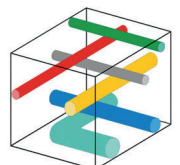




inspiring  
**innovation**  
creating  
**success**

**PipeHawk plc**  
REPORT & ACCOUNTS  
**2019**



**PipeHawk plc**  
Underground Intelligence

PipeHawk plc is a dynamic business offering advanced engineering solutions to challenging technical requirements across many industries.

We are the global market leader in ground probing radar technology with many applications including civil engineering and land mine detection. Our technology provides a superior detection of hidden underground objects and features, dramatically reducing risk, improving safety and saving substantial time and money during identification and excavation.

Adien Limited is a leader in the field of utility detection and mapping. Its survey teams provide information that is critical in the design processes of almost all construction projects that involve breaking the ground.

QM Systems is a market leader in providing solutions and services for electronic system design and manufacture, test equipment, transfer systems and automation and assembly solutions to the automotive, aerospace, rail and other related industries. It specialises in providing full turnkey solutions for any automated assembly process.

Thomson Engineering Design produces an unparalleled range of machines, attachments and tools for railway track renewal and maintenance across the globe.

Wessex Precision Instruments is a leading manufacturer and service provider of specialist equipment to test the skid resistance characteristics of vehicle and pedestrian surfaces.

Powered by excellent people our reputation is built on exceeding our customers' expectations in delivering innovative, cost effective quality solutions in all aspects of our business.

Through our energetic, innovative and dynamic approach together with our significant investment in R&D we will continue to strengthen our market leading positions.

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<b>Directors</b>	<b>Gordon G Watt</b> (Executive Chairman) <b>Soumitra P Padmanathan</b> (Finance Director) <b>Robert Randal MacDonnell</b> (Non-Executive)
<b>Secretary</b>	<b>Soumitra P Padmanathan</b>
<b>Nominated Adviser and Broker</b>	<b>Allenby Capital Limited</b> 5 St Helen's Place London EC3A 6AB
<b>Registered number</b>	<b>3995041</b>
<b>Registered office</b>	Manor Park Industrial Estate Wyndham Street Aldershot Hampshire GU12 4NZ
<b>Auditor</b>	<b>Crowe U.K. LLP</b> St Bride's House 10 Salisbury Square London EC4Y 8EH
<b>Solicitors</b>	<b>Gowling WLG</b> 4 More London Riverside London SE1 2AU

*“politicians faffing around has delayed orders”*

*“QM Systems great progress”*

*“new and innovative products”*

I can report that turnover for the year ended 30 June 2019 was £6.7 million (2018: £4.8 million), an increase of 39.6%. The Group made an operating profit in the year of £57,000 (2018: £408,000 loss) and a profit before taxation for the year of £12,000 (2018: £502,000 loss) and a profit after taxation of £312,000 (2018: £151,000 loss). The earnings per share for the year was 0.91p (2018: loss per share 0.45p).

The second half of the year benefitted from a pre tax profit of £129,000 as a one-off item in relation to the reduction of the amount of debt due to the vendors of Thomson Engineering Design.

The politicians faffing around with Brexit has undeniably had an effect on this year's results and to some extent continues to do so. However, UK business has generally had to move on, and delayed orders have eventually been placed such that we have had a very reasonable second half of the year. The unaudited results for the second six months of the year saw turnover of £3.8 million, a pre-tax profit of £176,000 and a post-tax profit of £300,000.

### **QM Systems**

QM Systems has made great progress this year and I am pleased to report an increase in sales achieved to approximately £4.5 million with a profit before tax and management charges of approximately £330,000, despite incurring significant recruitment fees as we increased our engineering resource pool. It is worth noting that during the second half of the financial year, QM Systems generated an unaudited revenue of approximately £2.6 million with a profit of approximately £229,000 indicating that the business is now running at a significantly higher revenue rate and profit margin. The increase in both turnover and profit during the second six months is a direct result of recruitment, throughout the 2018 calendar year, of engineering resource to our mechanical/software and manufacturing teams. Our overhead remained largely unaffected when compared to the previous year demonstrating that the business had been well prepared for the anticipated growth. In addition, closer project management on

each job has seen a marked improvement in profit margin retention across all projects compared to previous years.

