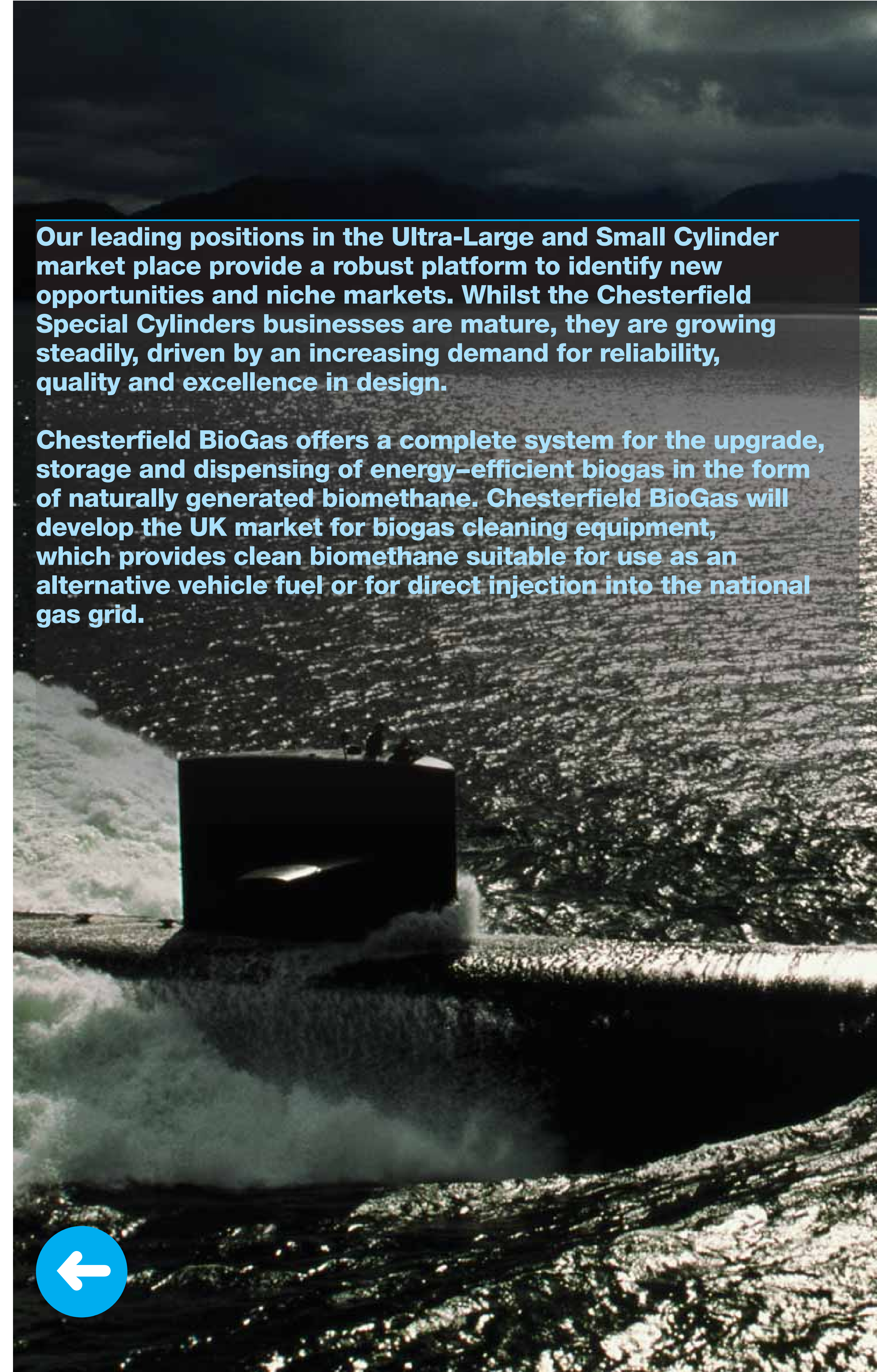
Pressure Technologies plc
Annual Report 2009

A leading designer and manufacturer of engineering solutions for high pressure markets

Pressure Technologies plc is a leading designer and manufacturer of engineering solutions for high pressure markets.

We operate two distinct yet complimentary businesses, Chesterfield Special Cylinders and Chesterfield BioGas.

The Group works in partnership with its customers to design, develop and manufacture the best solutions for their cylinder and pressure systems.



Our leading positions in the Ultra-Large and Small Cylinder market place provide a robust platform to identify new opportunities and niche markets. Whilst the Chesterfield Special Cylinders businesses are mature, they are growing steadily, driven by an increasing demand for reliability, quality and excellence in design.

Chesterfield BioGas offers a complete system for the upgrade, storage and dispensing of energy–efficient biogas in the form of naturally generated biomethane. Chesterfield BioGas will develop the UK market for biogas cleaning equipment, which provides clean biomethane suitable for use as an alternative vehicle fuel or for direct injection into the national gas grid.

↑ **11%**

Revenue 2009: £26.2m

↑ **10%**

Underlying operating profit 2009: £5.4m

↑ **10%**

Dividend 2009: 6.6p

Business highlights

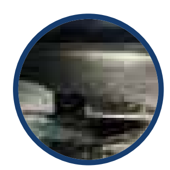
- **Revenue up 11% to £26.2 million**
- **Underlying operating profit up 10% to £5.4m**
- **Profit before tax constant at £5.1m**
- **Basic earnings per share of 32.1p (2008: 31.6p)**
- **Strong balance sheet - net cash increased to £7.9m (2008: £5.9m)**
- **Dividend for the year of 6.6p**

Oil and Gas

Our core activity is the supply of air pressure vessel assemblies for motion compensation systems on semi-submersible rigs and drill ships in deep-sea oil and gas markets.

The depletion of existing oil and gas resources, allied to increases in energy demand, has made sourcing more remotely located supplies of oil and gas, such as in deep-sea locations, more economically viable.

Strong growth in the energy markets has driven the significant rise in Group revenues in recent years. The Company continued to enjoy strong demand from this sector in 2009, despite the challenging financial climate.



Naval

The Group has a long history of designing and supplying the Royal Navy's high pressure system cylinders.

Having established an outstanding reputation for skill, experience and innovation in this market, the Group is successfully expanding its customer base around the world. Recent significant contract wins include projects for France, Spain and Canada.

Revenues in 2009 showed an increase over recent years with sales to the Astute programme in the UK and the supply of strategic spares to the Canadian submarine fleet.

Aerospace

From the Battle of Britain to the current conflict in Afghanistan, Pressure Technologies' subsidiary, Chesterfield Special Cylinders, has played its part in maintaining the operational capability of the Royal Air Force.

The Group has a full capability to design, manufacture and provide in-service support to our customers. Whilst the RAF is a key customer, we also supply to major defence contractors for a wide range of aircraft. Applications include life-support, fire fighting and backup pneumatic systems.

Demand was firm in 2009 with increased military orders compensating for a reduction in orders from the executive jet market.

Industrial projects

The Group's cylinder design and manufacturing capability is well respected and we participate on a wide range of industrial projects around the world. This is as diverse as trailers for transporting hydrogen in Europe to high pressure storage for wind tunnels in India.

Not only is the product range diverse but the market is worldwide and our team of qualified sales engineers is augmented by agents in Europe, India, the Far East and Australia.

The ability to supply complex bespoke cylinder assemblies has been a key factor in our ability to win contracts and we have continued to strengthen our design and quality assurance functions during 2009.

Biogas

Chesterfield BioGas was set up to develop the UK market for biogas upgrading equipment. Biogas is the product of anaerobic digestion of organic waste and is a mixture of methane, carbon dioxide and trace gases. Upgrading equipment produces almost pure methane, called "biomethane", for use as an alternative vehicle fuel or injection into the national gas grid.

The market for biomethane has, to date, remained untapped, due to a limited availability of vehicles and refuelling infrastructure and subsidies for combined heat and power plants which have made the injection of biomethane into the gas grid uneconomic.

Significant progress has been made to address these issues with Mercedes and Volkswagen now producing right-hand drive methane-fuelled vehicles for the UK market and the announcement of subsidies for injection into the gas grid is imminent.

2009 was a year for laying the foundations for growth in Chesterfield BioGas with an active pipeline of enquiries worth over £10 million.

Core activity

Our core market remained strong in 2009 as we delivered projects ordered during the last quarter of 2008 and the first quarter of 2009.

Volatility in oil prices and general economic conditions, together with some protectionist practices in South East Asia, have dampened activity levels in 2010.

However, with Petrobras announcing its requirement for 28 new deep water rigs over the next four years and the discovery of significant new deep water reserves in the Gulf of Mexico, we anticipate a growth in demand in the second half of 2010 into 2011.

The extreme conditions that prevail in deep water oil exploration and extraction present major technical challenges for cylinder design and manufacture.

Customers demand exacting standards and our design and engineering capabilities differentiate us from the competition. Working with our largest customer, we were able to raise the level of internal cylinder cleanliness from the standard for an air pressure vessel to an equivalent NAS8 hydraulic systems standard – a standard to date unmatched by any of our competitors.

We continue to influence and shape the setting of international standards for high pressure cylinders through our ongoing participation on ISO working groups.

Alan Harding
Technical Director
Chesterfield Special Cylinders

Oil and Gas

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The depletion of existing oil and gas resources, allied to increases in energy demand, has made sourcing more remotely located supplies of oil and gas, such as in deep-sea locations, more economically viable.

