**	0.3

The Group has initially applied IFRS 16 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2019

		Group						
	Note	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		5.0	26.0	1.7	3.9	0.2	6.0	42.8
Loss for the period		–	–	–	–	–	(6.0)	(6.0)
Other comprehensive (expense)/income 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)
Balance at 31 December 2018		**5.0**	**26.0**	**1.1**	**3.9**	**(0.8)**	**5.4**	**40.6**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**5.9**	**5.9**
Other comprehensive (expense)/income for the period		**–**	**–**	**(0.1)**	**–**	**1.1**	**(0.2)**	**0.8**
Total comprehensive (expense)/income for the period		**–**	**–**	**(0.1)**	**–**	**1.1**	**5.7**	**6.7**
Equity settled share based transactions	24	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Purchase of own shares	25	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Total transactions with owners, recorded directly in equity		**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Balance at 31 December 2019		**5.0**	**26.0**	**1.0**	**3.9**	**0.3**	**11.3**	**47.5**

The Group has initially applied IFRS 16 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

	Note	Company						
		Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		5.0	26.0	–	3.9	–	28.8	63.7
Loss for the period		–	–	–	–	–	(5.2)	(5.2)
Other comprehensive (expense)/income for the period		–	–	–	–	(0.1)	5.6	5.5
Total comprehensive (expense)/income for the period		–	–	–	–	(0.1)	0.4	0.3
Balance at 31 December 2018		5.0	26.0	–	3.9	(0.1)	29.2	64.0
Profit for the period		**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Other comprehensive (expense)/income for the period		**–**	**–**	**–**	**–**	**0.1**	**(1.7)**	**(1.6)**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**0.1**	**(1.5)**	**(1.4)**
Equity settled share based transactions	24	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Purchase of own shares	25	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Total transactions with owners, recorded directly in equity		**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Balance at 31 December 2019		**5.0**	**26.0**	**–**	**3.9**	**–**	**27.9**	**62.8**

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2019

	Note	Group		Company	
		2019 £m	2018 £m	**2019 £m**	2018 £m
Non-current assets					
Intangible assets	12	**16.9**	1.0	**–**	0.1
Property, plant and equipment	13	**5.6**	4.4	**2.3**	1.9
Investment property	14	**0.8**	0.8	**0.8**	0.8
Right of use assets	27	**4.7**	–	**–**	–
Investments	15	**–**	–	**63.8**	47.4
Employee benefits	24	**20.4**	20.5	**20.4**	20.5
Deferred tax assets	16	**1.7**	1.7	**–**	–
		50.1	28.4	**87.3**	70.7
Current assets					
Inventories	17	**7.1**	3.3	**–**	0.7
Trade and other receivables	19	**17.2**	16.9	**3.2**	5.2
Contract assets	18	**4.7**	5.5	**–**	0.8
Current tax assets	10	**0.4**	0.8	**–**	0.1
Cash and cash equivalents	21	**18.9**	27.9	**8.9**	17.4
		48.3	54.4	**12.1**	24.2
Current liabilities					
Lease liabilities	27	**(0.9)**	–	**–**	–
Trade and other payables	22	**(22.9)**	(14.7)	**(25.9)**	(22.5)
Contract liabilities	18	**(5.8)**	(11.6)	**–**	–
Current tax liabilities	10	**(0.7)**	(0.4)	**–**	–
Provisions	23	**(1.3)**	(1.1)	**–**	(0.2)
		(31.6)	(27.8)	**(25.9)**	(22.7)
Net current assets/(liabilities)		**16.7**	26.6	**(13.8)**	1.5
Total assets less current liabilities		**66.8**	55.0	**73.5**	72.2
Non-current liabilities					
Interest-bearing loans and borrowings	20	**(0.9)**	(0.9)	**(0.9)**	(0.9)
Employee benefits	24	**(3.1)**	(6.2)	**–**	–
Deferred tax liabilities	16	**(8.8)**	(7.3)	**(7.2)**	(7.3)
Lease liabilities	27	**(3.9)**	–	**–**	–
Deferred contingent consideration	30	**(2.6)**	–	**(2.6)**	–
		(19.3)	(14.4)	**(10.7)**	(8.2)
Net assets	1	**47.5**	40.6	**62.8**	64.0
Equity					
Issued capital	25	**5.0**	5.0	**5.0**	5.0
Share premium		**26.0**	26.0	**26.0**	26.0
Reserves		**5.2**	4.2	**3.9**	3.8
Retained earnings		**11.3**	5.4	**27.9**	29.2
Total equity		**47.5**	40.6	**62.8**	64.0

The Group has initially applied IFRS16 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60. The parent company has taken the exemption conferred by s.408 of the Companies Act 2006 not to publish the income statement of the parent company with these consolidated accounts. The parent company profit for the year was £0.2m (2018: £5.2m loss). These financial statements were approved by the directors on 3 March 2020 and signed on their behalf by:

TONY STEELS
Director

WILLIAM WILKINS
Director

Registered number: 124855

STATEMENTS OF CASH FLOW

for the year ended 31 December 2019

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Operating activities					
Operating profit/(loss)		**5.3**	(7.6)	**(2.7)**	(8.3)
Non-underlying items included in operating profit		**2.4**	9.0	**1.5**	8.3
Amortisation	12	**0.2**	0.2	**0.1**	–
Depreciation	13	**1.9**	0.6	**–**	0.1
Other non-cash items		**0.3**	–	**0.4**	–
Pension payments	24	**(2.9)**	(3.0)	**(2.0)**	(1.9)
Working capital movements:					
– (increase)/decrease in inventories		**(3.2)**	1.7	**0.3**	(0.5)
– decrease/(increase) in contract assets		**1.8**	(1.3)	**0.7**	(0.7)
– decrease/(increase) in trade and other receivables		**5.2**	(1.3)	**–**	1.2
– increase/(decrease) in trade and other payables		**4.7**	(1.4)	**2.8**	(1.9)
– increase in provisions		**0.4**	0.1	**–**	0.1
– (decrease)/increase in contract liabilities		**(11.0)**	4.1	**–**	–
Cash flows from continuing operations before reorganisation		**5.1**	1.1	**1.1**	(3.6)
Cash flows from discontinued operations		**–**	–	**–**	(1.0)
Acquisition and reorganisation costs paid		**(1.0)**	(1.0)	**(1.1)**	(0.4)
Cash flows from operations		**4.1**	0.1	**–**	(5.0)
Taxation received/(paid)		**1.0**	(1.0)	**0.9**	0.1
Cash flows from/(used in) operating activities		**5.1**	(0.9)	**0.9**	(4.9)
Investing activities					
Interest received		**–**	0.1	**–**	0.1
Proceeds from sale of property, plant and equipment		**0.2**	0.1	–	–
Capitalised development expenditure	12	**(0.3)**	(0.3)	**–**	–
Acquisition of assets under construction	12	**(0.6)**	–	**(0.6)**	–
Acquisition of property, plant and equipment	13	**(1.4)**	(1.1)	**–**	(0.2)
Dividends received from Group entities		**–**	–	**2.0**	1.8
Net cash flow on acquisition	30	**(10.6)**	–	**(10.6)**	–
Cash flows used in investing activities		**(12.7)**	(1.2)	**(9.2)**	1.7
Financing activities					
Interest paid		**(0.1)**	(0.1)	**(0.1)**	(0.1)
Purchase of own shares		**(0.1)**	–	**(0.1)**	–
Principal elements of lease payments		**(1.0)**	–	**–**	–
Cash flows used in financing activities		**(1.2)**	(0.1)	**(0.2)**	(0.1)
Net decrease in cash and cash equivalents	21	**(8.8)**	(2.2)	**(8.5)**	(3.3)
Cash and cash equivalents at 1 January		**27.9**	30.3	**17.4**	20.7
Effect of exchange rate fluctuations on cash held		**(0.2)**	(0.2)	**–**	–
Cash and cash equivalents at 31 December		**18.9**	27.9	**8.9**	17.4

The Group has initially applied IFRS16 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

ACCOUNTING POLICIES

The significant accounting policies which are set out below apply to both the Group and Company financial statements, as appropriate.

Basis of accounting
Mpac Group plc (the Company) is a company incorporated and domiciled in the UK. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

Both the Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

The financial statements have been prepared on the historical cost basis except that derivative financial instruments, principally forward foreign exchange contracts, are stated at fair value and non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with Adopted IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from these estimates. Revisions to these estimates are made in the period in which they are recognised.

The accounting policies, presentation and methods of computation applied by the Group and Company in these financial statements are in the main consistent with those applied in the 2018 financial statements.

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 shown on the balance sheet and to make a number of more minor adjustments to the classifications of items within the revenue statement. A full description of the new accounting policy is set out below, with the effects of the standard on introduction and within the year being shown in note 27.

The Group's accounting policy for business combinations has also been included following the acquisition of Lambert on 1 May 2019.

IFRS 16 Leases
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.

The presentation of cash flows arising from these leases also changes. Up to 1 January 2019, cash flows arising were treated as part of operating cash flow. From this date, IFRS 16 requires the capital element of the leases to be disclosed as a financing cost, with the amortisation of the assets being treated as a non-cash item.

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.

Derivative financial instruments

The Group's derivative financial instruments are measured at fair value and are summarised below:

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast trade receivables in currencies other than the functional currency of the operating entity.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the foreign currency forwards entered into exactly match the terms of the terms of the hedged item.

Hedge ineffectiveness may arise if the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast transactions from what was initially estimated.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one. All forward exchange contracts had been designated as hedging instruments in cash flow hedges under IFRS 9.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Non-underlying items and alternative performance measures

Non-underlying items are income and expenditure that, because of the nature of the item, merit separate presentation in the 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.

Non-underlying items may include, but are not limited to, the impact on the income statement of the Group's defined benefit pension schemes including administration charges and pension interest, acquisition or disposal costs and the amortisation of acquired intangible assets, significant reorganisation costs, profits or losses arising on discontinued operations, significant impairments of tangible or intangible assets and related taxation. Accordingly, alternative performance measures, which exclude non-underlying items, are presented to aid interpretation of performance. Further analysis of the items included in non-underlying items is provided in note 5 to the financial statements.

Recent accounting developments

At the date of this report there were no new standards in issue which were relevant to the Group and Company.

Going concern

The Group's activities together with the factors likely to affect its future development, performance and position are described within the Operating review on pages 5 to 9, Financial review on pages 15 to 17 and in the Principal risks and uncertainties on pages 18 and 20.

The Directors have considered the trading outlook of the Group and Company for a 24 month period ending 31 December 2021, its financial position, including its cash resources and access to borrowings, as set out in the Financial review on pages 15 to 17 and in note 20 to the accounts on pages 79 to 80, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 82 to 87. Having made due enquiries the Directors have a reasonable expectation that the Group and Company 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 financial statements.

Basis of consolidation

The Group financial statements comprise the consolidated results of the Company and all of its subsidiary companies together with the Group's share of the results of its associated companies on an equity accounting basis. A separate income statement dealing only with the results of the Company has not been presented in accordance with section 408 of the Companies Act 2006.

A subsidiary is a company controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the subsidiary company so as to obtain benefits from its activities. A subsidiary's results are included in the Group financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

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.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the statement of financial position date.

The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released into the income statement upon disposal.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary or associated undertaking at the date of acquisition.

Goodwill is recognised as an asset and is not amortised but is reviewed for impairment at least annually on the basis of its value in use. Any impairment is recognised immediately through the income statement and is not subsequently reversed. Impairment losses recognised are allocated first to reduce the carrying value of the goodwill the business relates to, and then to reduce the carrying value of the other assets of that business on a pro rata basis.

