

This announcement contains inside information as stipulated under the Market Abuse Regulations (EU) no. 596/2014 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

21 October 2020

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

Final Results for the year ended 30 June 2020

Highlights

- Turnover of £8.3 million, an increase of 23.9% (2019: £6.7 million)
- Profit before tax of £194,000, and increase of 1517% (2019: £12,000)
- Earnings per share of 1.69p, up 86% (2019: 0.91p)
- QM Systems has its best year ever both in terms of turnover and profit

Chairman's Statement

I am pleased to report that turnover for the year ended 30 June 2020 was £8.3 million (2019: £6.7 million), an increase of 23.9%. The Group made an operating profit in the year of £405,000 (2019: £57,000) and a profit before taxation for the year of £194,000 (2019: £12,000) and a profit after taxation of £590,000 (2019: £312,000). The earnings per share for the year was 1.69p (2019: 0.91p).

Last year we had the politicians faffing around with Brexit causing delays to orders until Boris Johnson and the British public gave us a degree of certainty. This lasted for all of four months until Coronavirus hit and lockdown began. Nevertheless, that window of opportunity enabled orders to be placed and allowed some optimism to return which the PipeHawk group and its employees have taken advantage of and wrestled into an excellent trading result. Just imagine what we, and the nation as a whole, can achieve once we are through Coronavirus and freed from the continual negativity of the naysayers and doom mongers.

QM Systems

At QM Systems, trading during the first eight months was excellent, with many more orders in the pipeline. Then Coronavirus came into play and, like most companies within the UK, we experienced significant disruption. Despite the extensive lockdown we all experienced for three months followed by the easing of the lockdown, QM Systems has continued to operate effectively. Employees that could were set up to work from home. However, our assembly, installation and commissioning teams were also extremely busy assembling systems at QM Systems' facility in Worcester or carrying out installation and commissioning work at client facilities. The initial four-week period of lockdown created significant disruption to our activities, However, as our clients and we learned to adjust to the 'new normal', clean hands, socially distanced way, business activity stabilised. We were able to regain access to client facilities to continue to build activity and the situation actually created opportunities for QM Systems in supporting overseas companies installing systems into the UK market.

Despite the setback that Coronavirus has presented, QM Systems has managed to achieve its best year ever both in terms of turnover and profit. This is a great achievement given that the order intake effectively switched off for almost five months from the start of the strict lockdown period, when many projects we were expecting to win were placed on hold. During this period, however, our sales team has worked diligently to open new opportunities and to continue to keep previous opportunities live and we now sit on a potential orderbook that is larger than we have ever experienced previously. Project orders are flowing again and we had been expecting a return to pre-Coronavirus levels within the next few months with a number of key larger projects in final contractual negotiation. This has been helped in no small measure by the work we have undertaken to diversify our client base across numerous industries and has enabled us to recover more quickly than a number of our competitors. Recent measures brought in by the Government to combat the worsening Coronavirus situation will inevitably have some delaying effect on securing orders but with the regional approach being adopted by the Government it is hard to forecast what effect it will have on trading at QM Systems.

During the year QM Systems has completed the installation and commissioning work with Cox Powertrain for its Marine Diesel Outboard Engine, introduced and commissioned a new larger variant of Carbon Fibre delivery POD with our partner Penso, who are now selling the vehicle in volume, and installed and commissioned a QMAC-3 60 station conveyor system with one of QM Systems' key automotive clients as well as a multitude of other significant contracts. The products that QM Systems has developed and manufacture for the Aerospace and Petrochemical industries continue to sell, seemingly unaffected by Coronavirus factors. QM Systems has completed the integration of Wessex test equipment into the business unit and sales have continued to flow nicely into the business. QM Systems has been working to re-engineer a number of the Wessex products to reduce costs and increase technology levels ensuring the products become more IT connected and thus user friendly.

