The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation

29 November 2023

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

Final Results for the year ended 30 June 2023

Highlights

- Turnover of £6.5 million, an increase of 4.8% (2022: £6.2 million)
- Loss before taxation for the financial year of £3,284,000 (2022: loss £1,576,000)
- The Group's orderbook sits in excess of £6 million – the highest in the Group's history

I can report that Group turnover for the financial year ended 30 June 2023 (the "Financial Year" and the 2022/23 FY") increased to £6.5 million (2022: £6.2 million). The Group incurred an operating loss in the Financial Year of £2,899,000 (2022: £1,312,000), a loss before taxation for the Financial Year of £3,284,000 (2022: loss £1,576,000) and a loss after taxation of £2,484,000 (2022: loss £868,000). The loss per share for the financial year was 6.84p (2022: loss 2.42p).

Notwithstanding the resurgence of our businesses over the last few months, due to delay in the Start of Production for the contract manufacturing business, and given the effects of the wider downturn and volatility in the global market uncertainty the directors have taken a prudent view to recognise a goodwill impairment charge totalling £678k.

It is evident now that the disappointing results delivered during the last two financial years were created over a single 12-month period spanning January 2022 through until December 2022. This was as a result of a perfect storm on the back of a faltering recovery from Covid, the Russian invasion of the Ukraine in February 2022 and the political chaos resulting from the resignation of Boris Johnson as Prime Minister in June 2022, an interregnum until the appointment, and brief term in office, of Liz Truss from September 2022 and finally the appointment of Rishi Sunak in late October 2022. All this set against a background of rising fuel prices and price rises on just about every other manufactured good, whilst the Bank of England "helps" to reduce demand even further by increasing UK interest rates most months whilst saying there is more pain to come! Somewhat surprisingly and despite the aforementioned factors, quotations within the Group's businesses over this period remained buoyant, evidencing the desire of clients to place orders once they felt confident that a degree of stability had materialised.

The first half of the financial year saw a slow start on sales at £2.2 million, however the second half of the financial year saw this rise to £4.3 million. This improvement has continued into the first few months of the current financial year as we anticipate being able to make full use of the much larger facilities which we moved into at QM and TED when the market place was looking much more positive two years ago.

We entered the current year with a Group orderbook in excess of £6 million – the highest in our history, so, provided there are no more nasty surprises to upset the resurgence of stability and belief in our economy, I am confident the Group will be able to report a much-improved financial return at the end of the current financial year, with this improvement continuing thereafter.

QM Systems
For the reasons outlined above, QM had a very tough year having only just moved to premises five times larger with consequent increased overhead costs. Nevertheless, unlike some of its competitors, it has weathered the storm and has come out stronger.

Similar to the previous 2021/22 financial year, QM experienced a year of two halves although this time in reverse. The 2022/23 financial year saw QM report a 36% increase in revenue to £4.2m but with a significant loss after tax of £970k for the year. However, the loss was almost entirely created within the first six months where revenue was only £1.3m with a loss after tax of £950k. The company steadily grew revenue throughout the second part of the year achieving a return to profit within the final quarter.

Towards the end of the first quarter of the 2022/23 financial year, contract awards again began to flow into the business, and this accelerated through the latter part of 2022 and into 2023. Orders received during the period from September 2022 through to June 2023 exceeded £7m and resulted in QM ending the 2022/23 financial year with its healthiest ever forward orderbook of £5.8m. Many of these orders were quotations provided by QM 12-18 months prior, in some cases more.

The average size of order award for QM has increased to approximately £500k with a number of larger orders between £1m to £2m in value also being awarded. QM today sits in a competitive position for contracts with values above £300k. QM now has the infrastructure both in terms of resource and facilities to deliver large multi-million-pound contracts, and today sales generation is focused on larger contracts where QM can add real value to our clients with a very competitive pricing structure.

The current financial year will see the Start of Production (SOP) in three contract manufacturing business units with them entering SOP in Q1 2024. This in turn will create a business model that is not reliant totally on Capital expenditure project awards.