On disposal of a subsidiary or associated undertaking, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Research and development

Research and development and related product development costs are charged to the income statement in the year in which they are incurred unless they are specifically chargeable to and recoverable from customers under agreed contract terms or the expenditure meets the criteria for capitalisation.

Where the expenditure relates to the development of a new product for which the technical feasibility and commercial viability of the product is identified, where development costs can be measured reliably and where future economic benefits are probable, development costs are capitalised and amortised over their useful economic lives, up to a maximum of five years. The expenditure capitalised includes costs of materials, direct labour and an appropriate proportion of overheads. Such intangible assets are assessed for indicators of impairment at least annually and any impairment is charged to the income statement.

Other intangible assets

Other intangible assets are valued at cost less accumulated amortisation and impairment charges and amortised on a straight-line basis over their estimated useful economic life which is set on an item by item basis. All intangible assets are tested for impairment at least annually and any impairment is charged to the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any provision for impairment in value.

Depreciation is provided on a straight-line basis to write-off the cost, less the estimated residual value, of property, plant and equipment over its estimated useful life.

The annual depreciation rates used are as follows:

Freehold land	– nil
Freehold buildings	– 3% on cost or deemed cost
Leasehold property	– over life of lease
Plant and machinery	– 8% to 25%
Fixtures, fittings and vehicles	– 10% to 33%

The carrying value of property, plant and equipment is reviewed at least annually for indicators of impairment. Any change in value arising from impairment is charged or credited (up to the carrying value prior to any previous impairment) to the income statement for the year.

Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of the revaluation.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost. Depreciation is based on cost less residual value. Where the expected residual value exceeds cost no depreciation is provided.

Investments

Investments in subsidiary undertakings are held at cost less provision for any impairment in value. The carrying value of investments in subsidiary undertakings are reviewed at least annually for indicators of impairment.

Revenue and Contracts

Revenue

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- » the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- » the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- » the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over time criteria, as performance does not generally create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on labour costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of the total labour hours and labour hours to be incurred, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively as an additional, separate contract;
2. prospectively as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded.

The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Where assets have been recognised in respect of costs to fulfil a contract, these are tested for impairment under IFRS 15.

Inventories

Inventories includes raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories in relation to parts which have not been utilised as part of a contract to date but are expected to be used in this manner in the future. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Contract assets

A contract asset is a right to consideration conditional on something other than the passage of time.

Contract liabilities

The contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Performance obligations

A small proportion of the Group's contracts recognised over time comprise a variety of performance obligations, including but not limited to machinery, elements of design and customisation, installation and after-sales services. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is separately identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term fixed deposits, and for the statements of cash flows they also include bank overdrafts.

Share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Preference share capital is classified as a liability as dividend payments are not discretionary.

Dividends on the preference shares are disclosed as interest charges, are recognised as a liability and are accounted for on an accruals basis. Dividends on ordinary shares are only recognised in the period in which they are paid.

Financial instruments

IFRS9 *Financial instruments* requires the classification of financial instruments into different types for which the accounting requirement is different. The Group has classified its financial instruments as follows:

- short-term fixed deposits, principally comprising funds held with banks and other financial institutions;
- trade and other receivables are held at amortised cost;
- trade and other payables are held at amortised cost;
- borrowings are classified as other liabilities held at amortised cost; and
- derivatives, comprising forward foreign exchange contracts and the deferred contingent consideration on acqusition are classified as instruments with fair value through profit or loss.

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- loans and receivables and other liabilities are held at amortised cost; and
- instruments that are held for trading are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge.

Trade & other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade & other receivables as well as contract assets, recording the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the lifetime credit losses, the Group uses its historical experience, external indicators and forward looking information to calculate the expected losses. Refer to note 26 for further details.

Hedge accounting

The Group applies cash flow hedge accounting to forward foreign exchange contracts, held to reduce the exposure to movements in the future value of foreign currency receipts and payments.

For those contracts included in an effective cash flow hedging relationship, changes in the fair value of the hedging instrument are recognised in other comprehensive income and taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognised in the income statement. Any ineffectiveness in the hedging arrangement is included in the income statement.

Post-retirement and other employee benefits

The Group and Company account for pensions and other post-retirement benefits under IAS 19 Employee benefits.

For defined benefit schemes, the net obligation is calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of the schemes' assets (at bid price) is deducted. The liability discount rate is either the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating to the terms of the obligations or by a cash flow matching method reflecting the duration of the liabilities, whichever more accurately reflects the schemes' pattern of cash flows. The calculations are performed by qualified actuaries using the projected unit credit method. The expense of administering the pension schemes and financing income/expense of the schemes are recognised in the income statement. Past service costs/credits and curtailment costs/credits are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the period in which they arise in other comprehensive income.

Payments to defined contribution schemes are charged to the income statement as incurred.

The net obligation in respect of long-term service benefits, other than pension plans, is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. Obligations are measured at their present value.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based payments*.

The Group issues equity-settled share-based payments to certain employees. These are measured at their fair value at the date of grant and are expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest, and adjusted for the effect of non-market related conditions.

Charges made to the income statement in respect of share-based payments are credited to retained earnings.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Interest receivable

Interest receivable is recognised in the income statement using the effective interest method as defined in IFRS 9 Financial instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statements of comprehensive income, or to items recorded directly in equity in which case it is recorded directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill; the initial recognition of other assets and liabilities that affect neither the taxable profit nor the accounting profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating segments

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. All operating segments' results are regularly reviewed by the Group's chief operating decision maker, which is the Board of Directors, in order to assess performance and make decisions about the allocation of resources to each segment.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

NOTES TO THE ACCOUNTS

1. Revenue and operating segments

All revenue information is prepared in accordance with the Group accounting policies shown on pages 60 to 66.

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue.

Original Equipment (OE)

The OE segments of the Group principally generate revenue from the make, pack, and test of high speed packaging solutions, first of a kind machinery and high specification automation, secondary packaging equipment and at line instrumentation solutions. The typical length of a contract for OE Equipment is four to twelve months. The contracts are accounted for over time unless the installation and commissioning consideration of the contact is a distinct performance obligation which could be undertaken by a third party in which case the contract is disaggregated with the equipment consideration recognised over time and the installation consideration is recognised at a point in time. Where contracts are recognised over time the consideration recognised is based on an estimate of labour costs completed at the statement of financial position date as a proportion of total expected labour costs for the contract.

Service

The service segment of the Group generates revenue from sales of spare parts and providing service engineers and support staff to customers enabling them to maximise the benefits of their high speed packaging solutions, first of a kind machinery and high specification automation, secondary packaging equipment, end of line robotics and at line instrumentation solutions. Service contracts are usually short term contracts and either have a fixed price or are based on time and materials.

The Group's revenue reflects the basis of the Group's management and internal reporting structure. A commentary on the performance of the operating segments during the year is provided in the operating review on pages 5 to 9.

In the following table revenue is disaggregated by primary geographical market, major product lines, sector and timing of revenue recognition.

Disaggregation of revenue

	2019 £m	2018 £m
Sector		
Pharmaceutical	**2.9**	5.6
Healthcare	**62.5**	13.1
Food and Beverage	**19.8**	32.5
Other	**3.6**	7.1
Total	**88.8**	58.3
Timing of revenue recognition		
Products and services transferred at a point in time	**25.5**	14.0
Products and services transferred over time	**63.3**	44.3
Total	**88.8**	58.3

The Group disaggregates revenue of Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia Pacific.

Information regarding the results of each operating segment is included overleaf. Performance is measured based on underlying segment gross profit. Unallocated items comprise distribution and administrative expenditure. The unallocated items are excluded from segment profit or loss as they are not region specific.

1. Revenue and operating segments continued

The measurement of segment assets and liabilities excludes central items that are not allocated to the regions. Unallocated items comprise mainly of goodwill and acquired intangible assets, net debt/funds (excluding the lease liabilities), pension assets/liabilities, taxation balances and net liabilities attributable to the Group's head office.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information

	2019			2018		
	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m
Revenue						
Americas	45.8	11.0	56.8	20.5	6.4	26.9
EMEA	17.6	7.2	24.8	20.1	4.6	24.7
Asia Pacific	6.0	1.2	7.2	5.6	1.1	6.7
Total	69.4	19.4	88.8	46.2	12.1	58.3
Gross profit	18.2	7.8	26.0	9.3	4.7	14.0
Selling, distribution and administration			(18.3)			(12.6)
Underlying operating profit			7.7			1.4
Unallocated non-underlying items included in operating profit/(loss)			(2.4)			(9.0)
Operating profit/(loss)			5.3			(7.6)
Net financing income			0.1			0.2
Profit/(loss) before tax			5.4			(7.4)

	2019			2018		
	Segment assets	Segment liabilities	Segment net assets	Segment assets	Segment liabilities	Segment net assets
Americas	16.4	(12.4)	4.0	19.7	(18.0)	1.7
EMEA	25.6	(23.0)	2.6	9.7	(7.0)	2.7
Asia	0.5	(0.2)	0.3	0.5	(0.2)	0.3
Total	42.5	(35.6)	6.9	29.9	(25.2)	4.7
Unallocated net assets			40.6			35.9
Total net assets			47.5			40.6

Geographical information

Revenue

	By location of customer			
	2019 £m	**2019 %**	2018 £m	2018 %
UK	**10.1**	**11**	11.6	20
Europe (excl. UK)	**13.7**	**16**	12.0	21
Africa and Middle East	**1.1**	**1**	1.1	2
USA	**52.0**	**59**	22.7	38
Americas (excl. USA)	**4.6**	**5**	4.2	7
Asia Pacific	**7.3**	**8**	6.7	12
	88.8	**100**	58.3	100

Non-current assets (excluding taxation balances)

	By location of assets	
	2019 £m	2018 £m
UK	**42.0**	23.4
Canada	**3.3**	1.9
Rest of the world	**3.1**	1.3
	48.4	26.6

2. Major customers

In 2019 the Group generated 45.9% (2018 21%) of revenue from two customers. The most significant customer accounted for 35.6% (2018: 12%) of Group revenue. The sales constituted both equipment and service and were spread across a number of different geographic regions.

3. Other operating expenses

	2019 £m	2018 £m
Research and development costs (expensed as incurred)	**0.8**	0.4

4. Operating profit

	2019 £m	2018 £m
Operating profit is arrived at after charging:		
Amortisation of capitalised development costs	**0.2**	0.2
Depreciation of owned assets	**0.9**	0.6
Cost of inventories recognised as an expense	**40.0**	26.2
Leases (included in Depreciation in 2019)		
– land and buildings	**0.8**	0.6
– other	**0.2**	0.2
Audit fees paid to the former auditor[1] (Company £nil; 2018: £nil)	**–**	0.1
Audit fees paid to the current auditor[1] (Company £0.1m; 2018: £0.1m)	**0.2**	0.2
Other fees paid to the current auditor[1]		
– tax compliance (Company £0.1m; 2018: £0.1m)	**0.1**	0.1
– tax advisory (Company £nil; 2018: £nil)	**–**	–

1 The auditor changed from KPMG LLP to Grant Thornton UK LLP during 2018; the fees disclosed relate to the relevant company during their tenure as auditor.

