

CHAIRMAN'S STATEMENT

Although anticipated, the financial results for the 26 weeks to 26 September 2009 will be a disappointment for our shareholders. However, I believe that the swift action our management team has taken to reduce costs, rationalise our businesses and raise additional working capital has improved the Group's prospects considerably and created a stronger, leaner business, which is now capable of exploiting future opportunities in our markets.

Trading and Markets

In the 26 week period under review, the Group's markets continued to be seriously affected by the global economic downturn and this was reflected in our own trading. Order intake levels, when compared with the second half of the previous financial year, did not increase significantly and underlying revenue was 39% lower than the corresponding period in 2008.

As noted in our AGM statement, there were some positive signs of recovery in order activity within our machine tools and laser markets, particularly in the US, towards the latter end of the period under review. Our forward order book in these markets has stabilised and we expect level of orders to improve in the second half of the financial year.

Results

Overall, Group revenue in the period reduced by 49% to £22.7m (2008: £44.2m). After adjusting for the effect of a major one-off aerospace contract undertaken during the first half of last year and discontinued products, underlying revenue was 39% lower year on year. Gross margins improved slightly to 32% (2008: 29%), compared with a prior year margin, excluding the aerospace contract and discontinued products, of 31%. Other operating income decreased to £0.2m (2008: £0.4m). Net operating expenses, after restructuring costs of £2.6m and goodwill impairment of £1.1m, were reduced by £1.1m to £12.9m (2008: £14.0m), as the cost savings generated by the first phase of our turnaround plan started to be realised.

Group operating loss for the period, before exceptional costs of £2.6m and goodwill impairment of £1.1m, was £1.7m (2008: profit of £0.2m). EBITDA, before exceptional costs and goodwill impairment, was £(0.9)m (2008: £1.0m), however, the actions taken to reduce costs have resulted in an improvement in the Group's performance, when compared with the second half of the last financial year in which an operating loss of £2.5m, before exceptional costs and goodwill impairment, was recorded.

The exceptional costs incurred in the period relate to the second phase of the Group's previously announced programme of cost reductions. This programme has now been completed with the exception of a few minor actions, which will be implemented in Q4. As previously reported, the combined effect of these timely management actions is expected to produce annualised cost savings of approximately £12m. Following the consolidation of our European operations and 600 UK into 600 Europe, goodwill of £1.1m relating to our German operation, Parat, has been written off.

The Group's operating loss after exceptional items, but before net financial income and tax, was £5.4m (2008: operating loss of £1.0m). Net financial expense was £0.8m compared with net financial income of £0.1m in the corresponding period in the previous year. This resulted in a loss before tax of £6.1m (2008: loss of £0.8m). The basic and diluted earnings per share for continuing operations was (10.6)p (2008: (1.4)p).

As anticipated in our 2009 AGM Statement, net borrowings at the half year end increased to £5.0m (2008: £1.1m) due to the one-off costs incurred during the turnaround programme. The Group has banking relationships in all the countries in which it has an operating

presence. The banks have been regularly updated on the Group's progress, during the course of the turnaround, and facilities totalling £6.5m are currently in place. The Board believes that this is sufficient for the Group's ongoing needs. Inventory levels have been reduced by 15% to £22.1m (2008: £26.1m) and further opportunities to reduce working capital are actively being sought.

Dividend

As previously stated, any future dividend payments will be depend on the Group's results. Accordingly, the Board does not recommend the payment of a dividend at this time.

Principal Risks and Uncertainties

The principal risks and uncertainties remain as outlined in our 2009 Annual Report.

Related Party Transactions

No related party transactions took place in the period under review. Related party transactions for the year ended 28 March 2009 are as described in the Group's Annual Report 2009.

Outlook

Gradual signs of recovery are beginning to emerge in our principal markets and, as a result of the acute actions we have taken to reduce costs, the Group is well positioned to benefit from an improvement in trading conditions.

Having completed the first two cost-saving phases of our turnaround strategy, management focus has now been directed towards strengthening the Group's supply chain and developing our manufacturing footprint. This is intended to increase our capacity and support the next phase of the Board's strategy to rebuild Group revenues at sustainable margins.

The final elements of the cost reduction programme, which will be implemented in Q4, are expected to result in an improved operating performance in the second half of the current financial year.

Martin Temple

Chairman

26 November 2009