Revenue continues to increase month on month as we head into the 2023/24 financial year and we have short/medium term visibility on a good return to profitability and stability.

Thomson Engineering Design ("TED")

TED generated revenues in the Financial Year of £970k and a loss after tax of £267k and has followed a similar trajectory to QM with a depressed initial six-month period of financial year 2022/23 during which revenues were c. £400k, generating a loss after tax of c. £220k, followed by a more buoyant second half year where revenues were £570k, generating a reduced loss after tax of c. £50k. Sales however did remain below our expectations.

As Network Rail approaches the end of the CP6 funding round, a number of new contract awards have been delayed to align to the start of CP7 (March 2024). This clearly has a knock-on effect on TED in delaying UK-based client sales of equipment. However, this impact is restricted to the UK market only. As reported previously, TED signed a distribution agreement with Unipart Rail late in 2022 and this has resulted in a substantial amount of business being quoted to Unipart Rail. TED is now beginning to see a number of these quotations transition into orders. However, this has had little impact on financial year 2022/23. Unipart Rail are now placing orders with TED on a regular basis, and we fully expect to see a rapid growth in revenue contribution as the current financial year 2023/24 continues. Together with increased revenue, Unipart Rail brings a ready-made marketing system to TED's door that provides TED with unrivalled exposure to global markets. Unipart Rail is locally and actively present in South East Asia, Europe, North America, Australia and the Middle East. Because of this local presence, Unipart Rail understands the respective markets clearly and this in turn helps TED and Unipart Rail to work together to fine tune and develop products for each market.

Over the past year, Unipart Rail, with support from TED, has promoted the TED product catalogue at InnoTrans 2022 – the largest rail exhibition in Europe, Rail Live 2022 – the largest rail exhibition in the UK. Trax 2022 – North America, MTI – Japan – Nov 2022 and Aus Rail – Australia Nov 2022. Looking forwards over the coming year, TED's products will be exhibited at MTI – Japan – June 2024, Trax – North America – June 2024, Rail Live 2023 – UK – July 2024, RSSi / Remsa – US – July 2024 and InnoTrans – Berlin September 2024.

TED has continued development of a number of innovative 'High Output' machines. This suite of machines, consisting of track and panel handlers, gantry cranes, automated rail threaders and automated dust suppressed ballast brooms work hand in hand to provide rail maintenance and installation operators with a very capable set of tools that can greatly increase the speed with which track systems can be laid for a fraction of the cost of the bigger multi-million train-based systems utilised today. The equipment is far smaller and lightweight, can run on a track bed without needing rails and can be deployed quickly and easily to site at a fraction of the cost of conventional systems.

Adien

Adien was very badly affected by the disruption to business confidence as a result of the Conservative leadership debacle last year. Several large projects which had been awarded to Adien were shelved at short notice, and longer-term projects were reassessed and pushed onto the back burner.

As the reality of deferred work became evident as significantly more than a temporary blip, the company implemented a massive structural change to the business, including the appointment of a new Managing Director, consolidation of roles, leading to some staff being made redundant, implementation of a new corporate plan and a refocusing of the sales department as a whole. This, with the return of a degree of business confidence, has dramatically increased the prospects and resulting orders at Adien.

Turnover for the first quarter of the current, 23/24 financial year is almost double that of the same period last year, and resulting in a very satisfactory return to profitability. The forward order book is full, and order enquiries are extremely buoyant.

On the whole, the team at Adien are thoroughly enthused, working well together with full commitment to see a very successful 2023/24.

UTSI

UTSI had a very cyclical year that saw the willingness of UK & EU customers to invest in new sensor technology rise and fall with every global event and interest rate hike. While some overseas markets remained resiliently buoyant, overall retail sales were still down. Demand for our more specialist systems and bespoke design service however remained strong and rose throughout the year, with a number of projects keeping R&D busy and bolstering turnover.