5. Non-underlying items

	2019 £m	2018 £m
Non-underlying items		
Acquisition costs	**(0.9)**	(0.1)
Amortisation of acquired intangible assets	**(0.9)**	–
Provision in respect of discontinued operations	**(0.2)**	–
Defined benefit pension scheme – Past service cost from GMP equalisation	**–**	(7.3)
Defined benefit pension schemes administration costs	**(1.2)**	(0.9)
US defined benefit pension scheme – Past service gain from options exercise	**1.1**	–
Reorganisation costs	**(0.3)**	(0.7)
Total non-underlying operating expenditure	**(2.4)**	(9.0)
Interest on deferred and contingent acquisition consideration	**(0.1)**	–
Net financing income on pension scheme balances	**0.4**	0.2
Total non-underlying expense before tax	**(2.1)**	(8.8)
Amortisation of deferred tax arising on acquisition	**0.2**	–
Total non-underlying expense after tax	**(1.9)**	(8.8)

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. Employee information

	Period end		Average	
	2019	2018	**2019**	2018
The number of persons employed by the Group was:				
Americas	**89**	72	**83**	84
EMEA	**355**	194	**291**	193
Asia Pacific	**12**	12	**12**	11
Head Office (including non-executive directors and pension scheme administrators)	**15**	15	**15**	16
Total	**471**	293	**401**	304

	Note	**2019 £m**	2018 £m
Employment costs for the Group were:			
Wages and salaries		**19.6**	15.1
Social security costs		**3.0**	2.1
Employee benefits			
– defined contribution schemes		**1.3**	1.0
– equity-settled share-based transactions	24	**0.4**	0.1
		24.3	18.3

The costs of the defined benefit pension schemes are disclosed in note 24.

7. Emoluments of directors and interests in shares

Information on the emoluments of the directors (page 34), together with information regarding the beneficial interests of the directors and persons connected with them in the ordinary shares of the Company, is included in the Remuneration report on pages 32 to 40.

8. Net financing income

	2019 £m	2018 £m
Financial income:		
Amounts receivable on cash and cash equivalents	**–**	0.1
Net interest received on pension scheme balances	**0.4**	0.2
	0.4	0.3
Financial expenses:		
Preference dividends paid	**(0.1)**	(0.1)
Interest on deferred contingent consideration	**(0.1)**	–
Lease interest (IFRS 16)	**(0.1)**	–
	(0.3)	(0.1)
Net financing income	**0.1**	0.2

Net interest received on pension scheme balances and interest on deferred consideration is included in non-underlying items.

9. Taxation

	2019 £m	2018 £m
Tax credit:		
Current tax	**(0.3)**	0.5
Deferred tax	**(0.2)**	(1.9)
Total	**(0.5)**	(1.4)

Included within the total taxation is a tax credit of £0.2m (2018: £1.9m) attributable to the non-underlying items set out in note 5.

Reconciliation of effective tax rate

	2019 £m	2018 £m
Profit/(loss) before tax	**5.4**	(7.4)
Income tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	**1.0**	(1.4)
Research & development tax credits	**(0.8)**	–
Deferred tax movement on pension past service costs	**–**	(1.1)
Deferred tax movements on acquired intangible asset amortisation	**(0.2)**	–
Deferred tax movements on pension payments	**0.5**	0.7
Change in unrecognised deferred tax assets	**(1.1)**	0.3
Foreign tax charged at higher rates than UK corporation tax rate	**0.1**	0.1
Total credit	**(0.5)**	(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%.

In view of probable timing of the utilisation of brought forward losses, deferred tax assets have not been recognised on tax losses and timing differences in respect of the Group companies in the UK and the USA.

Deferred tax credit/(charge) on items in other comprehensive (expense)/income

	2019 £m	2018 £m
Arising from actuarial gains/(losses)	**0.1**	(2.9)

10. Current tax assets and liabilities

Current tax assets of £0.4m (2018: £0.8m) and current tax liabilities of £0.7m (2018: £0.4m) for the Group, and current tax assets of £nil (2018: £0.1m) for the Company, represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share

Basic earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per ordinary share is based upon the profit for the year of £5.9m (2018: £6.0m loss) and the weighted average number of ordinary shares in issue during the year. The weighted average number of shares excludes shares held by the employee trust in respect of the Company's deferred share plan arrangements.

Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings/(loss) per ordinary share is based upon the profit for the year of £5.9m (2018: £6.0m loss) and the diluted weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings/(loss) per ordinary share from continuing activities is based upon the profit for the period from continuing activities of £ 5.9m (2018: £6.0m loss). 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.

	2019	2018
Weighted average number of ordinary shares (non-diluted) at 31 December	**19,968,000**	19,932,786
Effect of own shares	**178,256**	151,008
Weighted average number of ordinary shares (diluted) at 31 December	**20,146,256**	20,083,794

In the 12 months to 31 December 2018 the effect of the dilution would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation.

Underlying and diluted underlying earnings per share

Underlying earnings per ordinary share and diluted underlying earnings per ordinary share, which are calculated on profit before non-underlying items, amounted to 39.5p (2018: 4.5p) in respect of underlying earnings per share and 39.2p (2018: 4.5p) in respect of diluted underlying earnings per share.

The calculations of underlying earnings per ordinary share and diluted underlying earnings per ordinary share are based upon an underlying profit for the period of £7.8m (2018: £0.9m) which is calculated as follows:

	2019 £m	2018 £m
Profit/(loss) for the period	**5.9**	(6.0)
Non-underlying items (net of tax)	**1.9**	6.9
Underlying profit for the period	**7.8**	0.9

12. Intangible assets

	Group					Company		
	Goodwill £m	Acquired intangible assets £m	Development costs £m	Assets under construction £m	Total £m	Development costs £m	Assets under construction £m	Total £m
Cost:								
Balance at 1 January 2018	–	–	3.7	–	3.7	0.5	–	0.5
Additions	–	–	0.3	–	0.3	–	–	–
Balance at 31 December 2018	–	–	4.0	–	4.0	0.5	–	0.5
Additions	5.7	10.5	0.3	0.6	17.1	–	0.6	0.6
Disposals	–	–	–	–	–	(0.5)	–	(0.5)
Retranslation	–	–	(0.2)	–	(0.2)	–	–	–
Balance at 31 December 2019	**5.7**	**10.5**	**4.1**	**0.6**	**20.9**	**–**	**0.6**	**0.6**
Amortisation and impairment losses:								
Balance at 1 January 2018	–	–	2.8	–	2.8	0.3	–	0.3
Amortisation for the period	–	–	0.2	–	0.2	0.1	–	0.1
Balance at 31 December 2018	**–**	**–**	**3.0**	**–**	**3.0**	**0.4**	**–**	**0.4**
Amortisation for the period	–	0.9	0.2	–	1.1	–	–	–
Disposals	–	–	–	–	–	(0.4)	–	(0.4)
Retranslation	–	–	(0.1)	–	(0.1)	–	–	–
Balance at 31 December 2019	**–**	**0.9**	**3.1**	**–**	**4.0**	**–**	**–**	**–**
Carrying amounts:								
At 31 December 2018	–	–	1.0	–	1.0	0.1	–	0.1
At 31 December 2019	**5.7**	**9.6**	**1.0**	**0.6**	**16.9**	**–**	**0.6**	**0.6**

The amortisation for development costs is included in cost of sales in the consolidated income statement. Included within additions are the intangible assets and goodwill acquired through business combinations as set out in note 30.

13. Property, plant and equipment

	Group				Company			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m
Cost:								
Balance at 1 January 2018	3.1	2.8	4.5	10.4	2.6	0.3	1.0	3.9
Additions	–	0.5	0.6	1.1	–	–	0.2	0.2
Disposals	–	(0.3)	–	(0.3)	–	–	–	–
Balance at 31 December 2018	3.1	3.0	5.1	11.2	2.6	0.3	1.2	4.1
Additions	1.0	0.4	1.0	2.4	–	–	0.1	0.1
Disposals	–	(0.4)	–	(0.4)	–	(0.3)	(0.8)	(1.1)
Retranslation	–	(0.1)	(0.2)	(0.3)	–	–	–	–
Balance at 31 December 2019	**4.1**	**2.9**	**5.9**	**12.9**	**2.6**	**–**	**0.5**	**3.2**
Depreciation:								
Balance at 1 January 2018	1.2	1.5	3.7	6.4	0.9	0.3	0.9	2.1
Depreciation charge for the period	0.1	0.2	0.3	0.6	–	–	0.1	0.1
Disposals	–	(0.2)	–	(0.2)	–	–	–	–
Balance at 31 December 2018	1.3	1.5	4.0	6.8	0.9	0.3	1.0	2.2
Additions	0.1	0.3	0.5	0.9	0.1	–	–	0.1
Disposals	–	(0.2)	–	(0.2)	–	(0.3)	(0.6)	(0.9)
Retranslation	–	(0.1)	(0.1)	(0.2)	–	–	–	–
Balance at 31 December 2019	**1.4**	**1.5**	**4.4**	**7.3**	**1.0**	**–**	**0.4**	**1.4**
Carrying amounts:								
At 31 December 2018	1.8	1.5	1.1	4.4	1.7	–	0.2	1.9
At 31 December 2019	**2.7**	**1.4**	**1.5**	**5.6**	**1.6**	**–**	**0.1**	**1.7**

Included within additions are the tangible assets acquired through business combinations, as set out in note 30.

14. Investment property

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Balance at 1 January 2018 and 31 December 2018	**0.8**	0.8	**0.8**	0.8
Balance at 31 December 2019	**0.8**	0.8	**0.8**	0.8

Investment property is shown at cost. The fair value of the investment property at 31 December 2019 is £1.0m (2018: £1.0m) and has been arrived at on the basis of a valuation carried out by independent valuers, Wilks Head & Eve LLP. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

15. Investments

Cost of shares in subsidiaries

	2019 £m	2018 £m
Balance at 1 January	**47.4**	47.4
Acquisition of investment	**16.4**	–
Balance at 31 December	**63.8**	47.4

The Company's subsidiary undertakings are shown in note 33.

Acquisition of investment
On 1 May 2019 the Company acquired the entire issued share capital of Lambert Automation Limited, further details of which are set out in the acquisition note 30.

Impairment review of investments
Annual impairment reviews of investments in subsidiaries are undertaken and are determined from value in use calculations for each cash generating unit (CGU) using cash flow projections based on the latest three year plan approved by the Board. The main assumptions for each CGU, which relate to sales volume, selling prices and cost changes, are based on recent history and expectations of future changes in the market. Cash flows beyond the period of the projections are extrapolated at growth rates which do not exceed those used in the three year plan. The discount rate applied to the cash flow forecasts for each CGU is based on a market participant's pre-tax weighted average cost of capital of 10% (2018: 10%).

There has been no impairment of investments in subsidiaries in the year. Management considers that reasonable possible changes in the assumptions would be an increase in the weighted average cost of capital of 1.0%, a reduction in the sales of the subsidiaries of 5% and a 5% reduction in their operating profit. None of these changes in assumptions would have resulted in an impairment of investments in subsidiaries in the year.

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Employee benefits	**–**	–	**(7.2)**	(7.3)	**(7.2)**	(7.3)
Tax losses	**1.7**	1.7	**–**	–	**1.7**	1.7
Acquired intangible assets	**–**	–	**(1.6)**	–	**(1.6)**	–
Deferred tax assets/(liabilities)	**1.7**	1.7	**(8.8)**	(7.3)	**(7.1)**	(5.6)
Net deferred tax assets/(liabilities)	**1.7**	1.7	**(8.8)**	(7.3)	**(7.1)**	(5.6)

	Assets		Liabilities		Net	
Company	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Employee benefits	**–**	–	**(7.2)**	(7.3)	**(7.2)**	(7.3)
Deferred tax liabilities	**–**	–	**(7.2)**	(7.3)	**(7.2)**	(7.3)
Net deferred tax liabilities	**–**	–	**(7.2)**	(7.3)	**(7.2)**	(7.3)

Deferred tax is measured at the rates that are expected to apply in the period when the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of temporary differences arising in certain subsidiary companies.