QM Systems has recently started work on a new £1.7 million project to deliver a bespoke machining and handling system to Isoclad Limited, one of the UK's largest independent composite panel manufacturers, for the manufacture of specialist clad panels for its Customclad service.

The outlook for the current year and beyond for QM Systems is extremely positive.

Thomson Engineering Design ("TED")

TED has had an exceptionally busy year with key staff stretched to the limit and a requirement to recruit new members to the team. Turnover increased by 42% on a year-on-year basis and TED delivered a genuine pre-tax profit for the first time despite the additional costs of keeping the workplace a safe and secure environment for our employees. An excellent result given the difficult climate TED has endured.

During the year TED developed a number of new, innovative and exciting products, many of which have been designed for the export market. Whilst UK sales remained largely stagnant, the export market, particularly in Southern Asia, has gone from strength to strength. TED continues to establish itself as the 'Go To' company in the rail industry for any client who has a requirement for something that is a little different to the norm. During the year TED has delivered bespoke rail equipment into New Zealand, a range of products into plant equipment companies within the UK as well as products and projects into Canada, the US, France and Australia. It has continued to focus on new innovation that TED fully expects will realise future growth with higher volume product sales within domestic and international markets. These products are expected to secure sales within the current financial year.

TED has also launched a new website which provides an up-to-date summary of the products and services offered together with a significant increase in the use of social media to tell the world about the quality service which it can offer. The news seems to be getting through both nationally and internationally.

Technology Division

This has been a disappointing year in terms of European unit sales of the eSafe technology which has still to recover to pre-Brexit levels. However; sales to Asia continue to show a positive trend.

Previous R&D investment into innovative servicing & maintenance systems is also bearing fruit with noticeable interest being shown by overseas distributors and resellers.

As UK unit sales continue to be affected by CAPEX restrictions across key markets, opportunities for long term/project-based hire are now being explored in those and other markets, while many existing customers continue their loyalty to the PipeHawk brand with investment in the maintenance and upgrade of existing equipment fleets.

With the cancellation of many industry events around the globe, the opportunity for face-to-face marketing has taken a knock in recent months but use of virtual communications and outdoor presentations has maintained a semblance of direct customer contact in the face of difficult times.

Adien

Adien started the year very well with the renewal of significant long-term contracts, which provided a strong order book and good staff utilisation. Then trading at Adien was struck by the repercussions of the Coronavirus pandemic. Adien adapted and evolved; it quickly adopted remote working coupled with the installation of new software which reshaped the business profoundly in a short period of time and was able to continue to provide its service throughout the period from March to present day in a most effective manner suffering principally in the initial stages. Adien encountered many challenges both external and internal, in terms of H&S management, organisation, control and communications through to denial of access to site as clients gradually came to terms with the outdoor nature of our work and relatively easy ability to maintain social distancing.

Adien are undertaking several new contracts for all the major Telecom networks involved in the 5G rollout and this business will secure 18 to 24 months of additional work. Consolidation of existing contracts in Energy, Defence and Infrastructure is expected to continue over a 3 to 5 year period running in tandem with the Telecom contracts.

Reducing the size of the survey teams, whilst expanding single working, allows larger volumes of specific contract sites to be completed in the same time period. Remote/home working provides more effective time use and long-term cost savings with the potential to move to less costly premises in 2021. The realignment of the vehicle fleet to more compact and less costly, more economical vehicles is also under way. Those cost efficiencies, taken with the increased levels of business as a result of being able to offer Adien's services throughout lockdown, bodes extremely well for the current and next years' expected outturn.

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 7 October 2019 was renewed on 28 September 2020 for a further year. 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 £213,000. At 30 June 2020, 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. All divisions of the Group are currently performing well and I remain optimistic in my outlook for the Group, subject always to any unusually negative impact from further Coronavirus lockdown or an absurd reaction from the EU if there is a WTO terms Brexit.