Even though the cost of many of our raw materials started to stabilise during the year, with some even falling, average electronic component prices remained higher at the year end than at the beginning, with a number of key components still in short supply and on long lead times. With retail and trade customers resisting further price increases, margins had to be tightened to remain competitive and although UTSI's overall turnover increased year on year, it could have been higher were it not for some lingering long lead times in the supply chain, preventing orders being completed during the financial year. As a result, a small loss was realised.

While UTSI continues to seek new R&D project opportunities externally, it has also been busy with a few of its own, with internal developments concentrating on new and better sensor systems for use in the growing environmental sciences sector. We expect to see the first of these systems entering the market within the next financial year.

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 6 September 2021 was renewed on 26 November 2023 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 me, was renewed on 30 June 2022 and extended on identical terms, such that the CULS are now repayable on 13 August 2026.

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 £139,000. At 30 June 2023, these deferred fees and interest amounted to approximately £1.8 million in total, all of which has been recognised as a liability in the Company's accounts.

Strategy & Outlook

The 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. Despite wider current market conditions, all divisions of the Group are currently performing well and I remain optimistic in my outlook for the Group.

Gordon Watt
Chairman
Date: 28 November 2023

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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 2023

	Note	**30 June 2023 £'000**	**30 June 2022 £'000**
Revenue	2	6,470	6,191
Staff costs	5	(4,176)	(3,861)
Impairment of goodwill	11	(678)	-
Operating costs		(4,515)	(3,642)
Operating (loss)	4	(2,899)	(1,312)
(Loss) before interest and taxation		(2,899)	(1,312)
Finance costs	3	(385)	(264)
(Loss) before taxation		(3,284)	(1,576)
Taxation	7	800	708
(Loss) for the year attributable to equity holders of the parent		(2,484)	(868)
Other comprehensive income		-	-
Total comprehensive **(Loss)** for the year attributable to equity holder of the parent		(2,484)	(868)
(Loss) per share (pence) - basic	8	(6.84)	(2.42)
(Loss) per share (pence) - diluted	8	(6.84)	(2.42)

The notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2023

	Note	30 June 2023 £'000	30 June 2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	783	828
Right of use	10	2,283	2,549
Goodwill	11	679	1,357
		3,745	4,734
Current assets			
Inventories	13	253	340
Current tax assets		826	710
Trade and other receivables	14	2,767	2,389
Cash and cash equivalents		148	4
		3,994	3,443
Total assets		7,739	8,177
Equity and liabilities			
Equity			
Share capital	18	363	363
Share premium		5,316	5,316
Retained earnings		(11,131)	(8,647)
		(5,452)	(2,968)
Non-current liabilities			
Borrowings	16	4,913	5,612
Trade and other payables		-	-
		4,913	5,612
Current liabilities			
Borrowings	16	2,886	2,674
Trade and other payables	15	5,392	2,859
		8,278	5,533
Total equity and liabilities		7,739	8,177

The notes form an integral part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 30 June 2023

	Note	30 June 2023 £'000	30 June 2022 £'000
Cash flows from operating activities			
Operating (Loss)		(2,899)	(1,312)
Adjustments for:			
Impairment of goodwill		678	-
Depreciation	4	579	424
		(1,642)	(888)
Decrease / (increase) in inventories		87	33
Decrease / (increase) in receivables		(378)	(580)
Increase/(decrease) in liabilities		2,759	286

Cash generated/(used) by operations	826	(1,149)
Interest paid	(196)	(124)
Corporation tax received	683	440
Net cash generated from / (used in) operating activities	1,313	(833)
Cash flows from investing activities		
Purchase of plant and equipment	(111)	(325)
Net cash used in investing activities	(111)	(325)
Cash flows from financing activities		
Proceeds / (repayments) from borrowings	(210)	286
Proceeds / (repayments) of loan	(393)	119
Repayment of leases	(455)	(163)
Net cash (used in)/generated from financing activities	(1,058)	242
Net increase / (decrease) in cash and cash equivalents	144	(916)
Cash and cash equivalents at the beginning of year	4	920
Cash and cash equivalents at end of year	148	4

