This announcement contains inside information as stipulated under the Market Abuse Regulations (EU) no. 596/2014 (which forms part of domestic UK law pursuant to the European Union (Withdrawal) Act 2018) ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

3 November 2021

PipeHawk plc
("PipeHawk", "Company" or the "Group")

Final Results for the year ended 30 June 2021

Highlights

- Turnover of £6.7 million, a decrease of 19.3% (2020: £8.3 million)
- Profit before tax of £79,000, a decrease of 84.2% (2020: £194,000)
- Earnings per share of 1.50p, down 11.91% (2020: 1.69p)
- QM Systems has experienced its strongest quarter ever in terms of profitability during the final quarter of the financial year

Chairman's Statement

I am pleased to report that the Group made an operating profit in the year of £257,000 (2020: £405,000), a profit before taxation for the year of £79,000 (2020: £194,000) and a profit after taxation of £522,000 (2020: £590,000) despite turnover decreasing by 19.3% to £6.7 million (2020: £8.3 million) in what has been a challenging period with the ongoing Covid-19 pandemic. The earnings per share for the year was 1.50p (2020: 1.69p).

This year has been very much a year of two halves, the first six months was a turnover of £2.6 million and a pretax loss of £336,000, the second six months saw a turnover of £4.1 million and a pretax profit of £415,000. I think there is a feeling that we, as a nation, have put behind us the uncertainty of the outcome of Brexit as exacerbated by how best to tackle the global pandemic, and now see a way forward; there will be slip-ups and setbacks but, broadly speaking, confidence has now returned and we can get on with business in whatever the new normal turns out to be. Certainly, the PipeHawk Group's second six months saw a return to near pre-pandemic levels and, even more importantly, we go into the next financial year with our healthiest orderbook ever.

Two of our businesses are relocating to significantly larger premises in order to be able to fulfil the confidently predicted increases in sales orders, and the future looks very good.

QM Systems

As reported in the interim statement performance in the first half of the financial year was hampered through reduced orders created directly by the effects of the pandemic lockdowns. Thankfully the effects seen due to the lockdown during the early part of 2021 were short lived and order intake returned to a far more buoyant level from March 2021 onwards.

Following the difficult start to the Financial Year, both order intake and order completion have returned to pre-pandemic levels. In fact, QM Systems has experienced its strongest quarter ever in terms of profitability during the final quarter of the financial year, achieving a profit before tax in the quarter alone of approximately £350k.

Final results for the year, whilst showing a reduction compared to 2019/20 FY rebounded strongly during the second half of the year achieving a total revenue of £3.93m with a pre-tax profit of £189k (post tax £480k) representing an excellent recovery for the second half of the Financial Year. Our orderbook entering the new Financial Year stood at over £2 million with a healthy sales pipeline for the coming period.

Material sourcing has been challenging throughout the period, partly due to shortages of semiconductors, partly due to the continuing impacts of Brexit and global shipping issues however despite these added challenges I am pleased to report that at the time of writing all current projects remain on track for delivery against planned timescales.

In my interim statement we announced that QM had established a new division, QM manufacturing which undertakes contract manufacturing services for our customers, complementing the extensive offering of services already provided by the company. We have continued to develop this business line and are hopeful to sign a number of further manufacturing contracts in the coming months. In order to facilitate this business and to provide further space to continue to grow our project business we have taken the decision to relocate the entire operational activities to a far more modern and far larger facility within a few miles of our current location just outside Worcester. The new facilities will provide over five times the production space currently available with a doubling of the office space.

The establishment of the QM Manufacturing division complements the existing product, project and service offering already provided by QM and creates an ability for QM to accelerate growth both in revenue and profit over the next few years. Manufacturing brings much stability to our business, and significantly enhances the quality of our earnings.

With the return to pre pandemic order intake, addition of the contract manufacturing division and re location to a far larger and more modern premises the future for QM Systems looks very bright.

Thomson Engineering Design ("TED")

As previously mentioned in the half year interim results TED experienced a slow-down in order intake for the first part of the financial year however this slowdown was relatively short lived and both order intake and sales achieved accelerated. I am pleased to report that despite the initial slow start to the year TED performed strongly with a best ever result. Revenue achieved was £1.2 million, representing a growth year on year in excess of 20% with a profit before tax of c£109k. This is an excellent result achieved in a difficult climate. Export sales represented approximately 27% of total sales showing a growth of approximately 5% in international markets. We anticipate further expansion into international markets in the current Financial Year.

During the year TED have delivered a number of innovative new products, in particular TED have developed a Gantry Crane system that enables the user to replace a very expensive excavator with a purpose made crane at a fraction of the capital outlay and with far simpler operating characteristics. The first three crane systems have already been delivered; two additional crane systems are under current manufacture and due for delivery by the end of next week. Further orders are expected. The crane system can be fitted with most of the excavator attachments that TED currently offers. Further new and innovative products will be launched over the next few months including an intelligent sleeper laying machine.

Sales of existing products have remained buoyant with a number of manipulators, sleeper spreaders, sleeper handlers, declippers, fastclip machines, autoloks and cable yokes being shipped to new and existing clients.

Unlike last year, the company enters the new 2021/22 FY with a full orderbook. This will enable us to continue the trend in growth for this coming year. Order pipeline remains buoyant with a number of significant orders due to be received over the coming weeks. This provides stability and further opportunity for significant growth.

To facilitate both the growth achieved and anticipated further expansion we are in the process of relocating into new facilities within the same industrial estate. The facilities are far more modern tripling our manufacturing space and providing a significant increase in office space.