Strong growth in the energy markets has driven the significant rise in Group revenues in recent years.

The Company continued to enjoy strong demand from this sector in 2009, despite the challenging financial climate.

With semi-submersible rigs and drillships operating in extreme conditions, drilling in thousands of feet of water and through tens of thousands of feet of rock, the robustness of our cylinder assemblies is under constant scrutiny. In the tough world of oil exploration and extraction delays are costly and the quality of our work is of vital importance. No market is more demanding.

Meeting the standards required in this market is helping us improve our product offering in other markets, particularly in the areas of external coatings and internal cleanliness.

As well as providing cylinders for motion compensation systems there is also a market in support services and we continue to win projects supplying cylinders for diving support and life-support systems.

The ability to supply a complete cylinder assembly and manage complex supply chains are skills learnt in the Oil and Gas sector that we have transferred across the Group. It was key to the development of our UK trailer refurbishment business and will be critical to the growth of our aerospace business.

Aerospace

From the Battle of Britain to the current conflict in Afghanistan, Pressure Technologies' subsidiary Chesterfield Special Cylinders has played its part in maintaining the operational capability of the Royal Air Force.

The Group has a full capability to design, manufacture and provide in-service support to our customers. Whilst the RAF is a key customer, we also supply to major defence contractors for a wide range of aircraft. Applications include life-support, fire fighting and backup pneumatic systems.

Demand was firm in 2009 with increased military orders compensating for a reduction in orders from the executive jet market.

We recognised that we had not put sufficient focus into this side of the business and in March 2009 we appointed a Business Manager for the Small Cylinder business to focus on growing our aerospace sales.

To assist this, the sales teams in Chesterfield Special Cylinders have been reorganised into product groups and additional Sales Engineers have been recruited.

Growth in the business will come from expanding our service offering into the civil aerospace market and will use the systems integration and supply chain management learnt in the Oil and Gas sector to add value.

Weight is a key issue for aerospace cylinders and over the next two years we will be developing a range of cylinders using light-weight composite technology. This will not only protect our current market position but will also open up other areas of the aerospace market.

New focus

Sometimes when one part of a business grows rapidly it is easy to lose focus in other areas. For us this has been the case with the Small Cylinder division of Chesterfield Special Cylinders.

Recognising this, we have created the role of Business Manager to provide the focus to guide and grow this division to achieve similar growth rates to that recently seen in the Ultra-Large business.

The Group has an enviable reputation for design, manufacturing and retest of cylinders for aerospace applications. As an outsider coming into Pressure Technologies it is evident that we have the opportunity to grow this business significantly.

We can apply the lessons learnt from our achievements in Ultra-Large where we have added value engineering and supply chain management to our cylinder offering.

Furthermore we can leverage our military expertise specifically in retest and transfer these skills into the civil market.

We are encouraged by initial customer feedback to our proposed integrated retest service and excited about the potential for growing a sizable business in the commercial aerospace sector.

Longer term we will be developing a composite cylinder capability to meet ever increasing requirements to reduce component weight.

John Moscrop
Business Manager
Small Cylinders

Biogas

Our subsidiary Chesterfield BioGas was set up to develop the UK market for biogas upgrading equipment. Biogas is the product of anaerobic digestion of organic waste and is a mixture of methane, carbon dioxide and trace gases. Upgrading equipment produces almost pure methane, called "biomethane", for use as an alternative vehicle fuel or injection into the national gas grid.

The market for biomethane has, to date, remained untapped, due to a limited availability of vehicles and refuelling infrastructure and subsidies for combined heat and power plants which have made the injection of biomethane into the gas grid uneconomic.

Significant progress has been made to address these issues with Mercedes and Volkswagen now producing right-hand drive methane-fuelled vehicles for the UK market and the announcement of subsidies for injection into the gas grid is imminent.

2009 was a year for laying the foundations for growth in Chesterfield BioGas with an active pipeline of enquiries worth over £10 million.

Key to our success in this market is our long standing relationship with Greenlane® Biogas of New Zealand. Greenlane® are the worldwide market leader both in terms of installed sites and gas processing capacity and have over a decade of experience. For our customers this means that we can provide them with the comfort of knowing that they are being supplied technology that is proven in the field and we have the back-up of Greenlane® engineers and designers.

Under the terms of our five year exclusive licence agreement with Greenlane® we will manufacture and sell upgrading equipment in the UK and Eire. But this is only a part of the Chesterfield BioGas offering. We shall also be selling refuelling equipment, skids, trailers and fixed storage manufactured by Chesterfield Special Cylinders as well as project management and maintenance services.

The Greenlane® product range gives the flexibility to provide cost effective upgrading from volumes as low as 80 cubic metres per hour to multiples of 2,000 cubic metres per hour.

Market potential

You only need to look at what is happening in the rest of Europe to understand the potential for Chesterfield BioGas.

In Sweden, major cities like Stockholm and Malmo are running their buses on biomethane.

In Madrid, refuse collection vehicles will soon be running on biomethane.

In Gustrow, Germany there is a plant processing 10,000 cubic metres of gas per hour for injection into the grid, enough to heat 33,000 homes.

The technology is well established and presents a low risk opportunity in the UK to profit from waste while at the same time reducing carbon emissions. If similar initiatives are undertaken in Britain this is a potential multi million pound business opportunity for the Group.

When a senior manager of a major utility company telephones you out of the blue to enquire about biogas upgrading you know you are onto a winner.

This confirmed to me that all the hard work we put into marketing Chesterfield BioGas in 2009 will soon be paying off.

There are still issues to resolve not least for injection of biomethane into the gas grid.

The publishing of the Renewable Heat Incentive scheme in 2010 should resolve this.

With an upgrader at our factory as well as a portable biomethane filling station we are well placed to react quickly to initial orders.

Stephen McCulloch
Business Development Manager, Chesterfield BioGas

Chairman's statement
by Richard Shacklady

I am pleased to announce that the Group has achieved a commendable, solid set of full year results, despite the worst market and financial turbulence for over 20 years.

I am pleased to announce that the Group has achieved a commendable, solid set of full year results, despite the worst market and financial turbulence for over 20 years. The global economic crisis and domestic fiscal issues have, undoubtedly, affected the key markets in which we operate. These results reflect the inherent robustness of our business and strength of management.

Results

Revenue increased by over 10% to £26.2 million from £23.7 million in 2008. Operating profit, after one-off costs relating to the start up of Chesterfield BioGas (£0.3 million) and an IAS 39 exchange loss (£0.1million), improved marginally to £5.0 million, compared to £4.9 million in the previous year. Underlying operating profit increased to £5.4 million (2008: £4.9 million). Investment in new products and processes, which are expected to benefit the business in the medium term, was continued throughout the period. Further details of which are included in the Chief Executive's report.

Profit before taxation was £5.1 million (2008: £5.0 million), giving an improved basic earnings per share of 32.1p (2008: 31.6p).

Our sustained actions on working capital management, both inventories and debtors, are bearing fruit. Net cash increased by £2.0 million in the period under review to £7.9 million (2008: £5.9 million). We now have a very strong balance sheet from which to develop the business.

In line with our stated intention to have a progressive dividend policy, the Board is proposing a final dividend of 4.4 pence per share (net), giving a total dividend for the year of 6.6 pence per share (net) - an increase of 10%. If approved, this dividend will be paid on 12 March 2010 to shareholders on the register at the close of business on 19 February 2010. The ex-dividend date will be 17 February 2010.

Strategy

Our Business Growth Strategy, which is kept under constant review, continues to be the penetration of select, key growth sectors, which offer synergies to our core business. We remain committed to the global energy markets, notably offshore oil and gas; particularly as the bulk of politically stable oil and gas reserves are located in deep water.

Long term growth, amounting to double GDP rate, is expected in other high pressure gases markets and the Group is actively exploring niche product opportunities in these sectors.

Essential functions within the Group have been strengthened to support growth; Chesterfield Special Cylinders ("CSC") has been split into two separate product groups, Ultra-Large and Small Cylinders. This is expected to aid the development of both businesses, most particularly Small Cylinders.

Our investment in and support of R&D continues, as the Board firmly believes organic development of new technologies is key to a successful future for the Group. To this end, a healthy product development programme is being maintained and this activity will be supported by selective acquisitions in growth markets.

Chesterfield BioGas ("CBG") has been highly active throughout the year and has created a strong profile in the biogas upgrade market. This is a proven renewable energy solution and CBG currently has project quotations in hand of £10 million, spreading over the next three years. A UK Government announcement on Renewable Heat Incentive ("RHI") is expected early in 2010. This will create a level playing field with other subsidised renewable energy solutions, such as Combined Heat and Power, and we are confident that we will secure firm orders following this announcement.

People

We have a Board which functions fully and in a proper manner with considerable effort being applied to the Group's key Committees and the development and implementation of Group strategy.

The Group continues to invest in its employees through structured training programmes and apprenticeship schemes. It is appropriate to acknowledge the commitment, skill and dedication of our Operational Directors and all our employees. Changes in the business have required increased flexibility from our employees both to support immediate customer demands and develop a strong base for future growth. Their efforts have produced a commendable result.

I am pleased to report further public recognition of our Chief Executive's achievements. He was awarded the prestigious Gold Medal for Manufacturing Excellence by The Company of Cutlers in Hallamshire in July 2009. The Gold Medal has, over the years, only been awarded to a limited number of distinguished industrialists and entrepreneurs in South Yorkshire and Pressure Technologies is proud to report that John has had this honour bestowed upon him.