The notes form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2023

CONSOLIDATED	**Share capital £'000**	**Share premium account £'000**	**Retained earnings £'000**	**Total £'000**
As at 1 July 2021	349	5,215	(7,779)	(2,215)
Loss for the year	-	-	(868)	(868)
Total comprehensive income	-	-	(868)	(868)
Issue of shares	14	101	-	115
As at 30 June 2022	363	5,316	(8,647)	(2,968)
Loss for the year	-	-	(2,484)	(2,484)
Total comprehensive income			(2,484)	(2,484)
Issue of shares	-	-	-	-
As at 30 June 2023	363	5,316	(11,131)	(5,452)

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 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 2023 the Company recorded a net loss after taxation of £1,822,000 (2022: £282,000).

1.2. Basis of preparation

The financial statements have been prepared in accordance with UK-adopted international accounting standards (IAS) The principal accounting policies are set out below.

Adoption of new and revised standards

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and, in some cases, have not yet been adopted by the UK. The directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods.

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 preparation of cash flow forecasts for the Group requires estimates to be made of the quantum and timing of cash receipts from future commercial revenues and the timing of future expenditure, all of which are subject to uncertainty. The directors have obtained a renewed pledge from G G 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. The financial statement do not include adjustments which would arise in the event of not being a Going concern.

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.

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 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, 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 2023 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. The value of work in progress is reduced where appropriate to provide for irrecoverable costs
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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.

Derecognition of financial assets
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 reasonably 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 statement of financial position, 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.

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, and processed through the profit & loss account.

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 did not receive benefits from Government grants.

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.

Impairment of goodwill

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 £679,000 (2022: £1,357,000). The investment in subsidiaries at the year-end was £988,000 (2022: £1,903,000).

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.

Impairment investment in subsidiaries and inter-company receivables

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.

Going concern

The preparation of cash flow forecasts for the Group requires estimates to be made of the quantum and timing of cash receipts from future commercial revenues and the timing of future expenditure, all of which are subject to uncertainty.

2 Segmental analysis

	2023 £'000	2022 £'000
Turnover by geographical market		
United Kingdom	6,076	5,627
Europe	162	243
Other	232	321
	6,470	6,191

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"), the current executive chairman, 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
- Utsi Electronics Limited - Development, assembly and sale of GPR equipment – Sale of goods
- QM Systems Ltd – Automation and test system solutions – Sale of services
- Thomson Engineering Design 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.

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 2023				
Total segmental revenue	1,125	169	5,176	6,470
Operating (loss) / profit	(214)	(859)	(1,826)	(2,899)
Finance costs	(39)	(236)	(110)	(385)
(Loss) / Profit before taxation	(253)	(1,095)	(1,936)	(3,284)
Segment assets	558	1,181	6,000	7,739
Segment liabilities	734	5,025	7,631	13,390
Non-current asset additions	2	-	265	267
Depreciation and amortisation	14	18	482	579

	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 2022				
Total segmental revenue	1,453	246	4,492	6,191
Operating (loss) / profit	21	(323)	(1,010)	(1,312)
Finance costs	(36)	(171)	(57)	(264)
(Loss) / Profit before taxation	(15)	(494)	(1,067)	(1,576)
Segment assets	655	1,924	5,598	8,177
Segment liabilities	628	5,226	5,442	11,296
Non-current asset additions	17	55	2,941	3,013
Depreciation and amortisation	106	3	316	425

3 Finance costs

	2023 £'000	**2022 £'000**
Interest payable	385	264
	385	264
Interest payable comprises interest on:		
Leases	107	69

Directors' loans	192	140
Other	86	55
	385	264

4 Operating profit for the year

This is arrived at after charging for the Group:

	2023 £'000	**2022 £'000**
Research and development costs not capitalised	2,644	2,333
Depreciation	579	424
Impairment of goodwill	678	-
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Group's financial statements	53	45
Fees payable to the Company's auditor and its subsidiaries for the provision of tax services	8	7

The Company audit fee is £23,000 (2022: £9,000).

