
# AB Dynamics plc

## 2017 Annual Report & Accounts

For the year ended 31 August 2017

Company Registration No. 08393914

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Image on cover: Company's latest stand at the Stuttgart Testing Expo.

**Officers and professional advisers**

**DIRECTORS**

Anthony Best, Non-Executive Chairman
Timothy John Rogers, Chief Executive Officer
Robert Andrew Leonard Hart, Chief Financial Officer
Matthew Hubbard, Chief Operating Officer – Appointed 14th August 2017
Graham Dudley Eves, Non-Executive Director
Frederick Bryan Smart, Non-Executive Director
Richard Hickinbotham, Non-Executive Director – Appointed 14th August 2017

**SECRETARY**

Robert Andrew Leonard Hart

**REGISTERED OFFICE**
AB Dynamics Plc
Middleton Drive
Bradford-on-Avon
Wiltshire
BA15 1GB

**Registered number: 08393914 (England and Wales)**

**INDEPENDENT AUDITOR**
Crowe Clark Whitehill LLP
St Bride’s House
10 Salisbury Square
London
EC4Y 8EH

**LEGAL ADVISER**
Pinsent Masons LLP
30 Crown Place
Earl Street
London
EC2A 4ES

**NOMINATED ADVISER**
Cairn Financial Advisers LLP
Cheyne House
62-63 Cheapside
London
EC2V 6AX

**REGISTRARS**
Share Registrars Ltd
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

**BROKER**
Cantor Fitzgerald Europe
One Churchill Place
Canary Wharf
London
E14 5RB

**PUBLIC RELATIONS ADVISER**
IFC Advisory Limited
73 Watling Street
London
EC4M 9BJ

**BANKERS**
Bank of Scotland

# Chairman's Statement

**Overview**
I am pleased to report that the Group has produced another year of record revenue and adjusted profit that reflects a growing demand for our products. Since our IPO in May 2013, we have delivered compound annual growth in revenue and adjusted profit before tax of 19% and 28%.

In December 2016, the Group raised gross proceeds of £6.4m through a Placing and Offer for Subscription which were oversubscribed by over 3.5x and 4x. We were delighted by this response and have welcomed a number of new and significant investment houses to our Shareholder Register. The net proceeds are being employed to support, and further advance, the development and future growth of the Group.

During the year, we have continued to invest heavily in our facilities, new product development and personnel, whose skills and energy remain so important to our future success. These investments will ensure that we remain well positioned within our markets to benefit from the research and development spending of our automotive OEM customers, as they continue to develop vehicles that are better and safer to drive. Vehicle complexity is increasing rapidly and there is an established need for faster and more efficient ways to develop these new vehicles. We are seeing significant interest in our advanced Vehicle Dynamic Simulator ('aVDS') as the automotive industry moves towards virtual prototyping and the longer-term goal of fully autonomous vehicles.

**New Factory and Offices**
Our new state of the art factory and offices are near to completion and most of our staff have moved in. This facility, which is located close to our original factory, provides us with an additional 3,070 m2 of much needed space that will now allow us to bring more of the team, including some assembly, design and support staff, together under one roof. The design of the building reflects more properly on the cutting-edge technology employed in our products and the use of extensive "natural north light" will provide a pleasing, forward looking environment for both our employees and customers, who regularly spend time with us on site.

The Group has continued to grow strongly since we determined the design and began construction of the new facility and we have acquired further land on an adjacent site for an additional factory to meet our expansion needs. The Board continues to review the Group's capacity requirements in light of its expectations for future demand.

**New Product Development**
I am pleased to report that we have a number of innovative and exciting programmes underway. Two of these, our aVDS and LaunchPad product, are discussed in the Chief Executive's Statement on pages 4 to 6. During the year, we increased significantly the level of resourcing behind our new product development activity and we continue to improve our processes to ensure we properly position our product offering.

**Dividend**
The Group has a strong balance sheet and positive underlying cashflow that supports an increased dividend. The Board is recommending a final dividend of 2.0p per ordinary share, making a total dividend of 3.331p per ordinary share, an increase of 10% on the 3.025p paid in respect of the prior year. The final dividend, subject to approval at the AGM, will be paid in December 2017 to shareholders on the register at 24 November 2017.

**Board Changes**
In early August 2017, we announced that Tim Rogers had informed the Board of his decision to step down as Chief Executive Officer, after 5 years with the Group. Tim remains fully engaged as CEO and I am thankful that he has agreed to stay for the time required to ensure a smooth handover to his successor. In this regard, I am pleased to report that the recruitment process for our new CEO is well underway.

Tim's contribution to the business has been substantial since he first joined AB Dynamics in 2012. Under his leadership the Group has tripled earnings in five years and moved from a small private business of just 40 people to a mid-sized, AIM quoted Group of over 120 people. Tim has been a strong advocate for the Group, driving our commercial progress and development, whilst ensuring that we retained the respect of our customers for our traditional values and our reputation for technological excellence. I would like to thank Tim for his enormously valued contribution over the last 5 years.

Two new Directors were appointed to the Board in August 2017. Mat Hubbard, who has been an employee since 1999, joined the Board as Chief Operating Officer. Mat has made a major contribution to the growth of the business over many years, in particular in developing the Group's track testing products, and I am sure he will continue to help drive the development of AB Dynamics in the future. Richard Hickinbotham also joined us as a Non-Executive Director. Richard has over 30 years' experience in the City and he was formerly Head of Research at Cantor Fitzgerald Europe, prior to which he held a number of senior positions at SG Warburg, Investec and Charles Stanley. He has known our business for over six years and was with us when we floated on AIM. He joins us now at an important time for the Group as it seeks to shape its Corporate Development Program. I welcome them both to the Board and look forward to working with them.

**Employees**
On behalf of the whole Board I would like to thank all our employees for their hard work during the year. The contribution of each employee is valued and appreciated and our success is due to their continued commitment and enthusiasm.

**Outlook**
Since its formation in 1982, Anthony Best Dynamics has gone through many changes to establish itself as a market leader in its targeted segments within the automotive R&D market. Our customers remain very active in introducing Advanced Driver Assistance Systems and in the development of semi and fully autonomous vehicles. Our order book is at a record level and we have visibility into the third quarter of our new financial year. Alongside our enhanced facilities and the potential of our new product pipeline, the Board remains confident that, under the leadership of a new CEO, we can continue to move forward with renewed vigour and enthusiasm.

**Tony Best**
Non-Executive Chairman
14 November 2017

# Chief Executive's Summary

**Results for the Year**

AB Dynamics has recorded another year of strong progress with the Group benefiting from increased levels of expenditure by customers for our advanced test and measurement equipment. Our growing range of products provides automotive OEMs with highly accurate, repeatable data and analysis that supports them in the development and introduction of new and increasingly sophisticated vehicles. We are proud of the reputation we have built for the high quality and performance of our products and our levels of customer support. It has been a busy year and we have continued to invest more than ever before in sales and marketing and in our new product development programs that are designed to meet our expectations for next generation test scenarios for both Advanced Drive Assistance Systems ('ADAS') and autonomous vehicles.

The Group has produced an excellent set of results for the twelve months to 31 August 2017 with reported revenues ahead by 20% to £24.6m (2016: £20.5m). Our Track Testing Systems revenue grew by 33% with demand for Driving Robots and Guided Soft Targets at an all-time high and these activities now represent 83% of the Group's reported revenue. Laboratory Test Systems revenue reduced by 22%, primarily as a result of the phasing of contracts in hand. The adoption of IFRS 15 has resulted in the deferal of £1m pounds plus of revenue into the next financial year, even with that the business met its revenue target. As in previous years, over 95% of our sales are exported to customers based outside the United Kingdom.

Adjusted profit before tax increased by over 25% to £5.9m (2016: £4.7m) and is adjusted to exclude a £1.5m (2016: £0.3m) non-cash charge made in respect of share based payments. Profit before tax increased from £4.45m to £4.47m. The Group has a policy of offering share options to all staff which we believe aligns their interests with those of the business and, in turn, our shareholders. We employ highly talented and highly motivated engineers and retaining and rewarding them for their contribution is important to the future success of the business. On a fully diluted basis, I am pleased to report that adjusted EPS increased by over 15% to 28.3p (2016: 23.0p). Further detail and discussion of our financial performance, including the adjusted profit before taxation and earnings per share figures referred to above, and our financial position can be found in the Chief Financial Officer's Statement on pages 21 to 24.

**New Products**

The Group continues to spend more on research and development than in previous years with new product development accelerating as a direct result of the increased resources now at our disposal following the £6m net Placing and Offer for Subscription in December 2016.

We are working on a number of innovative new products that we expect to bring to the market in the coming years and we have been pleased with the reaction of our customers to these exciting projects. During the year we completed an important upgrade to the control software for our track testing equipment and we are now embarking on a new software platform development. This is a major strategic initiative that will enable us to fully address the evolving complexities of multiple ADAS and autonomous vehicle interactions.

Whilst a number of our developments remain commercially sensitive, I am pleased to be able to report that we are making good progress with both our Advanced Vehicle Driving Simulator ('aVDS') and have further expanded our Soft Target offering with the inclusion of "LaunchPad" details of which can be found in our Strategic report.

**Marketing and Customer Support**

The Group is expanding its sales support network and, over time, we expect to establish new operating entities overseas, as both our product offering grows and our customer list builds. Our marketing spend is well up on prior years as we continue to reach out to new customers and we have had good success hosting track testing events in Germany and elsewhere. We now have a large installed base of equipment and systems across the world and the Group, in conjunction with its reseller partners, remains focused on providing the high levels of support and service that our customers expect when working with our increasingly sophisticated products. During the year, we established a new dedicated team of support engineers based at our main site in Bradford on Avon and we intend to invest further in this capacity and capability this year. As we grow and add further resource, we continue to evolve our structures and our business processes, and we expect to capture further operational efficiencies whilst also improving customer reach and service levels.

**Facilities**
Our new factory and headquarters is a notable development for the Group, allowing many of our employees to be housed in a single location. Despite the addition of over 3,070 $m^2$ of new space, we will continue to lease and to occupy the majority of our existing smaller sites nearby in order to meet our anticipated capacity needs. We recently purchased additional land adjacent to the new facility and outline planning for the building of a similar sized unit has been granted. The Board remains confident that the business has sufficient manufacturing capacity until such time as a new facility becomes available.

We expect AB Dynamics GmbH, our new Germany entity, to be up and running shortly. We believe that a stronger Group presence in this market is now required to ensure improved levels of customer support and to provide a local engineering resource. Whilst this will involve some additional costs in the shorter term, we believe that the Group will be in a better position to deepen our customer relationships and to win new business.

**The Future**
I am pleased to report a healthy forward order book with automotive OEM's continuing to advance their ADAS and autonomous vehicle programmes. This supportive backdrop, reinforced by regulatory change, has enabled the Group to build a strong order book that provides good forward visibility. We have an extremely capable and dedicated team at AB Dynamics and I am very proud of what we have achieved over the last five years. We are continuing to invest in new products, our people and our processes, and the Group remains focused on the future business opportunities within our marketplace. I believe there is a solid foundation for the next phase of the Group's development and growth, and I wish the next Chief Executive every success in taking the Group forward.

**Tim Rogers**
Chief Executive Officer
14 November 2017

## Strategic report for the year ended 31 August 2017

The Directors present the Strategic Report of AB Dynamics Plc for the year ended 31 August 2017

**Our Business – Providing test solutions to the Global Automotive Test Market**
The Group supplies advanced testing equipment to the global automotive industry, for both R&D and production quality control. The Company's products help the industry make vehicles that are better and safer to drive, by providing engineering solutions and testing machinery to test and develop the following:

- *Suspension, Chassis, Brake and Steering systems – for Compliance, Dynamics and Durability.*
- *On board safety systems – Advance Driver Assistance Systems (ADAS)*
- *Autonomous Vehicle driving technology – Evaluating and testing the technologies that enable future driverless vehicles.*

*Track testing – Autonomous Driving Robots*

*Advanced Vehicle Driving Simulator – aVDS*

*ADAS – Pedestrian target*


*ADAS – Guided Soft Target*

**Overview of the Sector and Scope**
Our customers are automotive companies and associated industries engaged in R&D for the development of the technology for the areas shown above, they include:

- ***Major Automotive OEMs*** *– Large multinational automotive car companies with central and regional facilities serving both global and local research and testing needs. All of the top 25 car companies routinely use The Company's equipment for the development of their products.*

- ***Smaller Regional OEMs*** *– notably China which has a very large indigenous car and truck market, requiring solutions that are appropriate for its particular technical demands for that region.*

- ***Tier One suppliers*** *– providing the technology and products to the OEMs to package into their vehicles.*

- ***Testing houses*** *– Especially Euro NCAP laboratories who are Verifying and Homologating ADAS systems for the OEMs.*

- ***Design consultancies*** *– providing lead technical inputs to the OEMs and Tier Ones.*

- ***Component suppliers****. – Suspension, steering and tyre companies.*

- ***New Technology Entrants*** *– Notable technology companies entering the automotive space.*

**Market Drivers**
The company continues to drive forwards with its new product development and investments in services and support to meet the following four key industry drivers:

**1. Global spending on automotive R&D continues to grow especially in Asia and N America**

R&D spending in the automotive industry continues to be very diverse in its nature, not least to keep pace with ever-growing demands for new technologies as the industry deals with new challenges in the market. The future for the car industry is looking very different today as “mobility” is set to take many new forms, for example fully autonomous vehicles.

The top automotive OEMs have been among the largest R&D spenders consistently for many years. As stated in previous annual reports, in the past eight years R&D spending has grown steadily and the automotive industry ranks third in the percentage of the total R&D spend for all sectors. Of the top 20 companies ranked by spending on R&D, six are represented by the top automotive companies, all of whom come from the developed countries (see table 1), however it is the developing Asian countries and in particular China, who now show the most rapid increase in R&D spending.