Our strategy

As we pursue our diversification strategy, more realistically priced acquisition targets are beginning to emerge.

The Board aims to capitalise on sensibly priced, niche product and service opportunities as they arise.

Prospects

In line with market expectations, demand from our largest market sector, oil and gas, is subdued in the short term and this is reflected in our year end order book of £16 million (2008: £23.7 million) - a level last recorded at the end of 2007. The Group's prospects in the medium to long term, however, remain strong in this market. We anticipate growth in new product areas in 2010 and expect the outlook to gradually improve with a return to strong organic growth in 2011. The current year is expected to be one of transition, in which we reshape the business to make it more diverse.

CBG has developed a high market profile over the last year and we are well positioned to benefit from the anticipated Government announcement on RHI, which is expected early in 2010.

As we pursue our diversification strategy, more realistically priced acquisition targets are beginning to emerge. The Board aims to capitalise on sensibly priced, niche product and service opportunities as they arise.

The Board is ever confident in the Group's ability to adapt to market conditions and to create and exploit opportunities as they arise.

Finally, I would like to thank the Group's shareholders for their continued support throughout the year.

Richard Shacklady
Chairman
8 December 2009

Chief Executive's statement
by John Hayward

The level of orders and an increasing complexity of customer requirements made 2009 an exceptionally busy year in manufacturing.

UK growth

It was pleasing to note that we had considerable sales growth in the UK during the year where sales doubled from £2.8 million to £5.6 million due to growth in a number of product sectors.

This was another good year for Pressure Technologies, made even more remarkable when set against the backdrop of financial turmoil engulfing world markets. At first sight, progress in our sales does not appear to have fed through to profits, as £270,000 of start up costs for Chesterfield BioGas mask the gains in Chesterfield Special Cylinders.

The key points for the year are:

Chesterfield Special Cylinders ("CSC")
Markets
In our main market, the oil and gas sector, a record order intake over the last quarter of 2008 and first quarter of 2009 set us up for a good year. We saw no cancellations as the projects we supplied to were fully funded.
Oil price dips in the year had a short-term effect on ordering patterns and protectionism in South East Asia also had an impact but these came too late to have any impact on 2009.

As outlined in our interim statement, these factors will have an effect in 2010. The announcement by Petrobras of 28 projects for semi-submersible rigs and drillships for delivery over the next four years and the range of quotation activity in which we are engaged, however, suggest that the deep-water market will rebound strongly towards the end of 2010 and into 2011. Other sectors of this market, including diving support and emergency systems, were resilient and remain strong into 2010 and we are receiving some orders for replacement cylinders, as the first generation semi-submersibles rigs and drillships begin to come in for major overhaul.

The broad spread of projects in the naval defence sector continued. This extends into 2010 and there is also a strong pipeline of opportunities for future years. Our strong defence order book for 2010 is key to underpinning our level of profitability.
Across other Ultra-Large Cylinder product markets, increases and decreases in activity in the year cancelled each other out.

The market for aircraft cylinders proved surprisingly resilient with reductions in orders for the executive jet market being offset by increases in defence markets. Aircraft cylinder retest also remained at 2008 levels.

Our trailer refurbishment business continued to grow in line with expectations. The challenge in 2010 is to extend our customer base in this market.

A business manager for Small Cylinders was appointed in March 2009. A business plan was presented to and accepted by the Board in July 2009. This part of our business is currently small and, therefore, not reported as a separate segment. However, it has significant growth potential. The key areas of growth potential identified in this plan were extending aircraft cylinder retest into the civil aviation market and the manufacture of composite aircraft cylinders with revenue streams forecast to begin in 2010 for retest and 2011 for manufacturing of composites. The two parts of the CSC business, Ultra-Large and Small Cylinder, now have their own sales teams and, just before our year end, we recruited two additional staff, one per business, to increase our selling activity.

It was pleasing to note that we had considerable sales growth in the UK during the year where sales doubled from £2.8 million to £5.6 million due to growth in a number of product sectors.

Operations
The level of orders and an increasing complexity of customer requirements made 2009 an exceptionally busy year in manufacturing.
The nature of the business is such that there are large swings in despatches from month to month, as a result of the project-based nature of our order book. We improved our management of this issue significantly and, through improvements to work-flow, were able to reduce manufacturing headcount from 52 to 45 in the year.

Our inventiveness was challenged by a change to the cleanliness requirements for air pressure vessels for motion compensation systems. One customer required us to move from a cylinder standard to a hydraulic system standard of cleanliness. Not only did we achieve this but we designed and installed a workable system inside two weeks, much to the customer's delight and well ahead of our competitors.

Across all areas of the business, we are very good at managing the big issues and at problem solving and innovation. There is, however, significant room for improvement on our management of detail, which we are tackling through a number of initiatives.

As part of managing the detail, a major exercise was carried out on the management of inventory levels in the business. We involved our largest suppliers in this exercise, as a number of the major issues were supplier delivery. Against a target of £5 million, our year end inventories were reduced to £4.7 million from £6.5 million in 2008. Just as importantly, the exercise led to a better understanding of the supply chain, which will allow us to shorten order lead times.

Technical and Development
Our technical and development capability has long been recognised as an order winner for the business. Increasingly complex customer requirements, new product development and reviews of international standards have significantly increased work load. As a result of this, we have strengthened both the Design and Quality Assurance functions during the year.

Major projects undertaken in the year included:

- a research project with Sheffield University on corrosion rates for different grades of steel used in naval cylinders. This has proved invaluable in re-establishing our NES design as the preferred design for UK naval use and is a very useful tool for discussing designs with foreign shipbuilders;
- playing a leading role in developing an ISO standard for Ultra-Large seamless composite cylinders and reviewing the standard Ultra-Large Cylinder ISO standard;
- redesigning our forge tooling to reduce manufacturing time for which our chief designer was awarded an MSc;
- producing a prototype light weight Ultra-Large composite cylinder as a proof of concept;
- developing the cleaning process mentioned above under Operations;
- obtaining certification to supply to Russian standards; and
- the design and manufacture of a biomethane buffer storage cascade and CNG trailer designs for Chesterfield BioGas.

Quality people

Quality assurance is not just about operating procedures and manuals it is also about mindset. The enthusiasm and dedication of our employees is an essential part of our success and is reflected in our product quality.

Because of the rarefied nature of our products we have certain skills that are known to only a handful of people. We are rightly proud of our product quality and we are rightly proud of our people.

Our major focus in the coming year will be on the further development of composite cylinders, both for the Ultra-Large business and the Small Cylinder business, and gaining CAA approvals to allow entry into the civil aviation retest market.

Chesterfield BioGas (“CBG”)
This division was set up in November 2008 to manufacture and sell biogas upgrading (cleaning) equipment and associated storage and vehicle refuelling equipment in the UK and Eire. A co-operation agreement was signed with Greenlane® Biogas the world leader in biogas upgrading, which subsequently led to the signing of a five year exclusive licence to manufacture and supply Greenlane® equipment in March 2009. Biogas is the product of anaerobic digestion of organic waste and typically contains 60% methane and 40% carbon dioxide.

The upgrading equipment purifies the biogas to give 98% pure methane. This methane is referred to as biomethane and can be used as a vehicle fuel or injected into the natural gas grid for domestic or industrial use. The most efficient use of the biomethane is to inject into the gas grid but biomethane is also a very clean vehicle fuel, emitting very low levels of particulates in comparison to diesel. Diesel particulates are a major contributor to lung diseases and asthma. Cleaner fuel is of considerable interest to councils and we are in discussion with three councils to design, manufacture and supply storage and dispensing equipment.

Chief Executive's statement continued

Biogas upgrade technology is widely used in Europe but, to date, the market for biomethane in the UK has not yet been exploited. A number of factors have delayed uptake; firstly, until very recently, there was limited availability of methane fuelled right-hand drive vehicles and no filling infrastructure; secondly, technical issues regarding levels of trace gases in the biomethane have prevented injection to the grid; thirdly, and most importantly, subsidies are not yet available for injection into the gas grid and the technology cannot, therefore, compete financially against heavily subsidised combined heat and power plants ("CHP").

Dealing with each of these factors in turn; vehicles are now available from several OEMs; relaxation of gas composition to European norms is actively being pursued by several major utilities and the National Grid appear committed to achieving this; a specific subsidy, the Renewable Heat Incentive ("RHI"), is being devised by Government. Indications are that this will be announced in January 2010 for introduction from April 2011.

Market intelligence suggests that this will be set at a level to stimulate investment.

Costs incurred in this division during the year were mainly related to marketing and sales activities. We sponsored several events and have created a strong profile in the market. Total potential sales of over £10 million have been quoted, covering a three year time horizon and we are firmly of the opinion that we will start receiving orders following the announcement of the RHI.

Acquisitions
In March 2009, we appointed a Corporate Development Manager to work full-time on our search for good acquisition opportunities. Business valuations are now becoming more realistic and our strong cash balances put us in an excellent position to complete mid-sized acquisitions in a market where bank debt is difficult to obtain. We have a clearly defined shortlist of targets and are pursuing these with vigour.

In conclusion, 2009 was a year of solid growth in CSC and preparation in CBG. Next year will be tough but we have the right people and resources to move the Group forward and expect the Group to perform in line with market expectations.