5 Staff costs

Group	**2023 No.**	**2022 No.**
Average monthly number of employees, including directors:		
Production and research	77	79
Selling and research	9	9
Administration	12	7
	98	95

Group	**2023 £'000**	**2022 £'000**
Staff costs, including directors:		
Wages and salaries	3,602	3,387
Social security costs	376	361
Other pension costs	198	113
	4,176	3,861

Company	**2023 No.**	**2022 No.**
Average monthly number of employees, including directors:		
Selling and research	-	-
Administration	1	1
	1	1

Company	**2023 £'000**	**2022 £'000**
Staff costs, including directors:		
Wages and salaries	87	131
Social security costs	-	7
Other pension costs	-	4
	87	142

6 Directors' remuneration

	Salary and fees £'000	**Benefits in kind £'000**	**2023 Total £'000**	2022 Total £'000
G G Watt	71	-	71	71
R MacDonnell	2	-	2	2
T Williams	6	-	6	-

Aggregate emoluments	79	-	79	73

Directors' pensions	**2023 No.**	2022 No.
The number of directors who are accruing retirement benefits under:		
Defined contributions policies	-	1

The directors represent key management personnel.

Refer to note 18 for details of directors share options.

7 Taxation

	2023 £'000	2022 £'000
United Kingdom Corporation Tax		
Current taxation	(800)	(708)
Adjustments in respect of prior years	-	-
	(800)	(708)
Deferred taxation	-	-
Tax on loss	(800)	(708)

Current tax reconciliation		
Taxable loss for the year	(3,284)	(1,576)
Theoretical tax at UK corporation tax rate 19% (2022: 19%)	(622)	(289)
Effects of:		
R&D tax credit adjustments	(408)	(350)
Fixed asset timing differences	28	(101)
Not deductible for tax purposes	3	2
Impairment of goodwill	129	-
Deferred tax not recognised	73	45
Adjustments in respect of prior years	-	1
Utilisation of losses	(4)	-
Short term timing differences	1	(16)
Total income tax credit	(800)	(708)

The Group has tax losses amounting to approximately £3,423,000 (2022: £3,033,706), 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 £650,000 (2022: £576,404).

8 Loss / profit per share

Group
Basic (pence per share) 2023 – Loss (6.84) per share; 2022 – Loss (2.42) per share
This has been calculated on a loss of £2,484,000 (2022: Loss £868,000) and the number of shares used was 36,312,823 (2022: 35,812,823) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2023 – (6.84) loss per share; 2022 – (2.42) loss per share
In the current year the potential ordinary shares included in the weighted average of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share.

9 **Property, plant and equipment**

Group

	Freehold £'000	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2022	426	1,320	474	237	2,457
Additions	-	56	55	-	111
Disposals	-	-	-	(65)	(65)
At 30 June 2023	426	1,376	529	172	2,503
Depreciation					
At 1 July 2022	45	1,179	168	237	1,629
Charged in year	5	63	88	-	156
Disposals	-	-	-	(65)	(65)
At 30 June 2023	50	1,242	256	172	1,720
Net book value					
At 30 June 2023	**376**	**134**	**273**	**-**	**783**
At 30 June 2022	381	141	306	-	828

10 **Right of use**

Group

	Property £'000	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2022	2,580	236	168	147	3,131
Additions	-	156	-	-	156
Disposal	-	-	-	-	-
At 30 June 2023	2,580	392	168	147	3,287
Depreciation					
At 1 July 2022	299	156	12	115	582
Charged in year	296	63	42	21	422
Disposal	-	-	-	-	-
At 30 June 2023	595	219	54	136	1,004
Net book value					
At 30 June 2023	**1,985**	**173**	**114**	**11**	**2,283**
At 30 June 2022	2,281	80	156	32	2,549

These assets have been offered as security in respect of these lease agreements. Depreciation charged in the period on those assets amounted to £422,000 (2022: £314,000)

11 **Goodwill**

Group

	Goodwill £'000	Total £'000

Cost		
At 1 July 2022	1,357	1,357
Additions	-	-
At 30 June 2023	1,357	1,357
Impairment		
As at 30 June 2023	(678)	-
Net book value		
At 30 June 2023	**679**	**1,357**
At 30 June 2022	1,357	1,357

The goodwill brought forward in the statement of financial position at 30 June 2022 was £1,357,000 this has been impaired to £679,000 following a management review. The goodwill is made up of Adien Limited in 2002 (£151,000), QM Systems Limited in 2006 (£516,000), TED Limited in 2017 (£0), and Utsi Electronics Limited in 2021 (£12,000).