These assets are only recognised to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised. At the year end the Group had £5.8m of unrecognised deferred tax assets (2018: £9.3m) which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation these tax assets expire as follows:

	Group	
Expiry	**2019 £m**	2018 £m
10 to 20 years	**1.5**	5.0
No expiry date	**4.3**	4.3
	5.8	9.3

Movement in temporary differences during the year

Group	**Balance at 1 January 2019 £m**	**Recognised in profit or loss £m**	**Recognised in other comprehensive income/ (expense) £m**	**Recorded on acquisition £m**	**Balance at 31 December 2019 £m**
Employee benefits	**(7.3)**	**–**	**0.1**	**–**	**(7.2)**
Tax losses	**1.7**	**–**	**–**	**–**	**1.7**
Acquired intangible assets	**–**	**0.2**	**–**	**(1.8)**	**(1.6)**
	(5.6)	**0.2**	**0.1**	**(1.8)**	**(7.1)**

16. Deferred tax assets and liabilities continued

Group	Balance at 1 January 2018 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Balance at 31 December 2018 £m
Employee benefits	(6.3)	1.9	(2.9)	(7.3)
Tax losses	1.7	–	–	1.7
	(4.6)	1.9	(2.9)	(5.6)

Company	Balance at 1 January 2019 £m	Recognised in other comprehensive income/ (expense) £m	Recorded on acquisition £m	Balance at 31 December 2019 £m
Employee benefits	(7.3)	0.1	–	(7.2)
	(7.3)	0.1	–	(7.2)

Company	Balance at 1 January 2018 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Balance at 31 December 2018 £m
Employee benefits	(6.3)	1.9	(2.9)	(7.3)
	(6.3)	1.9	(2.9)	(7.3)

17. Inventories

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Work in progress	**5.0**	1.7	**–**	0.5
Finished goods	**2.1**	1.6	**–**	0.2
	7.1	3.3	**–**	0.7

An amount of £nil (2018: £nil) has been charged in the year in respect of inventory write-downs.

18. Contract assets & liabilities

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Group		Company	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Receivables, which are included in 'Trade and other receivables'	**7.9**	10.2	**–**	–
Contract assets	**4.7**	5.5	**–**	0.8
Contract liabilities	**(5.8)**	(11.6)	**–**	–

	Group		Company	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities
Revenue recognised which is included in the contract liability balance at the beginning of the period	–	11.6	–	–
Increases due to cash received, excluding amounts recognised as revenue during the period	–	(5.8)	–	–
Transfers from contract assets recognised at the beginning of the period to receivables	(5.5)	–	(0.8)	–
Increases as a result of changes recognised in the measure of progress	4.7	–	–	–

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

The Group's contracts with customers are predominantly for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

19. Trade and other receivables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current assets:				
Trade receivables	**16.0**	12.2	–	1.0
Amounts owed by Group undertakings	–	–	**2.2**	2.0
Other receivables	**0.4**	0.8	**0.2**	0.1
Prepayments and accrued income	**0.5**	3.9	**0.4**	1.5
Foreign currency derivatives	**0.3**	–	**0.4**	0.6
	17.2	16.9	**3.2**	5.2

20. Interest-bearing loans and borrowings

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Non-current liabilities:				
Repayable in more than five years	**0.9**	0.9	**0.9**	0.9
	0.9	0.9	**0.9**	0.9

20. Interest-bearing loans and borrowings continued

Preference shares

The preference shares carry a fixed cumulative preferential dividend at the rate of 6% per annum and on the winding-up of the Company entitle the holders to repayment of the capital paid up thereon (together with a sum equal to any arrears or deficiency of the fixed dividend calculated to the date of the return of capital and to be payable irrespective of whether such dividend has been declared or earned or not) in priority to any payment to the holders of the ordinary shares. The preference shares do not entitle the holders to any further participation in the profits or assets of the Company.

The preference shareholders are not entitled to receive notice of or to attend or vote at any general meeting unless either:

- at the date of the notice convening the meeting, the dividend on the preference shares is six months in arrears (for this purpose the dividend on the preference shares is deemed to be payable half-yearly on 30 June and 31 December); or
- the business of the meeting includes the consideration of a resolution for the winding-up of the Company, or for reducing its share capital or for sanctioning a sale of the undertaking, or any resolution directly and adversely affecting any of the special rights or privileges attached to the preference shares.

There were no arrears in the payment of preference dividends at the statement of financial position date. Preference dividends paid amounted to £0.1m (2018: £0.1m).

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

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Net decrease in cash and cash equivalents	**(8.8)**	(2.2)	**(8.5)**	(3.3)
Change in net funds resulting from cash flows	**(8.8)**	(2.2)	**(8.5)**	(3.3)
Translation movements	**(0.2)**	(0.2)	**–**	–
Movement in net funds in the period	**(9.0)**	(2.4)	**(8.5)**	(3.3)
Opening net funds	**27.0**	29.4	**17.4**	19.8
Recognised on adoption of IFRS 16	**(4.8)**	–	**–**	–
Closing net funds	**13.2**	27.0	**8.9**	16.5
Analysis of net funds:				
Cash and cash equivalents – current assets	**18.9**	27.9	**8.9**	17.4
Interest-bearing loans and borrowings – non-current liabilities	**(0.9)**	(0.9)	**(0.9)**	(0.9)
Lease liabilities	**(4.8)**	–	**–**	–
Closing net funds	**13.2**	27.0	**8.0**	16.5

22. Trade and other payables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current liabilities:				
Trade payables	**11.5**	5.1	**0.2**	0.7
Amounts owed to Group undertakings	**–**	–	**22.9**	19.0
Other taxes and social security	**0.6**	0.4	**–**	–
Other payables	**2.4**	1.9	**0.3**	0.7
Accruals and deferred income	**8.4**	6.5	**2.5**	1.3
Foreign currency derivatives	**–**	0.8	**–**	0.8
	22.9	14.7	**25.9**	22.5

23. Provisions

Group	**2019 £m**	2018 £m
Balance at 1 January	**1.0**	1.0
Provisions created in the year	**0.8**	1.3
Utilised during the year	**(0.3)**	(1.0)
Unused amounts reversed	**(0.2)**	(0.2)
Balance at 31 December	**1.3**	1.1

Company	**2019 £m**	2018 £m
Balance at 1 January	**0.2**	0.1
Provisions created in the year	**0.1**	0.2
Utilised during the year	**(0.1)**	(0.1)
Disposed (note 31)	**(0.2)**	–
Balance at 31 December	**–**	0.2

Provisions are based on historical data and a weighting of all possible outcomes against their associated possibilities. Provisions relate primarily to product warranties. Except for specific identifiable claims, they are generally utilised within one year of the statement of financial position date.

24. Employee benefits

Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes for employees. Contributions to these schemes are recognised as an expense in the Consolidated income statement as they fall due.

Defined benefit pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA. All schemes are funded by Group companies as necessary, at rates determined by independent actuaries and as agreed between the trustees of the schemes and the sponsoring company.

The defined benefit pension schemes are administered by bodies that are legally separate from the Group. The trustees of the schemes are required by law to act in the interest of the schemes and of all relevant stakeholders in the schemes. The trustees of the schemes are responsible for the investment policies in respect of the assets of the schemes.

The pension schemes typically expose the Group to certain risks. These include the risk of investment under-performance, a fall in interest rates, an increase in life expectancy and an increase in inflation.

UK pension scheme

The Group operated one defined benefit pension scheme in the UK in which future accruals ceased in November 2012. The assets of the scheme are held separately from those of the Company and it is funded by the Company as necessary in order to ensure that the scheme can meet the expected benefit obligations. The funding policy is to ensure that the assets held by the scheme in the future are adequate to meet expected liabilities, allowing for future increases in pensions. The only assets of the scheme which are invested in the Company are an interest in the cumulative preference shares of the Company with an estimated current market value of £0.2m.

The most recent formal actuarial valuation of the scheme was carried out as at 30 June 2018 using the projected unit credit method. The market value of the scheme assets at that date was £411.3m and the funding level was 92% of liabilities, which represented a deficit of £35.2m. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 July 2024, but, is subject to reassessment every 3 years are as follows:

- the Company will continue to pay a sum of £1.9m per annum to the Scheme (increasing at 2.1 per cent. 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 Scheme 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 Scheme in any one year.

The deficit recovery period from 30 June 2018 was estimated to be 6 years and 1 month, which is scheduled to be formally reassessed following the completion of the actuarial valuation being carried out as at 30 June 2021.

During the year the Company paid deficit recovery contributions of £1.9m (2018: £1.9m). A contribution of £0.1m (2018: £0.1m) following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds, was also paid.

The Company accounts for pension costs under IAS 19 Employee benefits and the valuation used has been based on detailed actuarial valuation work carried out as at 30 June 2018, updated by the Company's actuary to assess the value of the liabilities of the scheme at 31 December 2019. Scheme assets are stated at their market value at 31 December 2019.

USA pension schemes

In the USA the Group has three defined benefit pension schemes, all of which are closed to future accrual. Formal independent actuarial valuations of the USA pension schemes were carried out as at 1 January 2017 using the projected unit credit method. The valuations under IAS 19 at 31 December 2019 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £0.9m (2018 £1.0m), including £0.6m (2018: £0.7m) as a result of the disposal in 2015 of the assets of Arista Laboratories and in 2017 the assets of the I&TM business, were paid during the year.

Assumptions

The key financial assumptions used to calculate scheme liabilities and the financing expense on pension scheme balances are as follows:

	UK (Company)		USA	
	2019	2018	**2019**	2018
Discount rate	**1.9%**	2.7%	**3.0%**	4.0%
Inflation rate				
– CPI	**2.2%**	2.1%	**n/a**	n/a
– RPI	**3.0%**	3.2%	**n/a**	n/a
Increases to pensions in payment				
– final salary benefits	**2.2%**	2.1%	**n/a**	n/a
– career average benefits	**1.9%**	1.9%	**n/a**	n/a

The assumptions relating to longevity underlying the pension liabilities of the defined benefit pension schemes at the statement of financial position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting an individual to live for a number of years as follows:

	UK scheme	USA schemes
Current pensioner aged 65 – male	21.2 years	20.5 years
Current pensioner aged 65 – female	23.5 years	22.5 years
Future retiree currently aged 45 upon reaching age 65 – male	22.5 years	20.7 years
Future retiree currently aged 45 upon reaching age 65 – female	25.0 years	23.1 years

At 31 December 2019, the weighted average duration of the defined benefit obligation in the UK scheme was 15 years (2018: 15 years) and in the USA schemes was 10 years (2018: 10 years).

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, inflation rate and mortality. The sensitivity analysis below has been determined assuming that all other assumptions are held constant.

Changes in values of pension schemes' liabilities before tax as at 31 December 2019	UK scheme	USA schemes
0.1% change in discount rate	£5.7m	£0.1m
0.1% change in inflation rate	£2.8m	n/a
Change in life expectancy by one year on average	£18.2m	£0.5m

24. Employee benefits continued

Categories of assets and funded status

The fair values of scheme assets were as follows:

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
UK equities	**1.5**	1.3	**–**	–	**1.5**	1.3
Overseas equities	**74.6**	69.0	**3.9**	5.3	**78.5**	74.3
Bonds – index linked gilts	**90.1**	98.4	**–**	–	**90.1**	98.4
Bonds – other	**64.5**	61.7	**5.9**	9.9	**70.4**	71.6
Properties – funds	**40.0**	41.1	**0.6**	1.1	**40.6**	42.2
Properties – directly owned	**2.2**	2.2	**–**	–	**2.2**	2.2
Absolute return funds	**116.6**	119.2	**–**	–	**116.6**	119.2
Other	**34.1**	5.3	**–**	–	**34.1**	5.3
Total fair (bid) value of scheme assets	**423.6**	398.2	**10.4**	16.3	**434.0**	414.5
Present value of defined benefit obligations	**(403.2)**	(377.7)	**(13.5)**	(22.5)	**(416.7)**	(400.2)
Defined benefit asset/(liability)	**20.4**	20.5	**(3.1)**	(6.2)	**17.3**	14.3

All equities, bonds, property funds and absolute return funds have quoted prices in active markets. Directly owned properties are subject to an independent valuation.