*Table 1. Automotive OEMs continue to outspend most industries globally on R&D.*

**Top 20 global R&D spenders**

| 2016 rank | ◆ | 2015 rank | Company | Geography | Industry | R&D spend (in US$ billion) |
|---|---|---|---|---|---|---|
| **1** | ► | **1** | **Volkswagen** | **Germany** | **Automotive** | **13.2** |
| 2 | ► | 2 | Samsung | South Korea | Computing and electronics | 12.7 |
| 3 | ▲ | 7 | Amazon | U.S. | Software and Internet | 12.5 |
| 4 | ▲ | 6 | Alphabet | U.S. | Software and Internet | 12.3 |
| 5 | ▼ | 3 | Intel | U.S. | Computing and electronics | 12.1 |
| 6 | ▼ | 4 | Microsoft | U.S. | Software and Internet | 12 |
| 7 | ▼ | 5 | Roche | Switzerland | Healthcare | 10 |
| 8 | ▲ | 9 | Novartis | Switzerland | Healthcare | 9.5 |
| 9 | ▲ | 10 | Johnson & Johnson | U.S. | Healthcare | 9 |
| **10** | ▼ | **8** | **Toyota** | **Japan** | **Automotive** | **8.8** |
| 11 | ▲ | 18 | Apple | U.S. | Computing and electronics | 8.1 |
| 12 | ▼ | 11 | Pfizer | U.S. | Healthcare | 7.7 |
| **13** | ► | **13** | **General Motors** | **U.S.** | **Automotive** | **7.5** |
| 14 | ► | 14 | Merck | U.S. | Healthcare | 6.7 |
| **15** | ► | **15** | **Ford** | **U.S.** | **Automotive** | **6.7** |
| **16** | ▼ | **12** | **Daimler** | **Germany** | **Automotive** | **6.6** |
| 17 | ► | 17 | Cisco | U.S. | Computing and electronics | 6.2 |
| 18 | ▲ | 20 | AstraZeneca | Britain | Healthcare | 6 |
| 19 | ▲ | 32 | Bristol-Myers Squibb | U.S. | Healthcare | 5.9 |
| 20 | ▲ | 22 | Oracle | U.S. | Software and Internet | 5.8 |

Source: Bloomberg data; Capital IQ data; Strategy& 2016 Global Innovation 1000 study
The 2017 PwC's Strategy& Digital Auto Report

OEM

## 2. Increasing role of computer aided design in new product development

There is now more than ever a greater dependency on computer aided design, virtual testing and simulation by customers for new vehicle development.

The auto industry is constantly looking for faster and more efficient ways to design new vehicles. Greater use of computer aided design and modelling has emphasised the need for more accurate and reliable vehicle data on which mathematical car models can be based. More often virtual prototyping and simulation is leading the way for newer ways of testing and evaluation, shortening the time to market. By supplying testing and simulation equipment, the Company's Track Testing and Simulation products allow customers to have cars tested in realistic conditions/scenarios, providing repeatable, accurate and reliable vehicle data on which mathematical car models can be based.

## 3. The advancement of new ADAS technologies and standards

Pressure from Euro NCAP and NHTSA has challenged vehicle manufacturers in all countries to offer the best possible technology, protecting not only car occupants of all ages but also increasingly addressing the safety of other more vulnerable road users.

Euro NCAP has announced its strategic Roadmap to 2025 which details that testing will rely on vehicle targets like the Guided Soft Target and the Soft Pedestrian Target from The Company. They are proposing a move into a more scenario-based rating scheme, which will include wider use of simulation to provide a broader and more robust assessment.

*"Euro NCAP has clearly recognised that primary safety has an increasingly important role to play. As the rate of development in this area accelerates, the safety rating is expected to include more and more ADAS and crash avoidance technologies, introduced by vehicle manufacturers."*

*Euro NCAP 2025 Roadmap*

An assessment of automated driving has been proposed, this would fall outside of the main star rating scheme. The report discussed how a driver-initiated in-lane steering support could be initiated earlier in the roadmap than the more complex Autonomous Emergency Steering, expected in 2022.

Further developments in Autonomous Emergency Braking (expected in 2020) have been proposed to address cross-junction, head-on and reversing accidents.

*“Euro NCAP expects AEB technology to continue to evolve in the years ahead and has identified three priority areas where the rating scheme will be updated to reflect the progress in the industry”*

*Euro NCAP 2025 Roadmap*

The report also mentioned V2X communication (expected in 2024) which is a form of technology that allows vehicles to communicate with moving parts of the traffic system around them. The company offers a number of solutions for V2X communication.

*“Still, the number of cars in the fleet equipped with state-of-the-art ADAS remains relatively low”*

*Euro NCAP 2025 Roadmap*

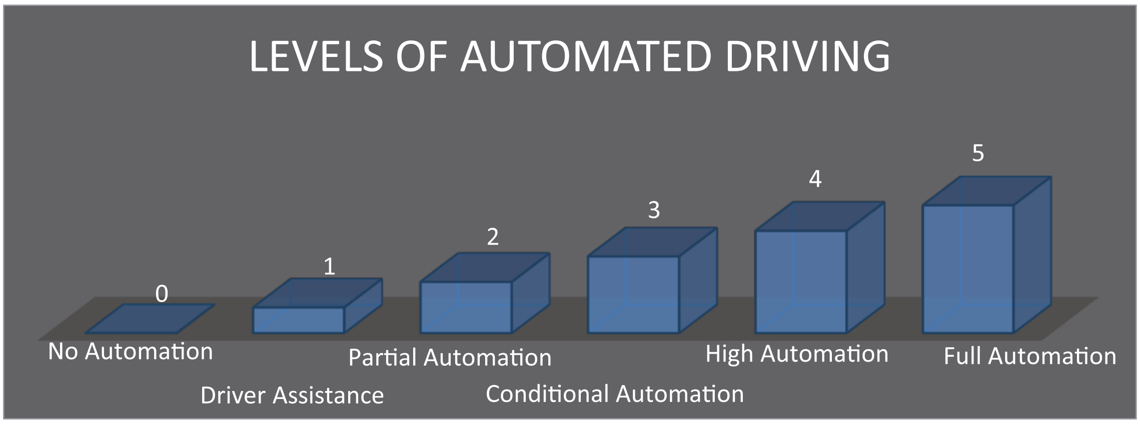
**4. Drive towards autonomous vehicles and the demand for new testing technology**

Although ADAS applications are still in their early days, original-equipment manufacturers (OEMs) and their suppliers now see these becoming the main feature differentiating automotive brands, as well as an important revenue source.

The same technologies that enable today’s ADAS technology will be used to create fully autonomous vehicles, we believe that this is now a major focus of research and development, both at OEMs and at high-tech players that have recently entered the automotive sector. Any ADAS technology that gains early support could therefore have an advantage if self-driving cars reach the market.

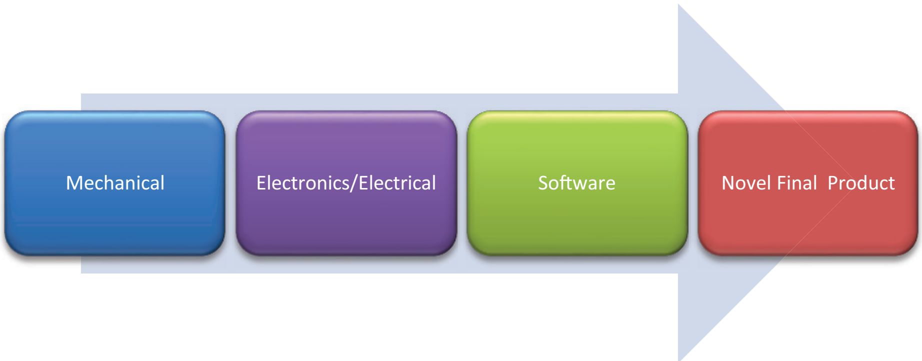
There remains some confusion in the industry as to what level of automation is desired and indeed the technology that will be required. The International and national legal framework on this matter is in its infancy. The only current acknowledged defined levels of autonomous driving come from the SAE the US based organisation for the automotive industry (shown below).

**Figure 1**



**Our Solutions**
The Company provides its customers with the testing tools for generating accurate and repeatable data at all stages of their vehicle development cycle, providing solutions that shorten the customer's development time and introduction of new models to the market.

The Company's key strength is its ability to rapidly deploy in-house knowledge and know-how in Mechanical, Electrical and Software design, to meet the demand of the industry's requirements for unique and novel testing products for the next generation of vehicles.




**Our Products**
Our two main business areas are *Laboratory Testing* and *Track Testing*. However many key customers see AB Dynamics as being capable of providing a suite of solutions to assist in their new product development (as shown below).

**Laboratory Testing**

As previously stated in the CEO report, sales of the Suspension Parameter Measurement Machine ("SPMM") have been broadly flat this year. Over the past five years The Company has experienced a high demand for this product and it is expected that with the latest performance enhancements and its integration with other new Company products, that there is long term future demand.

The Company has a number of new Laboratory Testing products in the pipeline notably the "Advanced Vehicle Driving Simulator" (aVDS).

The aVDS is a next generation vehicle driving simulator that is being developed by AB Dynamics in partnership with Williams F1. The system provides automotive OEMs and Tier 1 suppliers with a revolutionary means for accelerating and simplifying vehicle development. The system is designed to integrate seamlessly with the Group's portfolio of vehicle development tools that include our SPMM used for the measurement of vehicle kinematics and compliance characteristics and our ADAS test systems, used also for track based validation of a vehicle's active safety measures. The aVDS is a crucial tool, enabling vehicle development to become an increasingly virtual process, with data generated by our track testing and laboratory testing products allowing our customers to create ever more sophisticated computer vehicle models. Our aVDS provides a fully immersive and realistic environment for a test driver to 'drive' these mathematical models, reducing overall development time and the number of prototype vehicles. Although progress has been slower than originally anticipated, due to the complexity of the product and the challenges of adapting the advanced nature of the Williams F1 technology, the aVDS is now exceeding many of our expectations. The aVDS will be a high value offering and it readily compliments the existing AB Dynamics product range. The Company continues to receive a lot of interest from within the industry.

**Track testing**

This now represents over 80% of our revenue and has grown rapidly to become the most strategically important part of our business. The company continues to evolve and develop its product offering and has moved to expand the range of Guded Soft Target platforms with the introduction of LaunchPad.

LaunchPad is a highly manoeuvrable, compact powered platform that has been designed to carry Vulnerable Road User ('VRU') targets for ADAS development and autonomous vehicle testing. With a maximum speed of 50kph and full path following capability, LaunchPad is fully compatible with Euro NCAP approved pedestrian, cyclist and moped dummies. LaunchPad is a significant addition to our sophisticated and comprehensive suite of track testing products that allows for complex testing scenarios with multiple moving objects. We remain the only supplier offering a full suite of interactive track testing products.

*Driving Robots – Current uses*

ADAS Synchro Tests

Durability

Stability Tests

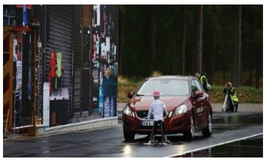
ADAS Testing

Dynamics Tests

Misuse

*Driving Robots – Future applications*

Synchro Sim City



24/7 Multi-Vehicle Dynamics Testing

Mixed Mode Human/Robot Driver Testing

**Potential future applications:**

Proving Ground Management

Autonomous Farming

Autonomous Mining Trucks

Autonomous Pods

Airport Ground Vehicles

**Areas of Investment:**

**Investment in customer support**

As mentioned in previous Annual Reports, to maintain and build on The Company's reputation for good customer service and to reflect the fact that more systems are out in the field than ever before, a new customer technical support team has been established in the UK, Germany and Japan to provide local and direct support to distributors and customers alike.

The Company is further responding to customer support needs and seeks to establish more regional technical and sales support hubs as well as growing the support team at its UK HQ. The Company wishes to commit to its customers and long-term future by continuing to carry out significant investment this area.

**Investment in new products**
AB Dynamics is further expanding its product range and offering via an accelerated New Product Development program. As a result, The Company year on year spend on R&D continues to grow and seeks to develop and introduce new and novel ranges of ADAS testing products, as well as upgrading existing products to meet the new demands for sophisticated testing regimes which are now being employed by its customers seeking to develop better and safer future vehicles.

The Company is building the internal and external capacity and business systems to accelerate new product development further.

**Investment in facilities and infrastructure**
The Company has invested in and continues to expand its manufacturing and R&D facilities. Our new 3,070 $m^2$ HQ in the UK is now being occupied. Further expansion is envisaged in this area over the next five years.

**Investment in People**
We continue to recruit of high calibre personnel for R&D, sales support and manufacturing roles. The Company recently passed the threshold of 120 direct employees. We have expanded our apprenticeship program and corporate management to drive business development and technology acquisition.

**Key activities undertaken this year to support the Group's strategies**

*Expansion of the Group's core manufacturing and final assembly capabilities*

The Company has leased additional new offsite assembly facilities which more than triple the facilities occupied at the time of our AIM listing in May 2013. In addition, the Company has taken ownership of its new HQ with completion expected by Q1 2018.

*Active recruitment of key personnel*

The Group has continued to successfully recruit new personnel, including software and electrical development and support engineers, production planning management and accounts/administration personnel as well as the above mentioned new German based Commercial Director. Our full-time head count has now reached exceeded 120, with further new appointments expected by the end of 2017.

*Continued improvements in supply chain and product fulfilment*

The Group has generated improvements in supply chain and product fulfilment following a reorganisation of the mechanical and electrical production units, resulting in better utilisation of resources shortening delivery times and increasing units delivered.

**The Group's key performance indicators:**

**Maintain sustainable growth in revenue and operating profit**
The Directors aim to achieve steady sustainable growth in turnover and operating profit. Strong cash management is fundamental to delivering sustainable profit growth and the consistent delivery of cash-backed profit remains a key performance indicator for the Group. In 2017, there was a net cash inflow from operating activities of £1.8m (2016: £4.1m) and our working capital (net current assets) increased by £2.69m to £17.63m (2016: £14.94m).

Aside from maintaining focus on current product lines, the Directors are focused on developing new product offerings in order to meet customer requirements and demands. The Company seeks to grow organically and also through selected acquisition of companies offering complementary products and services in the same sector.