We consider the CGUs to be the entities as acquired under business combinations and managed as separate legal entities, each representing a separately identifiable and independent group of assets contributing to the cash flows of the CGU.

This financial year due to delay in the Start of Production for the contract manufacturing business, and given the effects of the wider downturn and volatility in the global market uncertainty the directors have taken a prudent view to recognise a goodwill impairment charge totalling £678,000, which consists of an impairment charge on QM Systems Limited £487,000, TED £129,000 and Adien Limited £62,000.

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

QM Systems Limited, TED, 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 and calculation of the terminal values. The key assumptions are those regarding the discount rates, growth rates and expected changes to sales and direct costs due to inflationary pressures 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 17.2% per annum based on weighted average cost of capital.

The growth rate assumptions are based on management forecasts as below. The results of these forecasts have then been further impaired by the group directors in the interests of prudence.

- Adien - These have been assessed as 28% growth for revenue in years 1 bringing it back into line with year ending June 2022, with and 2.5% for years thereafter.
- UTSI and PipeHawk combined these have been assessed as 63% for growth for revenue in year 1 and 76% for year 2, 45% for year 3, 54% for year 4, and 40% year 5.
- QM - The strong pipeline reported last year did convert, and at 30th June 2023 QM had a closing orderbook of £5.8m, the highest ever recorded. In addition, further orders have been received in the new financial year, and the company has a strong pipeline of enquiries. Based on this year 1 is showing growth of 102% This is followed by an expected 16% growth in year 2, 21% in year 3, 7% in year 4 and 23% for years 5, and is expected to include start of production in all three contract manufacturing client projects.
- TED – A prudent approach has been applied to TED until activity generated from the recent distribution agreement with Unipart is fully underway. The forecasts are based on a 3% growth for year 1, 20% in year 2, 17% in year 3 and no increase for years 4 and 5.

12 Non-current investments

Company	**Investment in subsidiaries**	**Total**

	£'000	£'000
Cost		
At 1 July 2022	1,903	1,903
Additions	-	-
At 30 June 2023	1,903	1,903

*

Impairment		
Provided at 30 June 2023	(916)	-
Net book value		
At 30 June 2023	**988**	**1,903**
At 30 June 2022	1,903	1,903

Subsidiary	Parent and Group interest in ordinary shares and voting rights	Country of incorporation	Principal activity
Adien Ltd	100%	England & Wales	Specialist surveying
QM Systems Ltd	100%	England & Wales	Test solutions
Thomson Engineering Design Ltd	100%	England & Wales	Specialist in railway equipment
Wessex Precision Instruments Ltd	100%	England & Wales	Slip test solutions
Utsi Electronics Ltd	100%	England & Wales	GPR equipment
Wessex Test Equipment Ltd (formerly Tech Sales Services Ltd)	100%	England & Wales	Dormant
CE Marking Services Ltd (formerly MineHawk Ltd)	100%	England & Wales	Dormant

An impairment assessment was performed in line with the assessment of goodwill, see note 11 for further details. On the basis of this assessment an impairment of the investment was made at 30 June 2023.

The registered office of all of the above named subsidiaries, except Thomson Engineering Design Ltd and Utsi Electronics Ltd is Manor Park Industrial Estate, Wyndham Street, Aldershot, Hampshire, GU12 4NZ.

The registered office of Thomson Engineering Design Ltd is Units 2a & 3 Crabtree Road, Forest Vale Industrial Estate Cinderford, Gloucestershire, United Kingdom, GL14 2YQ
The registered office of Utsi Electronics Ltd is Unit 26, Glenmore Business Park, Ely Road, Waterbeach, Cambridge, Cambridgeshire, CB25 9PG.