Disclosed defined benefit pension income/expense for financial year

A) Components of defined benefit pension income/expense

Net defined benefit pension expense recognised in the Consolidated income statement comprises:

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Past service costs/(gains)	**–**	7.3	**(1.1)**	–	**(1.1)**	7.3
Interest expense/(income)	**(0.6)**	(0.4)	**0.2**	0.2	**(0.4)**	(0.2)
Administration costs	**0.9**	0.7	**0.3**	0.2	**1.2**	0.9
(Income)/expense recognised in income statement	**0.3**	7.6	**(0.6)**	0.4	**(0.3)**	8.0

The Group and the US pension scheme undertook an exercise during 2019 to provide a number of options to the members of the US pension scheme. This resulted in a past service gain on settlement of £1.1m.

B) Statements of comprehensive income (SOCI)

The actuarial losses recognised in the SOCI in respect of pensions were £0.3m (2018: gains of £8.3m), comprising actuarial losses of £1.8m (2018: gains of £8.5m) for the UK defined benefit pension scheme and actuarial gains of £1.5m (2018: losses of £0.2m) for the USA schemes, all figures before tax.

Actual return on scheme assets

The actual return on scheme assets were gains of £47.2m (2018: £2.2m), comprising gains of £43.9m (2018: £3.2m) for the UK defined benefit pension scheme and gains of £3.3m (2018: loss of £1.0m) for the USA schemes, all figures before tax.

Reconciliation of the present value of defined benefit obligations

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Present value of defined benefit obligations at 1 January	**377.7**	397.0	**22.5**	22.9	**400.2**	419.9
Past service cost/(gains)	**–**	7.3	**(1.1)**	–	**(1.1)**	7.3
Interest cost	**9.9**	8.9	**0.9**	0.8	**10.8**	9.7
Actuarial losses/(gains)						
– changes in demographic assumptions	**46.4**	(21.8)	**–**	(0.1)	**46.4**	(21.9)
– changes in financial assumptions	**(5.4)**	1.2	**1.0**	(1.4)	**(4.4)**	(0.2)
– experience	**(5.8)**	6.0	**–**	0.1	**(5.8)**	6.1
Benefit payments	**(19.6)**	(20.9)	**(9.1)**	(1.5)	**(28.7)**	(22.4)
Retranslation	**–**	–	**(0.7)**	1.7	**(0.7)**	1.7
Present value of defined benefit obligations at 31 December	**403.2**	377.7	**13.5**	22.5	**416.7**	400.2

At 31 December 2019 the pensioner population accounted for 57% (2018: 61%) of the UK scheme's obligations and 88% (2018: 70%) of the USA schemes' obligations.

Reconciliation of the fair value of scheme assets

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Fair value of scheme assets at 1 January	**398.2**	414.6	**16.3**	16.7	**414.5**	431.3
Interest income	**10.5**	9.3	**0.6**	0.6	**11.1**	9.3
Actuarial gains/(losses)						
– return on scheme assets	**33.4**	(6.1)	**2.5**	(1.6)	**35.9**	(7.1)
Company contributions	**2.0**	2.0	**0.9**	1.0	**2.9**	3.0
Administration expenses	**(0.9)**	(0.7)	**(0.3)**	(0.2)	**(1.2)**	(0.9)
Benefit payments	**(19.6)**	(20.9)	**(9.1)**	(1.5)	**(28.7)**	(22.4)
Retranslation	**–**	–	**(0.5)**	1.3	**(0.5)**	1.3
Fair value of scheme assets at 31 December	**423.6**	398.2	**10.4**	16.3	**434.0**	414.5

Experience gains and losses for the year

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Fair value of scheme assets	**423.6**	398.2	**10.4**	16.3	**434.0**	414.5
Defined benefit obligations	**(403.2)**	(377.7)	**(13.5)**	(22.5)	**(416.7)**	(400.2)
Net asset/(liability)	**20.4**	20.5	**(3.1)**	(6.2)	**17.3**	14.3
Actuarial gains/(losses) on scheme assets	**33.4**	(6.0)	**2.5**	(1.6)	**35.9**	(7.6)
Actuarial (losses)/gains on defined benefit obligations	**(35.2)**	14.5	**(1.0)**	1.4	**(36.2)**	15.9
Net gain/(loss) recognised in the SOCI during the year	**(1.8)**	8.5	**1.5**	(0.2)	**(0.3)**	8.3

24. Employee benefits continued

Movements in the net liability/asset of defined benefit pension schemes recognised in the Statements of financial position.

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Net asset/(liability) for employee benefits at 1 January	**20.5**	17.6	**(6.2)**	(6.2)	**14.3**	11.4
Expense recognised in the income statement (see below)	**(0.3)**	(7.6)	**0.5**	(0.4)	**0.2**	(8.0)
Company contributions	**2.0**	2.0	**0.9**	1.0	**2.9**	3.0
Actuarial (losses)/gains recognised in the SOCI	**(1.8)**	8.5	**1.5**	(0.2)	**(0.3)**	8.3
Retranslation	**–**	–	**0.2**	(0.4)	**0.2**	(0.4)
Net asset/(liability) for employee benefits at 31 December	**20.4**	20.5	**(3.1)**	(6.2)	**17.3**	14.3

At the end of the life of the UK defined benefit pension scheme the Company has an unconditional right to a refund and any such refund would be paid out only on a net of tax basis.

Defined benefit pension schemes income/expense recognised in the Consolidated income statement

The income/expense is recognised in the following line items in the Consolidated income statement:

	UK (Company)		USA		Group	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Administrative expenses	**0.9**	8.0	**(0.8)**	0.2	**0.1**	8.2
Financial expense/(income)	**(0.6)**	(0.4)	**0.2**	0.2	**(0.4)**	(0.2)
Net pension expense/(income)	**0.3**	7.6	**(0.6)**	0.4	**(0.3)**	8.0

The net pension expense/(income) is included in non-underlying items.

Share-based payments

The Company currently operates a deferred share plan. Own shares are held in trust and granted to plan participants when certain conditions are met. Further details of the Deferred share plan, including the performance conditions and vesting periods, are in the Remuneration and Nomination Committee report on page 35 and in this note.

The share awards that were subject to conditional grants during the year were:

	At 1 January 2019	Granted	Lapsed	Exercised	**At 31 December 2019**
1 April 2016	**52,400**	–	–	(52,400)	**–**
8 June 2017	**132,600**	–	(18,800)		**113,800**
13 March 2018	**85,127**	–	(9,877)	–	**75,250**
1 May 2019	**–**	68,816	–	–	**68,816**
	270,127	68,816	(28,677)	(52,400)	**257,866**

Granting of all conditional awards and the exercise of such awards are at nil cost to the participant. The share-based compensation charge for the year amounted to £0.1m (2018 £0.1m).

The fair value of the conditional awards made under the Deferred share plan has been based on the market price of the Company's shares at the date of grant, reduced by the assumptions made (for the purposes of this exercise) in respect of the present value of dividends expected to be paid (at the time of grant) during the vesting period. The fair value of each conditional award is as follows:

Date of award	Fair value per share
1 April 2016	46.0p
8 June 2017	74.0p
13 March 2018	178.9p
1 May 2019	134.7p

The company also introduced a long term incentive plan ("LTIP") for certain members of its senior management during the year. The key terms of this are set out in the Remuneration Committee report on page 35.

The total number of options issued under the LTIP was 555,000, at a market value of £1.66 per share, at the date of grant on 13 June 2019 and remained outstanding at the year end. The awards are expected to vest in full, as current and anticipated future performance is in excess of the upper targets set by the scheme. An expense of £0.3m has been recognised during the year within administration costs. No shares were forfeited, exercised, expired or exercisable during the period.

25. Capital and reserves

Share capital

Allotted, called up and fully paid	**2019 £m**	2018 £m
Ordinary shares of 25p each	**5.0**	5.0

There were 20,171,540 (2018: 20,171,540) ordinary shares in issue at the year end. The holders of the ordinary shares are entitled to one vote per share at meetings of the Company and to receive dividends as declared from time to time. At the year end an employee trust held 337,716 of the ordinary shares and it has agreed to waive all dividends and not to exercise voting rights in respect of these shares. The Company also has in issue 900,000 6% fixed cumulative preference shares of £1 each (see note 20); these are classified as borrowings.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve

The capital redemption reserve records the historical repurchase of the Company's own shares.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Investment in own shares

Included within retained earnings is the carrying value of own shares held in trust for the benefit of employees. These shares are used to service the obligations of the Company's Deferred share plan. Further details of the Deferred share plan can be found in the Remuneration and Nomination Committee report on pages 32 to 40 and on page 82 in note 24.

At 31 December 2019, the employee trust held 337,716 (2018: 347,016) ordinary shares of 25p each, representing 1.7% of the issued shares (2018: 1.7%), 242,320 of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £0.4m (2018: £0.5m). The trust purchased 43,100 additional shares in the year at a cost of £0.1m (2018: no additional shares).

Included within retained earnings is the charge of £0.3m (2018:£nil) in respect of the LTIP, as disclosed in the remuneration report on page 32.

25. Capital and reserves continued

The market value of the shares held by the trust at 31 December 2019 was £0.7m (2018: £0.4m).

Dividends

	2019 £m	2018 £m
Dividends to shareholders paid in the period:	–	–

Having considered the trading results for 2019, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate to recommend a dividend of 1.5p per ordinary share. No dividend was paid in 2018 or 2019. Future dividend payments will be considered by the Board in the context of 2020 trading performance and when the Board believes it is prudent to do so.

26. Financial risk management

The Group has exposure to credit, liquidity and market risks from its use of financial instruments.

These risks are regularly considered and the impact of these risks on the Group, and how to mitigate them, assessed. The Board of Directors is responsible for the Group's system of internal controls and has established risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Audit Committee assists the Board in the discharge of its duty in relation to the maintenance of proper internal controls. Further details regarding the Audit Committee can be found in its report on pages 28 to 31.

Categories of financial instruments

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Financial assets:				
Derivative instruments in designated hedge accounting relationships	0.3	–	–	0.6
Derivative instruments measured at fair value through income statement	–	–	0.4	–
Financial assets measured at amortised cost	35.3	40.9	9.6	19.0
	35.6	40.9	10.0	19.6
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	–	–	–	0.8
Fair value through income statement	2.6	–	2.6	–
Amortised cost	18.6	15.5	26.4	22.6
	21.2	15.5	29.0	23.4

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

IFRS 7 *Financial instruments: disclosures* for financial instruments that are measured in the Statements of financial position at fair value requires disclosure of fair value measurements in the form of a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 1 January 2019 and 31 December 2019 the Group held all financial instruments at Level 2.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and cash held at financial institutions. In addition, for the Company, a credit risk exists in respect of amounts owed by Group undertakings.

Trade receivables

The Group ensures that the provision of credit to customers is adequately managed by each individual business in order that the risk of non-payment or delayed payment is minimised. The Group's exposure to risk is influenced mainly by the individual characteristics of each customer, the industry and country in which customers operate. The Group has a diversified base of customers. In certain years sales to a customer may be more than 5%, although the sales would typically be both original equipment and service, and to a number of different geographic regions.