Gordon Watt
Chairman

20 October 2020

Enquiries:

PipeHawk Plc
Gordon Watt (Chairman)

Tel. No. 01252 338 959

Allenby Capital (Nomad and Broker)
David Worlidge/Asha Chotai

Tel. No. 020 3328 5656

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 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Revenue	2	8,325	6,680
Staff costs	5	(3,776)	(3,265)
Operating costs		(4,144)	(3,358)
Operating profit	4	<u>405</u>	<u>57</u>
Profit before interest and taxation		<u>405</u>	<u>57</u>
Finance costs	3	(211)	(45)
Profit before taxation		194	12
Taxation	7	396	300
Profit for the year attributable to equity holders of the parent		<u>590</u>	<u>312</u>
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year attributable to equity holders of the parent		<u>590</u>	<u>312</u>
Profit per share (pence) – basic	8	1.69	0.91
Profit per share (pence) – diluted	8	0.93	0.72

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

Consolidated Statement of Financial Position

at 30 June 2020

Assets	Note	30 June 2020 £'000	30 June 2019 £'000
--------	------	-----------------------	-----------------------

Non-current assets			
Property, plant and equipment	9	811	525
Goodwill	10	1,345	1,190
		<u>2,156</u>	<u>1,715</u>
Current assets			
Inventories	11	151	134
Current tax assets		394	315
Trade and other receivables	12	1,654	1,592
Cash and cash equivalents		250	774
		<u>2,449</u>	<u>2,815</u>
Total assets		<u><u>4,605</u></u>	<u><u>4,530</u></u>
Equity and liabilities			
Equity			
Share capital	17	349	344
Share premium		5,215	5,205
Retained earnings		(8,306)	(8,896)
		<u>(2,742)</u>	<u>(3,347)</u>
Non-current liabilities			
Borrowings	13	3,255	2,661
Trade and other payables	14	6	3
		<u>3,261</u>	<u>2,664</u>
Current liabilities			
Trade and other payables	14	1,949	3,270
Borrowings	15	2,137	1,943
		<u>4,086</u>	<u>5,213</u>
Total equity and liabilities		<u><u>4,605</u></u>	<u><u>4,530</u></u>

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 20 October 2020 and signed on its behalf by:

Gordon G Watt
 Director
 Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2020

	Note	30 June 2020 £'000	30 June 2019 £'000
Cash flows from operating activities			
Profits from operations		405	57
Adjustments for:			
Depreciation		191	90
Profit on disposal of fixed asset		-	(13)
		<u>-</u>	<u>(13)</u>

	596	134
(Increase)/decrease in inventories	(18)	44
Increase in receivables	(52)	(417)
(Decrease)/increase in liabilities	<u>(1,036)</u>	<u>1,570</u>
(Cash used in)/generated by operations	(510)	1,331
Interest paid	(69)	(147)
Corporation tax received	<u>318</u>	<u>358</u>
Net cash (used in)/generated from operating activities	<u>(261)</u>	<u>1,542</u>
Cash flows from investing activities		
Proceeds from sale of joint venture	-	17
Acquisition of subsidiary net of cash acquired	23	-
Purchase of plant and equipment	(474)	(75)
Proceeds from disposal of fixed assets	-	16
Net cash used in investing activities	<u>(451)</u>	<u>(42)</u>
Cash flows from financing activities		
Proceeds from borrowings	523	-
Repayment of loan	(165)	(676)
Repayment of finance leases	<u>(170)</u>	<u>(69)</u>
Net cash generated from/(used in) financing activities	<u>188</u>	<u>(745)</u>
Net (decrease)/increase in cash and cash equivalents	(524)	755
Cash and cash equivalents at beginning of year	774	19
Cash and cash equivalents at end of year	<u>250</u>	<u>774</u>

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 2020

	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
As at 1 July 2018	340	5,191	(9,208)	(3,367)
Profit for the year	-	-	312	312
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	312	312
Issue of shares	4	14	-	18
As at 30 June 2019	<u>344</u>	<u>5,205</u>	<u>(8,896)</u>	<u>(3,347)</u>
Profit for the year	-	-	590	590
Other comprehensive income	-	-	-	-

Total comprehensive income	-	-	590	590
Issue of shares	5	10	-	15
As at 30 June 2020	<u>349</u>	<u>5,215</u>	<u>(8,306)</u>	<u>(2,772)</u>

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

General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group.