Technology Division – PipeHawk Technology and Utsi Electronics

With all trade events and client demonstration opportunities cancelled or postponed for many months and much of its global customer base operating on reduced hours or simply closed altogether, PipeHawk Technology has been in tickover/furlough mode for the greater part of the last financial year. Trading only taking place in very sporadic response to the receipt of confirmed orders from the few clients able to continue trading and then only where the products required were held in-stock or their components being available from one of the few parts of the supply chain still operating. The outcome being expectedly poor sales figures. Swift cancellation and/or deferral of incoming supply orders and other cost controls have helped to avoid the burden of significant costs and therefore lessened the losses incurred. Whilst we expect the UK to be one of the first to reopen for business. PipeHawk Technology sales are not expected to return to pre-pandemic levels until primary overseas markets (particularly Asia) are trading once again. Actions are therefore in place to find new avenues to market as well as widen the scope of existing products in order to increase opportunity to access new markets. This process has been greatly enhanced by the acquisition of Utsi Electronics Ltd (Utsi) during the year which; in addition to a number of R&D projects ongoing or, under discussion at the time of acquisition also provides immediate access to a second product range, with wider market appeal, existing access to other markets and great potential for additional market exploitation including entry into new fields of endeavour. The additional product range available is mature, technically very clever and recognised internationally as being very capable across a wide range of largely scientific markets. Already in progress, the plan is to integrate the two businesses and their market offerings through a process of profit optimisation, natural redundancy and new innovation to produce a leaner product list focused on achieving the maximum revenue from a reduced component base alongside a common marketing strategy.

Adien

On balance it has been a good year for Adien.

Trading for the first six months to December was very strong and profitable, however from January 2021 trading began to slow as major tenders in the defense and 5G telecom sectors were delayed due to uncertainty over budget renewals in March/April 2021.

Since May/June this trading has begun to increase and continues to do so.

Recruitment of specialist staff who can multi task allows more flexible and profitable working.

The acquisition of the latest survey kit and more economic and greener vehicles coming on line over the coming months coupled with the best insurance cover and all the key accreditation continues to keep Adien at the leading edge of our industry.

Financial position

The Group continues to be in a net liability position and is still reliant on my continuing financial support.

My letter of support dated 28 September 2020 was renewed on 6 September 2021 to provide the group with financial support until 31 December 2024. Loans due to me, other than those covered by the CULS agreement, are unsecured and accrue interest at an annual rate of Bank of England base rate plus 2.15%.

The CULS agreement for £1 million, provided by myself, was renewed last year and extended on identical terms, such that the CULS are now repayable on 13 August 2022.

In addition to the loans I have provided to the Company in previous years, I have deferred a certain proportion of fees and the interest due until the Company is in a suitably strong position to make the full payments.

Historically, my fees and interest payable have been deferred. During the year under review, the deferred element amounted to £200,000. At 30 June 2021, these deferred fees and interest amounted to approximately £1.6 million in total, all of which have been recognised as a liability in the Company's accounts.

Strategy & Outlook

The PipeHawk group remains committed to creating sustainable earnings-based growth and focusing on the expansion of its business with forward-looking products and services. PipeHawk acts responsibly towards its shareholders, business partners, employees, society and the environment in each of its business areas.

PipeHawk is committed to technologies and products that unite the goals of customer value and sustainable development. Other than PipeHawkTechnology/Utsi (which bode well for the future), all divisions of the Group are currently performing well and I remain optimistic in my outlook for the Group.

Gordon Watt
Chairman
Date: 3 November 2021

Enquiries:

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Notes to Editors

For further information on the Company and its subsidiaries, please visit: www.pipehawk.com

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021

	Note	**30 June 2021 £'000**	30 June 2020 £'000
Revenue	2	**6,665**	8,325
Staff costs	5	**(3,478)**	(3,776)
Operating costs		**(2,930)**	(4,144)
Operating profit	4	**257**	405
Profit before interest and taxation		**257**	405
Finance costs	3	**(178)**	(211)
Profit before taxation		**79**	194
Taxation	7	**443**	396
Profit for the year attributable to equity holders of the parent		**522**	590
Other comprehensive income		**-**	-
Total comprehensive profit for the year attributable to equity holder of the parent		**522**	590
Profit per share (pence) - basic	8	**1.50**	1.69
Profit per share (pence) - diluted	8	**0.80**	0.93

The notes to the financial statements form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2021

	Note	**30 June 2021 £'000**	30 June 2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	528	339
Right of use	10	363	472
Goodwill	11	1,357	1,345
		2,248	2,156
Current assets			
Inventories	13	373	151
Current tax assets		442	394
Trade and other receivables	14	1,809	1,654
Cash and cash equivalents		920	250
		3,544	2,449
Total assets		5,792	4,605
Equity and liabilities			
Equity			
Share capital	18	349	349
Share premium		5,215	5,215
Retained earnings		(7,784)	(8,306)
		(2,220)	(2,742)
Non-current liabilities			
Borrowings	16	3,205	3,255
Trade and other payables	15	-	6
		3,205	3,261
Current liabilities			
Trade and other payables	15	2,651	1,949
Borrowings	16	2,156	2,137
		4,807	4,086
Total equity and liabilities		5,792	4,605

The notes to the financial statements form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 3 November 2021 and signed on its behalf by:

Gordon G Watt
Director
Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2021

	Note	**30 June 2021 £'000**	30 June 2020 £'000
Cash flows from operating activities			
Profits from operations		**257**	405
Adjustments for:			
Depreciation	4	**192**	191
		449	596
Increase in inventories		**(171)**	(18)
Increase in receivables		**(136)**	(52)