John Hayward
Chief Executive
8 December 2009

Board of Directors

The Board of Directors is a highly experienced and skilled team focused on delivering shareholder value.

RL Shacklady
Non-executive Chairman (61)
Richard is a partner with RLS Associates where he works as a management consultant. He joined the Pressure Technologies business at the time of the MBO in 2004. He has extensive experience of working in several roles in the engineering sector, latterly as Managing Director of Doncasters UK Holdings plc. Richard is also the Non-executive Chairman of Langley Alloys Limited.

JTS Hayward
Chief Executive (48)
John has worked for the Company for 11 years, initially as Finance Director of Chesterfield Cylinders Limited before assuming additional directorial responsibility for the then Special Products division in 2000. He led the MBO in 2004 and then assumed the role of Chief Executive. John is a qualified accountant and has previously worked for Boots, Courtaulds, United Engineering Steels and T&N. Latterly at T&N, he worked as an internal consultant and was brought to Chesterfield Cylinders as a result of his experience of automotive sector management techniques. He holds a degree in Physics from Oxford University.

TJ Lister
Finance Director (54)
James joined the Company in 2008. His previous engineering industry experience includes seven years with The 600 Group Plc in roles both as Group Financial Controller and as Finance Director of 600 Lathes. Prior experience included 15 years with Bridon in a variety of roles including Group Development Manager where he acted as the in house mergers and acquisitions manager. James is a qualified chartered accountant.

PS Cammerman
Non-executive Director (67)
Philip has over 20 years industrial experience in engineering and hi-tech industries and has worked in both the UK and USA. He has spent the last 23 years in the venture capital industry, playing a major part in the development of the YFM Group into the most active investor in UK SME's. He retired from all YFM Group businesses in April 2008 following their disposal to GLE Capital. Philip is Chairman of the remuneration committee.

NF Luckett
Non-executive Director (67)
A qualified chartered accountant, Nigel is a former partner of Thomson McLintock & Co and latterly KPMG and has over 40 years of extensive corporate finance, insolvency and auditing experience. Since his retirement from KPMG in 1995 he has had a number of Non-executive Director and Chairman positions in the broad engineering sector. Nigel is Chairman of the audit committee.

Company information

Directors
RL Shacklady – Non-executive Chairman
JTS Hayward – Chief Executive
TJ Lister – Finance Director
PS Cammerman – Non-executive Director
NF Luckett – Non-executive Director

Secretary
TJ Lister

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RL Shacklady
Non-executive Chairman


JTS Hayward
Chief Executive


TJ Lister
Finance Director


PS Cammerman
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NF Luckett
Non-executive Director

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Directors' report

The Directors present their report and the audited financial statements for the period from 28 September 2008 to 3 October 2009.

Principal activities

Pressure Technologies plc ("PT") is the holding Company for Chesterfield Special Cylinders Limited ("CSC") whose principal activities are the design, manufacture and reconditioning of seamless steel high pressure gas cylinders. In November 2008 Chesterfield BioGas ("CBG") was set up as a division of CSC. CBG was formed to market, sell and manufacture biogas upgrading equipment to produce high purity biomethane for use as a vehicle fuel or injection into the natural gas grid using technology licensed from Greenlane® Biogas of New Zealand.

Results and dividends

The Consolidated income statement is set out on page 23. The profit on ordinary activities before taxation of the Group for the period ended 3 October 2009 amounted to £5.053 million (2008: £5.046 million).

An interim dividend of 2.2p per share was paid during the period (2008: 2.0p). The Directors recommend a final dividend of 4.4p per share (2008: 4p).

Business review

Financial overview

Revenues increased by 10% to £26.186 million (2008: £23.660 million).

Gross profit increased by 10% to £8.287 million (2008: £7.510 million) giving a gross margin of 32% (2008: 32%).

Administration expenses increased by 28% to £3.315 million (2008: £2.578 million). Administration expenses in 2009 include £0.269 million for the recently formed Chesterfield BioGas division. Administration expenses in 2008 are stated after crediting £0.512 million of foreign exchange gains.

Profit before tax increased to £5.053 million (2008: £5.046 million). Basic earnings per share were up 1.6% at 32.1p (2008: 31.6p).

Net cash increased to £7.886 million (2008: £5.851 million).

Capital expenditure for the year was £0.382 million (2008: £0.551 million).

A five year exclusive licence agreement was signed during the year for £0.400 million.

Operational overview

The operational overview is contained in the Chief Executive's statement on pages 10 to 14.

Environment

Pressure Technologies recognises that its activities have an impact on the environment. Managing this impact is an integral part of responsible corporate governance and good management practice. The Group has developed environmental policies and the main points are listed below:

- Overall responsibility for the implementation of these policies is the responsibility of the main Board and the senior management at each Group Company.
- The Group will comply with both the letter and the spirit of relevant environmental regulations. Additionally the Group will actively participate in industry and governmental environmental consultative processes.
- Chesterfield Special Cylinders is accredited to ISO14001:2004 and operates to that standard.
- The Group is committed to the continuous improvement of its environmental management system. Specifically the Group seeks to reduce waste and energy use and prevent pollution.
- As part of continuous improvement, it is the policy of the Group to establish measurable environmental objectives and communicate these to all employees. These documented objectives will be periodically reviewed as part of the management review process. The necessary personnel and financial resources will be provided to meet these objectives.
- Employees are given such information, training and equipment as is necessary to enable them to undertake their work with the minimum impact on the environment.

The Group had no notifiable environment incidents in 2009.

Principal risks and uncertainties

Specific principal risks identified by management are described below together with management actions to minimise these risks:

Risk	Management action
The Group derives 70% (2008: over 75%) of its sales from two key customers in one market sector.	Significant management resource is allocated to service the requirements of these customers. Ongoing development of new products, customers and markets.
The Group derives a high proportion of its raw material from a small number of key suppliers, some of whom are competitors.	To reduce the inherent risk of supply from competitors, requirements are split across the available supplier base.
The Group operates from a single manufacturing site. In the event of a prolonged interruption to operations at this site, the Group may not have the ability to transfer its manufacturing activities to other facilities.	Health, safety and environmental risks which could result in site closure are managed on a day to day basis by a specialist manager reporting directly to the CSC Operations Director.
The Group is small and relies on a small number of key Directors and senior managers.	As the business grows increases in staff numbers make succession planning easier and recruitment is already carried out to ensure that skills and expertise can be duplicated. Key man insurance is in place for the PT Chief Executive and Group Finance Director, the CSC Operations Director, and the CSC Sales and Marketing Director. The Board regularly reviews the adequacy of the policies currently in place.
The Group purchases some of its raw materials in both US Dollars and Euros and receives payment for some of its products in Euros.	The net exposure is reduced by the use of forward exchange contracts subject to limits in the Group's banking facility.

Other risks may also adversely affect the Group and actual results may differ materially from anticipated results because of a variety of risk factors, including but not limited to: changes in interest and exchange rates; changes in global, political, economic, business, competitive and market forces; changes to legislation and tax rates; future business acquisitions or disposals; relations with customers and customer credit risk; relations with suppliers and supplier credit risks; events affecting international security, including global health issues and terrorism, and changes in legislation.

Summary and calculation of key performance indicators

Shareholders

KPI – Earnings per share	
2009	32.1p
2008	31.6p

Earnings per share are calculated as profit for the period divided by the weighted average number of shares in issue.

Earnings per share rose in line with after tax profit. The average tax rate in 2009 was 28% (2008: 29%).

Financial performance

KPI – Revenue		KPI – Return on Revenue	
2009	£26.2 million	2009	20.0%
2008	£23.6 million	2008	20.8%
Target	£40.0 million by 2011	Target	20.0%

Return on revenue is calculated as operating profit before the costs of operating the CBG division in 2009 of £0.269 million (2008: £nil) divided by revenue, expressed as a percentage.

A business manager was appointed to grow the small cylinder division of CSC and the sales and design functions were strengthened. CBG was formed with its own dedicated staff. A Corporate Development Manager was recruited at PT to provide a dedicated internal resource to target potential acquisitions and business development opportunities.

Health & safety / Environment

KPI – Reportable Accidents		KPI – Reportable Incidents	
2009	Zero	2009	Zero
2008	Three	2008	Zero
Target	Zero	Target	Zero

The Group maintains a focus on health, safety and environmental issues through a dedicated manager in CSC.

Directors' report continued

Substantial shareholdings

As at 1 December 2009, the following held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	Number of shares	Percentage of issued share capital owned
Funds Managed by Octopus Investments Limited	1,211,493	10.7%
JTS Hayward	1,000,040	8.8%
AXA Framlington	879,184	7.8%
PL Redfern	745,000	6.6%
JW Brown	700,000	6.2%
PD Catton	673,333	5.9%
A Harding	673,333	5.9%
Hargreave Hale	606,667	5.4%
Artemis	471,667	4.2%
Unicorn	466,767	4.1%
Rensburg Sheppards Investment Management	465,713	4.1%
South Yorkshire Investment Capital Fund LP	342,224	3.0%
The Liontrust Intellectual Capital Trust	341,553	3.0%

Directors and their interests

The present Directors of the Company are set out on page 16 and 17.

The interests of the Directors in the share capital of the Company are set out below.