Basis of preparation

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 30 June 2020 or 2019. The financial information for the year ended 30 June 2019 is derived from the statutory accounts for that year, which were prepared under IFRSs, and which have been delivered to the Registrar of Companies. The financial information for the year ended 30 June 2020 is derived from the audited statutory accounts for the year ended 30 June 2020 on which the auditors have given an unqualified report, that did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial statements have been prepared in accordance with international financial reporting standards as adopted by the EU and under the historical cost convention. The principal accounting policies are set out below.

The Group has applied the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 will continue to apply to those leases entered into before 1 January 2019. For more information see Leased assets accounting policy below.

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.

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

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.

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.

Revenue recognition

For the year ended 30 June 2020 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.

Sale of goods

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

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.

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%

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.

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:

Financial assets held at amortised cost

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 when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, 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.

Leased assets

During the year, the Group has changed its accounting policy for leases where the group is the lessee. The new policy is set out below and the impact of the change is described in note 20.

Until the 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS has introduced a single, on-balance sheet accounting model for lessees, eliminating the distinction between operating and finance leases. IFRS 16 has impacted how the Group accounts for leases under IAS 17. On initial application at 1 July 2019 and followed the modified retrospective method, the group has performed the following:

- Recognised right of use assets and lease liabilities in the Consolidated Statement of Financial Position, measured at the present value of future lease payments, discounted using the rate implicit in the lease or the lessee's incremental borrowing rate, if this is not stated. These are included within Property, plant and equipment and current and non-current borrowing.
- Recognised depreciation of right of use assets and interest on lease liabilities in the Consolidated Statement of Comprehensive income.
- Separated the total amount of cash paid into a principal portion and interest, presented within financing activities within the Consolidated Statement of cash flow.

The incremental borrowing rate is calculated on a lease by lease basis. The weighted average lessee's borrowing rate applied on the lease liability on 1 July 2019 was 3.19% - See note 20

For contracts entered into on or after 1 July 2019, the Group assesses at inception whether the contract is, or contains, a lease. A lease exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The group assessment includes whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefit from the use of the asset throughout the contract period, and;
- the Group has the right to direct the use of the asset.

At the commencement of a lease, the Group recognises a right-of-use asset along with a corresponding lease liability.

The lease 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.

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.

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.

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.

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.

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.

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 capitalise 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.

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'.

Critical judgements 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 10 for further details.

The carrying amount of goodwill at the year-end date was £1,299,000 (2019: £1,190,000). The investment in subsidiaries at the year-end was £1,197,000 (2018: £1,197,000).

The methodology adopted in assessing impairment of Goodwill is set out in note 10 as is sensitivity analysis applied in relation to the outcomes of the assessment.

Impairment investment in subsidiaries and inter-company receivables

As set out in note 11, 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

	2020	2019
	£'000	£'000
Turnover by geographical market		
United Kingdom	8,285	6,509
Europe	19	29
Other	21	142
	<u>8,325</u>	<u>6,680</u>

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 - Utility detection and mapping services – Sale of services
- Technology Division - Development, assembly and sale of GPR equipment – Sale of goods
- QM Systems - Test system solutions – Sale of services
- TED – Rail trackside solutions (included in the test system solutions segment) – Sale of services
- Wessex Precision Instruments Limited – Slip testing equipment (included in the test system solutions segment) – Sale of goods

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 two customers accounted for 22% of revenue in 2020 and one customer for 20% in 2019. In development, assembly and sale of GPR equipment one customer accounted for 68% of revenue in 2020 and one customer for 39% in 2019. In automation and test system solutions three customers accounted for 42% of revenue and one customer for 35% in 2019.