Increase/(decrease) in liabilities		**581**	(1,036)
Cash generated/(used) by operations		**723**	(510)
Interest paid		**(50)**	(69)
Corporation tax received		**394**	318
Net cash generated/ (used in) from operating activities		**1,067**	(261)
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	21	**42**	23
Purchase of plant and equipment	9/10	**(130)**	(474)
Net cash used in investing activities		**(88)**	(451)
Cash flows from financing activities			
Proceeds from borrowings		**339**	523
Repayment of loan		**(483)**	(165)
Repayment of leases		**(165)**	(170)
Net cash (used in)/generated from financing activities		**(309)**	188
Net (decrease)/increase in cash and cash equivalents		**670**	(524)
Cash and cash equivalents at the beginning of year		**250**	774
Cash and cash equivalents at end of year		**920**	250

The notes to the financial statements form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2021

CONSOLIDATED	**Share capital £'000**	**Share premium account £'000**	**Retained earnings £'000**	**Total £'000**
As at 1 July 2019	344	5,205	(8,896)	(3,347)
Profit for the year	-	-	590	590
Total comprehensive income	-	-	590	590
Issue of shares	5	10	-	15
As at 30 June 2020	349	5,215	(8,306)	(2,742)
Profit for the year	-	-	522	522
Total comprehensive income	-	-	522	522
As at 30 June 2021	349	5,215	(7,784)	(2,220)

The share premium account reserve arises on the issuing of shares. Where shares are issued at a value that exceeds their nominal value, a sum equal to the difference between the issue value and the nominal value is transferred to the share premium account reserve.

The notes to the financial statements form an integral part of these financial statements.

1 Summary of significant accounting policies

1.1. General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006. The addresses of its registered office and principal place of business are disclosed in the company information on page 3. The principal activities of the Company and its subsidiaries (the Group) are described on page 9.

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group. In accordance with section 408 of the Companies Act 2006 a separate statement of comprehensive income for the parent Company has not been presented. For the year to 30 June 2021 the Company recorded a net loss after taxation of £236,000 (2020: loss £48,000).

1.2. Basis of preparation

The financial statements have been prepared in accordance with international financial reporting standards in conformity with the requirements of the Companies Act 2006 and under the historical cost convention. The principal accounting policies are set out below.

1.3. Basis of preparation – Going concern

The directors have reviewed the Parent Company and Group's funding requirements for the next twelve months which show positive anticipated cash flow generation, prior to any repayment of loans advanced by the Executive Chairman. The directors have furthermore obtained a renewed pledge from GG Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the Group and Parent Company statement of financial positions. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements. However, a material uncertainty exists regarding the ability of the Group and Parent Company to remain a going concern without the continuing financial support of the Executive Chairman.

1.4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

1.5. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations (revised) are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised

1.6. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1.7. Revenue recognition

For the year ended 30 June 2021 the Group used the five-step model as prescribed under IFRS 15 on the Group's revenue transactions. This included the identification of the contract, identification of the performance obligations under the same, determination of the transaction price, allocation of the transaction price to performance obligations and recognition of revenue.

The point of recognition arises when the Group satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur over time or at a point in time.

1.8. Sale of goods

Revenue generated from the sale of goods is recognised on delivery of the goods to the customer. On this basis revenue is recognised at a point in time.

1.9. Sale of services

In relation to the design and manufacture of complete software and hardware test solutions and the provision of specialist surveying, revenue is recognised through a review of the man-hours completed on the project at the year-end compared to the total man-hours required to complete the projects. Provision is made for all foreseeable losses if a contract is assessed as unprofitable.

Revenue represents the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue from goods and services provided to customers not invoiced as at the reporting date is recognised as a contract asset and disclosed as accrued income within trade and other receivables.

Although payment terms vary from contract to contract invoices are in general raised in advance of services performed. Where billing has exceeded the revenue recognised in a period a contract liability is recognised and this is disclosed as payments received on account in trade and other payables.

1.10. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

The principal annual rates used to depreciate property, plant and equipment are:

Equipment, fixtures and fittings	25%
Motor vehicles	25%

1.11. Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress is valued at cost, which includes expenses incurred on behalf of clients and an appropriate proportion of directly attributable costs on incomplete assignments. Provision is made for irrecoverable costs where appropriate.

1.12. Financial assets

The Group's financial assets consist of cash and cash equivalents and trade and other receivables. The Group's accounting policy for each category of financial asset is as follows:

<u>Financial assets held at amortised cost</u>

Trade receivables and other receivables are classified as financial assets held at amortised cost. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group’s financial assets held at amortised cost comprise other receivables and cash and cash equivalents in the statement of financial position.

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

1.13. Leased/Right of Use assets

The leases liability is initially measured at the present value of the remaining lease payments, discounted using the individual entities incremental borrowing rate. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Group is reasonable certain to exercise that option based on operational needs and contractual terms. Subsequently, the lease liability is measured at amortised cost by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, lease incentives received and initial direct costs. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurement of the lease liability.

Depreciation is calculated on a straight-line basis over the length of the lease. The Group has elected to apply exemptions for short-term leases and leases for which the underlying asset is of low value. For these leases, payments are charged to the income statement on a straight-line basis over the term of the relevant lease. Right-of-use assets are presented within non-current assets on the face of the balance sheet, and lease liabilities are shown separately on the statement of financial position in current liabilities and non-current liabilities depending on the maturity of the lease payments.