Order intake for the period has been excellent with orders received of £5.6 million during the 2018/19 FY. We have carried over approximately £2.6 million of orders into our current financial year and the first three and a half months to date have seen a further order intake of £2.7 million. Quotation activity remains buoyant and we are expecting a number of further orders to land throughout the current financial year. It is encouraging to see that our new order intake is spread widely across current and new clients alike demonstrating that QM Systems maintains excellent client retention as well as attracting new clients, largely through reputation and word of mouth.

We have seen a real mix of orders awarded, with orders ranging in size from approximately £50,000 to well over £2 million. Orders have been awarded across a wide range of industrial sectors including Marine, Automotive, Retail, Rail, Petrochemical, Aerospace, Building Services and Food and Beverage. This demonstrates that QM Systems continues to actively expand its client base across multiple industries; continuing to build a robust and stable business model.

We have seen a number of service contracts established within 2018 and 2019 and we have now established a structured service division within QM Systems that we will continue to grow to create a continuous business stream. We have also seen, as expected, an increase in sales of the Test Interface System for one of our key clients in the Petrochemical industry. Our high end robotic vision system developed with a key partner within the aerospace industry has been completed and installed at our first client's facility, and is gaining a significant level of interest within the wider aerospace industry. We fully expect that this product will be sold into a number of locations globally over the next few years.

Progress on two of our larger projects with Penso and Cox Powertrain has been excellent with both projects currently undergoing commissioning and installation. Both projects are due for completion within the first half of this current financial year.

It is most reassuring to see that in the face of the material uncertainty that surrounds the current progress with Brexit, QM Systems has both returned to a good level of profitability and laid the foundations for ongoing future success.

## Thomson Engineering Design ("TED")

PipeHawk acquired TED in November 2017 and, following a slow start to the 2018/19 FY, the increase in TED's quotation activity has translated into orders placed resulting in a strong final six months of the period. Revenue realised for the year was £681,000, however £457,000 of this revenue was realised during the final six months of the financial year. TED contributed a post-tax profit to the Group of £4,000.

Order intake for the UK market has been mixed and slower than expected, in part due to the delayed release of Network Rail funding for larger infrastructure projects. Sales growth has been predominantly achieved through the expansion of international markets where distributors for France and the Asia Pacific Territories have been established. TED has also commenced trading within the Canadian Market.

Both quotations and order intake since the year end have been buoyant. In particular quotation activity has been very strong internationally and particularly outside of Europe, with a number of significant orders anticipated. Quotation activity has continued within Europe, however, given the material uncertainty that exists around Brexit, many clients are outwardly unwilling to commit orders until Brexit has been delivered and trading terms are clear.

The Group has supported TED with investment in new and innovative products. During the year TED completed the release of its brand new E-Clipper and Threader dragger products, together with a light

weight version of its 7 Sleeper Spreader. TED has achieved sales for all of these products with new and existing clients, with the E-Clipper and 7 Sleeper Spreader products seeing particularly strong interest. TED has also sold a number of the Mast Manipulator products both within the UK and abroad.

TED, with the support of the Group, is continuing to invest in the next range of innovative products which will further support the success already achieved with the existing products mentioned above.

The team at TED has worked hard to re-open doors with previous clients. This has resulted in success with four previous clients who had not worked with TED for some time. It seems the rail infrastructure industry is beginning to acknowledge TED's capability in providing cost effective ergonomic solutions to all manners of handling requirements. In particular, feedback following delivery of orders has been very positive indeed with a number of clients wishing to explore the other products or services that TED has to offer.