Ordinary shares	**3 October 2009 Number**	30 September 2008 Number
RL Shacklady (including 22,500 shares held by his wife)	**60,500**	57,500
JTS Hayward	**1,000,040**	1,100,040
PS Cammerman	**13,652**	2,000
TJ Lister	**3,750**	3,750
NF Luckett	**52,000**	50,000

Share options

On 30 November 2007, the Directors granted options on 59,197 ordinary shares at 176p in accordance with the rules of the Pressure Technologies plc SAYE Share Option Scheme. On 18 August 2009, a further 29,015 options were granted at an option price of 150p.

On 7 October 2009, options were granted over 116,127 ordinary shares under the rules of the Pressure Technologies plc Performance Share Plan – Enterprise Management Plan at an exercise price of 232.5p. These options are exercisable between 3 and 5 years following the date of grant.

The Directors' interests in share options are as follows:

	Date granted	Number	Options price
JTS Hayward	30 November 2007	2,181	176p
TJ Lister	18 August 2009	6,050	150p
TJ Lister	7 October 2009	51,612	232.5p

No share options were exercised in either period.

Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

The Group's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts together with trade receivables and trade payables that arise directly from its operations. The Group has entered into derivative transactions in the normal course of trade. It does not trade in financial instruments as a matter of policy.

Information about the use of the financial instruments by the Company and its subsidiaries is given in note 21 to the financial statements.

Donations

Donations made by the Group during the period for charitable purposes in the United Kingdom amounted to £3,000 (2008: £3,275).

Supplier payment policy

The Group's policy is to comply wherever practical with the terms of payment agreed with its suppliers. The average creditor days were 41 (2008: 40) for the Group. The Company has no significant trade payables.

Directors' indemnities

The Company maintains director and officer insurance cover for the benefit of its Directors which remained in force at the date of this report.

Employee involvement

It is the policy of the Group to communicate with employees by employee representation on works and staff committees and by regular briefing meetings conducted by senior management. Career development is encouraged through suitable training and annual appraisals. The Group takes the approach of maximising performance through the heightening of awareness of corporate objectives and policies.

Disabled persons

The Group gives full and fair consideration to applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and wherever possible will retrain employees who become disabled, so that they can continue their employment in another position. The Group engage, promote, and train staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress.

Going concern

The Directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements.

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the parent Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. The AIM Rules for Companies require that the Directors prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to Auditors

In so far as each of the Directors is aware:

- There is no relevant audit information of which the Company's Auditors are unaware, and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

Auditors

Grant Thornton UK LLP are willing to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Cautionary statement on forward-looking statements and related information

This document contains a number of forward-looking statements relating to the Group. The Group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Group to differ materially from the information presented. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document.

By order of the Board
TJ Lister
Secretary
8 December 2009

Report of the Independent Auditor to the members of Pressure Technologies plc

We have audited the financial statements of Pressure Technologies plc for the period ended 3 October 2009 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement and notes 1 to 27 to the Group consolidated financial statements and notes 1 to 10 to the parent Company financial statements. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 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.

Respective responsibilities of Directors and Auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements
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 3 October 2009 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
8 December 2009

Consolidated income statement

For the period ended 3 October 2009

	Notes	**53 weeks ending 3 October 2009 £'000**	52 weeks ending 27 September 2008 £'000
Revenue	3	**26,186**	23,660
Cost of sales		**(17,899)**	(16,150)
Gross profit		**8,287**	7,510
Administration expenses		**(3,315)**	(2,578)
Operating profit		**4,972**	4,932
Finance income	4	**94**	155
Finance costs	5	**(13)**	(41)
Profit before taxation	6	**5,053**	5,046
Taxation	10	**(1,414)**	(1,465)
Profit for the financial period	25	**3,639**	3,581
Earnings per share – basic	11	**32.1p**	31.6p
– diluted	11	**32.0p**	31.5p

All the above results are from continuing operations.

There is no other recognised income or expenditure other than the results shown above.

The notes on pages 26 to 43 form part of these financial statements.

Consolidated balance sheet

As at 3 October 2009

	Notes	**3 October 2009 £'000**	27 September 2008 £'000
Non-current assets			
Intangible assets	13	**380**	—
Property, plant and equipment	14	**2,195**	2,043
Deferred tax asset	22	**92**	76
		2,667	2,119
Current assets			
Inventories	16	**4,722**	6,527
Trade and other receivables	17	**4,337**	3,125
Derivative financial instruments	18	**4**	110
Cash and cash equivalents		**8,046**	6,091
		17,109	15,853
Total assets		**19,776**	17,972
Current liabilities			
Trade and other payables	19	**(3,841)**	(4,731)
Borrowings	20	**(80)**	(80)
Current tax liabilities		**(740)**	(846)
		(4,661)	(5,657)
Non-current liabilities			
Other payables	19	**(643)**	(695)
Borrowings	20	**(80)**	(160)
Deferred tax liabilities	22	**(278)**	(293)
		(1,001)	(1,148)
Total liabilities		**(5,662)**	(6,805)
Net assets		**14,114**	11,167
Equity			
Share capital	23	**567**	567
Share premium account	25	**5,341**	5,341
Retained earnings	25	**8,206**	5,259
Total equity	25	**14,114**	11,167

The notes and accounting policies on pages 26 to 43 form part of these financial statements.

The financial statements were approved by the Board on 8 December 2009 and signed on its behalf by:

JTS Hayward
Director

Consolidated cash flow statement

For the period ended 3 October 2009

	Note	**53 weeks ending 3 October 2009 £'000**	52 weeks ending 27 September 2008 £'000
Operating activities			
Cash flows from operating activities	26	**5,113**	2,881
Finance costs paid		**(13)**	(41)
Income tax paid		**(1,544)**	(977)
Net cash inflow from operating activities		**3,556**	1,863
Investing activities			
Interest received		**94**	155
Purchase of property, plant and equipment		**(382)**	(551)
Purchase of intangible assets		**(400)**	—
Proceeds from sale of property, plant and equipment		**—**	101
Net cash used in investing activities		**(688)**	(295)
Financing activities			
Repayment of borrowings		**(80)**	(80)
Dividends paid		**(703)**	(227)
Payment of deferred consideration		**(130)**	(100)
Net cash outflow from financing activities		**(913)**	(407)
Net increase in cash and cash equivalents		**1,955**	1,161
Cash and cash equivalents at beginning of period		**6,091**	4,930
Cash and cash equivalents at end of period		**8,046**	6,091

The notes on pages 26 to 43 form part of these financial statements.

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and IFRIC interpretations issued by the International Accounting Standards Board and the Companies Act 2006. The Company has elected to prepare its Parent Company financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). These are presented on pages 44 to 47.

The Group has applied all accounting standards and interpretations issued relevant to its operations for the period ending 3 October 2009. The consolidated financial statements have been prepared on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are carried at fair value.

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. These standards will be first effective for the Group in its 2009/10 financial year:

IAS1 Presentation of Financial Statements (Revised 2007)
IAS23 Borrowing Costs (Revised 2007)
IAS27 Consolidated and Separate Financial Statements (Revised 2008)
IAS32 Financial Instruments (Amendment 2007)
IFRS2 Share-based Payment (Revised 2008)
IFRS3 Business Combinations (Revised 2008)
IFRS8 Operating Segments

The application of these standards and interpretations is not expected to have a material impact on the Group's reported financial performance or position. However they may give rise to additional disclosures being made in the financial statements.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 3 October 2009 (2008: to 27 September 2008). Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

All intra-group transactions have been eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements have been adjusted where necessary to ensure consistency with accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and rewards that are different from those of other business segments. A geographical segment is engaged in providing products or a service within a particular economic environment that are subject to risks and returns that are different from those operating in other economic environments.

Based on risks and returns, the Directors consider that the primary reporting format is by business segment. The secondary reporting format is by geographical analysis, by origin and destination.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable and arises from the sales of goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Revenue from the sale of goods is recognised when the significant risks and benefits of ownership have been transferred to the buyer, which may be the date the goods are despatched to the customer, completion of the product or the product being ready for delivery, based on specific contract terms; when the amount of revenue can be measured reliably; and when it is probable that the economic benefits associated with the transaction will flow to the Group. In respect of the two major customers of the Group, revenue is recognised on certification, representing agreement that the contract has been completed.

1. Accounting policies continued

Revenue continued

Revenue from services provided by the Group, which does not represent a significant portion of the total revenue, is recognised when the outcome of the transaction can be estimated reliably and the Group has performed its obligations and, in exchange, obtained the right to consideration.

Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for remuneration of its employees. The Group's plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to the profit and loss reserve.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

The cancellation of equity-settled share based payments is accounted for as an acceleration of vesting.

Dividends

Interim dividends are charged in the period in which they are paid. Final dividends are only provided when approved by the shareholders.

Property, plant and equipment

Plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is applied on a straight-line basis so as to reduce the assets to their residual values over their estimated useful lives. Residual values are reviewed annually. The rates of depreciation used are:

Plant and machinery 4 – 15 years

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

Intangible assets

Licence and distribution agreement

Intangible assets are recorded at cost, net of amortisation and any provision for impairment. The Group’s licence and distribution agreement is being amortised over 5 years, being the period covered by the agreement, and is phased to match the revenues expected to be generated from this asset.

Impairment testing of non-current assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. An impairment loss is recognised for the amount by which the assets or cash-generating unit’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Operating leases

Payments under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Lease incentives are spread over the term of the lease. Benefits received as an incentive to enter into an operating lease are spread over the lease term on a straight line basis.

The Group operates from a single manufacturing site in Sheffield under a 15 year lease expiring in June 2020. The Directors consider that the remaining life of the building to be considerably longer than the remaining life of the lease and consequently the lease has been treated as an operating lease.