Under IFRS16, right-of-use assets will be tested for impairment in accordance with IAS36 Impairment of Assets. This has replaced the previous requirements to recognise a provision for onerous lease contracts.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the profit or loss. Short term leases are leases with a lease term of 12 months or less.

1.14. Pension scheme contributions
Pension contributions are charged to the statement of comprehensive income in the period in which they fall due. All pension costs are in relation to defined contribution schemes.

1.15. Share based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to reserves.

1.16. Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at 30 June. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions.

1.17. Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the year end date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

1.18. Impairment of property, plant and equipment

At each year end date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

1.19. Research and development

The Group undertakes research and development to expand its activity in technology and innovation to develop new products that will begin directly generating revenue in the future. Expenditure on research is expensed as incurred, development expenditure is capitalised only if the criteria for capitalisation are recognised in IAS 38. The Company claims tax credits on its research and development activity and recognises the income in current tax.

1.20. Government grants

During the period, the Group received benefits from Government grants. Revenue based Government grants are recognised through the consolidated statement of comprehensive income by netting off against the costs to which they relate. Where the grant is not directly associated with costs incurred during the period, it is recognised as 'other income'.

1.21. Critical judgement in applying accounting policies and key sources of estimation uncertainty

The following are the critical judgements and key sources of estimation uncertainty that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in these financial statements.

<u>Impairment of goodwill</u>

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. A similar exercise is performed in respect of investment and long term loans in subsidiary.

The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, see note 11 for further details.

The carrying amount of goodwill at the year-end date was £1,356,000 (2020: £1,345,000). The investment in subsidiaries at the year-end was £1,903,000 (2020: £1,197,000).

The methodology adopted in assessing impairment of Goodwill is set out in note 11 as is the sensitivity analysis applied in relation to the outcomes of the assessment.

<u>Impairment investment in subsidiaries and inter-company receivables</u>

As set out in note 12, an impairment assessment of the carrying value of investments in subsidiaries and inter-company receivables is in line with the methodologies adopted in the assessment of impairment of goodwill.

2 Segmental analysis

	2021 £'000	2020 £'000
Turnover by geographical market		
United Kingdom	**6,103**	8,285
Europe	**172**	19
Other	**390**	21
	6,665	8,325

The Group operates out of one geographical location being the UK. Accordingly, the primary segmental disclosure is based on activity. Per IFRS 8 operating segments are based on internal reports about components of the Group, which are regularly reviewed and used by Chief Operating Decision Maker ("CODM") for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance. The Group's reportable operating segments are as follows:

- Adien Limited - Utility detection and mapping services – Sale of services
- PipeHawk Limited and Utsi Electronics Limited - Development, assembly and sale of GPR equipment – Sale of goods
- QM Systems - Test system solutions – Sale of services
- TED Limited – Rail trackside solutions (included in the test system solutions segment) – Sale of services
- Wessex Precision Instruments Limited – Non-trading

The CODM monitors the operating results of each segment for the purpose of performance assessments and making decisions on resource allocation. Performance is based on revenue generations and profit before tax, which the CODM believes are the most relevant in evaluating the results relative to other entities in the industry.

In utility detection and mapping services three customers accounted for 53% of revenue in 2021 and two customers accounted for 22% of revenue in 2020. In development, assembly and sale of GPR equipment two customers accounted for 50% of revenue in 2021 and one customer accounted for 68% of revenue in 2020. In automation and test system solutions three customer accounted for 49% of revenue in 2021 and three customers accounted for 42% of revenue in 2020.

Information regarding each of the operations of each reportable segment is included below, all non-current assets owned by the Group are held in the UK.

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2021				
Total segmental revenue	1,395	150	5,120	6,665
Operating profit/(loss)	130	(218)	345	257
Finance costs	(29)	(130)	(19)	(178)
Profit/(loss) before taxation	101	(348)	326	79
Segment assets	696	2,196	2,754	5,646
Segment liabilities	624	4,841	2,521	7,986
Non-current asset additions	50	4	77	131
Depreciation and amortisation	100	1	91	192

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2020				
Total segmental revenue	1,344	81	6,900	8,325
Operating profit/(loss)	75	(15)	345	405
Finance costs	(33)	(141)	(37)	(211)
Profit/(loss) before taxation	42	(156)	308	194
Segment assets	771	1,527	2,307	4,605
Segment liabilities	664	4,379	2,304	7,347
Non-current asset additions	225	1	258	484
Depreciation and amortisation	95	1	95	191

3 Finance costs

	2021 £'000	2020 £'000
Interest payable	178	211
	178	211
Interest payable comprises interest on:		
Leases	25	26
Directors' loans	129	141
Other	24	44
	178	211

4 Operating profit for the year

This is arrived at after charging for the Group:

	2021 £'000	2020 £'000
Research and development costs not capitalised	2,285	2,141
Depreciation	192	191
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Group's financial statements	45	43
Fees payable to the Company's auditor and its subsidiaries for the provision of tax services	7	7
Lease rentals		
Other including land and buildings	156	163

The Company audit fee is £9,000 (2020: £9,000).