During the year the Company agreed a reduction of the amount of debt due to the vendors of TED to £71,000. The Company acquired TED with a debt due to vendors of TED amounting to £200,000, and so this reduction has added £129,000 to the Company's consolidated profits for the year ended 30 June 2019.

## Technology Division

New unit sales for 2018/19 financial year have remained broadly static in comparison to the previous year in terms of quantum. However, the markets in which those sales have been achieved has changed markedly, with Middle East & Asia now overtaking Europe for the first time, indicating the switch of focus away from EU countries is beginning to bear fruit.

Over the same time, the UK market has seen an increase in sales of upgrades, accessories and servicing, as customers working predominantly in the utilities sector continue to invest in existing equipment rather than renewals or fleet growth. To capitalise on this trend, marketing efforts

have lately shifted away from attendance at large "whole market" shows and events to smaller venues, offering greater focus on face-to-face meetings. R&D resources have also been committed to find new ways to extend servicing and maintenance regimes beyond home markets.

Over the same period our R&D efforts have also resulted in a number of improvements to hardware design which have delivered a measurable reduction in unit costs. Going forward, the cost reductions are expected to continue, as more of those improvements work through to production.

As access to EU based grant funding begins to close with the approach to Brexit, new opportunities are being sought for funding of next generation systems. A number of bespoke development avenues available through industry consortia are also being pursued.

## Adien

Adien's results were somewhat disappointing after a positive start to the year, undoubtedly affected by the failure to resolve Brexit one way or the other, which resulted in work scheduled for May and June 2019 being delayed until after the year end. Nevertheless, the strategy of consolidation and improvement has continued and Adien has recently secured a number of sole supplier frameworks for five years plus, principally in the power and defence sectors; these are expected to provide a steady income stream for the next 3 to 5 year period.

In addition, Adien is in the early stages of trialling a new service which will continue to build on the concept of providing a "one stop shop" to our key clients.

The levels of business activity since June 2019 have risen considerably despite the political issues that remain ongoing.

## Financial position

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

My letter of support dated 24 October 2018 was renewed on 7 October 2019 for a further year. Loans, other than those covered by the CULS agreement, are unsecured and accrue interest at an annual rate of Bank of England base rate plus 2.15%.

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

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

Historically, my fees and interest payable have been deferred. During the year under review, this amounted to £216,000. At 30 June 2019, these deferred fees and interest amounted to approximately £1.6 million in total, all of which have been recognised as a liability in the Company's accounts.

## Strategy & Outlook

The PipeHawk group remains committed to creating sustainable earnings-based growth and focusing on the expansion of its business with forward-looking products and services. One small such acquisition has been made since the year end in Wessex Precision Instruments Ltd, where I expect with synergies and cost savings an early return to its profitability. PipeHawk acts responsibly towards its shareholders, business partners, employees, society and the environment in each of its business areas.

PipeHawk is committed to technologies and products that unite the goals of customer value and sustainable development. All divisions of the Group are currently performing well and I remain optimistic in my outlook for the Group.

**Gordon Watt**

Chairman  
22 October 2019

## Financial results

Turnover for the year ended 30 June 2019 was £6.7 million (2018: £4.8 million). The Group achieved a profit after taxation for the year of £312,000 (2018: loss £151,000). The profit per share was 0.91p (2018: loss per share 0.47p). A detailed review of business as well as future developments is included in the Chairman's statement.

## Key performance indicators

The Group's key financial performance indicators are turnover and profit before tax and an analysis using these KPIs is included in the Chairman's statement. The primary non-financial KPI is the strength of the order book which is also discussed in the Chairman's statement.

## Principal risks and uncertainties

The principal risks and uncertainties facing the business are;

- the acceptance by end customers of its products – the Group mitigates this risk by sharing and getting sign off on the proposed solution and by ensuring open lines of communication such that any challenges are identified at an early stage and are resolved with the customer prior to delivery;
- competitive pressure on pricing and delivery timescales – this risk is mitigated by the high level of technological quality offered by the Group's solutions and its strong relationships with its key customers;
- technological changes – mitigated by continued investment in research and development;
- availability of sufficient working capital - the Group monitors cash flow as part of its day to day control procedures. The Board considers cash flow projections at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary;
- A key risk for the business is the continuing availability of the financial support arrangements provided by the Executive Chairman described in the Report of the Directors and in note 1, which have been extended for a further 12 months.