13 Inventories

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Raw materials	106	150	-	-
Finished goods	147	190	-	-
	253	340	-	-

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 £2,294,000 (2022: £1,886,000). For the Parent company this was £nil (2022: £41,612).

14 Trade and other receivables

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Current				
Trade receivables	1,263	1,261	-	-
Amounts owed by Group undertakings less provision	-	-	9	469
Other Debtors	374	522	2	-

Accrued income	190	332	-	41
Prepayments	940	274	-	-
	2,767	2,389	11	510

15 Trade and other payables

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Current				
Trade payables	1,197	972	34	38
Other taxation and social security	1,002	447	-	-
Payments received on account	2,164	839	-	-
Accruals and other creditors	1,029	601	103	106
	5,392	2,859	137	144

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Non-current				
Amounts owed to Group undertakings	-	-	2,002	1,398
Other creditors	-	-	-	-
	-	-	2,002	1,398

The performance obligations of the IFRS 15 contract liabilities (payments received on account) are expected to be met within the next financial year. The brought forward payments received on account figure was £839,000, during the financial year 2023 £839,000 has been recognised as revenue in the statement of comprehensive income.

16 Borrowing analysis

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Due within one year				
Bank and other loans	677	708	379	375
Directors' loan	1,783	1,644	1,783	1,644
Obligations under lease agreements	426	322	-	-
	2,886	2,674	2,162	2,019
Due after more than one year				
Bank and other loans	350	491	221	331
Directors' loan	2,501	2,751	2,501	2,751
Obligations under lease agreements	2,062	2,370	-	-
	4,913	5,612	2,722	3,082
Repayable				
Due within 1 year	2,886	2,729	2,162	2,072
Over 1 year but less than 2 years	3,040	3,249	2,611	2,861
Over 2 years but less than 5 years	1,873	2,361	111	221
	7,799	8,339	4,884	5,154

Directors' loans

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to G.G Watt of £1,783,000 (2022: £1,644,000). The accrued fees and interest are repayable on demand and no interest accrues on the balance.

The director's loan due in more than one year is a loan of £2,501,000 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 £1,501,000 (2022: £1,750,000) was outstanding in relation to this loan. During the year to 30 June 2023 £393,000 (2022: £200,000) 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 £1million and has been recognised in non-current liabilities of £2,501,000.

Pursuant to amendments made on 13 November 2014 and 9 November 2018, and 30 June 2022 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 2026;
- 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 2026 ("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.

Bank and other loans

Included in bank and other loans is an invoice discounting facility of £261,962 (2022: £299,635). The principal terms of which are interest at 2.58% over Bank of England base rate and secured on the company's debtors.

Included in bank and other loans is a secured mortgage of £107,438 which incurs an interest rate of 2.44% over base rate for 10 years and at a rate of 2.64% over base thereafter.

As a result of COVID 19, Coronavirus Business Interruption Loan Scheme (CBILS) became available for the business. This enabled the group to secure two loans. The loan for £ £400,000 had a remaining balance outstanding is £220,000, and the second loan of £150,000 had a remaining balance outstanding is £110,000, both at a rate of 2.96%. The amount of interest paid during the year was £19,837.

The business was also able to secure a Bounce Back loan through Wessex Precision Engineering of £24,000 the remaining balance outstanding is £19,000, and Utsi obtained £50,000 bounce back loan the remaining balance outstanding is £39,000 both with an interest rate of 2.5%.

2023	Bought forward £'000	Cash flows £'000	Non-cash: New leases £'000	Non-cash: Accrued fees/interests £'000	Carried forward £'000
Director loan	4,446	(393)	-	231	4,284
Leases	2,692	(455)	156	94	2,487
Other	1,201	(210)	-	37	1,028
Loans and borrowings	8,339	(1,058)	156	362	7,799

2022	Bought forward £'000	Cash flows £'000	Non-cash: New leases £'000	Non-cash: Accrued fees/interests £'000	Carried forward £'000
Director loan	4,140	119	-	187	4,446
Leases	324	(163)	2,584	(53)	2,692
Other	897	286	-	18	1,201
Loans and borrowings	5,361	242	2,584	152	8,339

17 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.