**Retain, develop and ensure the safety of our people**
The recruitment, development, retention and health and safety of our staff and everyone who works with us or is affected by our operations is paramount. We seek to ensure that safe working practices are consistently adopted and supported by rigorous reviews and training. In 2017, as explained above the company has increased its overall numbers and has retained and promoted key personnel, additionally no incidents arose and we continue to review our HSE procedures and we retain an external HSE contractor.

**Facilities**
The Group needs to expand its factory space over time and this year has added significantly to the capacity of the Group. The Directors remain focused on increasing the facilities further, as explained above.

These matters remain key areas of focus for the forthcoming financial year.

## Principal risks and uncertainties facing the business

**Principal risks and uncertainties**
Set out below are certain risk factors which could have an impact on the Group's long term performance. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Group.

### 1. Risks relating to the business and operations of the group

**The Group is reliant on key executives and personnel**
The Group's business, development and prospects are dependent upon the continued services and performance of its Directors and other key personnel. The experience and commercial relationships of the Group's personnel help provide the Group with a competitive advantage. The Directors believe that the loss of services of any existing key executives, for any reason, or failure to attract and retain necessary additional personnel, could adversely impact on the business, development, financial condition, results of operations and prospects of the Group. However, several members of staff have worked for the Group for over 20 years and the Group continues to recruit and develop intelligent and motivated individuals. In addition, key man insurance exists for all key personnel in the Group, save for Anthony Best.

**The Group may not successfully manage its growth**
Expansion of the business of the Group may place additional demands on the Group's management, administrative and technological resources and marketing capabilities, and may require additional capital expenditure. If the Group is unable to manage any such expansion effectively, then this may adversely impact the business, development, financial condition, results of operations, prospects, profits, cash flow and reputation of the Group.

The Group's growth and future success will be dependent to some extent on the successful completion of such expansion strategies proposed to be undertaken by the Group and the sufficiency of demand for the Group's products. The execution of the Group's expansion strategies may also place a strain on its managerial, operational and financial reserves. Should the Group fail to implement such expansion strategies or should there be insufficient demand for the Group's products and services, the Group's business operations, financial performance and prospects may be adversely affected.

**Potential requirement for further investment**
The Group may require additional capital in the future for expansion, its activities and/or business development, whether from equity or debt sources. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all, or that such funds if raised, would be sufficient. If additional funds are raised by issuing equity securities, material dilution to the existing shareholdings may result. The level and timing of future expenditure will depend on a number of factors, many of which are outside of the Group's control. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon such expansion, activities and/or business development which could adversely impact upon the Group, its business, development, financial condition, operating results or prospects.

**Litigation**
Legal proceedings, with or without merit, may arise from time to time in the course of the Group's business, including in connection with intellectual property rights. The Directors cannot preclude litigation being brought against the Group and any litigation brought against the Group could have a material adverse effect on the financial condition, results or operations of the Group. The Group's business may be materially adversely affected if the Group and/or its employees or agents are found not to have met the appropriate standard of care or exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards.

**Internal controls**
Future growth and prospects for the Group will depend on its management's ability to manage the business of the Group and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is reliant on overseas sales representatives, agents and distributors**
The Group has appointed a number of sales representatives, agents and distributors for certain of its products in overseas jurisdictions, including the US, Canada, India, Japan, Malaysia, Mexico, Germany, China and Taiwan. However, for the majority of these individuals, there are no formal written terms of engagement. Terms concerning, *inter alia*, notice and termination are therefore uncertain, meaning that there are potential issues regarding the Group's ability to sell and distribute in certain jurisdictions should such sales representatives, agents and distributors cease to work with the Group at short notice. In addition, provisions as to termination payments and/or compensation are also uncertain, meaning the Group is at risk of being liable to pay uncapped compensation to these individuals, either under the Commercial Agents (Council Directive) Regulations 1993 or local law equivalent, as well as possible common law damages if statutory minimum notice periods are not complied with.

**Uninsured liabilities**
The Group may be subject to substantial liability claims due to the technical nature of its business and products or for acts or omissions of its sales representatives, agents or distributors. The Group can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover expenses relating to losses or liabilities. Accordingly, the Group may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

**Competitors**
While the Directors are unaware of any single competitor that provides the range of products and services offered by the Group, there are a number of competitors for each of the Group's product categories. The acquisition of market share by any of these competitors may have a material adverse impact on the Group's revenues and profitability.

**Limited IP protection**
The Group does not have a formal policy on intellectual property. While the Directors believe that the barriers to entry in its market are high, the ability of a competitor to develop similar products to those manufactured by the Group may have a material adverse impact on the Group's revenues and profitability.

**2. Risks relating to the market in which the group operates**

**Research & development budgets of global automotive corporations can get squeezed or significantly reduced**
The global automotive market is highly competitive and continues its recovery from the significant downturn in 2008. Competition is expected to intensify further in light of continuing globalisation in the industry, possibly resulting in industry reorganisation. Factors affecting competition include product quality and features, safety, reliability, fuel economy, the amount of time required for innovation and development, pricing, customer service and financing terms. Increased competition may lead to lower vehicle unit sales, which may result in downward pressure on research and development budgets. Furthermore, adverse issues arising in the automotive industry or in the global economy may significantly reduce the level of these research and development budgets.

The Group's ability to respond adequately to changes in the automotive industry and to maintain its position as a leading technology supplier will be fundamental to its future success in existing and new markets and to maintain its market share. There can be no assurance that the Group will be able to compete successfully in the future.

**Key suppliers**
Over the past 30 years, the Group has built up a reliable supplier base for its externally sourced components. At present, a significant proportion of these components are supplied by certain key suppliers. While the Group uses its design capabilities to dual source components, there remains a risk of material impact in the short term if one of its key suppliers were to fail.

In certain instances, the Group has taken out an insurance policy to protect its profits should a key supplier be unable to supply for whatever reason.

**Exposure to exchange rate fluctuations**
The Group is exposed to exchange rate fluctuations, principally the GBP, the US$, the Euro and, to a lesser extent, the Japanese Yen and Chinese RMB. Changes in foreign currency exchange rates may affect the Group's pricing of products sold and materials purchased in foreign currencies.

The Directors believe that its use of certain derivative financial instruments, including foreign currency forward contracts used to mitigate the impact of commitments denominated in foreign currencies, reduces the Group's exposure to this risk.

**Exposure to economic cycle**
Market conditions may affect the value of the Group's share price regardless of operating performance. The Group could be affected by unforeseen events outside of its control including economic and political events and trends, inflation and deflation, terrorist attacks or currency exchange fluctuation. The combined effect of these factors is difficult to predict and an investment in the Group could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors in any jurisdiction in which the Group may operate. Deterioration in the economic climate could result in a delay or cancellation of clients' projects.

**Force majeure events**
There is a risk that the markets in which the Group currently operates could be affected by events such as war, civil war, riot or armed conflict, acts of terrorism, floods, explosions or other catastrophes, epidemics or quarantine restrictions, which are outside of the Directors' control and generally not covered by insurance. Such events could have a variety of materially adverse consequences for the Group, including risks and costs related to decline in revenues or reputational damage, and injury or loss of life, as well as litigation related thereto.

**Laws and regulations**
The Group is subject to the laws of the United Kingdom. Existing and future legislation and regulation could cause additional expense, capital expenditure and restrictions and delays in the activities of the Group, the extent of which cannot be predicted. No assurance can be given that new laws, rules and regulations will not be enacted or existing laws, rules and regulations will not be applied in a manner which could limit or curtail certain of the Group's activities or services. In addition, the Group may have to defend itself against legal proceedings which could have an adverse effect on trading performance and, in turn, future profits. The Group also exports its products overseas and therefore its exports may be subject to existing and future overseas legislation and regulation and similar risks therefore also applying in relation to such overseas existing and future legislation and regulation.

Approved by the board on 14 November 2017

**Tim Rogers**
**Director**

## Directors' report

The directors present their report and the audited financial statements of AB Dynamics plc for the year ended 31 August 2017.

**Dividends**
During the year an interim dividend of £0.01331 per share was paid and the Board has proposed a final dividend of £0.02 per share.

**Research and development**
The Group continues to invest in research and development associated with the design and manufacture of test equipment for vehicle suspension, steering, noise and vibration. Costs attributed to this process have been charged to profit or loss to the extent that they do not meet all of the criteria for capitalisation as set out in IAS 38 'Intangible Assets'.

Research and development costs expensed is separately identified and disclosed in Note 5.

**Financial instruments**
The Company's principal financial instruments comprise cash at bank, bank facilities, and various items within current assets and current liabilities that arise directly from its operations including foreign currency forward contracts. The Group's financial risk management objectives and policies are set out in note 19 to the financial statements.

**Future Developments**
Please see the Strategic Report for details of future developments.

**Directors**
The following directors have held office during the year:-

| | |
|---|---|
| Anthony Best | |
| Timothy John Rogers | |
| Robert Andrew Leonard Hart | |
| Graham Dudley Eves | |
| Frederick Bryan Smart | |
| Matthew Hubbard | Appointed 14th August 2017 |
| Richard Hickinbotham | Appointed 14th August 2017 |

At the forthcoming Annual General Meeting in accordance with the Company's articles of association, Bryan Smart will retire by rotation and being eligible will offer himself for re-election.

**Conflicts of interest**
Under the articles of association of the company and in accordance with the provisions of the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. However, the directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only directors who have no interest in the matter being considered will be able to take the relevant decision, and the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 August 2017, the directors have authorised no such conflicts or potential conflicts.

**Directors' interests in shares**
Directors' interests in the shares of the Company, including family interests, were as follows:-

| | Ordinary shares of 1p each |
|---|---|
| Anthony Best | 6,247,107 |
| Timothy John Rogers | 342,953 |
| Robert Andrew Leonard Hart | 15,372 |

There have been no changes in the Directors' shareholdings since the year end.

**Directors' interests in share options**

| | Exercise price (pence) | As at 1 September 2016 | Exercised during the year | As at 31 August 2017 | Earliest date for exercise | Latest date for exercise |
|---|---|---|---|---|---|---|
| Timothy John Rogers | 395.00 | 75,379 | – | 75,379 | 11 July 2017 | 11 July 2026 |
| Robert Andrew Leonard Hart | 395.00 | 100,341 | – | 100,341 | 11 July 2017 | 11 July 2026 |

**Directors' remuneration and service contracts**
The remuneration paid to the directors during 2017 is shown below:

| | Short term benefits (Incl. bonus) £ | Post employment benefits £ | Share based payments £ | 2017 Total £ | 2016 Total £ |
|---|---|---|---|---|---|
| Anthony Best | 76,785 | – | – | 76,785 | 74,036 |
| Timothy John Rogers * | 210,487 | 14,196 | 82,578 | 307,261 | 224,068 |
| Robert Andrew Leonard Hart | 145,510 | 9,802 | 109,924 | 265,236 | 158,174 |
| Graham Dudley Eves | 30,000 | – | – | 30,000 | 30,000 |
| Frederick Bryan Smart | 30,000 | – | – | 30,000 | 30,000 |
| | 492,782 | 23,998 | 192,502 | 709,282 | 516,278 |

* Highest paid director

**Other substantial shareholdings**
As at 14th November 2017, being the latest practicable date before the issue of these financial statements, the company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the company.

| | Ordinary shares No. | Shareholding % |
|---|---|---|
| Anthony Best | 4,747,107 | 24.7 |
| Naemi Best | 1,500,000 | 7.8 |
| Anne Middleton | 1,400,000 | 7.3 |
| Liontrust Investment Management | 1,149,628 | 6.0 |
| Schroder Investment Management | 975,690 | 5.0 |
| Castlefield CFP SDL UK Buffetology Fund General | 839,500 | 4.4 |
| Cannacord Genuity Group Inc | 823,683 | 4.3 |
| Hargreaves Landsdown Asset Management | 796,718 | 4.2 |
| Rathbone Investment Management | 683,141 | 3.6 |
| Amati Global Investors | 653,460 | 3.4 |

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report, any other surround information and the group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law, they are required to prepare the group financial statements in accordance with International Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that year. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report and Strategic Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

**Provision of information to auditors**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of the information.

**Auditor**

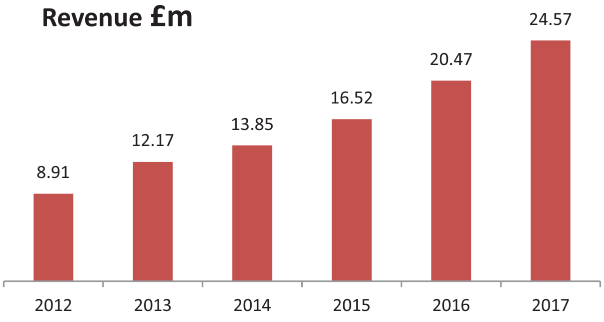
The auditor, Crowe Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

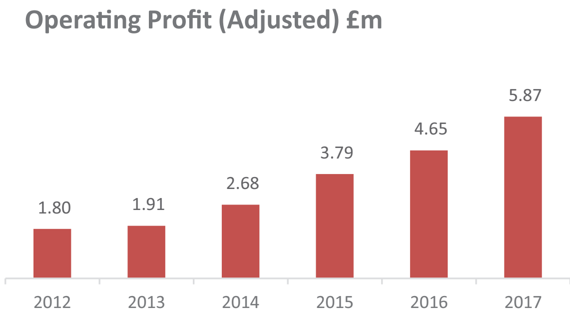
**Tim Rogers**
**Director**

14 November 2017

## Chief Financial Officer's report

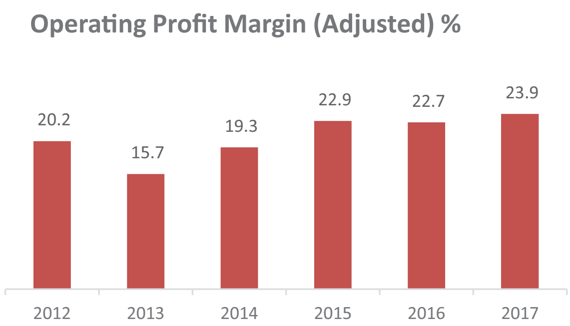



**Revenue**
The Group's revenue for the financial year ended 31 August 2017 increased by 20% to £24.57m from £20.47m in 2016. This includes an adjustment to revenue in the current year of £0.3m in respect of the adoption of IFRS 15.