The Group's financial risks and policies to minimise these are set out in note 18.

## Current trading

Current trading is satisfactory and in line with the directors' expectations. The Strategic Report was approved by the Board on 22 October 2019 and signed on its behalf by:

**Soumitra P Padmanathan**

Finance Director

# Report of the Directors

The directors present the annual report on the affairs of the Group together with the financial statements for the year ended 30 June 2019

## Principal activities and review of business

The principal activities of the Group during the year were the development, assembly and sale of test system solutions and ground probing radar (GPR) equipment; the provision of GPR based services and the undertaking of complementary Research and Development assignments.

## Future developments

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement and the summary of significant accounting policies – "critical judgements in applying accounting policies and key sources of estimation uncertainty".

## Results and dividends

The results for the Group for the year are set out in the consolidated statement of comprehensive income on page 15. The directors do not recommend the payment of a dividend for the year (2018: nil).

## Subsequent events

See note 21 for details of the subsequent events.

## Directors

The directors who served during the year are set out below:

Gordon G Watt (Executive Chairman)  
Soumitra P Padmanathan (Finance Director)  
Robert Randal MacDonnell (Non-Executive)

The directors' beneficial interests in the share capital of the Company were as follows:

	30 June 2019		30 June 2018	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
G G Watt	5,721,500	16.6%	5,721,500	16.7%
R MacDonnell	931,436	2.7%	931,436	2.7%
S P Padmanathan	-	-	-	-

The directors are also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to individual option schemes as set out in note 6.

## Substantial share interests

Other than directors, the Company has been notified of the following persons being interested in more than 3% of the issued share capital of the Company at the date of this report.

	Ordinary Shares of 1p	% of issued share capital
S Hamilton	4,583,334	13.3%
P Lobbenberg	3,100,000	9.0%
R J Chignell	2,204,200	6.4%
P Snell	1,240,000	3.6%
J T Twigg	1,054,830	3.1%
N G Wood	1,054,830	3.1%

## Research and development

The Group continues to undertake research and development activities at its sites in Worcester and Aldershot. This will enable the Group to expand its activity in technology and innovation that will help us greatly in developing new products that will begin directly generating revenue in the future. The Group has undertaken research and development activities in the areas of ground probing radar and test & measurement related equipment.



## Auditor and disclosure of information to auditor

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

- (a) so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) each 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 auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

## Auditor

The reappointment of Crowe U.K. LLP will be proposed at the forthcoming Annual General Meeting, in accordance with section 489 of the Companies Act 2006.

## Financial instruments

Note 18 to the financial statements describes the policies and processes for managing the Company's capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk.

## Going concern

As described in the Chairman's report, the current economic environment is improving for the Group's trading subsidiaries in their respective markets as evidenced by healthy order books. However the directors consider that the outlook presents challenges in terms of sales volumes and in terms of bringing R&D developments to commercialisation. The directors have instituted measures to preserve cash and secure additional finance but these circumstances create uncertainties over future trading results and cashflows.

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

## Approval

The report of the directors was approved by the Board on 22 October 2019 and signed on its behalf by:

**Soumitra P Padmanathan**

Director

On 27 September 2018, the Company adopted the Corporate Governance Code (the "Code"), published by the Quoted Company Alliance (the "QCA"). The Company considers the principles within the Code to be best practice, subject to their appropriateness given the size of the Company and the composition of the Board. The following report summarises how the Company complies with the Code.

## Strategy and business model

The Company's business model and strategy is explained within the Chairman's Report, including a summary of the challenges in execution of the strategy and how the Company addresses such challenges.