Notes to the consolidated financial statements continued

1. Accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value, on a first in first out basis. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Income taxes

The tax expense represents the sum of the tax currently payable and deferred tax. Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective periods of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets and liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Accounting for financial assets

The Group has financial assets in the following categories:
- loans and receivables (trade and other receivables, cash and cash equivalents)
- financial assets at fair value through profit or loss (derivative financial instruments)

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognised in profit or loss or directly in equity.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Pressure Technologies plc's trade and most other receivables fall into this category of financial instrument. Discounting, however, is omitted where the effect of discounting is immaterial.

Receivables are considered for impairment on a case-by-case basis.

Accounting for financial liabilities

Financial liabilities represent a contractual obligation for the Group to deliver cash or other financial assets. Financial liabilities are initially recognised at fair value, net of issue costs, when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income". The Group's financial liabilities include borrowings, trade and other payables, which are measured at amortised cost using the effective interest rate method.

Derivative financial instruments

The Group has derivative financial instruments and embedded derivative financial instruments that are carried at fair value through profit or loss. The Group does not hedge account for these items.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. The Group has foreign currency forward contracts that fall into this category.

1. Accounting policies continued

Derivative financial instruments continued

Derivatives embedded within contracts for the sale or purchase of a non-financial item that are denominated in a foreign currency are separated when their economic characteristics and risks are not closely related to those of the host contract. Embedded derivatives are valued at their fair value with changes in fair value being recognised in the income statement.

In the comparative year, the Group held sales and purchase orders that contained embedded derivatives. For the period ending 3 October 2009, the Group no longer held any sales or purchase orders that contained embedded derivatives.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts, where they form an integral part of the Group's cash management.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Share premium represents premiums received on issuing of share Capital. Retained earnings include all current and prior year results as disclosed in the income statement, and reserves note.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Foreign currency translation

Foreign currency transactions are translated into the functional currency (being the currency of the primary economic environment in which the Group operates) of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary balance sheet items at year-end exchange rates are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Pounds Sterling is the functional currency of all Group companies and the presentational currency of the consolidated financial statements.

Grants

Grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement in the same period as the related expenditure is incurred.

Pensions

The Group operates a defined contribution scheme with costs being charged to the income statement in the period to which they relate.

Notes to the consolidated financial statements continued

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions that have a material risk to the carrying value of assets and liabilities within the next financial year are discussed below:

Revenue recognition

The Group recognises revenue when the goods in question have finished production and passed any applicable factory and customer acceptance tests. Where goods remain on the Group’s premises at the year end at the request of the customer, management consider the detailed criteria for the recognition of revenue from the sale of goods as set out in IAS 18. In particular, consideration is given as to whether the significant risks and rewards of ownership are considered to have transferred to the buyer.

Inventory provisions

The Directors have reviewed the level of inventory provisions carried against inventory in the light of outstanding current and anticipated customer orders.

3. Segmental analysis

Based on risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider that only one business segment exists, being the Group's supply of high-pressure gas cylinders into the energy market. No other segment represents more than 10% of revenue. Consequently, separate disclosure of each business segment is not required as disclosures for the primary segment are already given in the financial statements.

Geographical segment

The following table provides an analysis of the Group's revenue by geographical destination. The carrying amount of segment assets and additions to property, plant and equipment and intangible assets have not been analysed separately by location, as they are all located in the United Kingdom.

Revenue	**2009 £’000**	2008 £’000
United Kingdom	**5,571**	2,770
Europe	**894**	2,134
Rest of the World	**19,721**	18,756
	26,186	23,660

4. Finance income

	2009 £’000	2008 £’000
Interest receivable on bank deposits	**94**	155

5. Finance costs

	2009 £’000	2008 £’000
Interest payable on bank loans and overdrafts	**(13)**	(41)

6. Profit before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2009 £'000	2008 £'000
Depreciation of property, plant and equipment	**230**	200
Amortisation of intangible assets	**20**	—
Profit on disposal of property, plant and equipment	**—**	(19)
Amortisation of grant receivable	**(27)**	(27)
Staff costs (see note 9)	**2,515**	2,606
Cost of inventories recognised as an expense	**15,552**	14,053
Operating lease rentals:		
Land and buildings	**458**	434
Machinery and equipment	**24**	17
Foreign currency loss/(gain)	**52**	(512)
Fair value of derivative financial instruments	**106**	(32)

7. Auditors' remuneration

	2009 £'000	2008 £'000
Fees payable to the Company's Auditor for the audit of the financial statements	**10**	10
Fees payable to the Company's Auditor and its associates for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	**16**	15
Fees payable to the Group's Auditors for non-audit services:		
– Tax services	**10**	17
– Review of Interim Financial Statements	**8**	8
– Other services	**9**	8

8. Directors' emoluments

Particulars of Directors' emoluments are as follows:

	Salary and fees £'000	Benefits £'000	Bonus £'000	Total 2009 £'000	Total 2008 £'000	Pension Total 2009 £'000	Pension Total 2008 £'000
Non-executive:							
RL Shacklady	**24**	**—**	**—**	**24**	24	**—**	—
NF Luckett	**15**	**—**	**—**	**15**	15	**—**	—
PS Cammerman	**15**	**—**	**—**	**15**	8	**—**	—
Executive:							
JTS Hayward	**97**	**1**	**—**	**98**	143	**10**	8
TJ Lister	**80**	**1**	**—**	**81**	39	**8**	2
JD Clark	**—**	**—**	**—**	**—**	18	**—**	1
Total emoluments	**231**	**2**	**—**	**233**	247	**18**	11

All the payments shown for RL Shacklady were paid to RLS Associates, a partnership which he controls, on his behalf.

The number of Directors who are accruing benefits under money purchase schemes is 2 (2008: 2).

The Group believes that the Directors of Pressure Technologies plc are the only key management personnel under the definition of IAS24 "Related party disclosures".

Notes to the consolidated financial statements continued

9. Employee costs

Particulars of employees, including Executive Directors:

	2009 £'000	2008 £'000
Wages and salaries	**2,206**	2,281
Social security costs	**216**	228
Other pension costs	**82**	80
Share based payments	**11**	17
	2,515	2,606

The average monthly number of employees (including Executive Directors) during the period was as follows:

	2009 No.	2008 No.
Production	**68**	58
Selling and distribution	**5**	4
Administration	**6**	5
	79	67

10. Taxation

	2009 £'000	2008 £'000
Current tax		
Current tax expense	**1,445**	1,461
Deferred tax		
Origination and reversal of temporary differences	**(31)**	(4)
Adjustment in respect of prior years	**—**	8
Total taxation charge	**1,414**	1,465

Corporation tax is calculated at 28% (2008: 28%) of the estimated assessable profit for the period.

The charge for the period can be reconciled to the profit per the income statement as follows:

	2009 £'000	2008 £'000
Profit before taxation	**5,053**	5,046
Theoretical tax at UK corporation tax rate 28% (2008: 28%)	**1,415**	1,413
Effects of:		
– non-deductible expenses	**6**	4
– adjustments in respect of prior years – deferred tax	**—**	8
– effect of rate change	**—**	50
– small companies and marginal relief	**(7)**	(10)
Total taxation charge	**1,414**	1,465

11. Earnings per ordinary share

Basic and diluted earnings per share have been calculated in accordance with IAS33, which requires that earnings should be based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the period.

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

	2009 £'000	2008 £'000
Profit after tax	**3,639**	3,581

	No.	No.
Weighted average number of shares – basic	**11,333,620**	11,333,620
Dilutive effect of options	**51,455**	47,958
Weighted average number of shares – diluted	**11,385,075**	11,381,578

Basic earnings per share	**32.1p**	31.6p
Diluted earnings per share	**32.0p**	31.5p

12. Dividends

The following dividend payments have been made on the Ordinary 5p Shares in issue:

	Rate	Date	Shares in issue	**2009 £'000**	2008 £'000
Interim 2007/08	2.0p	12 August 2008	11,333,620	**—**	227
Final 2007/08	4.0p	12 March 2009	11,333,620	**453**	—
Interim 2008/09	2.2p	10 August 2009	11,333,620	**250**	—
				703	227

At 3 October 2009, the 2008/09 final dividend had not been approved by shareholders and consequently this has not been included as a liability. The proposed dividend of 4.4p per share is expected to be paid on 12 March 2010.

13. Intangible assets

A 5 year licence and distribution agreement was signed during the year at a cost of £400,000 against which an amortisation charge of £20,000 has been made. The net book value at 3 October 2009 was £380,000.

Notes to the consolidated financial statements continued

14. Property, plant and equipment

	Plant and machinery £'000
Cost	
At 1 October 2007	3,806
Additions	551
Disposals	(388)
At 27 September 2008	3,969
Additions	382
At 3 October 2009	**4,351**
Depreciation	
At 1 October 2007	2,032
Charge for the year	200
Disposals	(306)
At 27 September 2008	1,926
Charge for the period	230
At 3 October 2009	**2,156**
Net book value	
At 3 October 2009	**2,195**
At 27 September 2008	2,043

15. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Parent Company's separate financial statements as listed on page 46.

16. Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	**3,272**	3,749
Work in progress	**1,450**	2,778
	4,722	6,527

17. Trade and other receivables

	2009 £'000	2008 £'000
Amounts: falling due within one year		
Trade receivables	**3,856**	1,830
Other debtors	**—**	245
Prepayments and accrued income	**481**	1,050
	4,337	3,125

The average credit period taken on the sale of goods and services was 52 days (2008: 70 days) in respect of the Group. The two largest customers accounted for 46% (2008: 43%) and 19% (2008: 24%) of trade receivables respectively at the year end. No other customer accounted for more than 10% of trade receivables.

17. Trade and other receivables continued

Ageing of past due but not impaired receivables:

	2009 £'000	2008 £'000
Days past due:		
0 – 30 days	**72**	19
31 – 60 days	**54**	23
61 – 90 days	**4**	28
91 – 120 days	**29**	39
121 + days	**15**	84
Total	**174**	193

The Group does not have an impairment provision against trade receivables (2008: none).

18. Derivative financial instruments

	2009 £'000	2008 £'000
Derivatives carried at fair value not recognised for hedge accounting		
– Forward foreign currency contracts	**4**	21
– Contracts for sales and purchases of non-financial items denominated in foreign currencies	**—**	89
	4	110

19. Trade and other payables

	2009 £'000	2008 £'000
Amounts due within 12 months		
Trade payables	**1,551**	1,354
Other tax and social security	**175**	58
Accruals and deferred income	**2,115**	3,269
	3,841	4,681
Deferred consideration	**—**	50
Total due within 12 months	**3,841**	4,731
Amounts due after 12 months		
Other payables	**319**	247
Deferred income	**324**	348
	643	595
Deferred consideration	**—**	100
Total due after 12 months	**643**	695

Notes to the consolidated financial statements continued

20. Borrowings

	2009 £'000	2008 £'000
Secured borrowings		
Bank loans	**160**	240
Total borrowings	**160**	240
Amounts due for settlement within 12 months	**80**	80
Amounts due for settlement after 12 months	**80**	160

The maturity profile of long-term loans is as follows:

	2009 £'000	2008 £'000
Due within one year	**80**	80
Due within one to two years	**80**	80
Due within two to five years	**—**	80
	160	240

Security is provided on the bank loan by a charge over the Group's assets.

The un-drawn committed borrowing facility and principal features of the Group's borrowings are described in note 21 of these financial statements.

21. Financial instruments

Capital risk management

Pressure Technologies plc's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurately with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 25.

	2009 £'000	2008 £'000
Debt	**(160)**	(240)
Cash and cash equivalents	**8,046**	6,091
Net cash	**7,886**	5,851
Equity	**14,114**	11,167

Debt is defined as long and short-term borrowings, as detailed in note 20. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding a serious reduction of capital, as imposed by the Companies Act 2006 on all public limited companies.

The Group held the following categories of financial instruments:

	2009 £'000	2008 £'000
Financial assets		
Fair value through profit and loss (FVTPL)		
– Derivative instrument – forward currency contract not recognised for hedge accounting	**4**	21
– Embedded derivative instrument – contracts for sales and purchase of non-financial items denominated in foreign currencies	**—**	89
Loans and receivables:		
– Trade receivables	**3,856**	1,830
– Cash and cash equivalents	**8,046**	6,091
	11,906	8,031
Financial liabilities		
Trade and other payables – held at amortised cost		
– Trade payables	**1,551**	1,354
– Accruals and deferred income	**2,115**	3,269
Borrowings – at amortised cost	**160**	240
Deferred consideration – held at amortised cost	**—**	150
	3,826	5,013

The fair value of the financial instruments set out above is not materially different from their book value.

Notes to the consolidated financial statements continued

21. Financial instruments continued

Financial risk management objectives
Management monitor and manage the financial risks relating to the operations of the Group through regular reports to the Board. These risks include currency risk, interest rate risk, credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to reduce these risk exposures. The use of financial derivatives is governed by the Group's policies on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Whilst the Group enters into forward currency contracts during the period to mitigate foreign currency risk, it does not apply hedge accounting.

Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, particularly in US Dollars and Euros, and interest rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk including the use of fixed interest rates on its long term borrowings. The level of long term borrowings in place at the year end is not significant to the Group.

Foreign currency risk management
The Group purchases its principal raw materials in both US Dollars and Euros and receives payment for its products in Euros, US Dollars and Pounds Sterling. After netting off foreign currency receipts and payments there is a net exposure to the risk of currency movements both in US Dollars and Euros. Where necessary the net exposure is hedged using forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary financial assets and monetary financial liabilities at the reporting date are as follows:

	Financial assets 2009 £'000	Financial assets 2008 £'000	**Financial liabilities 2009 £'000**	Financial liabilities 2008 £'000
Euro	**2,598**	1,706	**1,183**	1,574
Norwegian Krone	**3**	—	**—**	—
US Dollar	**235**	331	**386**	—
	2,836	2,037	**1,569**	1,574

Foreign currency sensitivity analysis
The Group’s exposure to a 10% exchange rate movement on its foreign currency denominated financial assets and financial liabilities is as follows:

	Euro currency impact 2008 £'000	Euro currency impact 2007 £'000	**US Dollar currency impact 2008 £'000**	US Dollar currency impact 2007 £'000
Profit or loss	**129**	26	**13**	28

The use of a 10% movement in exchange rates is considered appropriate given recent movements in exchange rates.

A substantial amount of the Group’s sales and purchases are made in foreign currencies. The exposure to foreign exchange rates varies throughout the year depending on the volume and timing of transactions in foreign currencies.

Forward foreign exchange contracts
The Group enters into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also periodically enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to between 6-12 months. The Group does not hedge account for the forward currency exchange contracts.

At 3 October 2009 the Group had an outstanding forward exchange contract to purchase $1,000,000 for £629,000 (2008: £283,000) which substantially covered the outstanding value of US Dollar denominated purchase orders.

The fair value of forward foreign exchange contracts at 3 October 2009 gave rise to a gain of £4,000 (2008: £21,000).

21. Financial instruments continued

Interest rate risk management

The Group finances its operations where necessary through bank loans. Surplus cash is placed on short-term deposit.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the impact on the results in the income statement and equity would be an increase/decrease of £30,000.

Price risk management

Where possible the Group enters into contracts incorporating price escalation clauses to mitigate any significant exposure to material price risk.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The two largest customers within trade receivables account for 70% (2008: 75%) of revenue. Management continually monitor this dependence on the two largest customers and are developing new products, customers and markets to reduce this dependence. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer. The Group's management estimate the level of allowances required for doubtful debts based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds is minimized by using counterparty banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

At 3 October 2009, the Group's liabilities have contractual maturities summarised below:

2009	**Current within 6 months £'000**	**Current 6-12 months £'000**	**Non current 1 to 5 years £'000**	**Less future interest £'000**	**Total net payable £'000**
Bank overdraft and loans	**42**	**42**	**82**	**(6)**	**160**
Trade and other payables	**3,159**	**741**	**—**	**—**	**3,900**
Forward currency contacts	**629**	**—**	**—**	**—**	**629**
	3,830	**783**	**82**	**(6)**	**4,689**

2008	Current within 6 months £'000	Current 6-12 months £'000	Non current 1 to 5 years £,000	Less future interest £'000	Total net payable £'000
Bank overdraft and loans	48	47	173	(28)	240
Trade and other payables	4,094	529	—	—	4,623
Forward currency contacts	283	—	—	—	283
	4,425	576	173	(28)	5,146

The interest rate on the bank loans of £160,000 (2008: £240,000) is set at 2.75% above Bank of Scotland base rate. The loan is repayable at the rate of £20,000 per quarter.

The Group had an un-drawn bank overdraft facility available at 3 October 2009 of £1,500,000 (2008: £1,500,000).

The Group maintains foreign currency denominated bank accounts that earn interest based on the Bank of Scotland base rate applicable to that currency.

Notes to the consolidated financial statements continued

21. Financial instruments continued

The following amounts have been recognised in the income statement in respect of derivative financial instruments:

	2009 £'000	2008 £'000
Fair value through profit and loss (FVTPL)		
– Derivative instrument – forward currency contract not recognised for hedge accounting	**(17)**	21
– Embedded derivative instrument – contracts for sales and purchase of non-financial items denominated in foreign currencies	**(89)**	11
Amounts (charged)/credited to cost of sales within the income statement	**(106)**	32

Fair values

The fair values of financial assets and liabilities are determined as follows:

– Outstanding foreign currency exchange contracts are measured using quoted forward exchange rates at the balance sheet date. The Group does not hedge account.

– The value of outstanding sales and purchase orders denominated in foreign currencies are revalued at the balance sheet date using exchange rates then applicable to the expected settlement of the outstanding orders.

The carrying value and fair value of the financial assets and financial liabilities are considered to be the same.