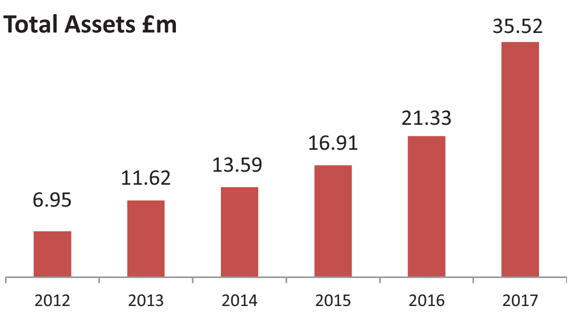



**Operating Profit**
Adjusted operating profit increased to £5.87m from £4.65m in 2016, an increase of 26% driven again by strong demand for Track Testing products, notably for the testing of Advanced Driver Assistance Systems (ADAS).

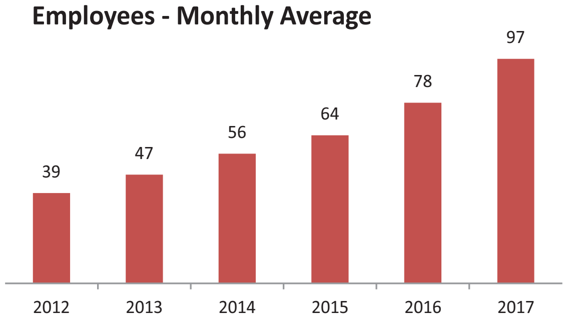
The operating profit is adjusted to exclude a £1.5m (2016: £0.3m) non-cash charge made in respect of share based payments.




**Operating Profit Margin %**
The operating profit margin increased to 23.9% (2016: 22.7%). This reflects the increase in gross margin from 31.3% in 2016 to 32.2% in 2017.



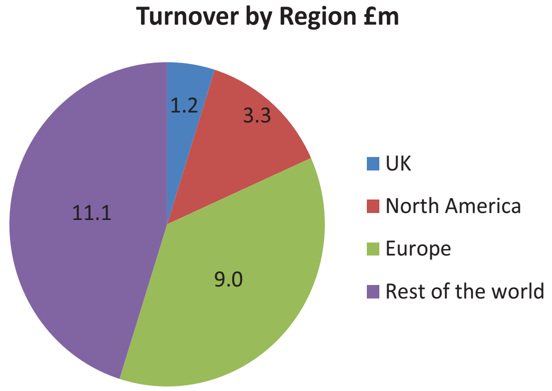

**Total Assets**
Total assets increased by approximately 67% during the year. Further details can be found on page 30 of the financial statements.




## Headcount

The average number of employees increased by 19 during the year. At the end of the year the average headcount was 97.

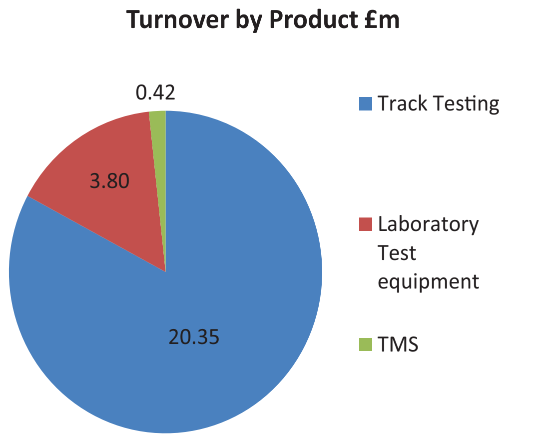
At 31 August 2017, the Group's total number of employees stood at 120 (2016: 86).




## Turnover by Region

Over 95% of sales are exported to customers based outside the United Kingdom.

| Region | 2017 £m | 2016 £m | Increase % |
|---|---|---|---|
| UK | 1.17 | 0.39 | 200 |
| North America | 3.30 | 3.10 | 6 |
| Europe | 8.97 | 6.24 | 44 |
| Rest of the world | 11.13 | 10.75 | 4 |




## Turnover by Product

Track Testing Systems revenue grew by 33% to £20.35m (2016: £15.29m) with demand for Driving Robots and Guided Soft Targets at an all-time high. These activities now represent 83% of the Groups reported revenue.

Laboratory Test Systems revenue reduced by 22%, primarily as a result of the phasing of contracts in hand.

**Taxation**
The effective tax rate for the Group in 2017 was 12.7% (2016: 13.0%) principally as a result of sizeable R&D and Patent Box tax credits.

**Cash**
Cash generated from operations in 2017 totalled £2.12m (2016: £4.62m). Year-end cash and cash equivalents decreased by £0.8m to £9.6m (2016: £10.4m).

The cash position will recover further post year end due to the recovery of significant trade debtors from July and August sales and construction costs will largely cease on the factory.

Further details can be found on page 32 of the financial statements.

**Trade Debtors**
Trade debtors have increased very significantly by £4.5m to £7.1m, as mentioned above these relate to revenues due at the year end from a strong closing quarter.

Other receivables increased largely due to input VAT reclaims on accelerated construction towards the year end.

**Trade and other payables**
Trade creditors have increased as a result of new factory construction costs payable at year end. Other payables have increased due to significant IFRS15 adjustments to deferred income. Accrued bonuses have also increased because of increased staff numbers.

**Earnings per Share**
Basic earnings per share was 20.83p (2016: 22.25p). This calculation is based on the profit after tax of £3.903m and 18,734,960 shares, being the weighted average number of shares in issue during the year.

Diluted earnings per share were 20.56p (2016: 22.25p).

On a fully diluted basis the adjusted EPS increased by over 22.5% to 28.3p (2016: 23.0p)

Further details of the earnings per share calculations are provided in note 8 to the financial statements.

**Working Capital**
Working capital (net current assets) increased by £2.69m to £17.63m (2016: £14.94m).

**Capital Expenditure**
Capital expenditure on tangible assets was £8,040,906 (2016: £1,608,527) and included approximately £6.6m of costs incurred in respect of the new facility. The factory was completed post year end and therefore no depreciation has been charged in the financial year.

**Interest Received**
Bank interest received was £65,257 (2016: £72,643).

**Foreign Exchange Risk**
The Group continues to monitor the need for forward contracts depending upon the level of natural hedging achievable and the extent to which surplus currencies are expected to be generated.

Exchange gains in the year amounted to £404,835 compared to £356,890 in 2016.

**Share Capital and Reserves**
The Group’s issued share capital at the year-end totalled 19,111,946 ordinary shares (2016: 17,764,578). The issued shares arose from the placing and offer of new Ordinary Shares in December 2016.

No share options were exercised during the year.

**Order Intake**
The Board considers order intake and the resultant period end order book as a critical guide to the Group's ability to achieve its profit targets. As it currently stands, the order book takes us into the third quarter of FY18.

**Dividends**
The Board has proposed a final dividend of 2.00p per share. Together with the interim dividend of 1.331p per share this gives a total Ordinary dividend of 3.331p for the year (2016: 3.025p).

Dividend cover, defined as the ratio of underlying earnings per share to dividend per share, was 6.25 times (2016: 7.4 times). If approved by shareholders, the final dividend will be paid to shareholders on the register at 24 November 2017.

The Group's policy is to pay a progressively increasing dividend provided the Group retains sufficient cash with which to pursue its R&D and business development policies.

**Corporate governance statement**
The Board of AB Dynamics plc appreciate the value of good corporate governance and has regard to the provisions of the Corporate Governance Guidelines for Smaller Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate in light of the size, stage of development and resources of an AIM-quoted company.

The Board is responsible for the direction and overall performance of the Group with emphasis on policy and strategy, financial results and major operational issues.

**Board structure**
During the year the Board consisted of five directors of which two were executive and three non-executive. Subsequent to the year end this has changed to three executive and four non-executive.

The Board meets as and when required and is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties. All directors are required to retire by rotation with one third of the board seeking re-election each year.

The board has undertaken a formal assessment of the auditor's independence and will continue to do so at least annually. This assessment includes:

- a review of non-audit services provided to the company and the related fees;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and parties and staff involved in the audit; and
- obtaining confirmation from the auditor that, in their professional judgement, they are independent.

**Internal controls**
The Board is responsible for the Company's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of the Company. Any internal control system can only provide reasonable, but not absolute assurance against material mis-statement or loss.

Given the size of the Company, the Board considers there is currently no need for an internal audit function.

**Rob Hart**
**Chief Financial Officer – Company Secretary**
**14 November 2017**

## Independent Auditor's report to the members of AB Dynamics plc

**Opinion**
We have audited the financial statements of AB Dynamics plc (the "Parent Company") and its subsidiary (the "Group") for the year ended 31 August 2017, which comprise:

- the Group income statement and statement of comprehensive income for the year ended 31 August 2017;
- the Group and parent company statement of financial position as at 31 August 2017;
- the Group and parent company statement of cash flows and statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

*Materiality*

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £165,000 (2016: £160,000), based on a percentage of Group revenue.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit and Risk Committee to report to it all identified errors in excess of £5,000 (2016: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

*Overview of the scope of our audit*

The Group and its subsidiary are accounted for from one central operating location, the group's registered office. Our audit was conducted from the main operating location and all group companies were within the scope of our audit testing.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

| Key audit matter | How the scope of our audit addressed the key audit matter |
|---|---|
| *Revenue recognition*<br><br>Revenue is recognised in accordance with the accounting policy set out in the financial statements. The accounting policy contains a number of judgements, particularly in recognising when the risks and rewards of ownership have passed to the buyer. This is determined with reference to the underlying contract with the purchaser. | Our work focussed on validating that revenue is recognised in accordance with the accounting policies and that cut off was correctly applied through testing. We reviewed the changes to accounting policies for, and the additional disclosure requirements of, IFRS 15 and validated a sample of contracts to confirm revenue was being recognised in line with the adoption of this standard. |
| *Accounting for long-term contracts*<br><br>For certain products the company recognises revenue over the period of the contract.<br><br>The group uses the percentage of completion method to determine the appropriate amount of revenue to recognise in a given period. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. A number of judgements are made by management in making its assessment of estimated costs and profitability. | Our work focussed on validating that estimated contract costs which include staff costs, overheads and material costs are appropriate and reliably estimated. In addition, we assessed whether cut off has been correctly applied and that any resulting work in progress and other entries are appropriate. We considered the original budget for the contract and compared this to actual costs to validate how the contract has performed, and enquired into any events which could change this assessment. |

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

*Other information*
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us.
- the parent company financial statements are not in agreement with the accounting records and returns.

**Responsibilities of the directors for the financial statements**
As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

John Glasby
Senior Statutory Auditor
for and on behalf of
**Crowe Clark Whitehill LLP**
Statutory Auditor
St Bride's House,
10 Salisbury Square
London
EC4Y 8EH

Date: 14 November 2017

## Consolidated statement of comprehensive income

| | Note | Year ended 31 August 2017 £ | Year ended 31 August 2016 £ |
|---|---|---|---|
| *Continuing operations* | | | |
| Revenue | | 24,570,050 | 20,472,244 |
| Cost of sales | | (16,654,153) | (14,067,356) |
| Gross profit | | 7,915,897 | 6,404,888 |
| Administrative expenses | | (1,985,069) | (1,591,661) |
| Fair value loss in respect of foreign currency forward contracts | | (59,241) | (161,145) |
| **Adjusted operating profit before Share based payment costs** | | 5,871,587 | 4,652,082 |
| Share based payment costs | | (1,464,817) | (273,405) |
| **Operating profit** | | 4,406,770 | 4,378,677 |
| Finance income | 4 | 65,257 | 72,643 |
| **Profit before taxation** | **5** | **4,472,027** | **4,451,320** |
| Corporation tax expense | 6 | (569,286) | (576,935) |
| **Profit after taxation** | | **3,902,741** | **3,874,385** |
| **Other comprehensive income** | | **–** | **–** |
| **Total comprehensive income for the year attributed to equity holders** | | 3,902,741 | 3,874,385 |
| Earnings per share – Basic (pence) | 8 | 20.83p | 22.25p |
| Earnings per share – Diluted (pence) | 8 | 20.56p | 22.25p |

**Consolidated statement of financial position**
as at 31 August 2017

| | Note | 2017 £ | 2016 £ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 10,464,904 | 2,695,097 |
| Deferred tax assets | 17 | 148,140 | – |
| | | 10,613,044 | 2,695,097 |
| **CURRENT ASSETS** | | | |
| Inventories | 10 | 4,959,435 | 3,191,642 |
| Trade receivables | 11 | 7,115,351 | 2,601,857 |
| Other receivables, deposits and prepayments | 12 | 1,536,134 | 1,006,657 |
| Amount owing by contract customers | 13 | 1,675,508 | 1,285,922 |
| Derivative financial instruments | 14 | – | – |
| Taxation | | – | 148,992 |
| Cash and cash equivalents | 15 | 9,619,345 | 10,404,523 |
| | | 24,905,773 | 18,639,593 |
| **TOTAL ASSETS** | | 35,518,817 | 21,334,690 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 16 | 191,119 | 177,646 |
| Share premium | | 8,579,265 | 2,590,267 |
| Reconstruction reserve | | (11,284,500) | (11,284,500) |
| Merger relief reserve | | 11,390,000 | 11,390,000 |
| Retained profits | | 19,370,938 | 14,643,035 |
| Total equity attributable to owners of the Company and total equity | | 28,246,822 | 17,516,448 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 17 | – | 118,946 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables and accruals | 18 | 6,951,803 | 3,608,862 |
| Provision for taxation | | 320,192 | – |
| Derivative financial instruments | 14 | – | 90,434 |
| | | 7,271,995 | 3,699,296 |
| **TOTAL LIABILITIES** | | 7,271,995 | 3,818,242 |
| **TOTAL EQUITY AND LIABILITIES** | | 35,518,817 | 21,334,690 |

The financial statements were approved by the Board of Directors and authorised for issue on and are signed on its behalf by:

Director Director
COMPANY REGISTRATION NUMBER: 08393914

## Consolidated statement of changes in equity

| | Note | Share capital £ | Share premium £ | Merger relief reserve £ | Recon-struction reserve £ | Retained profits £ | Total equity £ |
|---|---|---|---|---|---|---|---|
| Balance at 1 September 2015 | | 173,344 | 2,540,711 | 11,390,000 | (11,284,500) | 10,830,329 | 13,649,884 |
| Share based payment expense | | | | | | 273,405 | 273,405 |
| Deferred Tax on Share Options | | | | | | (168,387) | (168,387) |
| Profit after taxation and total comprehensive income for the financial year | | | | | | 3,874,385 | 3,874,385 |
| Tax impact of exercised Share Options | | | | | | 329,066 | 329,066 |
| Dividend paid | 7 | | | | | (495,763) | (495,763) |
| Issue of shares, net of share issue costs | | 4,302 | 49,556 | | | | 53,858 |
| Balance at 31 August 2016 | | 177,646 | 2,590,267 | 11,390,000 | (11,284,500) | 14,643,035 | 17,516,448 |
| Balance at 1 September 2016 as originally reported | | 177,646 | 2,590,267 | 11,390,000 | (11,284,500) | 14,643,035 | 17,516,448 |
| Change in accounting policy (note 26) | | | | | | (62,850) | (62,850) |
| Balance at 1 September 2016 as restated | | 177,646 | 2,590,267 | 11,390,000 | (11,284,500) | 14,580,185 | 17,453,598 |
| Share based payment expense | | | | | | 1,464,817 | 1,464,817 |
| Profit after taxation and total comprehensive income for the financial year | | | | | | 3,902,741 | 3,902,741 |
| Tax impact of exercised Share Options | | | | | | – | – |
| Dividend paid | 7 | | | | | (576,805) | (576,805) |
| Issue of shares, net of share issue costs | | 13,473 | 5,988,998 | | | | 6,002,471 |
| Balance at 31 August 2017 | | 191,119 | 8,579,265 | 11,390,000 | (11,284,500) | 19,370,938 | 28,246,822 |

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

The reconstruction reserve and merger relief reserve have arisen as follows:

The acquisition by the Company of the entire issued share capital of Anthony Best Dynamics limited in 2013 was accounted for a group reconstruction. Consequently, the assets and liabilities of the Group were recognised at their previous book values as if the Company had always been the parent company of the group.

The share capital for the period covered by these consolidated financial statements and the comparative periods is stated at the nominal value of the shares issued pursuant to the above share arrangement. Any differences between the nominal value of these shares and previously reported nominal values of shares and applicable share premium issued by Anthony Best Dynamics Limited were transferred to the reconstruction reserve.

Retained profits represent the cumulative value of the profits not distributed to shareholders, but retained to finance the future capital requirements of the Group.

## Consolidated statement of cash flows

| | 2017 £ | 2016 £ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxation | 4,472,027 | 4,451,320 |
| Adjustments for:- | | |
| Change in accounting policy | (78,562) | – |
| Depreciation of property, plant and equipment | 266,856 | 277,695 |
| Loss on sale of property, plant and equipment | 4,243 | 2,336 |
| Interest income | (65,257) | (72,643) |
| Share based payment | 1,464,817 | 273,405 |
| **Operating profit before working capital changes** | **6,064,124** | **4,932,113** |
| Increase in inventories | (1,767,793) | (649,939) |
| Decrease/(increase) in trade and other receivables | (5,432,557) | (303,657) |
| Increase in trade and other payables and accruals | 3,342,941 | 519,375 |
| Fair value loss/(gain) on derivative instruments | (90,434) | 124,178 |
| **Cash flow from operations** | **2,116,281** | **4,622,070** |
| Interest received | 65,257 | 72,643 |
| Income tax paid | (351,476) | (568,314) |
| **Net cash flow from operating activities** | **1,830,062** | **4,126,399** |
| **Cash flow from investing activities** | | |
| Purchase of property, plant and equipment | (8,040,906) | (1,608,527) |
| Sale of property, plant and equipment | – | 360,748 |
| **Cash flow used in investing activities** | **(8,040,906)** | **(1,247,779)** |
| **Cash flow from financing activities** | | |
| Dividends paid | (576,805) | (495,763) |
| Proceeds from issue of share capital, net of share issue costs | 6,002,471 | 53,858 |
| **Net cash flow used in financing activities** | **5,425,666** | **(441,905)** |
| Net increase in cash and cash equivalents | (785,178) | 2,436,715 |
| Cash and cash equivalents at beginning of the financial year | 10,404,523 | 7,967,808 |
| Cash and cash equivalents at end of the financial year | 9,619,345 | 10,404,523 |

## Notes to the consolidated financial statements

### 1. General information

The Company is a public company limited by shares and registered in England and Wales with company number 08393914. The Company is domiciled in the United Kingdom and the registered office and principal place of business is Middleton Drive, Bradford on Avon, Wiltshire, BA15 1GB.

The principal activity is the specialised area of design and manufacture of test equipment for vehicle suspension, steering, noise and vibration. The company also offers a range of services which include analysis, design, prototype manufacture, testing and development.

**Basis of preparation**

The financial statements are measured and presented in sterling (£), unless otherwise stated, which is the currency of the primary economic environment in which the entities operate. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit or loss.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU including related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

**Standards, amendments and interpretations to published standards not yet effective**

The Company has reviewed the way that it accounts for revenue from contracts with customers and has early adopted the new reporting standard on revenue recognition, IFRS 15 'Revenue from Contracts with Customers'. The Company has applied the change in accounting policy by using a modified retrospective approach in which the comparative results for 2016 have not been restated, instead a cumulative adjustment has been recognised through retained earnings at 1 January 2017 in relation to agreements which still required performance by the Company at that date. Further details in relation to the changes are set out in note 26.

The Directors have considered those Standards and Interpretations, which have not been applied in the Financial Statements but are relevant to the Group's operations, that are in issue but not yet effective and, with the exception of IFRS 16 and IFRS 9 referred to below, do not consider that any will have a material impact on the future results of the Group.

The Directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 9 'Financial Instruments' and IFRS 16 'Leases'. These will apply to periods commencing on or after 1 January 2018 and 1 January 2019 respectively. It is not expected that the application of IFRS 9 or IFRS 16 will have a material impact on the group's results.

The Group financial statements are presented in sterling and all values are rounded to the nearest pound except where otherwise indicated.

### 2. Summary of significant accounting policies

#### (a) Going concern

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive Officer's statement on page 4.

Note 19 to the Consolidated Financial Statements sets out the company's financial risks and the management of capital risks.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows, the Directors believe that the company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

**2. Summary of significant accounting policies (continued)**

**(b) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated by the directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are as stated below:

*Assessment of the percentage of completion of construction projects (laboratory test systems)*

The probability of a profitable outcome of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs and any other pertinent information.

The above estimates are made internally by the Group and any changes of these estimates will result in a corresponding change in revenue and profit. The Group's accounting approach reflects a sound judgement as potential losses on contract are being considered and reflected with its probability immediately upon occurrence, while contract revenue which cannot be estimated reliably is realised only after confirmed by written agreement.

*Share based payment*

The calculation of the fair value of share based payments at the grant date impacts the profit or loss over the vesting period and in the current year this has resulted in a charge of £1,464,817.

The magnitude of the fair value is primarily determined by the estimated volatility. The volatility has been based on historical share price movement but this is not necessarily representative of future volatility. If share price volatility had been 5% higher this would have resulted in the current year charge being £25,685 higher than currently shown.

**(c) Revenue and long-term contracts**

Revenue represents the value, net of sales taxes, of goods sold and services provided to customers.

Revenue is disaggregated into the following two categories:

1) Revenues on **laboratory test systems**, which projects lasting longer than 12 months and require a significant degree of customisation, are recognised according to the percentage of completion method.

   When a contract with a customer is judged to be a long-term contract, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in a given period. Management considers the terms and conditions of the contract, including how the contract was negotiated and any elements the customer specifies when identifying individual projects as a long-term contract. The percentage of completion is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. This measurement basis is considered to be the most faithful depiction of the transfer of ownership as the customer is contractually liable for costs incurred to date. Where this is not representative of the stage of completion, management will assess the completion of a physical proportion of the contract work in determining the overall stage of completion.

**2. Summary of significant accounting policies (continued)**

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. The probability of a profitable outcome of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs and any other pertinent information. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Contract assets (accrued revenue) and contract liabilities (amounts received) in advance of performance delivery) are recognised separately. Business development and other pre-contract costs are expensed as incurred.

Revenue is recognised on a pro-rata basis according to the work performed and the degree of completion of the contract. Where the value of the work performed on a contract exceeds the aggregate of payments received on account from customers, the resulting balance is included in trade and other receivables. Where the aggregate of payments received on account from customers exceeds the value of work performed on a contract, the resulting balance is included in current liabilities.

2) Revenue from **track testing systems**, principally in relation the robotic systems which are constructed and supplied to a customer within 12 months and where there is no significant degree of customisation, is recognised when the significant risks and rewards of ownership have passed to the buyer, which in almost all cases is on delivery. Any payments received on account are deferred until these items are delivered to the customer. Items such as guarantees or servicing arrangements sold in relation to these systems are accounted for as separate performance obligations and are recognised over the period to which these obligations are performed by the company. Guarantees and servicing arrangements have standard pricing, which management consider reflects fair value, and these prices are allocated to the separate performance obligations.

**(d) Basis of consolidation**

The consolidated financial statements include the financial statements of all subsidiaries. The financial year ends of all entities in the Group are coterminous.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly, or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full.

Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

**(e) Inventories**

Inventories are valued on a first in, first out basis at the lower of cost and net realisable value. Cost includes all expenditure incurred during the normal course of business in bringing in inventories to their present location and condition, including in the case of work-in-progress and finished goods an appropriate proportion of production overheads. Net realisable value is based on the estimated useful selling price less further costs expected to be incurred to completion and subsequent disposal.

## 2. Summary of significant accounting policies (continued)

### (f) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously. A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

#### (i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables financial assets. The group does not hold any held-to-maturity investments or available-for-sale financial assets.

- *Financial assets at fair value through profit or loss*

  As at the end of the reporting period, there were no foreign currency forward contracts classified under this category.

- *Loans and receivables financial assets*

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### (ii) Financial liabilities

All financial liabilities are initially recorded at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

#### (iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Interim dividends are recognised when paid and final dividends on ordinary shares are recognised as liabilities when approved for appropriation.

## 2. Summary of significant accounting policies (continued)

### (g) Property, plant and equipment

Property, plant and equipment is initially recorded at cost. Once the asset is available for use, depreciation is calculated at rates estimated to write off the cost of the relevant assets, less any estimated residual value, on either a straight-line basis or reducing balance basis over their expected useful lives.

| | |
|---|---|
| Plant and machinery | 10% straight line |
| Motor vehicles | 25% reducing balance |
| Furniture and fittings | 10% straight line |
| Computer equipment | 25% straight line |
| General equipment | 10% straight line |
| Proprietorial equipment | 20% straight line |
| Test equipment | Between 10-20% straight line |
| Buildings | 5% straight line |

### (h) Impairment

#### (i) Impairment of non-financial assets

The carrying values of assets, other than those to which IAS 36 – Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

#### (ii) Impairment of non-financial assets (continued)

An impairment loss is recognised in profit or loss immediately.

When there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

### (i) Income taxes

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**2. Summary of significant accounting policies (continued)**

**(j) Share-based payments**

Employees (including Directors and Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights approved by the Board which can only be settled in shares of the respective companies that award the equity-settled transactions. Share options rights are also granted to these individuals by majority shareholders over their shares held. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The statement of comprehensive income charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in profit or loss on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

**(k) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

**3. Segment reporting**

The Group derives revenue from the sale of its advanced measurement and testing products derived in assisting the global automotive industry in the laboratory and on the test track. The income streams are all derived from the utilisation of these products which, in all aspects except details of revenue, are reviewed and managed together within the Group and as such are considered to be the only segment.

Per IFRS 8, the operating segment is based on internal reports about components of the group, which are regularly reviewed and used by the board of directors being the Chief Operating Decision Maker ("CODM").

All of the Group's non-current assets are held in the UK.

Material revenues attributable to individual foreign countries are as follows:

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| United Kingdom | 1,174,643 | 379,418 |
| Rest of the European Union | 8,965,899 | 6,241,564 |
| North America | 3,299,671 | 3,099,983 |
| Rest of the World | 11,129,837 | 10,751,279 |
| | 24,570,050 | 20,472,244 |

No revenues derive from major customers, which individually represent 10% or more of total revenue.

There were no material non-current assets located outside the United Kingdom.

## 3. Segment reporting (continued)

Revenues are disaggregated, as required by IFRS 15, as follows:

| | | |
|---|---|---|
| Revenue from track testing systems | 20,766,061 | 15,612,065 |
| Revenue from laboratory test systems | 3,803,989 | 4,860,179 |
| | 24,570,050 | 20,472,244 |

## 4. Finance income

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Interest received | 65,257 | 72,643 |

## 5. Profit before taxation

The profit before taxation is arrived at after charging/(crediting):-

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Depreciation | 266,856 | 277,695 |
| Loss on sale of assets | 4,242 | 2,336 |
| Realised loss/(gain) on foreign exchange | (404,835) | (356,890) |
| Staff costs: | | |
| – salaries, allowances and bonuses | 5,250,212 | 4,363,700 |
| Social security costs | 540,954 | 450,170 |
| Defined contribution pension scheme costs | 282,503 | 238,734 |
| Share based payments | 1,464,817 | 273,405 |
| Research and development costs | 375,016 | 448,047 |
| Operating lease payments recognised as an expense | 157,065 | 102,488 |

**Auditors remuneration**

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's financial statements | 23,226 | 17,115 |
| Fees payable to the Company's auditors for other services: | | |
| The audit of the company's subsidiary subject to legislation | 17,485 | 16,815 |
| Fees payable to the Company's auditors for tax compliance services | 8,880 | 8,400 |
| Total | 49,591 | 42,330 |

The average monthly number of employees, including the directors, during the year was as follows:

| | 2017<br>No. | 2016<br>No. |
|---|---|---|
| Directors & Commercial | 10 | 9 |
| Engineers & Technicians | 72 | 58 |
| Administration | 15 | 11 |
| | 97 | 78 |

**5. Profit before taxation (continued)**

Total remuneration of key management personnel, being the directors of the company plus the directors of the operating subsidiary, is set out below in aggregate for each of the categories specified in IAS24, related party disclosures:

| | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Short term employee benefits | 1,070,060 | 934,314 |
| Post-employment benefits | 55,648 | 46,779 |
| Social security costs | 126,087 | 115,204 |
| Share based payments – equity settled | 479,555 | 96,207 |
| | 1,731,350 | 1,192,504 |

Further details relating to the remuneration of the directors of the company can be found in the directors report.