## Directors

The Board currently comprises the executive chairman, Gordon Watt, one executive director, Soumitra Padmanathan and one non-executive director, Randal MacDonnell. Randal MacDonnell acts as Senior Independent Director. The Board does not comply with the requirement of the Code to have at least two non-executive directors, but the Board intends, at an appropriate time in the future when the Company is in a position to afford a further non-executive director, to make such an appointment. Although Randal MacDonnell has been a non-executive director since 2006, the Board still considers him to be independent. The Board also considers that Soumitra Padmanathan is independent.

Executive directors' normal retirement age is 70 and non-executive directors' normal retirement age is 75. Both executive and non-executive directors are subject to periodic reappointment by shareholders. The requirements of the Company's articles result in each director being reappointed every three years. The time commitment required from each Director varies in line with the operations of the business. Currently, this commitment is approximately 6 days per annum for Randal MacDonnell and 6 days per month for Soumitra Padmanathan.

For relevant experience, skills and personal qualities of the Directors see the Directors' Biographies section.

As described in the Directors biographies the Board believe the Directors have the correct skillset to deliver the strategy. In order to keep their skillset up to date the Directors read relevant publications from applicable professional bodies and attend relevant seminars when possible.

The Chairman has regular meetings with the managing directors and boards of the Group's subsidiary companies. The Chairman holds regular update meetings with each Director to ensure they are performing as they are required.

The ability of individual members and the board as a whole to deliver the Company strategy is reviewed annually in an exercise undertaken by the Chairman. Due to the Company's size and nature, the Board does not consider it necessary to establish a formal board evaluation process, but Board composition will be reviewed and refreshed again in 2020. During the year the Board, or its committees, have not sought advice on any significant matter. However, the Chairman and Board members can call on external advisers as the need arises.

## The Board and Committees

The full Board meets formally at least four times each year, during the year there were nine board meetings. Gordon Watt and Randal MacDonnell attended all meetings and Soumitra Padmanathan attended four meetings. There was one audit and one remuneration committee meeting during the year; all three directors attended each of these. There is a formal schedule of matters reserved for the Board's decision. All directors have access to the advice and services of the company secretary, who is also responsible for ensuring that Board procedures are followed. There is also a procedure in place for any director to take independent professional advice, if necessary, at the Company's expense.

The Board considers that, given the size and nature of the business, it is not beneficial to include a full audit committee report or a remuneration committee report in the annual report and accounts for the year ended 30 June 2019. This will be kept under annual review by the Board.

## Internal controls

The directors have overall responsibility for ensuring that the Group maintains a system of internal control, and for reviewing its effectiveness, to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which are designed to manage rather than eliminate risk and can provide reasonable but not absolute assurance against material misstatement or loss. The Board has undertaken an assessment of the major risk areas for the business and methods used to monitor and control them. In addition to financial risk, this covered operational, commercial, marketing and research and development risks. This risk review has become an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, with regular review by the Board.

The additional key procedures designed to provide an effective system of internal control are that:

- There is an organisational structure with clearly defined lines of responsibility and delegation of authority.
- Annual budgets are prepared and updated as necessary.
- Management accounts are prepared on a quarterly basis and compared to budgets and forecasts to identify any significant variances.
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities

The Board has considered it inappropriate to establish an internal audit function. However, this decision will be reviewed as the operations of the Group develop.

### **Identification of business risk**

Regular assessments of ongoing risks facing the business are undertaken as part of the regular Group management meetings in the key areas such as management of working capital, compliance, legal and operational issues. This risk management framework is applied to major initiatives such as acquisitions as well as operational risks within the business including operational health and safety risks. Further details on the principal risks and uncertainties to the Group can be found within the Strategic Report.

Through holding the ISO 9001, OHSAS 18001 and other quality standards, the Company ensures compliance with health and safety and other regulations.