22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Revaluation of financial instruments £'000	Short term timing differences £'000	Share option costs £'000	Operating lease incentives £'000	Total £'000
At 1 October 2007	(241)	(22)	—	—	49	(214)
(Credit)/charge to income	(21)	(9)	3	3	20	(4)
Taken directly to equity	—	—	—	1	—	1
At 28 September 2008	(262)	(31)	3	4	69	(217)
(Credit)/charge to income	(16)	30	(5)	2	20	31
At 3 October 2009	**(278)**	**(1)**	**(2)**	**6**	**89**	**(186)**

The net deferred tax balance has been analysed as follows in the consolidated balance sheet:

	2009 £'000	2008 £'000
Non current asset		
Deferred tax asset	**92**	76
Non current liabilities		
Deferred tax liabilities	**(278)**	(293)
	(186)	(217)

At the balance sheet date, the Group has unused tax losses as disclosed below:

	Unprovided 2009 £'000	Unprovided 2008 £'000
Trading losses	**43**	43

23. Called up share capital

	2009 No.	2008 No.	**2009 £'000**	2008 £'000
Authorised				
Authorised ordinary shares of 5p each	**15,000,000**	15,000,000	**750**	750
Allotted, issued and fully paid				
Ordinary shares of 5p each	**11,333,620**	11,333,620	**567**	567

24. Share based payments

Save-as-you-earn Scheme

Pressure Technologies plc introduced a share option scheme for all employees of the Group in November 2008. A further grant of options was made in August 2009. If the options remain unexercised after a period of 3 years and 6 months from the date of the grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the period are as follows:

	2009	2008
Outstanding and exercisable at the beginning of the period	48,289	—
Granted during the period	29,015	59,197
Cancelled during the period	(654)	(10,908)
Outstanding and exercisable at the end of the period	76,650	48,289

The exercisable options outstanding at 3 October 2009 had a weighted average exercise price of 166p (2008: 176p) and a weighted average remaining contractual life of 1.8 years (2008: 2.2 years). The terms of these options are as follows:

Date of grant	Options outstanding at 3 October 2009	Vesting period	Market value at date of grant (p)	Exercise price (p)	Exercise period
30 November 2007	47,635	3 years	220	176	6 months
18 August 2009	29,015	3 years	178	150	6 months

There are no performance conditions that apply to the options, other than continued employment.

The options granted have been valued using the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

Scheme: date of grant	18/08/09	30/11/07
Weighted average share price	178p	220p
Weighted average exercise price	150p	176p
Expected volatility	32.7%	37.6%
Expected life	3 years	3 years
Risk free rate	4.6%	5.2%
Expected dividend yield	2.6%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the period since the Group was admitted to AIM. The expected option value used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected dividend yield was based on the Group's dividend payout pattern at the date of issue of the options.

The total charge to the income statement in the period in respect of share-based payments was £11,000 (2008: £17,000). A deferred tax charge of £2,000 (2008: £4,000) was recognised in the income statement during the period in respect of share based payments.

Notes to the consolidated financial statements continued

25. Statement of changes in equity

	Share capital account £'000	Share premium account £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2007	567	5,341	1,887	7,795
Profit for the year	—	—	3,581	3,581
Dividends paid	—	—	(227)	(227)
Share based payments	—	—	17	17
Tax taken directly to equity	—	—	1	1
At 27 September 2008	567	5,341	5,259	11,167
Profit for the period	—	—	3,639	3,639
Dividends paid	—	—	(703)	(703)
Share based payments	—	—	11	11
At 3 September 2009	**567**	**5,341**	**8,206**	**14,114**

26. Consolidated cash flow statement

	2009 £'000	2008 £'000
Profit after tax	**3,639**	3,581
Adjustments for:		
Finance income – net	**(81)**	(114)
Depreciation of property, plant and equipment	**230**	200
Amortisation of intangible assets	**20**	—
Profit on sale of property, plant and equipment	**—**	(19)
Share option costs	**11**	17
Income tax expense	**1,414**	1,465
Gain/(loss) on derivative financial instruments	**106**	(32)
Gain on early settlement of deferred consideration	**(20)**	—
Changes in working capital:		
Decrease/(increase) in inventories	**1,805**	(1,977)
(Increase)/decrease in trade and other receivables	**(1,212)**	30
Decrease in trade and other payables	**(799)**	(270)
Cash flows from operating activities	**5,113**	2,881

27. Financial commitments

(a) Capital commitments

Commitments for capital expenditure entered into were as follows:

	2009 £'000	2008 £'000
Contracted for, but not provided in the accounts	**60**	64

(b) Operating lease commitments

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and equipment. At the balance sheet date, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £'000	2008 £'000
Land and buildings, leases expiring:		
Within one year	**414**	403
In the second to fifth years inclusive	**1,783**	1,751
After more than five years	**2,800**	3,246
	4,997	5,400
Other assets, leases expiring:		
Within one year	**19**	7
In the second to fifth years inclusive	**18**	7
	37	14

The operating lease commitment on land and buildings represents the lease on the Group's factory and offices at Meadowhall, Sheffield. The Group entered into a lease for a period of 15 years commencing on 1 July 2005. The current rent payable under the lease is £370,975 per annum. The lease includes rent reviews in every fifth year of the term. In respect of years 6-10 inclusive, the rent increases to £409,586 and then £452,216 in the following review period.

An additional lease was entered into on the same date for the same period for the end bay at the above address. The rent for the first five years of the lease is £32,000 per annum rising to £36,206 following the first review and £40,964 following the final review.

Company balance sheet

As at 3 October 2009

	Notes	**2009 £'000**	2008 £'000
Fixed assets			
Investments	4	**1,021**	1,010
Intangible assets	5	**380**	—
		1,401	1,010
Current assets			
Debtors	6	**301**	1,918
Cash at bank and in hand		**6,634**	5,042
		6,935	6,960
Creditors: amounts falling due within one year	7	**(528)**	(661)
Net current assets		**6,407**	6,299
Net assets		**7,808**	7,309
Capital and reserves			
Called up share capital	8	**567**	567
Share premium account	9	**5,341**	5,341
Equity – non distributable	9	**20**	9
Profit and loss account	9	**1,880**	1,392
Equity shareholders' funds	10	**7,808**	7,309

The notes on pages 45 to 47 form part of these financial statements.

Approved by the Board on 8 December 2009 and signed on its behalf by:

JTS Hayward
Director

Notes to the Company financial statements

1. Accounting policies

These financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt within the financial statements of the holding Company was £1,190,000 (2008: £1,113,000).

Investments

Investments in subsidiary undertakings are stated at cost subject to provision for impairment where the underlying business does not support the carrying value of the investment. Where the ownership of investments have been transferred between Group undertakings, this has been accounted for at nominal value under the provisions of merger relief.

Pensions

The Company makes contributions to a defined contribution scheme with costs being charged to the profit and loss account in the period to which they relate.

Share based payments

The share option programme allows Pressure Technologies plc to grant options to Group employees to acquire shares in Pressure Technologies plc. The fair value is measured at the date of granting the options and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as fair value is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Deferred taxation is recognised over the vesting period.

Where the individuals are employed by the parent Company, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Where the individuals are employed by a subsidiary undertaking, the fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the Parent Company. An equal amount is credited to other equity reserves. This treatment is in accordance with UITF 44 and FRS 20: Share based payments.

2. Employees

Average weekly number of employees, including executive Directors:

	2009 £'000	2008 £'000
Administration	**3**	2

Staff costs, including Directors:

	2009 Number	2008 Number
Wages and salaries	**278**	321
Social security costs	**28**	31
Other pension costs	**18**	31
Share based payments	**1**	8
	325	391

Further details of Directors remuneration are provided in note 8 to the consolidated financial statements.

3. Operating profit

The Auditors' remuneration for the audit and other services is disclosed in note 7 to the consolidated financial statements.

Notes to the Company financial statements

4. Investments

	Investment in subsidiary companies £'000
Cost	
At 28 September 2008	1,010
Share options granted to subsidiary employees	11
At 3 October 2009	**1,021**

The principal subsidiaries which are both 100% owned, are:

Name	Country of incorporation	Principal activity
Chesterfield Pressure Systems Group Limited ("CPSG")	England	Management company
Chesterfield Special Cylinders Limited ("CSC")	England	Manufacturing

5. Intangible assets

A 5 year licence and distribution agreement was signed during the year at a cost of £400,000 against which an amortisation charge of £20,000 has been made. The net book value at 3 October 2009 was £380,000.

6. Debtors

	2009 £'000	2008 £'000
Amounts: falling due within one year		
Other debtors	**—**	6
Prepayments and accrued income	**27**	24
Amounts owed by Group undertakings	**272**	1,888
Corporation tax	**2**	—
	301	1,918

7. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	**22**	15
Other tax and social security	**11**	8
Other creditors	**—**	2
Accruals and deferred income	**76**	162
Corporation tax	**—**	39
Amounts owed by Group undertakings	**419**	435
	528	661

8. Share capital

Details of the Company's authorised and issued share capital and of movements in the year are given in note 23 to the consolidated financial statements.

9. Reserves

	Equity – non distributable 2009 £'000	**Share premium account 2009 £'000**	**Profit and loss account 2009 £'000**	Equity – non distributable 2008 £'000	Share premium account 2008 £'000	Profit and loss account 2008 £'000
At beginning of period	**9**	**5,341**	**1,392**	—	5,341	498
Profit for the financial period	**—**	**—**	**1,190**	—	—	1,113
Share option costs	**—**	**—**	**1**	—	—	8
Share options granted to subsidiary employees	**11**	**—**	**—**	9	—	—
Dividends	**—**	**—**	**(703)**	—	—	(227)
At end of period	**20**	**5,341**	**1,880**	9	5,341	1,392

10. Reconciliation of movements in equity shareholders' funds

	2009 £'000	2008 £'000
Equity shareholders' funds at beginning of period	**7,309**	6,406
Profit for the financial period	**1,190**	1,113
Dividends paid	**(703)**	(227)
Share option costs	**1**	8
Share options granted to subsidiary employees	**11**	9
Equity shareholders' funds at end of period	**7,808**	7,309

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