<u>Credit risk</u>

The credit risk exposure is the carrying amount of the financial assets as shown in note 14 (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 2023, the top 3 customers comprised 30% (2022: 34%) of total trade receivables in the segment Automation and test system solutions.

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.

Within revenue there are two customers which individually represent 13.6% and 11.36% of the overall revenue for the financial year.

An analysis of trade and other receivables:

2023	**Weighted average loss rate £'000**	**Gross carrying value £'000**	**Impairment loss allowance £'000**
Performing	0.00%	2,767	-

2022	**Weighted average loss rate**	**Gross carrying value £'000**	**Impairment loss allowance £'000**
Performing	0.00%	2,389	-

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 16.

As disclosed in note 16 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:

2023	Less than 1 year £'000	Due between 1-2 years £'000	Due between 2 – 5+ years £'000	Total £'000
Trade and other payables	1,734	-	-	1,734
Borrowings	2,514	2,594	204	5,312
Lease liability	426	393	1,668	2,487
	4,674	2,987	1,872	9,533

2022	Less than 1 year £'000	Due between 1-2 years £'000	Due between 2 – 5+ years £'000	Total £'000
Trade and other payables	1,876	-	-	1,876
Borrowings	2,405	2,887	355	5,647
Lease liability	322	363	2,007	2,692
	4,603	3,250	2,362	10,215

Financial liabilities of the Company are all due within less than three months 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 G G Watt as described per note 1.

18 Share capital

	2023 No.	2023 £'000	2022 No.	2022 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
Allotted and fully paid				
Brought forward	36,312,823	363	34,860,515	349
Issued during the year	-	-	1,452,308	14
Carried forward	36,312,823	363	36,312,823	363

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

12,953,703 (2022: 11,773,703) share options were outstanding at the year end, comprising the 2,100,000 employee options and the 10,853,703 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 July 2016 and July 2023	60,000	3.00p
Between November 2019 and November 2026	400,000	3.875p
Between November 2020 and November 2027	100,000	3.75p
Between March 2024 and March 2031	1,290,000	8.00p
Between January 2026 and January 2033	1,400,000	14.25p

Directors' share options

	Number of options					
Directors' share options	At start of year	Granted during the year	Lapsed 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
R MacDonnell	200,000	-	-	200,000	8.0p	18 Mar 2024
T Williams	-	200,000	-	200,000	14.25p	10 Jan 2026

The Company’s share price at 30 June 2023 was 13p. The high and low during the period under review were 16.5p and 11.25p 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 share options outstanding at the year-end is 7.72 years (2022: 7.09 years).

19 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 - £188,402

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:

	2023 £	2022 £
Balance due from:		
Thomson Engineering Design Limited	679,649	462,482
Wessex Precision Engineering Limited	8,520	6,120
Balance due to:		
Adien Limited	99,278	147,738
QM Systems Limited	1,702,813	979,323
Utsi Electronics Limited	200,001	271,115

These intergroup balances vary through the flow of working capital requirements throughout the Group as opposed to intergroup trading. The balance due from TED £679,649 has been provided for based on a review of recoverability of intercompany balances.

There is no ultimate controlling party of PipeHawk plc.

20 Government grants

In addition to the Government assistance disclosed in note 16, no further Government grants were recognised during the period:

	Group		Company	
	2023 £’000	2022 £’000	2023 £’000	2022 £’000
Coronavirus Job Retention Scheme grants	-	48	-	3
	-	48	-	3

21 Copies of Report and Accounts

Copies of the Report and Accounts will be posted to shareholders later today and will 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.

22 Notice of Annual General Meeting

The Report and Accounts will include a notice that the annual general meeting will be held at the offices of Allenby Capital Limited, 5 St Helen’s Place, London, EC3A 6AB at 11:30 am on 21 December 2023.