### **Corporate Culture**

The Board and directors take a forward-looking, proactive approach to culture within the Group in order to achieve a level of discipline that aids management with its oversight of risks within the business. There are several values that are important to the Company including:

- promoting a culture of respect and tolerance: team members throughout the Group work well together across a broad range of projects; being a team player, honesty and straightforwardness with clients and suppliers and among employees are values that are highly regarded; and
- the importance of the individual: we recognise that the business would fail without the loyalty of our employees, so we encourage free-thinking and individuality in the workplace wherever possible.

These matters are considered as part of the annual performance evaluation of all employees and reported to the Board. This enables the Board to ensure the Company's corporate culture is being promoted amongst its employees.

## **Gordon Watt BA, FCA, FRSA**

Chairman (66)

Gordon is a chartered accountant having been a partner at RSM Robson Rhodes and then Finance Director/Deputy Chief Executive of British Bus Plc until it was sold to Arriva Plc. He is non-executive chairman of a number of private companies, he became a non-executive director of the Group in 1998, became finance director in December 2001 and Chairman in January 2003.

## **Soumitra P Padmanathan BSc, FCA, CTA**

Finance Director (55)

Soumitra (Mithi) was appointed as Group Finance Director on 11 April 2016. Having qualified with RSM Robson Rhodes, Mithi has gained extensive experience in several global multi-national businesses.

## **R Randal MacDonnell**

Non-executive Director (79)

Randal joined the Group in February 2006. He was previously a director of Kleinwort Benson Securities, Laing & Cruickshank Securities and Chase Manhattan Securities Limited. Prior to that he was a partner in stockbrokers Laurie Milbank & Co.

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

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 Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

They are further responsible for ensuring that the Strategic Report and the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the PipeHawk plc website is the responsibility of the directors; 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.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

## Opinion

We have audited the financial statements of Pipehawk Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2019, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2019;
- the Group and Parent Company statements of financial position as at 30 June 2019;
- the Group and Parent Company statements 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 financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2019 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## 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.

## Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which explains that the Group and Parent Company is reliant on the continued support of the Executive Chairman. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the ability of the Parent Company and the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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 £50,000, based on 0.75% of the Group's 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 Committee to report to it all identified errors in excess of £2,000. 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 subsidiaries are accounted for from one central operating location. Our audit was conducted from the central 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

### Key audit matter

Group – carrying value of goodwill

Parent Company – carrying value of investments in subsidiaries

The financial statements of Pipehawk Plc include goodwill of £1.2 million arising on the acquisition of Adien Limited, QM Systems Limited and Thomson Engineering Design Limited.

As required by IAS 38, goodwill is subject to an annual impairment review and the recoverable amount of goodwill is measured in accordance with IAS 36. There is a risk that the carrying value of goodwill in the Group financial statements and of investments in subsidiaries in the Parent Company financial statements are impaired.

Revenue recognition

The Group recognises revenue from different client contracts.

The revenue recognition policy varies depending on the underlying contract and could result in revenue being recognised at a point in time or on a percentage complete basis where certain conditions are met.

The transition to IFRS 15 and the application of the new accounting policy and therefore the recognition of revenue was considered to be a significant audit risk.

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.

### How the scope of our audit addressed the key audit matter

The Group prepares discounted cashflow forecasts to support both the carrying value of goodwill and the investment in subsidiaries in the Parent Company financial statements.

We evaluated the appropriateness of managements' identification of cash generating units. We performed testing of the mathematical accuracy of the cash flow models and challenged key assumptions in management's valuation models used to determine recoverable amount. We performed sensitivity analysis on the key assumptions and the discount rate used.

We assessed the appropriateness of the related disclosures in the financial statements

Our procedures included reviewing the Group's assessment of the impact of IFRS 15 on the revenue streams in the business and the accounting policies as modified to reflect the adoption of IFRS15.

We validated a sample of contracts to supporting documentation and agreed that revenue has been recognised in line with the Group's accounting policy.

Where revenue is recognised over time we challenged management on the contract budgeting process by analysing historical estimates of contract costs compared to actual outcomes.