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	Development, assembly and sale of GPR equipment	Automation and test system solutions	Total
	£'000	£'000	£'000	£'000
Year ended 30 June 2020				
Total segmental revenue	<u>1,344</u>	<u>81</u>	<u>6,900</u>	<u>8325</u>
Operating profit/(loss)	75	(15)	345	405
Finance costs	(33)	(141)	(37)	(211)
Profit /(loss) before taxation	<u>42</u>	<u>(156)</u>	<u>308</u>	<u>194</u>
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

	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 2019				
Total segmental revenue	1,314	192	5,174	6,680
Operating profit	(47)	34	70	57
Finance costs	(10)	(1)	(34)	(45)
Profit / loss before taxation	(57)	33	36	12
Segment assets	529	1,322	2,679	4,530
Segment liabilities	481	4,239	3,157	7,877
Non-current asset additions	75	-	62	137
Depreciation and amortisation	55	-	35	90

3. Finance costs

	2020 £'000	2019 £'000
Interest receivable and other income	-	(155)
Interest payable	211	200
	<u>211</u>	<u>45</u>

Interest receivable and other income comprises of:

Loan adjustment (see below)	-	129
Other income	-	26
	<u>-</u>	<u>155</u>

Interest payable comprises interest on:

Leases	17	14
Right of use assets – IFRS 16	9	-
Directors' loans	141	147
Other	44	39
	<u>211</u>	<u>200</u>

Loan adjustment

In 2019, the vendors of Thomson Engineering Limited agreed to amend the terms of the acquisition and the liability owed to them was reduced from £200,000 to £71,000, resulting in an adjustment of £129,000.

4. Operating profit for the year

This is arrived at after charging for the Group:

	2020	2019
	£'000	£'000
Research and development costs not capitalised	2,141	1,774
Depreciation	191	89
Auditor's remuneration		
- Fees payable to the Company's auditor for the audit of the Group's financial statements	43	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	163	100
	<u>163</u>	<u>100</u>

The Company audit fee is £9,000 (2019: £9,000).

5. Staff costs

	2020	2019
	No.	No.
Average monthly number of employees, including directors:		
Production and research	85	71
Selling and research	10	10
Administration	6	6
	<u>101</u>	<u>87</u>

	2020	2019
	£'000	£'000
Staff costs, including directors:		
Wages and salaries	3,382	2,928
Social security costs	326	284
Other pension costs	68	53
	<u>3,776</u>	<u>3,265</u>

6. Directors' Remuneration

	Salary	Benefits	2020	2019
	and fees	in kind	Total	Total
	£'000	£'000	£'000	£'000
G G Watt	71	-	71	71
S P Padmanathan	26	-	26	25
R MacDonnell	2	-	2	4
	<u>99</u>	<u>-</u>	<u>99</u>	<u>100</u>
Aggregate emoluments	99	-	99	100

Directors' pensions

	2020 No.	2019 No.
The number of directors who are accruing retirement benefits under: - defined contributions policies	<u>-</u>	<u>-</u>

The directors represent key management personnel.

Directors' share options

		No. of options			
	At start of year	Granted during year	At end of year	Exercise price	Date from which exercisable
S P Padmanathan	200,000	-	200,000	3.875p	15-Nov-19

The Company's share price at 30 June 2020 was 4.50. The high and low during the period under review were 7.00 and 3.75p 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

	2020	2019
	£'000	£'000
United Kingdom Corporation Tax		
Current taxation	(396)	(306)
Adjustments in respect of prior years	-	6
	(396)	(300)
Deferred taxation	-	-
Tax on profits	(396)	(300)
Current tax reconciliation	2020	2019
	£'000	£'000
Taxable profit for the year	194	12
Theoretical tax at UK corporation tax rate 19% (2019: 19%)	37	2
Effects of:		
- R&D tax credit adjustments	(414)	(333)
- Income not taxable	(3)	(3)
- other expenditure that is not tax deductible	1	6
- adjustments in respect of prior years	(17)	4
- short term timing differences	-	24
Total income tax credit	(396)	(300)