The Group has written credit control policies which cover procedures for accepting new customers, setting credit limits, dealing with overdue amounts and delinquent payers.

An impairment loss provision against trade receivables is created where it is anticipated that the value of trade receivables is not fully recoverable.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for the Group and the Company at 31 December was:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade receivables	**16.0**	12.2	**–**	1.0
Amounts owed by Group undertakings	**–**	–	**0.5**	0.5
Other receivables	**0.4**	0.8	**0.2**	0.1
Foreign currency derivatives	**0.3**	–	**0.4**	0.6
Cash and cash equivalents	**18.9**	27.9	**8.9**	17.4
	35.6	40.9	**10.0**	19.6

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an individual basis as the risk depends upon the circumstances of the receivable, including the financial strength of the counterparty and the terms of the contract. They have been grouped based on the days past due.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements, amongst others, are considered indicators of no reasonable expectation of recovery.

26. Financial risk management continued

Impairment loss provisions

The ageing of trade receivables and the impairment loss provisions for the Group and the Company at 31 December were:

	2019			2018		
Group	**Gross £m**	**Impairment loss provisions £m**	**Total £m**	Gross £m	Impairment loss provisions £m	Total £m
Not past due	**11.8**	**–**	**11.8**	7.3	–	7.3
Past due up to 30 days	**2.0**	**–**	**2.0**	1.7	–	1.7
Past due 31–60 days	**0.3**	**–**	**0.3**	1.8	–	1.8
Past due 61–90 days	**1.6**	**–**	**1.6**	0.5	–	0.5
Past due more than 91 days	**0.3**	**–**	**0.3**	1.1	(0.2)	0.9
	16.0	**–**	**16.0**	12.4	(0.2)	12.2

	2019			2018		
Company	**Company Gross £m**	**Impairment loss provisions £m**	**Total £m**	Gross £m	Impairment loss provisions £m	Total £m
Not past due	**–**	**–**	**–**	0.9	–	0.9
Past due up to 30 days	**–**	**–**	**–**	0.1	–	0.1
Past due 31–60 days	**–**	**–**	**–**	–	–	–
Past due 61–90 days	**–**	**–**	**–**	–	–	–
Past due more than 91 days	**–**	**–**	**–**	–	–	–
	–	**–**	**–**	1.0	–	1.0

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to hold cash and cash equivalents and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its liabilities as they become due. Further details of the Group's treasury policies can be found in the Financial review on pages 15 to 17.

Contractual maturities of non-derivative financial liabilities

The non-derivative financial liabilities for the Group and the Company at 31 December were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current liabilities:				
Trade and other payables (excluding derivatives)	**22.9**	13.9	**25.5**	21.7
Non-current liabilities:				
Interest-bearing loans and borrowings	**0.9**	0.9	**0.9**	0.9

The maturities of the interest-bearing loans and borrowings are disclosed in note 20.

Trade and other payables shown as current liabilities are expected to mature within six months of the statement of financial position date.

The contractual maturities of forward foreign exchange contracts that the Group and Company had committed at 31 December are shown in the Foreign currency risk section in this note.

Market risk
Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. Exposure to interest rate and currency risks arises in the normal course of the Group's business. The Group does not trade in financial instruments and enters into derivatives (principally forward foreign exchange contracts) solely for the purpose of minimising currency exposure on sales or purchases in other than the functional currencies of its various operations.

The Group's treasury policies are explained in the Financial review on pages 15 to 17.

Interest rate risk
Cash and cash equivalents
The cash profile at 31 December was:

	2019			2018		
Group	**Cash at floating rates £m**	**Cash on which no interest received £m**	**Total £m**	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	**11.2**	**–**	**11.2**	17.4	–	17.4
Canadian dollar	**2.4**	**–**	**2.4**	2.5	–	2.5
US dollar	**1.0**	**–**	**1.0**	3.7	–	3.7
Euro	**4.3**	**–**	**4.3**	4.3	–	4.3
	18.9	**–**	**18.9**	27.9	–	27.9

	2019			2018		
Company	**Cash at floating rates £m**	**Cash on which no interest received £m**	**Total £m**	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	**8.6**	**–**	**8.6**	17.0	–	17.0
Canadian dollar	**0.1**	**–**	**0.1**	0.2	–	0.2
US dollar	**0.1**	**–**	**0.1**	0.1	–	0.1
Euro	**0.1**	**–**	**0.1**	0.1	–	0.1
	8.9	**–**	**8.9**	17.4	–	17.4

All cash surplus to immediate operational requirements is placed on deposit at floating rates of interest.

Interest-bearing loans and borrowings
The profile of interest-bearing loans and borrowings at 31 December was:

	2019			2018		
Group and Company	**Borrowings at floating rates £m**	**Borrowings at fixed rates £m**	**Total £m**	Borrowings at floating rates £m	Borrowings at fixed rates £m	Total £m
Currency:						
Sterling	**–**	**0.9**	**0.9**	–	0.9	0.9
	–	**0.9**	**0.9**	–	0.9	0.9

The borrowings at fixed rates in sterling are the fixed cumulative preference shares which are explained in more detail in note 20.

26. Financial risk management continued

Sensitivity to interest rate risk

If interest rates had been 100 basis points higher/lower throughout the period, net financial income (excluding on pension scheme balances) for the Group would have increased/decreased by £0.1m (2018: £0.2m). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis as for the year ended 31 December 2018.

Foreign currency risk

The majority of the Group's operations are outside of the UK, and therefore a significant portion of its business is conducted overseas in currencies other than sterling. As explained on page 19, foreign currency risk is one of the principal risks and uncertainties to which the Group is exposed. The Group is exposed to both transaction and translation risk.

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The revenues and expenses of foreign operations are translated at an average rate for the period.

The assets and liabilities of foreign operations are translated at foreign exchange rates ruling at the statement of financial position date and foreign exchange differences are taken directly to the translation reserve.

The following exchange rates (relative to sterling), which are significant to the Group, applied during the period:

	Average rate		Closing rate	
	2019	2018	**2019**	2018
US dollar	**1.28**	1.33	**1.32**	1.26
Canadian dollar	**1.69**	1.72	**1.72**	1.71
Euro	**1.14**	1.13	**1.18**	1.11

Forward foreign exchange contracts

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

Fair values

The fair value of forward foreign exchange contracts at 31 December was:

	Group		Company	
Cash flow hedges	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Gain	**0.3**	–	**–**	–
Loss	**–**	(0.8)	**–**	–
	0.3	(0.8)	**–**	–

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 IFRS 9 Financial instruments: recognition and measurement.

There were no open forward foreign exchange contracts, as at either 31 December 2019 or 2018, that had been designated as fair value hedges under IFRS9 Financial instruments: recognition and measurement.

During the period a credit of £1.1m for the Group (2018: £1.0m debit) and £0.1m for the Company (2018: £0.1m debit) was recognised in the statements of comprehensive income in respect of cash flow hedges.

Contractual maturity date and future cash flows

The contractual maturity date and period when cash flows are expected to occur in relation to open forward foreign exchange contracts at 31 December were:

	2019				2018			
Group	**Less than six months £m**	**Between six and twelve months £m**	**Between twelve and twenty-four months £m**	**Total £m**	Less than six months £m	Between six and twelve months £m	Between twelve and twenty-four months £m	Total £m
Outflow	**(1.9)**	**(0.5)**	**–**	**(2.4)**	(0.5)	–	–	(0.5)
Inflow	**11.4**	**3.6**	**0.3**	**15.3**	11.3	9.5	0.3	21.1
	9.5	**3.1**	**0.3**	**12.9**	10.8	9.5	0.3	20.6

	2019				2018			
Company	**Less than six months £m**	**Between six and twelve months £m**	**Between twelve and twenty-four months £m**	**Total £m**	Less than six months £m	Between six and twelve months £m	Between twelve and twenty-four months £m	Total £m
Outflow	**–**	**–**	**–**	**–**	–	–	–	–
Inflow	**–**	**–**	**–**	**–**	0.4	–	–	0.4
	–	**–**	**–**	**–**	0.4	–	–	0.4

The following movements in the cash flow hedge reserve relate to the hedges relating to cash flows from foreign currency trade receivables.

Group	**2019 £m**
Opening balance 1 January 2019	**(0.8)**
Change in fair value of hedging instrument recognised in other comprehensive income (OCI)	**0.3**
Reclassified from OCI to profit or loss	**0.8**
Closing balance at 31 December 2019	**0.3**

No ineffectiveness arose during 2019. The hedging instrument refers to the forward contracts in their entirety, with hedging on a forward to forward basis.

26. Financial risk management continued

The effect of hedge accounting on the Group's financial position and performance is as follows, including the outline timing and profile of the hedging instruments:

Group	2019
Carrying amount	**GBP£0.3m**
Notional amount	
US$ to Canadian $	**CA$27.1m**
Canadian $ to Euro	**€2.6m**
GB£ to Euro	**€0.3m**
Hedge ratio	**1:1**
Average forward rates	
US$ to Canadian $	**1US$:1.2929CA$**
Canadian $ to Euro	**1CA$:0.679€**
Change in the fair value of the currency forward (excluding amounts reclassified)	**£0.3m**
Change in the fair value of the hedged item used to determine hedge effectiveness	**£0.3m**
Amounts in the cash flow hedge reserve	**£0.3m**

No other currency pairs at 31 December 2019 or during the year had a material value to the Group.

Currency profile

The currency profiles at 31 December of cash and cash equivalents and interest-bearing loans and borrowings are shown within the interest rate risk section in this note.

The main functional currency of the Group is sterling. The following analysis of financial assets and liabilities (excluding net funds/debt) shows the Group and Company exposure after the effects of forward foreign exchange contracts used to manage currency exposure.

The amounts shown represent the transactional exposures that give rise to net currency gains and losses which are recognised in the Consolidated income statement. Such exposures represent the financial assets and liabilities of the Group and the Company that are not denominated in the functional currency of the business involved.

	2019			2018		
Group	**US dollar £m**	**Euro £m**	**Total £m**	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	**–**	**0.2**	**0.2**	0.1	0.1	0.2
Canadian dollar	**2.5**	**0.6**	**3.1**	3.6	0.4	4.0
Euro	**0.3**	**–**	**0.3**	–	–	–
	2.8	**0.8**	**3.6**	3.7	0.5	4.2

	2019			2018		
Company	**US dollar £m**	**Euro £m**	**Total £m**	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	**–**	**–**	**–**	0.1	0.1	0.2

Sensitivity to foreign currency risk

Average exchange rates are used to translate the profits of foreign operations in the Consolidated income statement. If sterling had been 10% stronger against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have decreased Group profit for the year by £0.4m (2018: £0.2m). If sterling had been 10% weaker against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have increased Group profit for the year by £0.5m (2018: £0.2m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2019, Group equity would have increased by £0.2m (2018: £0.5m decrease). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 2018, Group equity would have decreased by £0.2m (2018: £0.6m). This analysis assumes that all other variables remain constant.

Fair values

The fair value of borrowings at fixed rates for both the Group and the Company at 31 December 2019 is £0.8m (2018: £0.8m) and has been calculated by discounting the expected future cash flows at prevailing interest rates.

There are no other significant differences between book and fair values for any of the other financial assets or liabilities included in either the Group or Company statement of financial position.

Capital management

Capital comprises total equity as shown in the statements of financial position. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group manages its capital structure and makes adjustments to it in light of the economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital through measures of earnings per share (see note 11), return on capital employed (profit for the period divided by average equity) and tangible net worth (total equity before intangible assets and employee benefits, net of tax). There were no changes to the Group's approach to capital management during the year and neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. 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.