We assessed the appropriateness of the related disclosures in the financial statements.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 11, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

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.

## Stephen Bullock

Senior Statutory Auditor

for and on behalf of

Crowe U.K. LLP

Chartered Accountants, Statutory Auditor

St Bride's House

10 Salisbury Square

London

EC4Y 8EH

United Kingdom

Date: 22 October 2019



# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	30 June 2019 £'000	30 June 2018 £'000
<b>Revenue</b>	2	6,680	4,789
Staff costs	5	(3,265)	(2,703)
Operating costs		(3,358)	(2,494)
<b>Operating profit/(loss)</b>	4	57	(408)
Sale of shares in joint venture		-	142
<b>Profit/(loss) before interest and taxation</b>		57	(266)
Finance costs	3	(45)	(236)
<b>Profit/(loss) before taxation</b>		12	(502)
Taxation	7	300	351
<b>Profit/(loss) for the year attributable to equity holders of the parent</b>		312	(151)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year attributable to equity holders of the parent		312	(151)
<b>Profit/(loss) per share (pence) – basic</b>	8	0.91	(0.45)
<b>Profit/(loss) per share (pence) – diluted</b>	8	0.72	(0.45)

The notes on pages 21 to 42 form an integral part of these financial statements

# Consolidated Statement of Financial Position

at 30 June 2019

Assets	Note	30 June 2019 £'000	30 June 2018 £'000
<b>Non-current assets</b>			
Property, plant and equipment	9	525	481
Goodwill	10	1,190	1,190
		<u>1,715</u>	<u>1,671</u>
<b>Current assets</b>			
Inventories	12	134	178
Current tax assets		315	372
Trade and other receivables	13	1,592	1,175
Cash and cash equivalents		774	19
		<u>2,815</u>	<u>1,744</u>
<b>Total assets</b>		<u>4,530</u>	<u>3,415</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	344	340
Share premium		5,205	5,191
Retained earnings		(8,896)	(9,208)
		<u>(3,347)</u>	<u>(3,677)</u>
<b>Non-current liabilities</b>			
Borrowings	14	2,661	2,966
Trade and other payables	15	3	8
		<u>2,664</u>	<u>2,974</u>
<b>Current liabilities</b>			
Trade and other payables	15	3,270	1,972
Borrowings	16	1,943	2,146
		<u>5,213</u>	<u>4,118</u>
<b>Total equity and liabilities</b>		<u>4,530</u>	<u>3,415</u>

The notes on pages 21 to 42 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 22 October 2019 and signed on its behalf by:

**Gordon G Watt**  
Director

**Company No: 3995041**

# Parent Company Statement of Financial Position

at 30 June 2019

Assets	Note	30 June 2019 £'000	30 June 2018 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	11	1,197	1,197
		1,197	1,197
<b>Current assets</b>			
Inventories	12	67	92
Current tax assets		50	86
Trade and other receivables	13	436	541
Cash and cash equivalents		2	-
		555	719
<b>Total assets</b>		1,752	1,916
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	344	340
Share premium		5,205	5,191
Retained earnings		(9,268)	(9,349)
		(3,719)	(3,818)
<b>Non-current liabilities</b>			
Borrowings	14	2,433	2,537
Trade and other payables	15	1,232	1,439
		3,665	3,976
<b>Current liabilities</b>			
Borrowings	16	1,651	1,658
Trade and other payables	15	155	100
		1,806	1,758
<b>Total equity and liabilities</b>		1,752	1,916

Equity includes profit for the year of the Parent Company of £81,000 (2018: loss £126,000).