**6. Income tax expense**

| | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Current tax expense: | | |
| – for the financial year | 408,490 | 606,006 |
| – under/(over) provision in the previous financial year | 88,489 | (28,178) |
| | 496,979 | 577,828 |
| Deferred tax liabilities: (Note 17): | | |
| – origination and reversal of temporary differences | 72,307 | (893) |
| | 569,286 | 576,935 |

The tax assessed for the year is the same as (*2016 – the same as*) the standard rate of corporation tax in the UK of 19.58% (*2016 – 20.00%*) as set out below.

A reconciliation of income tax expense applicable to the profit before taxation at the effective tax rate to the income tax expense at the effective tax rate of the Group are as follows: -

| | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Profit before taxation | 4,472,027 | 4,451,320 |
| Tax at the applicable statutory tax rate of 19.58% (2016 – 20.00%) | 875,623 | 890,264 |
| Tax effects of: | | |
| Non-deductible expenses | (35,146) | 3,259 |
| Adjustment in research and development tax credit | (95,461) | (116,492) |
| Under/(over) provision in the previous financial year | 88,489 | (28,178) |
| Non-taxable foreign currency forward contracts | – | 24,836 |
| Patent box relief* | (279,062) | (183,005) |
| Other differences including change in rate of deferred tax provision | 14,843 | (13,749) |
| Income tax expense for the financial year | 569,286 | 576,935 |

* Patent box relief represents the tax effect of the reduced amount payable on profits that fall within the Patent Box.

**6. Income tax expense (continued)**

In addition to the amount charged to the profit or loss, the following amounts relating to tax have been recognised directly in equity:

| | 2017 £ | 2016 £ |
|---|---|---|
| **Current tax** | | |
| Excess tax deductions related to share-based payments on exercised options | – | (329,066) |
| **Deferred tax** | | |
| Change in estimated excess tax deductions related to share-based payments | – | 168,387 |
| Total income tax recognised directly in equity | – | (160,679) |

**7. Dividends paid**

| | 2017 £ | 2016 £ |
|---|---|---|
| Final 2015 dividend paid of £0.0165 per share | – | 286,017 |
| Interim dividend paid of £0.0121 per share | – | 209,746 |
| Final 2016 dividend paid of £0.01815 per share | 322,426 | – |
| Interim dividend paid of £0.01331 per share | 254,379 | – |
| | 576,805 | 495,763 |

The Board has proposed a final dividend of 2.00p per share totalling £382,239. Together with the interim dividend of 1.331p per share this gives a total Ordinary dividend of 3.331p for the year.

**8. Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The Company has one category of potentially dilutive shares, namely share options.

The calculation of earnings per share is based on the following earnings and number of shares.

| | Years ended 31 August 2017 | 2016 |
|---|---|---|
| Profit after tax attributable to owners of the Group (£) | 3,902,741 | £3,874,385 |
| Weighted average number of shares: | | |
| Basic | 18,734,960 | 17,414,329 |
| Adjustments in respect of potentially dilutive share options | – | – |
| Diluted | 18,982,585 | 17,414,329 |
| Earnings per share (pence) | | |
| Basic | 20.83 | 22.25 |
| Diluted | 20.56 | 22.25 |

## 9. Property, plant and equipment

| | Test Equipment £ | Furniture and fittings £ | Motor Vehicles £ | Plant and machinery £ | Other fixed assets £ | Land & Buildings £ | Total £ |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At 31 August 2016** | **816,293** | **612,709** | **95,089** | **364,420** | **103,895** | **1,552,084** | **3,544,490** |
| Additions | 996,549 | 116,696 | 69,031 | 78,925 | 16,383 | 6,763,322 | 8,040,906 |
| Disposals | – | (6,792) | – | – | – | – | (6,792) |
| **At 31 August 2017** | **1,812,842** | **722,613** | **164,120** | **443,345** | **120,278** | **8,315,406** | **11,578,604** |
| **Accumulated depreciation** | | | | | | | |
| **At 31 August 2016** | **210,040** | **274,813** | **57,321** | **192,074** | **40,282** | **74,863** | **849,393** |
| Charge for the year | 35,034 | 78,228 | 15,201 | 29,696 | 20,779 | 87,918 | 266,856 |
| Disposals | – | (2,549) | – | – | – | – | (2,549) |
| **At 31 August 2017** | **245,074** | **350,492** | **72,522** | **221,770** | **61,061** | **162,781** | **1,113,700** |
| **Net book value** | | | | | | | |
| **At 31 August 2016** | **606,253** | **337,896** | **37,768** | **172,346** | **63,613** | **1,477,221** | **2,695,097** |
| **At 31 August 2017** | **1,567,768** | **372,121** | **91,598** | **221,575** | **59,217** | **8,152,625** | **10,464,904** |

Included within land and buildings is property under the course of construction with a total net book value of £7,959,947 (*2016: £1,322,499*). Depreciation will not be charged until the property is ready for use.

Costs associated with the development of the advanced vehicle dynamic simulator, which is under construction, are included within test equipment and have a total net book value of £1,368,108 (*2016: £408,802*). Depreciation will not be charged until the asset is ready for use.

| | Test Equipment £ | Furniture and fittings £ | Motor Vehicles £ | Plant and machinery £ | Other fixed assets £ | Land & Buildings £ | Total £ |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At 31 August 2015** | **677,763** | **734,166** | **87,422** | **286,411** | **609,587** | **1,131,211** | **3,526,560** |
| Additions | 475,119 | 88,256 | 7,667 | 93,080 | 42,581 | 901,284 | 1,608,527 |
| Disposals | (336,589) | (209,713) | – | (15,071) | (548,273) | (480,951) | (1,590,597) |
| **At 31 August 2016** | **816,293** | **612,709** | **95,089** | **364,420** | **103,895** | **1,552,084** | **3,544,490** |
| **Accumulated depreciation** | | | | | | | |
| **At 31 August 2015** | **511,208** | **412,446** | **46,353** | **183,679** | **572,242** | **73,283** | **1,799,211** |
| Charge for the year | 34,404 | 70,046 | 10,968 | 23,432 | 16,313 | 122,532 | 277,695 |
| Disposals | (335,572) | (207,679) | – | (15,037) | (548,273) | (120,952) | (1,227,513) |
| **At 31 August 2016** | **210,040** | **274,813** | **57,321** | **192,074** | **40,282** | **74,863** | **849,393** |
| **Net book value** | | | | | | | |
| **At 31 August 2015** | **166,555** | **321,720** | **41,069** | **102,732** | **37,345** | **1,057,928** | **1,727,349** |
| **At 31 August 2016** | **606,253** | **337,896** | **37,768** | **172,346** | **63,613** | **1,477,221** | **2,695,097** |

## 10. Inventories

| | 2017 £ | 2016 £ |
|---|---|---|
| Work in progress | 1,970,871 | 824,211 |
| Raw materials | 2,988,564 | 2,367,431 |
| | 4,959,435 | 3,191,642 |

The value of inventories (being materials used and consumables) recognised as an expense was £9,753,366 (2016: £6,673,768).

The amount of write down of inventories recognised as an expense was £Nil (2016: £Nil).

## 11. Trade receivables

| | 2017 £ | 2016 £ |
|---|---|---|
| Trade receivables | 7,115,351 | 2,601,857 |

The Group's normal trade credit term is 30 to 60 days. Other credit terms are assessed and approved on a case by case basis.

## 12. Other receivables and prepayments

| | 2017 £ | 2016 £ |
|---|---|---|
| Other receivables | 868,806 | 339,475 |
| Prepayments | 667,327 | 667,182 |
| | 1,536,133 | 1,006,657 |

## 13. Amount owing by contract customers

| | 2017 £ | 2016 £ |
|---|---|---|
| Cost incurred to date | 8,829,706 | 8,867,838 |
| Attributable profits | 2,888,698 | 3,034,970 |
| | 11,718,404 | 11,902,808 |
| Progress billings | (10,190,976) | (10,725,679) |
| | 1,527,428 | 1,177,129 |
| Represented by: | | |
| Contract liabilities (see note 26) | (148,080) | (108,793) |
| Contract assets (see note 26) | 1,675,508 | 1,285,922 |
| | 1,527,428 | 1,177,129 |
| Amount of contract revenue recognised to date | 3,803,989 | 4,860,179 |

No retentions were held by customers for contract work.

## 14. Derivative financial instruments

Derivative financial instrument balances comprise:

| | 2017 £ | 2016 £ |
|---|---|---|
| Forward foreign exchange contracts | – | (90,434) |
| | – | (90,434) |

Further analysis of financial instruments is given in note 19.

## 15. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following: -

| | 2017 £ | 2016 £ |
|---|---|---|
| Cash and bank balances | 9,619,345 | 10,404,523 |

## 16. Share capital

The allotted, called up and full paid share capital is made up of 19,111,946 ordinary shares of £0.01 each.

| | Note | Number of shares | Share Capital £ | Share premium £ | Total £ |
|---|---|---|---|---|---|
| At 1 September 2015 | | 17,334,406 | 173,344 | 2,540,711 | 2,714,055 |
| On 24 June 2016 | (i) | 430,172 | 4,302 | 49,556 | 53,858 |
| At 31 August 2016 | | 17,764,578 | 177,646 | 2,590,267 | 2,767,913 |
| On 9 December 2016 | (ii) | 1,136,842 | 11,368 | 5,388,631 | 5,399,999 |
| On 9 December 2016 | (iii) | | | (393,478) | (393,478) |
| On 28 December 2016 | (iv) | 210,526 | 2,105 | 997,893 | 999,998 |
| On 28 December 2016 | (v) | | | (4,048) | (4,048) |
| At 31 August 2017 | | 19,111,946 | 191,119 | 8,579,265 | 8,770,384 |

(i) On 24 June 2016, a total of 430,172 share options were exercised of £0.01 each for £0.1252.

(ii) On 9 December 2016, a total of 1,136,842 new ordinary shares were placed of £0.01 each for £4.75.

(iii) Costs of £393,478 associated with the Placing on 9 December 2016 were incurred.

(iv) On 28 December 2016, a total of 210,526 new ordinary shares were admitted to trading on AIM following the issue of Offer shares.

(v) Costs of £4,048 associated with the Offer in 28 December 2016 were incurred.

## 17. Deferred tax

| | 2017 £ | 2016 £ |
|---|---|---|
| At 1 September | 118,946 | (48,548) |
| Recognised in profit or loss: | | |
| In respect of accelerated capital allowances | 72,307 | 16,811 |
| In respect of deferred tax on share options | (339,393) | (17,704) |
| Deferred tax on share options recognised in equity | – | 168,387 |
| At 31 August | (148,140 | 118,946 |

The deferred tax liabilities are attributable to:

| | 2017 £ | 2016 £ |
|---|---|---|
| Accelerated capital allowances | 191,253 | 136,650 |
| Deferred tax on share options | (339,393) | (17,704) |
| | (148,140) | 118,946 |

## 18. Trade and other payables and accruals

| | 2017 £ | 2016 £ |
|---|---|---|
| Trade payables | 1,532,313 | 828,239 |
| Payments in advance | 516,163 | 517,264 |
| Social security and other taxes | 114,660 | 91,080 |
| Other payables and accruals, including contract liabilities (note 26) | 4,788,667 | 2,172,279 |
| | 6,951,803 | 3,608,862 |

Payments in advance relate to contractual revenue billed in advance and the income to be recognised upon delivery of goods and completion of services.

## 19. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The overall financial risk management policy focuses on mitigating the potential adverse effects on the Group's financial performance, through the use of forward contracts.

### (a) Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:

#### (i) Market risk

(i) *Foreign currency risk*

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the Great Britain Pound. The currencies giving rise to this risk are primarily the Euro and United States Dollar. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

## 19. Financial instruments (continued)

### (a) Financial risk management policies (continued)

#### (i) Market risk (continued)

(i) *Foreign currency risk (continued)*

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital expenditure, operational expenditure and debt service requirements in the respective currencies.

Where appropriate the Group has also utilised derivative financial instruments in the form of forward contracts to sell currency in respect of sales denominated in currencies other than Great Britain Pound.