The company was not a party to any operating leases during the period.

27. Leases continued

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**

At the date of acquisition Lambert held £1.8m of right of use assets, consisting of £1.6m of land & buildings and £0.2m of vehicles, with the remainder of the additions in the year totalling £0.1m.

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 1 January 2019. 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:

	31 December 2019 £m	1 January 2019 £m
Properties	**4.4**	3.5
Plant & Machinery	**0.1**	–
Vehicles	**0.2**	0.3
Total right of use assets	**4.7**	3.8

The undiscounted payments under the leases fall due as follows:

	31 December 2019 £m	1 January 2019 £m
Up to one year	**0.9**	0.8
One to five years	**2.9**	2.7
Over five years	**1.6**	0.7
Total undiscounted payments due under leases	**5.4**	4.2

The consolidated income statement includes the following amounts relating to leases:

	31 December 2019 £m
Amortisation of right of use assets – buildings	**0.7**
– plant, machinery and vehicles	**0.2**
Interest expense	**0.1**
Total cash outflow in respect of leases	**1.0**

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

	31 December 2019 £m
Right of use assets	**3.8**
Lease liabilities	**(3.8)**
Net impact upon retained earnings	**–**

The introduction of IFRS 16 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 31 December 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	0.3	1.7	(1.7)
EMEA	0.6	3.0	(3.1)
Asia Pacific	–	–	–
Total	**0.9**	**4.7**	**(4.8)**

Earnings per share was unchanged for the year to 31 December 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 accounting for low value leases as operating costs;
» 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.

28. Capital commitments

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Capital investment contracted but not provided for	**0.1**	–	**–**	–

29. Contingent liabilities

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts	**2.3**	1.0	**2.3**	1.0

30. 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 sectors, 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.

There were no acquisitions in the year ending 31 December 2018.

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

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

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	1.2
Right of use assets	1.8
Right of use liabilities	(1.8)
Payables	(3.8)
Contract liabilities	(5.4)
Deferred tax on intangible assets	(1.8)
Net identifiable assets acquired	13.7
Add: goodwill	5.7
	19.4

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.

The amortisation of the acquired intangible assets in the period totalled £0.9m and is included in non-underlying items in the income statement.

Acquisition-related costs
Acquisition-related costs of £0.9m are included in administrative expenses in non-underlying items in the income statement.

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 IFRS 3, 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. The interest during the period was £0.1m.

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 £16.5m and net profit of £2.3m to the Group for the period from 1 May 2019 to 31 December 2019. If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax for the year ended 31 December 2019 would have been £96.9m and £6.8m respectively.

Purchase consideration – cashflows
The outflow of cash to acquire Lambert, net of cash acquired, is as follows:

	2019 £m
Cash consideration	16.8
Less: cash acquired	(6.2)
Net outflow of cash – included in investing activities	**10.6**

31. Discontinued operations (Company only)

The trade and certain assets of the Company's business based in Coventry were transferred to Mpac Lambert Limited, a wholly owned subsidiary, on 31 December 2019. This results in the Company identifying this internal reorganisation as a disposal at that date, although this has no impact upon the Group's consolidated financial statements.

The assets and liabilities of the Company's Coventry operation were transferred to the subsidiary at net book value and the value settled via inter-company indebtedness.

No details on the profit or loss of the operations transferred is presented as the Company has taken advantage of the option not to publish an income statement.

The consideration received is as follows:

	2019 £m
Consideration received or receivable:	
– inter-company debt	**1.4**
Carrying value of net assets transferred	**(1.4)**
Gain on disposal before tax and translation reserve reclassification	**–**
Income tax on gain	**–**
Reclassification of foreign currency translation reserve	**–**
Gain on sale after income tax	**–**

The carrying value of the assets and liabilities as at the date of transfer were:

	2019 £m
Property, plant and equipment	**0.5**
Trade and other receivables	**1.5**
Inventories	**0.4**
Contract assets	**0.1**
Cash at bank	**0.6**
Total assets	**3.1**
Trade and other creditors	**(1.2)**
Intergroup balances	**(0.3)**
Provisions	**(0.2)**
Net assets	**1.4**

The employee benefit obligations within the Company were unaffected by this transfer.

There were no discontinued operations in 2018.

32. Related parties

Transactions with key management personnel

The compensation of key management personnel is disclosed in the Remuneration report on pages 34 to 35.

Identity of related parties

The Company has a related party relationship with its subsidiaries (see note 33), directors and the UK and USA defined benefit pension schemes. In the course of normal operations, related party transactions entered into by the Group have been contracted on an arm's-length basis.

Details regarding transactions involving the directors and their remuneration can be found in the Remuneration report on pages 34 to 35.

The Group recharges the UK defined benefit pension scheme with the costs of administration incurred by the Group. The total amount recharged in the year to 31 December 2019 was £0.3m (2018: £0.4m).

33. Group entities

All intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group and therefore in accordance with IAS 24 Related party disclosures are not disclosed.

Subsidiary undertakings

Details of all subsidiary undertakings are shown below. Principal subsidiary undertakings are shown on page 111. Subsidiary undertakings are, unless otherwise shown in brackets below, registered in England and Wales. Unless otherwise specified below, all subsidiaries are 100% owned by the Company.

Principal subsidiary undertakings

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	Mpac Langen, Inc. (Canada)
Edisonstraat 14, 6604 BV Wijchen, The Netherlands	Mpac Langen B.V. (Netherlands)
8 Burn Road, #09-01 Trivex, Singapore 369977	Mpac Langen Pte. Ltd (Singapore)
Station Estate, Station Road, Tadcaster, North Yorkshire, LS24 9SG	Mpac Lambert Limited Lambert Automation Limited Lambert Engineering Group Limited Lambert Engineering Holdings Limited

Subsidiary undertakings registered at Mpac Group plc registered office

Arista Laboratories Europe Limited	Mpac Machine Company Limited	Molmac Engineering Limited
Hartsvale Limited	Mpac Machinery Limited	Thrissell Limited
Mpac Corporate Services Limited	Mpac Overseas Holdings Limited	Mpac Group Holdings Limited
Mpac ITCM Limited	Mpac Tobacco Machinery Limited	

Overseas subsidiary undertakings

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	1456074 Ontario, Inc. (Canada) 928142 Ontario, Inc. (Canada) Mpac Corporation (USA) ITCM North America, Inc. (USA) Mpac Delaware, Inc. (USA) Mpac Laboratories, Inc. (USA) SASIB Corporation of America (USA) Mpac Machine Company, Inc. (USA) Mpac Richmond, Inc. (USA)

33. Group entities continued

During the year ended 31 December 2019 the Company received interest income from subsidiary undertakings of £0.1m (2018: £nil), management fees of £1.3m (2018: £0.7m).and brand fees of £2.4m (2018: £1.6m).

At 31 December 2019 amounts owed by subsidiary undertakings to the Company were £2.2m (2018: £2.0m) and amounts owed by the Company to subsidiary undertakings were £22.9m (2018: £19.0m). The amounts owed by subsidiary undertakings to the Company are stated after a provision of £11.7m (2018: £12.0m) representing amounts owed to the Company which are no longer considered recoverable.

At 31 December 2019 investments in subsidiaries by the Company were £63.8m (2018: £47.4m).

34. Accounting estimates and judgements

The development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates, are considered as part of the remit of the Audit Committee.

Estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the year in which the estimates are revised and in any future years affected. The areas involving significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Pension accounting

Changes to key assumptions used for calculating the net pension asset/liability of the Group can have a significant impact on the accounting valuation of the Group's defined benefit pension schemes. The key assumptions used in calculating the net pension asset/liability for the Group are disclosed in note 24. The value of the schemes' liabilities is particularly sensitive to the discount, inflation and mortality rates used. An analysis of the impact on the net pension asset/liability to changes in these assumptions is also disclosed in note 24.

Deferred tax

Management have recognised a deferred tax asset of £1.7m (2018: £1.7m) based on historic losses which is expected to be utilised over the next five year period. The assessment of this utilisation is based on the Group's latest budget, which is adjusted for significant non taxable income and expenses, along with specific limits to the utilisation of the tax credits. Further details of the asset is in note 16.

Revenue recognition

The Group recognises revenue and gross margin on long term contracts over time, in accordance with IFRS 15, based upon the total number of hours expected to be used on the contract and the number of hours required to complete the contract. Total expected revenue, the number of hours and cost of materials to complete the contract reflect management's best estimate of the probable future benefits and obligations associated with the contract. Obligations on contracts may result in penalties due to late completion of contractual milestones or unanticipated costs due to project modifications, unexpected conditions or events. Further detail in respect of revenue recognition is shown in the accounting policies note and note 1.

FIVE YEAR RECORD

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue	**88.8**	58.3	53.4	41.5	51.0
Underlying operating profit/(loss)[1]	**7.7**	1.4	1.3	(1.2)	2.5
Non-underlying items	**(2.4)**	(9.0)	3.3	(1.7)	(0.8)
Operating profit/(loss)	**5.3**	(7.6)	4.6	(2.9)	1.7
Net financing expense	**0.1**	0.2	(0.3)	(0.2)	(0.8)
Profit/(Loss) before tax	**5.4**	(7.4)	4.3	(3.1)	0.9
Taxation	**0.5**	1.4	(1.9)	0.7	0.1
Profit/(Loss) for the period from continuing operations	**5.9**	(6.0)	2.4	(2.4)	1.0
(Loss)/profit for the period from discontinued operations	**–**	–	(0.8)	1.8	(5.1)
Profit/(Loss) for the period	**5.9**	(6.0)	1.6	(0.6)	(4.1)
Underlying operating return on sales[1]	**8.7%**	2.4%	2.4%	(3.1)%	5.0%
Underlying earnings/(loss) per ordinary share[1]	**39.5p**	4.5p	4.2p	(6.0)p	10.8p
Basic earnings/(loss) per ordinary share	**29.7p**	(30.1)p	20.6p	(3.3)p	(20.9)p
Dividends per ordinary share in respect of the year	**–**	–	–	1.25p	4.0p
Intangible assets	**16.3**	1.0	0.9	15.2	14.9
Property, plant and equipment and investment property	**11.7**	5.2	4.8	9.3	8.8
Inventories	**7.1**	3.3	2.4	13.0	15.1
Trade and other receivables (including taxation)	**24.0**	24.9	22.7	29.3	22.1
Employee benefits	**17.3**	14.3	11.4	(2.2)	4.0
Trade and other payables (including taxation and provisions)	**(47.8)**	(36.0)	(29.7)	(30.9)	(26.0)
	28.6	12.7	12.5	33.7	38.9
Cash	**18.9**	27.9	30.3	1.7	(2.3)
Net assets	**47.5**	40.6	42.8	35.4	36.6
Net assets per ordinary share	**235p**	201p	212p	176p	181p
Ordinary shares in issue (000's)	**20,172**	20,172	20,172	20,172	20,172

1 Before non-underlying items

PRINCIPAL DIVISIONS AND SUBSIDIARIES

The divisions and subsidiary undertakings shown include those which principally affect the profits and net assets of the Group as at the date of this report. Overseas companies operate and are incorporated in the countries in which they are based. In all cases the class of shares held is ordinary equity shares (or equivalent) and the proportion held is 100% unless otherwise indicated. Shares in the UK companies are held directly by Mpac Group plc and those in the other overseas subsidiaries by intermediate holding companies.

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United Kingdom

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and eighth Annual General Meeting (the Meeting) of Mpac Group plc (the Company) will be held at the Company's offices at 13 Westwood Way, Westwood Business Park, Coventry, CV4 8HS on Wednesday 6 May 2020 at 12 noon to consider and, if thought appropriate, to pass the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 16 will be proposed as special resolutions:

Ordinary resolutions

Report and Accounts

1. To receive the audited annual accounts of the Company for the year ended 31 December 2019 together with the directors' report and the auditors' report on those annual accounts.