5 Staff costs

	2021 No.	2020 No.
Average monthly number of employees, including directors:		
Production and research	78	85
Selling and research	10	10
Administration	5	6
	93	101

	2021 £'000	2020 £'000
Staff costs, including directors:		
Wages and salaries	3,032	3,382
Social security costs	350	326
Other pension costs	96	68
	3,478	3,776

6 Directors' remuneration

	Salary and fees £'000	Benefits in kind £'000	2021 Total £'000	2020 Total £'000
G G Watt	71	-	71	71
S P Padmanathan	64	8	72	25
R MacDonnell	2	-	2	4
Aggregate emoluments	137	8	145	100

Directors' pensions	2021 No.	2020 No.
The number of directors who are accruing retirement benefits under:		
Defined contributions policies	1	-

The directors represent key management personnel.

Directors' share options	Number of options				
	At start of year	Granted during the year	At end of year	Exercise price	Date from which exercisable
G G Watt	-	750,000	750,000	8.0p	18 Mar 2024
S P Padmanathan	200,000	-	200,000	3.9p	15 Nov 2019
S P Padmanathan	-	300,000	300,000	8.0p	18 Mar 2024

R MacDonnell	-	200,000	200,000	8.0p	18 Mar 2024

The Company's share price at 30 June 2021 was 7.75p. The high and low during the period under review were 9.38 and 4.00p respectively.

In addition to the above, in consideration of loans made to the Company, G G Watt has warrants over 3,703,703 ordinary shares at an exercise price of 13.5p and a further 6,000,000 ordinary shares at an exercise price of 3.0p.

7 Taxation

	2021 **£'000**	2020 £'000
United Kingdom Corporation Tax		
Current taxation	**(435)**	(396)
Adjustments in respect of prior years	**(8)**	-
	(443)	(396)
Deferred taxation	**-**	-
Tax on profits/loss	**(443)**	(396)

	2021	2020
Current tax reconciliation		
Taxable profit for the year	**79**	194
Theoretical tax at UK corporation tax rate 19% (2020: 19%)	**15**	37
Effects of:		
R&D tax credit adjustments	**(428)**	(414)
Income not taxable	**-**	(3)
Other expenditure that is not tax deductible	**(12)**	1
Deferred tax not recognised	**28**	-
Adjustments in respect of prior years	**(18)**	(17)
Utilisation of losses	**(27)**	-
Short term timing differences	**(1)**	-
Total income tax credit	**(443)**	(396)

The Group has tax losses amounting to approximately £3,008,408 (2020: £2,855,000), available for carry forward to set off against future trading profits. No deferred tax assets have been recognised in these financial statements due to the uncertainty regarding future taxable profits.

Potential deferred tax assets not recognised are approximately £541,065 (2020: £535,000).

8 Profit per share

Basic (pence per share) 2021 – 1.50 profit per share; 2020 – 1.69 profit per share
This has been calculated on a profit of £522,000 (2020: £590,000) and the number of shares used was 34,860,515 (2020: 34,860,515) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2021 – 0.80 profit per share; 2020 – 0.93 profit per share
The current year calculation used earnings of £442,000 (2020: £510,000) being the profit for the year, plus the interest paid on the convertible loan note (net of 20% tax) of £80,000 (2020: £80,000) and the number of shares used was 55,344,987 (2020: 55,095,386) being the weighted average number of shares outstanding during the year of 34,860,515 (2020: 34,860,515) adjusted for shares deemed to be issued for no consideration relating to options and warrants of 484,472 (2020: 530,409) and the impact of the convertible instrument of 20,000,000 (2020: 20,000,000).

9 Property, plant and equipment

	Freehold	**Equipment, fixtures and fittings**	**Leasehold improvements**	**Motor vehicles**	**Total**

	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2020	265	1,640	223	280	2,408
Transferred in on acquisition of subsidiary	161	56	-	-	217
Additions	-	67	-	-	67
Disposals	-	(15)	-	(12)	(27)
Transfer from Right of use	-	38	-	-	38
Write off	-	(553)	(80)	-	(633)
At 30 June 2021	426	1,233	143	268	2,070
Depreciation					
At 1 July 2020	18	1,548	223	280	2,069
Transfer in on acquisition of subsidiary	18	55	-	-	73
Charged in year	4	51	-	-	55
Disposals	-	(15)	-	(12)	(27)
Transfer from Right of use	-	5	-	-	5
Write off	-	(553)	(80)	-	(633)
At 30 June 2021	40	1,091	143	268	1,542
Net book value					
At 30 June 2021	**386**	**142**	**-**	**-**	**528**
At 30 June 2020	247	92	-	-	339

The net book value of the property, plant and equipment includes £362,946 (2020: £471,506) in respect of assets held under lease agreements. These assets have been offered as security in respect of these lease agreements. Depreciation charged in the period on those assets amounted to £137,963 (2020: £148,397) – see note 10.

10 Right of use

	Freehold	Equipment, fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 July 2020	248	248	124	620
Additions	-	40	23	63
Transfer to Property, plant and equipment	-	(38)	-	(38)
At 30 June 2021	248	250	147	645
Depreciation				
At 1 July 2020	55	61	32	148
Charged in year	46	52	41	139
Transfer to Property, plant and equipment	-	(5)	-	(5)
At 30 June 2021	101	108	73	282
Net book value				
At 30 June 2021	**147**	**142**	**74**	**363**
At 30 June 2020	193	187	92	472

11 Goodwill

	Goodwill £'000	Total £'000
Cost		

At 1 July 2020	1,405	1,405
Additions	12	12
At 30 June 2021	1,417	1,417
Impairment		
As at 30 June 2020 and 30 June 2021	60	60
Net book value		
At 30 June 2021	**1,357**	**1,357**
At 30 June 2020	1,345	1,345

The goodwill carried in the statement of financial position of £1,357,000 arose on the acquisitions of Adien Limited in 2002 (£212,000), QM Systems Limited in 2006 (£849,000), TED Limited in 2017 (£129,000), Wessex Precision Equipment Limited in 2019 (£155,000) and Utsi Electronics Limited in 2021 (£12,000) – see note 21.