The Group's exposure to foreign currency is as follows: -

| | Great Britain Pound £ | Euro £ | United States Dollar £ | Japan Yen £ | Chinese RMB £ | Total £ |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Financial assets** | | | | | | |
| Trade receivables | 4,921,481 | 1,892,235 | 143,453 | – | 158,182 | 7,115,351 |
| Construction contract receivables | 1,231,550 | – | 393,144 | – | 50,814 | 1,675,508 |
| Other receivables | 868,806 | – | – | – | – | 868,806 |
| Cash and bank balances | 9,175,451 | 263,652 | 29,965 | 2,636 | 147,641 | 9,619,345 |
| | 16,197,288 | 2,155,887 | 566,562 | 2,636 | 356,637 | 19,279,010 |
| **Financial liabilities** | | | | | | |
| Trade payables | 1,034,267 | 177,140 | 289,179 | 31,727 | – | 1,532,313 |
| Other payables and accruals | 3,992,962 | – | – | – | – | 3,992,962 |
| Construction contract payments on account | 378,408 | – | 105,205 | – | 32,550 | 516,163 |
| | 5,405,637 | 177,140 | 394,384 | 31,727 | 32,550 | 6,041,438 |
| Net financial assets | | | | | | 13,237,572 |
| Less: Net financial assets denominated in the functional currency | | | | | | 10,791,651 |
| **Currency exposure** | | | | | | 2,445,921 |

## 19. Financial instruments (continued)

### (a) Financial risk management policies (continued)

#### (i) Market risk (continued)

(i) *Foreign currency risk (continued)*

The Group's exposure to foreign currency is as follows:

| | Great Britain Pound £ | Euro £ | United States Dollar £ | Japan Yen £ | Chinese RMB £ | Total £ |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Financial assets** | | | | | | |
| Trade receivables | 2,469,074 | 33,206 | 99,577 | – | – | 2,601,857 |
| Contract assets | 610,245 | – | – | – | 675,677 | 1,285,922 |
| Other receivables | 339,475 | – | – | – | – | 339,475 |
| Cash and bank balances | 9,646,713 | 366,047 | 65,864 | 67,444 | 258,455 | 10,404,523 |
| | 13,065,507 | 399,253 | 165,441 | 67,444 | 934,132 | 14,631,777 |
| **Financial liabilities** | | | | | | |
| Trade payables | 649,242 | 73,934 | 50,845 | 9,178 | – | 828,239 |
| Other payables and accruals | 1,337,933 | – | – | – | – | 1,337,933 |
| Construction contract payments on account | 285,788 | 44,210 | 131,489 | 16,111 | 39,666 | 517,264 |
| | 2,272,963 | 118,144 | 182,334 | 25,289 | 39,666 | 2,683,436 |
| Net financial assets | | | | | | 11,948,341 |
| Less: Net financial assets denominated in the functional currency | | | | | | 10,792,544 |
| **Currency exposure** | | | | | | 1,155,797 |

The Group seeks to offset foreign currency risk exposure by way of forward exchange contracts.

The consolidated statement of comprehensive income would be affected by a gain/loss of approximately £17k (2016 – £2k) by a reasonable 10 percentage point fluctuation down/up in the exchange rate between sterling and the US dollar, a gain/loss of approximately £198k (2016 – £28k) by a reasonable 10 percentage point fluctuation down/up in the exchange rate between sterling and the Euro, a gain/loss of approximately £3k (2016 – £4k) by a reasonable 10 percentage point fluctuation down/up in the exchange rate between sterling and the Japanese Yen and a gain/loss of approximately £32k (2016 – £89k) by a reasonable 10 percentage point fluctuation down/up in the exchange rate between sterling and the Chinese RMB.

(ii) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets being interest bearing bank deposits. The Group's policy is to obtain the most favourable interest rates available whilst ensuring that cash is deposited with a financial institution with a credit rating of "AA" or better. Any surplus funds are placed with licensed financial institutions to generate interest income.

Interest rate risk sensitivity analysis

A 100 basis points strengthening/weakening of the interest rate as at the end of the reporting period would have immaterial impact on profit after taxation and equity. This assumes that all other variables remain constant.

**19. Financial instruments (continued)**

**(a) Financial risk management policies (continued)**

**(i) Market risk (continued)**

(iii) *Equity price risk*

The Group does not have any quoted investments and hence is not exposed to equity price risk.

**(ii) Credit risk**

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group seeks to minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures. Impairment is estimated by management based on prior experience and the current economic environment.

Credit risk concentration profile

The Group's major concentration of credit risk at 31 August 2017 relates to the amounts owing by three customers which constituted approximately 45% of its trade receivables as at the end of the reporting period.

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:

| | 2017<br>£ | 2016<br>£ |
|---|---:|---:|
| United States | 1,390,707 | 448,218 |
| United Kingdom | 559,943 | 95,136 |
| Europe | 2,917,059 | 539,493 |
| Rest of the World | 2,247,642 | 1,519,010 |
| | 7,115,351 | 2,601,857 |

## 19. Financial instruments (continued)

### (a) Financial risk management policies (continued)

#### (ii) Credit risk (continued)

Ageing analysis

The ageing analysis of the Group's trade receivables as at each of the two years ended 31 August 2017 is as follows:

| | Gross amount £ | Individual impairment £ | Carrying value £ |
|---|---|---|---|
| **2017** | | | |
| Not past due | 3,503,178 | – | 3,503,178 |
| Past due: | | | |
| – less than 3 months | 3,325,162 | – | 3,325,162 |
| – 3 to 6 months | 294,293 | 7,282 | 287,011 |
| | 7,122,633 | 7,282 | 7,115,351 |
| **2016** | | | |
| Not past due | 1,057,752 | – | 1,057,752 |
| Past due: | | | |
| – less than 3 months | 1,329,651 | – | 1,329,651 |
| – 3 to 6 months | 221,736 | 7,282 | 214,454 |
| | 2,609,139 | 7,282 | 2,601,857 |

At the end of the reporting period, trade receivables that are individually impaired were those in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

*Trade receivables that are past due but not impaired*

The Group believes that no impairment allowance is necessary in respect of these trade receivables. They are substantially companies with good collection track record and no recent history of default.

#### (iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

**As at 31 August 2017**

| | Less than 1 month £ | Less than 3 months £ | 3 to 12 months £ | Total £ |
|---|---|---|---|---|
| Trade and other payables | 4,073,468 | 1,311,868 | 1,451,807 | 6,837,143 |
| | 4,073,468 | 1,311,868 | 1,451,807 | 6,837,143 |

## 19. Financial instruments (continued)

### (a) Financial risk management policies (continued)

#### (iii) Liquidity risk (continued)

This compares to the maturity of the Group's financial liabilities in the previous reporting periods as follows:

**As at 31 August 2016**

| | Less than 1 month £ | Less than 3 months £ | 3 to 12 months £ | Total £ |
|---|---|---|---|---|
| Trade and other payables | 1,074,169 | 1,164,237 | 1,279,376 | 3,517,782 |
| Derivative financial instruments | – | 55,300 | 35,134 | 90,434 |
| | 1,074,169 | 1,219,537 | 1,314,510 | 3,608,216 |

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

### (b) Capital risk management

Capital is defined as the total equity of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages its capital based on debt-to-equity ratio. The strategies adopted were unchanged during the period under review and from those adopted in the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents.

At 31 August 2017, the Group's cash resources exceed its total debt. The Company hence has no net debt.

### (c) Classification of financial instruments

All financial instruments are categorised as follows.

| | 2017 £ | 2016 £ |
|---|---|---|
| **Loans and receivables** | | |
| Trade receivables | 7,115,351 | 2,601,857 |
| Contract assets | 1,675,508 | 1,285,922 |
| Other receivables | 868,806 | 339,475 |
| Cash and bank balances | 9,619,345 | 10,404,523 |
| **Financial assets at fair value through profit or loss** | | |
| Derivative financial instruments | – | – |
| | 19,279,010 | 14,631,777 |
| **Financial liabilities held at amortised cost** | | |
| Trade and accruals and other payables, including contract liabilities | 5,525,275 | 2,337,944 |
| Construction contract payments on account | 516,163 | 517,264 |
| **Financial assets at fair value through profit or loss** | | |
| Derivative financial instruments | – | 90,434 |
| | 6,041,438 | 2,945,642 |

**19. Financial instruments (continued)**

**(d) Fair value hierarchy**

The fair values of the financial assets and liabilities are analysed into level 1 to 3 as follows: -

Level 1: Fair value measurements derive from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements derive from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value measurements derive from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only financial instruments carried at fair values were foreign currency forward contracts being derivative financial instruments falling within Level 2 and valued based on discounted cash flow. The future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. The carrying value of all other financial instruments approximates their fair value.

**20. Contingent liabilities**

As described in the strategic report, one of the risks the group faces is in respect of legal proceedings, with or without merit, arising from time to time in the course of the Group's business, including in connection with intellectual property rights. As at 31 August 2017, the group is in receipt of one assertion of rights in connection with certain of its intellectual property. There is no formal dispute or litigation at present and no provision has been made in respect of this matter.

**21. Lease commitments**

The Group had total commitments at the end of each financial year in respect of non-cancellable operating leases of:

| | **2017** | **2016** |
|---|---|---|
| | **£** | **£** |
| Property leases | | |
| Payable within one year | 143,079 | 138,558 |
| Payable within 2-5 years | 170,233 | 224,342 |
| | 313,312 | 362,900 |

**22. Related party disclosures**

Mr. A. Best, a director of the company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £48,000 (*2016 – £38,833*) were made in the year. No amounts were due to or from the trust at any year end.

Balances and transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed in this note.

The remuneration of the key management personnel of the Group is set out in the Directors' report on page 19.

During the year, the directors received dividends from the Company totalling £217,633.

**23. Share options and warrants**

The share option schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The share option schemes are administered by the Remuneration Committee.

## 23. Share options and warrants (continued)

The share option scheme adopted by the company during the year ending 31 August 2016 is equity settled and a charge of £1,464,817 (*2016: £268,550*) has been charged to profit or loss relating to these options.

These fair values were calculated using Black Scholes option pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Stock price | 395p |
| Exercise price | 395p |
| Interest rate | 1% |
| Volatility | 40% |
| Time to maturity | 10 years |

The expected volatility was determined with reference to recent trading performance.

One third of the options will vest on each of the first, second and third anniversary of the grant date of 11 July 2016 subject to the employees remaining employed by the company.

Details of the share options outstanding at the year-end are as follows:

| | **Number 31 August 2017** | **WAEP (pence) 31 August 2017** | **Number 31 August 2016** | **WAEP (pence) 31 August 2016** |
|---|---|---|---|---|
| Outstanding as at 1 September | 1,337,122 | 395.00 | 438,239 | 12.52 |
| Granted during the year | – | – | 1,337,122 | 395.00 |
| Forfeited during the year | – | – | (8,067) | 12.52 |
| Expired during the year | – | – | – | – |
| Exercised during the year | – | – | (430,172) | 12.52 |
| Options outstanding at 31 August | 1,337,122 | 395.00 | 1,337,122 | 395.00 |
| Exercisable at 31 August | – | – | – | – |

The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 8.8 years.

The aggregate of the estimated fair value of the options granted during the prior period was £2,636,671.

*Warrants*

There are no warrants outstanding at 31 August 2017.

## 24. Ultimate controlling party

There is no ultimate controlling party.

## 25. Capital commitments

At 31 August 2017 the Group had capital commitments as follows:

| | **2017 £** | **2016 £** |
|---|---|---|
| Contracted but not provided in these financial statements | 2,449,272 | 7,992,829 |
| | 2,449,272 | 7,992,829 |

## 26. Adoption of IFRS 15 and change in accounting policy

The group has elected to early adopt IFRS 15 ‘Contracts with Customers’ with effect from 1 September 2016. The revenue recognition policy as detailed in note 2c sets out the basis for how revenue is recognised in accordance with IFRS 15.

The impact of the change in accounting policy as a result of the early adoption of IFRS 15 if the group had restated the financial position at 31 August 2016, and accordingly the adjustment to opening equity, is as follows:

| Financial statement item | As previously reported | Accounting adjustments | As restated |
|---|---|---|---|
| Work in progress | £824,211 | £235,687 | £1,059,898 |
| Accruals and deferred income | £2,172,279 | £314,249 | £2,486,528 |
| Taxation | – | £15,712 | £15,712 |

The following summary consolidated statements of financial position and comprehensive income summarise the impact of adopting IFRS 15 on the Group for the year ended 31 August 2017:

**Consolidated statement of comprehensive income**

| | Year ended 31 August 2017 as reported £ | Adjustments 2017 £ | Balances without adoption of IFRS 15 £ |
|---|---|---|---|
| Revenue | 24,570,050 | 1,286,390 | 25,856,440 |
| Cost of sales | (16,654,153) | (977,656) | (17,631,809) |
| Gross profit | 7,915,897 | 308,734 | 8,224,631 |
| Administrative expenses | (1,985,069) | – | (1,985,069) |
| Fair value loss in respect of foreign currency forward contracts | (59,241) | – | (59,241) |
| **Operating profit before Share based payment costs** | **5,871,587** | **308,734** | **6,180,321** |
| Share based payment costs | (1,464,817) | – | (1,464,817) |
| **Operating profit** | **4,406,770** | **308,734** | **4,715,504** |
| Finance income | 65,257 | – | 65,257 |
| **Profit before taxation** | **4,472,027** | **308,734** | **4,780,761** |
| Corporation tax expense | (569,286) | (60,450) | (629,736) |
| **Profit after taxation** | **3,902,741** | **248,284** | **4,151,025** |

**Consolidated statement of financial position**

| | 31 August 2017 as reported £ | Adjustments 2017 £ | Balances without adoption of IFRS 15 £ |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10,464,904 | | 10,464,904 |
| Deferred tax assets | 148,140 | | 148,140 |
| | 10,613,044 | | 10,613,044 |
| **CURRENT ASSETS** | | | |
| Inventories | 4,959,435 | (977,656) | 3,981,779 |
| Trade receivables | 7,115,351 | | 7,115,351 |
| Other receivables, deposits and prepayments | 1,536,134 | | 1,536,134 |
| Amount owing by contract customers | 1,675,508 | | 1,675,508 |
| Derivative financial instruments | – | | – |
| Taxation | – | | – |
| Cash and cash equivalents | 9,619,345 | | 9,619,345 |
| | 24,905,773 | (977,656) | 23,928,117 |
| **TOTAL ASSETS** | 35,518,817 | (977,656) | 34,541,161 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 191,119 | | 191,119 |
| Share premium | 8,579,265 | | 8,579,265 |
| Reconstruction reserve | (11,284,500) | | (11,284,500) |
| Merger relief reserve | 11,390,000 | | 11,390,000 |
| Retained profits | 19,370,938 | 248,284 | 19,619,222 |
| Total equity attributable to owners of the Company and total equity | 28,246,822 | 248,284 | 28,495,106 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | – | | – |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables and accruals | 6,951,803 | (1,286,390) | 5,665,413 |
| Provision for taxation | 320,192 | 60,450 | 380,642 |
| Derivative financial instruments | – | | |
| | 7,271,995 | (1,225,940) | 6,046,055 |
| **TOTAL LIABILITIES** | 7,271,995 | (1,225,940) | 6,046,055 |
| **TOTAL EQUITY AND LIABILITIES** | 35,518,817 | (977,656) | 34,541,161 |

**Contract balances**

At 31 August 2017, the group had the following customer contract related assets and liabilities:

*Contract assets:*

| | Accrued income |
|---|---|
| Opening balance at 1 September 2016 | £1,285,922 |
| Closing balance at 31 August 2017 | £1,675,508 |

The increase in contract assets is the result of the stage of completion of primarily one contract.