The Group has tax losses amounting to approximately £2,855,000 (2019: £2,650,000), 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 £535,000 (2019: £450,000)

8. Profit per share

Basic (pence per share) 2020 – 1.69 profit per share; 2019 – 0.91 profit per share

This has been calculated on a profit of £590,000 (2019: £312,000) and the number of shares used was 34,860,515 (2019: 34,126,707) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2020 – 0.93 profit per share; 2019 – 0.72 profit per share

The current year calculation used earnings of £510,000 (2019: £392,000) being the profit for the year, plus the interest paid on the convertible loan note (net of 20% tax) of £80,000 (2019: £80,000) and the number of shares used was 55,095,386 (2019: 54,657,116) being the weighted average number of shares outstanding during the year of 34,860,515 (2019: 34,126,707) adjusted for shares deemed to be issued for no consideration relating to options and warrants of 530,409 (2019: 530,409) and the impact of the convertible instrument of 20,000,000 (2019: 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 2019	265	1,775	223	291	2,554
Adjustment for change in accounting policy – see note 20	172	-	-	26	198
Restated opening balance	437	1,775	223	317	2,752

Additions	76	118	-	81	275
Transferred in on Acquisition of subsidiary	-	11	-	-	11
Disposals	-	-	-	(10)	(10)
At 30 June 2020	<u>513</u>	<u>1,904</u>	<u>223</u>	<u>388</u>	<u>3,028</u>
Depreciation					
At 1 July 2019	16	1,502	223	288	2,029
Charged in year	57	100	-	34	191
Transfer in on acquisition of subsidiary	-	7	-	-	7
Disposals	-	-	-	(10)	(10)
At 30 June 2020	<u>73</u>	<u>1,609</u>	<u>223</u>	<u>312</u>	<u>2,217</u>
Net book value					
At 30 June 2020	440	295	-	76	811
At 30 June 2019	<u>249</u>	<u>273</u>	<u>-</u>	<u>3</u>	<u>525</u>

The net book value of the property, plant and equipment includes £471,506 (2019: £398,744) 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 £148,397 (2019: £79,901).

This is split by category as follows:

Asset Group	Net book value		Depreciation	
	2020 £000	2019 £000	2020 £000	2019 £000
Freehold	192,557	171,992	55,551	5,068
Equipment, fixtures and fittings	186,796	200,268	61,143	55,040
Motor vehicles	92,153	26,484	31,703	19,793
Total	<u>471,506</u>	<u>398,744</u>	<u>148,397</u>	<u>79,901</u>

10. Goodwill

	Goodwill £'000	Total £'000
Cost		
At 1 July 2019	1,250	1,250
Additions	108	108
At 30 June 2020	<u>1,358</u>	<u>1,358</u>
Depreciation		
As at 30 June 2019 and 30 June 2020	<u>60</u>	<u>60</u>
Net book value		
At 30 June 2020	1,298	1,298
At 30 June 2019	<u>1,190</u>	<u>1,190</u>

The goodwill carried in the statement of financial position of £1,298,000 arose on the acquisition of Adien Limited in 2002 (£212,000), the acquisition of QM Systems Limited in 2006 (£849,000), the acquisition of TED in 2017 (£129,000) and the acquisition of Wessex in 2019 (£108,000).

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 Wessex 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
- 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 pipeline.

11. Inventories

	2020 £'000	2019 £'000
Raw materials	72	71
Finished goods	79	63
	<u>151</u>	<u>134</u>

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 £2,726,000 (2019: £2,241,000). For the Parent Company this was (£3,533) (2019: £35,000).