Adien Limited represents the segment utility detection and mapping services and QM Systems Limited represents the segment test system solutions.

QM Systems Limited, TED, Wessex and Utsi are involved in projects surrounding:

- The creation of innovative automated assembly systems for the manufacturing, food and pharmaceutical sectors.
- The provision of inspection systems for the automotive, aerospace, rail and pharmaceutical sectors.
- Slippage testing
- Assembly and sale of GPR equipment
- Automated test systems

The Group tests goodwill annually for impairment or more frequently if there are indicators that it might be impaired.

The recoverable amounts are determined from value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a five year period. The key assumptions are those regarding the discount rates, growth rates and expected changes to sales and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. This has been estimated at 10% per annum reflecting the prevailing pre-tax cost of capital in the Company. The growth rates are based on forecasts and historic margins achieved in both Adien Limited, QM Systems Limited and TED. For Adien these have been assessed as 19% growth for revenue in years 1 and 5% for years 2 and 3 and 2.5% thereafter and 2.5% for overhead growth. For QM Systems these have been assessed as 1% growth for revenue in year 1 and 10 % in year 2 and 3 and 5% for years 3 to 5 and 5% for overhead growth. For TED these have been assessed as 27% growth for revenue in year 1 and 20 % in year 2 and 3 and 5% for years 3 to 5 and 5% for overhead growth. No terminal growth rate was applied. The reason for the significant Year 1 revenue growth in Adien and TED is an expectation based on current trading and the expected order pipeline.

12 Inventories

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Raw materials	287	72	77	69
Finished goods	86	79	6	6
	373	151	83	75

The replacement cost of the above inventories would not be significantly different from the values stated.

The cost of inventories recognised as an expense during the year amounted to £2,078,000 (2020: £2,726,000). For the Parent company this was £16,024 (2020: £(3,533)).

13 Trade and other receivables

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Current				
Trade receivables	1,066	1,010	3	-
Amounts owed by Group undertakings	-	-	405	444
Other Debtors	464	364	-	-

Accrued income	3	-	3	-
Prepayments	276	280	12	11
	1,809	1,654	423	455

14 Trade and other payables

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Current				
Trade payables	581	528	5	4
Other taxation and social security	501	699	5	-
Payments received on account	786	195	-	-
Accruals and other creditors	783	527	239	42
	2,651	1,949	249	46

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Non-current				
Amounts owed to Group undertakings	**-**	-	1,629	1,063
Other creditors	**-**	6	-	-
	-	6	1,629	1,063

The performance obligations of the IFRS 15 contract liabilities (payments received on account) are expected to be met within the next financial year.

15 Borrowing analysis

	Group		Company	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Due within one year				
Bank and other loans	269	275	103	-
Directors' loan	1,748	1,718	1,693	1,663
Obligations under lease agreements	139	144	-	-
	2,156	2,137	1,796	1,663
Due after more than one year				
Bank and other loans	628	576	442	400
Directors' loan	2,392	2,403	2,392	2,403
Obligations under lease agreements	185	276	-	-
	3,205	3,255	2,834	2,803
Repayable				
Due within 1 year	2,156	2,137	1,796	1,663
Over 1 year but less than 2 years	2,576	2,470	2,503	2,349
Over 2 years but less than 5 years	629	785	331	400
	5,361	5,392	4,630	4,412

Directors' loans

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to GG Watt of £1,643,000 (2020: £1,614,000). The accrued fees and interest is repayable on demand and no interest accrues on the balance.

The director's loan due in more than one year is a loan of £2,339,000 from G G Watt. Directors' loans comprise of two elements. A loan attracting interest at 2.15% over Bank of England base rate. At the year end £1,339,000 (2020: £1,349,000) was outstanding in relation to this loan. During the year to 30 June 2021 £130,000 (2020: £84,000) was repaid. The Company has the right to defer payment for a period of 366 days.

On 13 August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock ("CULS") to G G Watt, the Chairman of the Company. The CULS were issued to replace loans made by G G Watt to the Company amounting to £1 million and has been recognised in non-current liabilities of £2,339,000.

Pursuant to amendments made on 13 November 2014 and 9 November 2018, the principal terms of the CULS are as follows:

- The CULS may be converted at the option of Gordon Watt at a price of 3p per share at any time prior to 13 August 2022;
- Interest is payable at a rate of 10 per cent per annum on the principal amount outstanding until converted, prepaid or repaid, calculated and compounded on each anniversary of the issue of the CULS. On conversion of any CULS, any unpaid interest shall be paid within 20 days of such conversion;
- The CULS are repayable, together with accrued interest on 13 August 2022 ("the Repayment Date").

No equity element of the convertible loan stock was recognised on issue of the instrument as it was not considered to be material.

Leases

Lease agreements with Close Motor Finance are at a rate of 4.5% and 5.19% over base rate. The future minimum lease payments under lease agreements at the year end date was £123,382 (2020: £157,119) and £nil (2020: £14,038). The difference between the minimum lease payments and the present value is wholly attributable to future finance charges**.**

Bank and other loans

Included in bank and other loans is an invoice discounting facility of £142,710 (2020: £3,505).