Within the figure of £1,675,508 is a balance of £1,231,550 for a customer whereby £184,400 has been invoiced yet £1,415,950 of expenditure has been allocated.

In September 2017 80% of the contract was invoiced (£1,475,200) which has resulted in a contract liability in the month.

*Contract liabilities:*

| | Deferred income |
|---|---|
| Opening balance at 1 September 2016 | £314,249 |
| Closing balance at 31 August 2017 | £2,048,550 |

The significant increase of deferred income principally relates to a marked increase in the volume of track testing systems in progress as at 31 August 2017 where payments received on account are deferred until the goods have been delivered to the customer. Within this figure is £0.35m relating to support and warranty and is recognised over the period to which these obligations are performed.

**Performance obligations**

The performance obligations in relation to the contracts with its customers are as follows:

*Laboratory test systems*

The long term construction contracts are in relation to the laboratory test systems which are highly customised items which typically take more than 12 months to construct and supply these systems to the customers. In the judgement of management, the group satisfies the performance obligations under these contracts over time. The key determination of this judgement was that the company's performance does not create an asset with alternative use to the company and that the company has an enforceable right to payment for performance completed to date. Payment for these construction contracts is accordance with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. The majority of contracts are expected to result in contract liability balances. These balances arise as these contracts typically provide for an up-front deposit and other payments through the course of the contract.

The consideration for these contracts is agreed in advance between the company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management have consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

**Performance obligations (continued)**

*Track testing systems*

The contracts in relation to the sale of track testing systems are in relation to the robotic systems which typically take less than 12 months to construct and supply these systems to the customers. In the judgement of management, due to the lower level of customisation required to these items, the relative cost and time required to construct the systems, the group satisfies the performance obligations under these contracts on delivery to the customer. In making this determination, management have considered when customer has obtained control of this system, and the principal indicator of this was when the customer has physical possession. Payment for these construction contracts is accordance with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. A typical contract may include a 30% deposit, which is recorded as a contract liability until such time as the performance obligation is met. The consideration for these contracts is agreed in advance between the company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management have consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

Remaining performance obligations as at 31 August 2017.

As at 31 August 2017, the aggregate amount of the transaction price on open contracts which is allocated to performance obligations that are unsatisfied (or partially unsatisfied) was as follows:

| | **Laboratory test systems** | **Track testing systems** |
|---|---:|---:|
| Unsatisfied performance obligations | £1,276,031 | £10,940,046 |
| Partially unsatisfied performance obligations | £664,789 | £1,906,226 |

The revenue on outstanding performance obligations at 31 August 2017 on the track testing systems will be recognised on delivery of these items, alongside the associated cost of sales, in the following financial year.

The revenue on outstanding performance obligations at 31 August 2017 on laboratory test systems will be recognised over time alongside the associated cost of sales, in the following financial year. The typical length of time for these construction projects is 18-24 months.

No practical expedients have been applied on transition to IFRS 15.

**Assets recognised from costs to obtain or fulfil customer contracts**

No amounts have been recognised in relation to these categories of assets as at 31 August 2017.

**Company statement of financial position**

| | Note | 2017 £ | 2016 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 3 | 1,932,106 | 467,289 |
| **Current assets** | | | |
| Other debtors | 4 | 9,743,437 | 3,638,084 |
| | | 9,743,437 | 3,638,084 |
| **Creditors: amounts falling due within one year** | 5 | 15,600 | 15,600 |
| **Net current assets** | | 9,727,837 | 3,622,484 |
| **Total assets less current liabilities** | | 11,659,943 | 4,089,773 |
| **Capital and reserves** | | | |
| Called up share capital | | 191,119 | 177,646 |
| Share premium account | | 8,579,265 | 2,590,267 |
| Profit and loss account | | 2,889,559 | 1,321,860 |
| **Equity – attributable to the owners of the parent** | | 11,659,943 | 4,089,773 |

The profit for the financial year dealt with in the financial statements of the parent company was £679,687 (*2016 – £691,548*).

Tim Rogers
Director

Robert Hart
Director

COMPANY REGISTRATION NUMBER: 08393914

**Company statement of changes in equity**

| | Note | Share capital £ | Share premium £ | Retained profits £ | Total equity £ |
|---|---|---|---|---|---|
| Balance at 1 September 2015 | | 173,344 | 2,540,711 | 852,670 | 3,566,725 |
| Share based payment expense | | | | 273,405 | 273,405 |
| Profit after taxation and total comprehensive income for the financial year | | | | 691,548 | 691,548 |
| Dividend paid | 7 | | | (495,763) | (495,763) |
| Issue of shares, net of share issue costs | | 4,302 | 49,556 | | 53,858 |
| Balance at 31 August 2016 | | 177,646 | 2,590,267 | 1,321,860 | 4,089,773 |
| Balance at 1 September 2016 | | 177,646 | 2,590,267 | 1,321,860 | 4,089,773 |
| Share based payment expense | | | | 1,464,817 | 1,464,817 |
| Profit after taxation and total comprehensive income for the financial year | | | | 679,687 | 679,687 |
| Dividend paid | 7 | | | (576,805) | (576,805) |
| Issue of shares, net of share issue costs | | 13,473 | 5,988,998 | | 6,002,471 |
| Balance at 31 August 2017 | | 191,119 | 8,579,265 | 2,889,559 | 11,659,943 |

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

Retained profits represent the cumulative value of the profits not distributed to shareholders, but retained to finance the future capital requirements of the Group.

**Notes to the Company financial statements**

**GENERAL INFORMATION**

AB Dynamics Plc ("the Company") is the UK holding company of a group of companies which are engaged in the provision of advanced testing systems to the global motor industry. The company is registered in England and Wales (registered number 08393914). Its registered office and principal place of business is AB Dynamics plc, Middleton Drive, Bradford on Avon. Wiltshire, BA15 1GB.

**BASIS OF ACCOUNTING**

The financial statements have been prepared in accordance with the historical cost convention and in accordance with FRS 102 – The Financial Reporting Standard applicable in the UK and Republic or Ireland and the Companies Act 2006. The financial statements present information about the company as an individual entity and the principal accounting policies are described below. They have all been applied consistently throughout the period.

**REDUCED DISCLOSURE EXEMPTIONS**

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS102 paragraph 1.12 as follows:

No cash flow statement has been presented as the company is included within the consolidated financial statements of the group.

Disclosures in respect of the company's financial instruments have not been presented as equivalent disclosures are included in the consolidated financial statements of the group.

Related party transactions have not been disclosed with other wholly owned members of the group.

**GOING CONCERN**

At 31 August 2017, the Company had net current assets of £9,727,837 (*2016 – £3,622,484*) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Ltd, amounting to £9,716,403 (*2016 – £3,629,642*). The Company has assessed its ongoing costs with cash generated by its subsidiary to ensure that it can continue to settle its debts as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

**INVESTMENTS**

Investments held as fixed assets are stated at cost less provision for impairment.

**TAXATION**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**FINANCIAL INSTRUMENTS**

Financial assets and liabilities are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

*Debtors*

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

*Creditors*

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company’s accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the Financial statements:

*Share based payment*

The fair value of share-based remuneration is determined at the date of grant and recognised as a capital contribution to its subsidiary on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

## 1. PROFIT FOR THE FINANCIAL YEAR

The company has taken advantage of section 408 of the Companies Act 2006 and, consequently, a profit and loss account for the company alone has not been presented.

The company's profit for the financial year was £679,687 (2016 – £691,548).

The company's profit for the financial year has been arrived at after charging auditor's remuneration payable to Crowe Clark Whitehill LLP for audit services to the company of £18,600 (2016 – £17,115). Statutory information on remuneration for other services provided by the company's auditors and its associates is given on a consolidated basis in note 5 of the consolidated financial statements.

## 2. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the year by the Company were as follows:

| | 2017 £ | 2016 £ |
|---|---|---|
| Non-executive director's fees | 68,536 | 66,092 |
| | 68,536 | 66,092 |

The executive management team is remunerated by the operating subsidiary Anthony Best Dynamics Limited. Details of their remuneration is in the Directors' report on page 46.

The average number of employees of the company during the year was:

| | 2017 Number | 2016 Number |
|---|---|---|
| Directors and management | 5 | 5 |

## 3. INVESTMENTS

| | 2017 £ | 2016 £ |
|---|---|---|
| **Subsidiary undertaking** | | |
| Brought forward | 467,289 | 193,884 |
| Addition (capital contribution arising on share based payment) | 1,464,817 | 273,405 |
| Carried forward | 1,932,106 | 467,289 |

The company owns more than 20% of the following undertakings which are incorporated in the United Kingdom:

| | Class of share held | % shareholding | Registered office |
|---|---|---|---|
| **Subsidiary undertaking:** | | | |
| Anthony Best Dynamics Limited | Ordinary | 100 | Bradford on Avon, Wiltshire |

Anthony Best Dynamics Ltd owns 100% of the ordinary share capital of AB Dynamics 2013 Ltd which is dormant.

## 4. OTHER DEBTORS

| | 2017 £ | 2016 £ |
|---|---|---|
| Amounts owed by group undertakings | 9,716,403 | 3,629,642 |
| Prepayment | 27,034 | 8,442 |
| | 9,743,437 | 3,638,084 |

## 5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2017 £ | 2016 £ |
|---|---|---|
| Accruals | 15,600 | 20,225 |
| | 15,600 | 20,225 |

All amounts fall due within 30 days of the year end.

## 6. SHARE CAPITAL

The allotted, called up and full paid share capital is made up of 19,111,946 ordinary shares of £0.01 each.

| | Note | Number of shares | Share Capital £ | Share Premium £ | Total £ |
|---|---|---|---|---|---|
| At 1 September 2015 | | 17,334,406 | 173,344 | 2,540,711 | 2,714,055 |
| On 24 June 2016 | (i) | 430,172 | 4,302 | 49,556 | 53,858 |
| At 31 August 2016 | | 17,764,578 | 177,646 | 2,590,267 | 2,767,913 |
| On 9 December 2016 | (ii) | 1,136,842 | 11,368 | 5,388,631 | 5,399,999 |
| On 9 December 2016 | (iii) | | | (393,478) | (393,478) |
| On 28 December 2016 | (iv) | 210,526 | 2,105 | 997,893 | 999,998 |
| On 28 December 2016 | (v) | | | (4,048) | (4,048) |
| At 31 August 2017 | | 19,111,946 | 191,119 | 8,579,265 | 8,770,384 |

(i) On 24 June 2016, a total of 430,172 share options were exercised of £0.01 each for £0.1252.

(ii) On 9 December 2016, a total of 1,136,842 new ordinary shares were placed of £0.01 each for £4.75.

(iii) Costs of £393,478 associated with the Placing on 9 December 2016 were incurred.

(iv) On 28 December 2016, a total of 210,526 new ordinary shares were admitted to trading on AIM following the issue of Offer shares.

(v) Costs of £4,048 associated with the Offer in 28 December 2016 were incurred.

## 7. DIVIDENDS

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Final 2015 dividend paid of £0.0165 per share | – | 286,017 |
| Interim dividend paid of £0.0121 per share | – | 209,746 |
| Final 2016 dividend paid of £0.01815 per share | 322,426 | – |
| Interim dividend paid of £0.01331 per share | 254,379 | – |
| | 576,805 | 495,763 |

The Board has proposed a final dividend of 2.00p per share totalling £382,239. Together with the interim dividend of 1.331p per share this gives a total Ordinary dividend of 3.331p for the year.

## 8. RELATED PARTY TRANSACTIONS

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in the Director's Report on page 21 of the consolidated financial statements.

During the year, the directors received dividends from the Company totalling £217,633.

## 9. SHARE OPTIONS AND WARRANTS

The share option schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The share option schemes are administered by the Remuneration Committee.

The share option scheme adopted by the company during the year ending 31 August 2016 is equity settled and a charge of £1,464,817 (*2016: £268,550*) has been charged to profit or loss of the subsidiary Anthony Best Dynamics Limited relating to these options on the basis that the scheme members and profits are in that entity.

These fair values were calculated using Black Scholes option pricing model. The inputs into the model were as follows:

| | |
|---|---|
| Stock price | 395p |
| Exercise price | 395p |
| Interest rate | 1% |
| Volatility | 40% |
| Time to maturity | 10 years |

The expected volatility was determined with reference to recent trading performance.

One third of the options will vest on each of the first, second and third anniversary of the grant date of 11 July 2016 subject to the employees remaining employed by the company.

## 10. SHARE OPTIONS AND WARRANTS (continued)

Details of the share options outstanding at the year end are as follows:

| | Number 31 August 2017 | WAEP (pence) 31 August 2017 | Number 31 August 2016 | WAEP (pence) 31 August 2016 |
|---|---|---|---|---|
| Outstanding as at 1 September | 1,337,122 | 395.00 | 438,239 | 12.52 |
| Granted during the year | – | – | 1,337,122 | 395.00 |
| Forfeited during the year | – | – | (8,067) | 12.52 |
| Expired during the year | – | – | – | – |
| Exercised during the year | – | – | (430,172) | 12.52 |
| Options outstanding at 31 August | 1,337,122 | 395.00 | 1,337,122 | 395.00 |
| Exercisable at 31 August | 445,731 | 395.00 | – | – |

The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 8.8 years.

The aggregate of the estimated fair value of the options granted during the prior period was £2,636,671.

*Warrants*

There are no warrants outstanding at 31 August 2017.

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AB Dynamics plc
Holt Road
Bradford on Avon
Wiltshire BA15 1AJ

T: +44 (0)1225 860 200
F: +44 (0)1225 860 201
E: info@abd.uk.com
www.abd.uk.com

Stock code: ABDP