12. Trade and other receivables

	2020 £'000	2019 £'000
Current		
Trade receivables	1,010	1,038
Amounts owed by Group undertakings	-	-
Prepayment and accrued income	644	554
	<u>1,654</u>	<u>1,592</u>

13. Non-current liabilities: borrowings

	2020 £'000	2019 £'000
Borrowings (note 16)	3,255	2,661

14. Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	528	1,071
Other taxation and social security	699	272
Payments received on account	195	1,431
Accruals and other creditors	527	496
	<u>1,949</u>	<u>3,270</u>
Non-current		
Trade payables	-	-
Amounts owed to Group undertakings	-	-
Other creditors	6	3
	<u>6</u>	<u>3</u>

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

	2020 £'000	2019 £'000
Due within one year		
Bank and other loans	275	146
Directors' loan	1,718	1,714
Right of use asset – IFRS 16	69	-
Obligations under lease agreements	75	83
	<u>2,137</u>	<u>1,943</u>
Due after more than one year		
Obligations under lease agreements	96	89
Right of use asset – IFRS 16	180	-
Bank and other loans	576	139
Directors' loan	2,403	2,433
	<u>3,255</u>	<u>2,661</u>

Repayable		
Due within 1 year	2,137	1,943
Over 1 year but less than 2 years	2,470	2,472
Over 2 years but less than 5 years	785	189
	<u>5,392</u>	<u>4,604</u>

Directors' loan

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to G G Watt of £1,614,000 (2019: £1,601,000). 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 £2,349,000 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 £1,349,000 (2019: £1,433,000) was outstanding in relation to this loan. During the year to 30 June 2020 £84,000 (2019: £100,000) was repaid. The Company has the right to defer repayment 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 £2,349,000.

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 £157,119 (2019: £133,822) and £14,038 (2019: £38,102). The difference between the minimum lease payments and the present value is wholly attributable to future finance charges.

Bank and other loans

A new working capital loan of £240,000 was given by Mirrasand Partnership from a trust settled by Mr G Watt, on 12 August 2019. The loan attracts interest at 10% per annum. The balance was settled in full post year end.

Included in bank and other loans is an invoice discounting facility of £3,505 (2019 £127,000).

Included in bank and other loans is a secured mortgage of £146,871 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 for a term of 6 year at a rate of 3.54% with the 1st year being interest free and without repayment.

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

2020

	Brought forward	Cash flows	Non-cash: New leases	Non-cash: Accrued fees/interest	Carried forward
	£'000	£'000	£'000	£'000	£'000
Director loan	4,147	(165)	-	140	4,121
Leases	172	(82)	64	17	171
Right of use asset – IFRS 16	198	(88)	130	9	249
Other	285	523	-	43	851
Loans and borrowings	<u>4,802</u>	<u>188</u>	<u>194</u>	<u>209</u>	<u>5,392</u>

2019

	Brought forward	Cash flows	Cash: advance	Non-cash: Accrued costs	Carried forward
	£'000	£'000	£'000	£'000	£'000
Director loan	4,195	(207)	-	159	4,147
Leases	180	(69)	62	(1)	172
Other	737	(469)	-	17	285
Loans and borrowings	<u>5,112</u>	<u>(745)</u>	<u>62</u>	<u>175</u>	<u>4,604</u>

*Included in working capital adjustments in cashflow statement

16. Financial Instruments and derivatives

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 2020, the top 3 customers comprised 45.00% (2019: 56.78%) 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 Group's 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:

2020	Weighted average loss rate	Gross carrying value £'000	Impairment loss allowance £'000
Performing	0.00%	1,654	-
2019	Weighted average loss rate	Gross carrying value £'000	Impairment loss allowance £'000
Performing	0.00%	1,592	-

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. Notes 15 and 16 disclose the maturity of financial liabilities.

Contractual maturity analysis for financial liabilities, (see note 16 for maturity analysis of borrowings):

2020	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
Trade and other payables	<u>1,055</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>1,061</u>
2019	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
Trade and other payables	<u>1,567</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>1,570</u>

Financial liabilities of the Company are all due within less than one 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

	2020 No	2020 £'000	2019 No	2019 £'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	34,020,515	340
Issued during the year	500,000	5	340,000	4
Carried forward	34,860,515	349	34,360,515	344

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

On 4 February 2020, the Company issued 500,000 ordinary 1p shares at an issue price of 3p per share as a result of the exercise of share options.