Included in bank and other loans is a secured mortgage of £136,444 which incurs an interest rate of 2.44% over base rate for 10 years and at a rate of 2.64% over base thereafter. The mortgage is secured over the freehold property. As a result of COVID 19, the capital element of the mortgage was deferred for 6 months, extending the mortgage term for 6 months.

As a result of COVID 19, Coronavirus Business Interruption Loan Scheme (CBILS) became available for the business. This enabled the group to secure a loan of £400,000, on 15 May 2020 and £150,000, on 4 September 2020 for a term of 6 year at a rate of 2.96% with the 1st year being interest free and without repayment. The amount of interest paid during the year was £570.

The business was also able to secure a Bounce Back loan through Wessex Precision Engineering of £24,000 on 5 June 2020, and Utsi obtained £50,000 bounce back loan on 8 April 2021, both with an interest rate of 2.5% with the 1st year being interest free and without repayment.

2021	**Bought forward** £'000	**Cash flows** £'000	**Non-cash: New leases** £'000	**Non-cash: Accrued fees/interests** £'000	**Carried forward** £'000
Director loan	4,121	(180)	-	199	4,140
Leases	420	(165)	63	6	324
Other	851	36	-	10	897
Loans and borrowings	5,392	(309)	63	215	5,361

2020	**Bought forward** £'000	**Cash flows** £'000	**Non-cash: New leases** £'000	**Non-cash: Accrued fees/interests** £'000	**Carried forward** £'000
Director loan	4,147	(165)	-	140	4,121
Leases	370	(170)	194	26	420
Other	285	523	-	43	851
Loans and borrowings	4,802	188	194	209	5,392

*Included in working capital adjustments in cash flow statement.

16 Financial instruments

The Group uses financial instruments, which comprise cash and various items, such as trade receivables and trade payables that arise from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. A number of procedures are in place to enable these risks to be controlled. For liquidity risk these include profit/cash forecasts by business segment, quarterly management accounts and comparison against forecast. The board reviews and agrees policies for managing this risk on a regular basis.

Credit risk
The credit risk exposure is the carrying amount of the financial assets as shown in note 13 (with the exception of prepayments which are not financial assets) and the exposure to the cash balances. Of the amounts owed to the Group at 30 June 2021, the top 3 customers comprised 43% (2020: 45.00%) of total trade receivables.

The Group has adopted a policy of only dealing with creditworthy counterparties and the Group uses its own trading records to rate its major customers, also the Group invoices in advance where possible. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Having regard to the credit worthiness of the Groups significant customers the directors believe that the Group does not have any significant credit risk exposure to any single counterparty.

An analysis of trade and other receivables

2021	**Weighted average loss rate**	**Gross carrying value £'000**	**Impairment loss allowance £'000**
Performing	0.00%	1,861	-

2020	**Weighted average loss rate**	**Gross carrying value £'000**	**Impairment loss allowance £'000**
Performing	0.00%	1,654	-

Interest rate risk
The Group finances its operations through a mixture of shareholders' funds and borrowings. The Group borrows exclusively in Sterling and principally at fixed and floating rates of interest and are disclosed at note 15.

As disclosed in note 15 the Group is exposed to changes in interest rates on its borrowings with a variable element of interest. If interest rates were to increase by one percentage point the interest charge would be £15,000 higher. An equivalent decrease would be incurred if interest rates were reduced by one percentage point.

Liquidity risk
As stated in note 1 the Executive Chairman, G G Watt, has pledged to provide ongoing financial support for a period of at least twelve months from the approval date of the Group statement of financial position. It is on this basis that the directors consider that neither the Group nor the Company is exposed to a significant liquidity risk.

Contractual maturity analysis for financial liabilities:

2021	**Due or due in less than 1 month £'000**	**Due between 1-3 months £'000**	**Due between 3 months-1 year £'000**	**Due between 1-5 years £'000**	**Total £'000**
Trade and other payables	997	197	170	-	**1,364**
Borrowings	164	95	1,897	3,205	**5,361**
	1,161	292	2,067	3,205	**6,725**

2020	**Due or due in less than 1 month £'000**	**Due between 1-3 months £'000**	**Due between 3 months-1 year £'000**	**Due between 1-5 years £'000**	**Total £'000**
Trade and other payables	1,055	-	-	6	**1,061**
Borrowings	55	386	1,696	3,255	**5,392**

1,110	386	1,696	3,261	**6,453**

Financial liabilities of the Company are all due within less than three month with the exception of the intercompany balances that are due between 1 and 5 years.

Fair value of financial instruments
Loans and receivables are measured at amortised cost. Financial liabilities are measured at amortised cost using the effective interest method. The directors consider that the fair value of financial instruments are not materially different to their carrying values.

Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to be able to move to a position of providing returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages trade debtors, trade creditors and borrowings and cash as capital. The entity is meeting its objective for managing capital through continued support from GG Watt as described per note 1.

17 Share capital

	2021 No.	**2021 £'000**	2020 No.	2020 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
Allotted and fully paid				
Brought forward	34,360,515	344	34,360,515	344
Issued during the year	500,000	5	500,000	5
Carried forward	34,860,515	349	34,860,515	349

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

12,773,703 (2020:10,903,703) share options were outstanding at the year end, comprising the 3.07m employee options and the 9,903,703 share options and warrants held by directors disclosed below.

Share based payments have been included in the financial statements where they are material. No share based payment expense has been recognised.

No deferred tax asset has been recognised in relation to share options due to the uncertainty of future available profits.

The director and employee share options were issued as part of the Group's strategy on key employee remuneration, they lapse if the employee ceases to be an employee of the Group during the vesting period.