Dividend

2. To declare a final dividend for the year ended 31 December 2019 of 1.5 pence per ordinary share.

Directors

3. To elect Mrs S A Fowler as a director.
4. To re-elect Mr A J Kitchingman as a director.
5. To re-elect Mr D G Robertson as a director.
6. To re-elect Dr A Steels as a director.
7. To re-elect Mr W C Wilkins as a director.
8. To approve the Remuneration report, excluding the Remuneration Policy, set out on pages 32 to 40 of the Annual Report and Accounts 2019.
9. To approve the Remuneration Policy, the full text of which is set out on pages 36 to 40 in the Annual Report and Accounts 2019, which shall take effect from the close of the Meeting.

Auditors

10. To appoint Grant Thornton UK LLP as auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next AGM at which accounts are laid before the Company.

Remuneration of Auditors

11. To authorise the Audit Committee to determine the remuneration of the auditors.

Directors' authority to allot shares

12. To generally and unconditionally authorise the directors pursuant to and in accordance with Section 551 of the Companies Act 2006 (the Act), in substitution for all previous authorities to the extent unused, to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

    a) up to an aggregate nominal amount of £1,680,000 (representing approximately one third of the total ordinary share capital in issue at 30 March 2020, being the latest date prior to publication of this notice of meeting); and

    b) comprising equity securities (as defined in Section 560 (1) of the Act) up to a further aggregate nominal value of £1,680,000 in connection with an offer by way of a rights issue, such authorities to expire at the conclusion of the 2021 AGM or if earlier, at close of business on 31 July 2021, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the authority ends.

    For the purposes of this Resolution, 'rights issue' means an offer to:

    a) shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

    b) holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities;

    to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors consider necessary or appropriate in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

Special resolutions

Disapplication of pre-emption rights

13. That if resolution 12 is passed, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited:

    a) to allotments for rights issues and other pre-emptive issues; and
    b) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £252,000, such authority to expire at the conclusion of the 2021 AGM of the Company (or, if earlier, at close of business on 31 July 2021) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

14. That if resolution 12 is passed, the Board be authorised in addition to any authority granted under resolution 13 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

    a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £252,000; and
    b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Dis-applying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, such authority to expire at the end of the next AGM of the Company (or, if earlier, at close of business on 31 July 2021) save that, in each case, the Company may before such expiry make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Authority to purchase of own shares

15. That the Company be generally and unconditionally authorised for the purpose of Section 701 of the Act to make market purchases (as defined in Section 693 of the Act) of ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') provided that:

    a) the maximum number of ordinary shares hereby authorised to be purchased is 3,000,000;
    b) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 25 pence per share, being the nominal amount thereof;
    c) the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of: (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and (ii) the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS); and
    d) the authority hereby conferred shall (unless previously renewed or revoked) expire at the end of the 2021 AGM, save that the Company may before such expiry make a contract or agreement to make a market purchase of its own ordinary shares which will or may be executed wholly or partly after the expiry of such authority and the Company may purchase such shares as if the authority conferred hereby had not expired.

Notice of general meetings

16. That a general meeting of the Company, other than annual general meetings of the Company, may be called on not less than 14 clear days' notice.

By order of the Board

DUNCAN TYLER

Company Secretary
1 April 2020

Registered in England and Wales No. 124855

Registered office:
13 Westwood Way
Westwood Business Park
Coventry CV4 8HS

Notes relating to the notice

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

Entitlement to attend and vote

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Monday 4 May 2020, or if the meeting is adjourned, close of business on the day which is two days' prior to the adjourned meeting. In each case, changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

Appointment of proxies

2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 12 noon (UK time) on Wednesday 6 May 2020 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. You can vote either:
   - » by logging on to www.signalshares.com and following the instructions;
   - » you may request a hard copy form of proxy directly from the registrars, Link Asset Services , on Tel: +44 (0)371 664 0391. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Alternatively, email Link at shareholderenquiries@linkgroup.co.uk;
   - » in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below;
   - » in order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 12 noon on Monday 4 May 2020.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Notes relating to the notice continued

10. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

Issued shares and total voting rights

13. As at 30 March 2020 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 20,171,540 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 30 March 2020 are 20,171,540.

Questions at the meeting

14. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

Documents on display

15. Copies of the Executive Directors' service contracts and letters of appointment of the Non-Executive Directors may be inspected during normal business hours at the registered office of the Company on any business day from the date of this Notice until the conclusion of the Meeting.

Communication

16. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Website giving information regarding the meeting

17. A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.mpac-group.com.

After the meeting

18. Members will have the opportunity to meet the directors of the Company.

Explanatory notes on the resolutions

Resolutions 1 to 12 are ordinary resolutions; resolutions 13 to 16 are special resolutions. To be passed, ordinary resolutions require more than 50% of votes cast to be in favour of the resolution whilst special resolutions require at least 75% of the votes cast to be in favour of the resolution.

Ordinary Resolutions

To receive the Annual Report and Accounts 2019

Resolution 1 is a standard resolution. The Companies Act 2006 requires the directors to lay before the Company in a general meeting copies of the Company's annual accounts, and the directors' report and auditor's report on those accounts. The Annual Report and Accounts 2019, which includes this Notice of Annual General Meeting, will be available online at www.mpac-group.com.

Dividend

Resolution 2 deals with the recommendation of the directors that a final dividend of 1.5 pence per ordinary share be paid. If approved, it is intended that the final dividend will be paid on 15 May 2020 to shareholders on the register of members at close of business on 17 April 2020.

Election and re-election of directors

In accordance with best practice in corporate governance, all directors are standing for re-election. Resolutions 3 to 7 seek approval for the election of Mrs S A Fowler and the re-election of the remaining directors.

Mrs Fowler was appointed on 6 March 2020. She is a Fellow of the Institute of Chartered Accountants in England and Wales and formerly worked as a senior partner within Ernst and Young. Her current positions include non-executive directorships at BHSF Group Limited and its subsidiary and Saftconsulting Limited. She is also Chair of St Basils, a Birmingham based charity and housing association.

Biographical information for each of the existing directors is provided on page 23 of the Annual Report and Accounts 2019.

The Board has no hesitation in recommending the election or re-election of the directors to shareholders. In making these recommendations, the Board confirms that it has given careful consideration to the Board's balance of skills, knowledge and experience and is satisfied that each of the directors putting themselves forward for election or re-election has sufficient time to discharge their duties effectively, taking into account their other commitments.

Remuneration report

Resolution 8 seeks shareholders' approval for the Directors' Remuneration report, excluding the summary Directors' Remuneration Policy which is set out on pages 36 to 40 of the Annual Report and Accounts 2019, for the year ended 31 December 2019. The vote is advisory only.

Directors' remuneration policy

The Directors' Remuneration Policy is contained in the Directors' Remuneration Report and can be found at pages 36 to 40 of the Annual Report. The Company's current Remuneration Policy was last approved by shareholders at the annual general meeting in 2017. Accordingly, shareholders are invited to approve the new Directors' Remuneration Policy by voting on Resolution 9. The Policy sets out the Company's forward looking policy on Directors' remuneration and is subject to a binding shareholder vote. If Resolution 9 is approved the Remuneration policy will be effective from the close of the Meeting on 6 May 2020. Payments will continue to be made to directors (in their capacity as directors) in line with their existing contractual arrangements until that date.

Appointment of auditors

The auditors of a company must be appointed or re-appointed at each general meeting at which the accounts are laid.

Resolution 10 seeks approval to appoint Grant Thornton UK LLP as the Company's auditors until the conclusion of the next general meeting of the Company at which accounts are laid.

Remuneration of auditors

Resolution 11 seeks consent for the directors to determine the remuneration of the auditors.

Directors' authority to allot shares

Resolution 12 seeks consent for shareholders to grant the directors authority to allot shares or grant rights to subscribe for or convert securities into shares, up to a maximum aggregate nominal value of £3,360,000, which is approximately two-thirds of the nominal value of the issued ordinary share capital of the Company as at 30 March 2020, being the latest practicable date prior to the publication of this notice. £1,680,000 of this authority is reserved for a fully pre-emptive rights issue. This is the maximum permitted amount under best practice corporate governance guidelines. The authority will expire at the next Annual General Meeting of the Company or if earlier, at close of business on 31 July 2021. The directors have no current intention of exercising such authority and will exercise this power only when they believe that such exercise is in the best interests of the shareholders.

Special resolutions

Disapplication of pre-emption rights

Resolutions 13 and 14 will be proposed as special resolutions, each requiring a majority of 75% of those voting to be in favour. If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

Resolution 13 deals with the authority of the directors to allot new shares or other equity securities pursuant to the authority given by resolution 12, or sell treasury shares, for cash without the shares or other equity securities first being offered to shareholders in proportion to their existing holdings. Such authority shall only be used in connection with a pre-emptive offer, or otherwise, up to an aggregate nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 30 March 2020.

The Pre-Emption Group Statement of Principles supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities (and sales of treasury shares for cash) representing no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines 'specified capital investment' as meaning one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets that are the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, and in line with the template resolutions published by the Pre-Emption Group, resolution 14 seeks to authorise the directors to allot new shares and other equity securities pursuant to the authority given by resolution 12, or sell treasury shares, for cash up to a further nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 30 March 2020, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 14 is used, the Company will publish details of the placing in its next Annual Report. If these resolutions are passed, the authorities will expire at the end of the next AGM or at close of business on 31 July 2021, whichever is the earlier.

The Board considers the authorities in resolutions 13 and 14 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a rights issue or other pre-emptive offer without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board does not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three-year period (other than in connection with an acquisition or specified capital investment as described in the Pre-Emption Group's Statement of Principles) without prior consultation with shareholders.

Authority to purchase own shares

Resolution 15 seeks authority for the Company to make market purchases of its own ordinary shares up to a maximum number of 3,000,000 ordinary shares, representing approximately 15% of the issued ordinary share capital at 30 March 2020. The authority requested would replace a similar authority granted last year and would expire at the end of the 2021 AGM, or if earlier, at close of business on 31 July 2021.

In reaching a decision to purchase ordinary shares, the directors will take account of the Company's cash resources and capital and the general effect of such purchase on the Company's business. The authority would only be exercised by the directors if they considered it to be in the best interests of the shareholders generally and if the purchase could be expected to result in an increase in earnings per ordinary share.

Notice of general meetings

Resolution 16 is an annual permission request for general meetings, other than the AGM, to be called on 14 clear days' notice. There is no current intention to hold such a meeting but the directors wish to retain the ability to call a meeting on shorter notice if the circumstances should require it. The Companies (Shareholders' Rights) Regulations 2009 specify that approval must be sought from shareholders by special resolution at an annual or subsequent general meeting and the Company would need to make a means of electronic voting available to all shareholders for any general meeting called on less than 21 clear days' notice. If passed, the resolution would remain valid until the end of the 2021 AGM, at which it is intended that a similar resolution will be proposed.

Corporate information

Registered office
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Email: ho@mpac-group.com

Registered number
124855

Secretary
Mr D E Tyler

Auditors
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The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Nominated Advisor & Broker
Shore Capital and Corporate Limited
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EC2V 7NQ

Share price
Available from:
FT Cityline – tel: +44 (0)905 817 1690
Certain national newspapers

Website
Further information is available at www.mpac-group.com

Timetable
Annual General Meeting
6th May 2020

Payment dates for preference dividend
30 June 2020 and 31 December 2020

Half-year announcement
September 2020

luminous

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