10,903,703 (2019:11,403,703) share options were outstanding at the year end, comprising the 1m 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	100,000	3.00p
Between November 2019 and November 2026	400,000	3.875p

Directors' share options

	No. of options			Exercise price	Date from which exercisable
	At start of year	Granted during year	At end of year		
S P Padmanathan	200,000	-	200,000	3.875p	15-Nov-19

The Company's share price at 30 June 2020 was 4.50. The high and low during the period under review were 7.00p and 3.75p 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 2.89 years (2019: 3.89 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 - £141,700

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:

	2020 £	2019 £
Balance due from:		
Adien Limited	-	-
QM Systems Limited	-	-
TED Limited	377,323	322,603
Wessex Precision Engineering Limited	66,766	-
Balance due to:		
Adien Limited	53,194	106,858
QM Systems Limited	1,009,923	1,125,390

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. IFRS 16 - implementation

Reconciliation of operating lease commitments to lease the lease liability at 1 July 2019:

	<u>£'000</u>
Operating leases disclosed at 30 June 2019	224
Discounted using the weighted average incremental borrowing rate	<u>(26)</u>
Lease liability recognised at 1 July 2019	<u>198</u>

At 1 July 2019 the right of use asset recognised was £198,000 and a corresponding lease liability was £198,000.

At 30 June 2020 the financial impact following the introduction of IFRS 16 is as follows:

Right of use asset	<u>£'000</u>
At 1 July 2019	198
Additions	130
Depreciation	<u>(82)</u>
At 30 June 2020	<u>246</u>
Lease liabilities	<u>£'000</u>
At 1 July 2019	198
Additions	130
Repayments	(88)
Interest	9
At 30 June 2020	<u>249</u>
Current	69
Non-current	<u>180</u>

Total	249
Amounts recorded in the income statement	£'000
Depreciation charges on right of use assets	82
Interest on lease liabilities	9
Total	91

The total cash outflow for leases during the year was £88,000.

20. Government Grants

In addition to the Government assistance disclosed in note 16, the following Government grants were received and has been recognised during the period:

	2020 £000	2019 £000
Coronavirus Job Retention Scheme grants	175	-
Total	175	-

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

The Annual General Meeting ("AGM") of PipeHawk plc will be held at 11:30 a.m. on 3 December 2020.

Due to Covid-19 and the restrictions and recommendations introduced in the United Kingdom to prevent its spread, the Company has had to make changes to the way the Annual General Meeting is to be held this year. The AGM will be held by electronic means with the minimum necessary quorum of two shareholders in order to conduct the business of the meeting. This decision has been made in consideration of the safety and wellbeing of both the Directors and Shareholders. **Shareholders should not attempt to attend the AGM in person as no admission will be permitted. Shareholders are strongly advised to vote on the resolutions via completion of a form of proxy (enclosed with the Notice of AGM), and to appoint the Chairman of the meeting as their proxy to ensure all votes are counted.**

The AGM will comprise only the formal votes for each resolution set out in the Notice of AGM. The Chairman of the meeting will direct that all resolutions will take place by way of a poll, rather than on a show of hands, to ensure an accurate reflection of the views of shareholders and ensure that all proxy votes are recognised. The results of the poll votes on the proposed resolutions will be published on the Company's website as soon as possible following the conclusion of the AGM.

To provide an opportunity for Shareholders to engage as would be usual at the AGM, Shareholders are encouraged to submit questions to the Company, by Thursday 26 November 2020 via email at ir@pipehawk.com. Following the AGM, the Company will upload answers to the pre-submitted questions to the Company's website, to the extent that it is able to do so.

The Board will continue to monitor COVID-19 developments as well as any further UK Government advice and will make further announcements if any amendment is required to the arrangements detailed above.