Employee options

Date options exercisable	**Number of shares**	**Exercise price**
Between March 2015 and March 2022	500,000	3.75p
Between July 2016 and July 2023	80,000	3.00p
Between November 2019 and November 2026	600,000	3.875p
Between November 2020 and November 2027	300,000	3.75P
Between March 2024 and March 2031	1,590,000	8.00p

Directors' share options

	No. of options				
	At start of year	**Granted during year**	**At end of year**	**Exercise price**	**Date from which exercisable**
G G Watt	-	750,000	750,000	8.00p	18 Mar 2024
S P Padmanathan	200,000	-	200,000	3.875p	15 Nov 2019
S P Padmanathan	-	300,000	300,000	8.00p	18 Mar 2024

R MacDonnell	-	200,000	200,000	8.00p	18 Mar 2024

The Company's share price at 30 June 2021 was 7.75p. The high and low during the period under review were 9.38p and 4.00p respectively.

In addition to the above, in consideration of loans made to the Company, G G Watt has warrants over 3,703,703 ordinary shares at an exercise price of 13.5p and a further 6,000,000 ordinary shares at an exercise price of 3.0p.

The weighted average contractual life of options and warrants outstanding at the year end is 6.09 years (2020: 2.89 years).

18 Related party transactions

Directors' loan disclosures are given in note 16. The interest payable to directors in respect of their loans during the year was:

G G Watt - £128,531

The directors are considered the key management personnel of the Company. Remuneration to directors is disclosed in note 6.

Included within the amounts due from and to Group undertakings were the following balances:

	2021 **£**	2020 £
Balance due from:		
TED Limited	405,010	377,323
Wessex Precision Engineering Limited	**-**	66,766
Balance due to:		
Adien Limited	116,998	53,194
QM Systems Limited	1,369,416	1,009,923
Utsi Electronics Limited	142,283	-

These intergroup balances vary through the flow of working capital requirements throughout the Group as opposed to intergroup trading.

There is no ultimate controlling party of PipeHawk plc.

19 Government grants

In addition to the Government assistance disclosed in note 15, the following Government grants were received and has been recognised during the period:

	Group		**Company**	
	2021 **£'000**	2020 £'000	**2021** **£'000**	2020 £'000
Coronavirus Job Retention Scheme grants	340	175	30	23
	340	175	30	23

20 Business Combination

On 27 January 2021, the Company acquired 100% of the voting equity instrument of UTSI Electronics Limited. The Group applies the acquisition method in accounting for business combinations. The Consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair value of assets transferred, liabilities incurred, and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration agreement. Acquisition costs are expensed as incurred.

A decision was made to purchase Utsi as its business was complementary to PipeHawk Technology in terms of its offerings, markets and technologies.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition date fair values.

	Book Value £'000	Adjustment £'000	Fair value £'000
Tangible Assets	115	29	144
Stock	49	-	49
Trade receivables	16	-	16
Other debtors	2	-	2
Cash	550	-	550
Trade payables	(34)	-	(34)
Accruals and other creditors	(33)	-	(33)
Total	**665**	**-**	**694**

On acquisition the tangible assets were fair valued to bring the fair value of the assets in line with the valuation performed by the external surveyor.

	£'000
Initial Cash Consideration	508
Deferred Consideration	198
Total Consideration	**706**
Net assets at acquisition	694
Goodwill	**12**

Copies of Report and Accounts

Copies of the Report and Accounts will be posted to shareholders later today and will be shortly be available from the Company's registered office, Manor Park Industrial Estate, Wyndham Street, Aldershot, Hampshire GU12 4NZ and from the Company's website www.pipehawk.com.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the AGM) will be held at the offices of Allenby Capital Limited, 5 St Helen's Place, London, EC3A 6AB at 11 a.m. on 6 December 2021 for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary business

The following resolutions will be proposed as ordinary resolutions:

1. To receive the accounts for the year ended 30 June 2021 together with the reports of the directors and auditor thereon.
(Resolution 1)

2. To re-appoint Randal McDonnell as Non-Executive Director, who retires but, being eligible, offers himself for re-election.
(Resolution 2)

3. To re-appoint Crowe U.K. LLP as auditor of the Company and to authorise the Directors to set their remuneration.
(Resolution 3)

To transact any other ordinary business

Serious loss of capital

To consider whether any, and if so what, steps should be taken to address the serious loss of capital within the Company, pursuant to section 656 (1) of the Companies Act 2006.

Registered Office
Manor Park Industrial Estate
Wyndham Street
Aldershot
Hampshire
GU12 4NZ

Dated: 3 November 2021

By order of the Board

S P Padmanathan
Secretary

Notes:

1. A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A form of proxy for the use of members who are unable to attend the AGM in person is enclosed. A proxy need not be a member of the Company. This instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of that power, must be deposited with the Company's Registrars, SLC Registrars, P.O.Box 5222, Lancing, BN99 3FG, not less than 48 hours before the time of the General Meeting.

2. The completion of a proxy does not preclude a member from attending the AGM and voting in person.

3. As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders who are registered on the Company's Register of Members at 18.00 on 2nd December 2021 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares in their names at that time. Changes to entries on the register of members after 18.00 on 2nd December 2021 shall be disregarded in determining the rights of any person to attend/or vote at the AGM.

4. Copies of all the Directors' service contracts are available for inspection at the Company's registered office during normal business hours on business days from the date of this notice until the close of the AGM and will be available for inspection at the place of the AGM for 15 minutes before the AGM and during the AGM.