The notes on pages 21 to 42 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 22 October 2019 and signed on its behalf by:

**Gordon G Watt**  
Director

**Company No: 3995041**

# Consolidated Statement of Cash Flow

For the year ended 30 June 2019

	30 June 2019 £'000	30 June 2018 £'000
<b>Cash flows from operating activities</b>		
Loss from operations	57	(408)
Adjustments for:		
Depreciation	90	106
Profit on disposal of fixed asset	(13)	-
	<u>134</u>	<u>(302)</u>
Decrease in inventories	44	10
(Increase) in receivables	(417)	(196)
Increase in liabilities	1,570	143
	<u>1,331</u>	<u>(345)</u>
Cash used in operations		
Interest paid	(147)	(87)
Corporation tax received	358	232
	<u>1,542</u>	<u>(200)</u>
<b>Net cash generated from/(used in) operating activities</b>		
<b>Cash flows from investing activities</b>		
Proceeds from sale of joint venture	17	197
Acquisition of subsidiary net of cash acquired	-	11
Purchase of plant and equipment	(75)	(17)
Proceeds from disposal of fixed assets	16	-
	<u>(42)</u>	<u>191</u>
Net cash (used in)/generated from investing activities		
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	-
Repayment of loan	(676)	(10)
Repayment of finance leases	(69)	(34)
	<u>(745)</u>	<u>(44)</u>
Net cash used in financing activities		
<b>Net increase/(decrease) in cash and cash equivalents</b>	755	(53)
Cash and cash equivalents at beginning of year	19	72
	<u>774</u>	<u>19</u>
<b>Cash and cash equivalents at end of year</b>		

The notes on pages 21 to 42 form an integral part of these financial statements.

# Parent Company Statement of Cash Flow

For the year ended 30 June 2019

	30 June 2019 £'000	30 June 2018 £'000
<b>Cash flows from operating activities</b>		
Profit/(loss) from operations	33	(101)
Decrease in inventories	25	56
(Increase)/decrease in receivables	105	(178)
Decrease in liabilities	(56)	(88)
Cash used in operations	107	(311)
Corporation tax received	85	127
<b>Net cash generated from/(used in) operating activities</b>	192	(184)
Proceeds from sale of joint venture	17	197
<b>Cash flow from investing activities</b>	17	197
Repayment of loan	(207)	(13)
Net cash used in financing activities	(207)	(13)
<b>Net increase in cash and cash equivalents</b>	2	-
Cash and cash equivalents at beginning of year	-	-
<b>Cash and cash equivalents at end of year</b>	2	-

The notes on pages 21 to 42 form an integral part of these financial statements.

# Statement of Changes in Equity

For the year ended 30 June 2019

Consolidated	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
As at 1 July 2017	330	5,151	(9,057)	(3,576)
Loss for the year	-	-	(151)	(151)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(151)	(151)
Issue of shares	10	40	-	50
<b>As at 30 June 2018</b>	<b>340</b>	<b>5,191</b>	<b>(9,208)</b>	<b>(3,677)</b>
Profit for the year	-	-	312	312
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	312	312
Issue of shares	4	14	-	18
<b>As at 30 June 2019</b>	<b>344</b>	<b>5,205</b>	<b>(8,896)</b>	<b>(3,347)</b>
<b>Parent</b>				
	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
As at 1 July 2017	330	5,151	(9,223)	(3,742)
Loss for the year	-	-	(126)	(126)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(126)	(126)
Issue of shares	10	40	-	50
<b>As at 30 June 2018</b>	<b>340</b>	<b>5,191</b>	<b>(9,349)</b>	<b>(3,818)</b>
Profit for the year	-	-	81	81
Other comprehensive income	-	-	-	-
Total comprehensive profit	-	-	81	81
Issue of shares	4	14	-	18
<b>As at 30 June 2019</b>	<b>344</b>	<b>5,205</b>	<b>(9,268)</b>	<b>(3,719)</b>

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

The notes on page 21 to 42 form an integral part of these financial statements.

## 1. Summary of Significant Accounting Policies

### General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006. The addresses of its registered office and principal place of business are disclosed in the company information on page 1. The principal activities of the Company and its subsidiaries (the Group) are described on page 6.

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group. In accordance with section 408 of the Companies Act 2006 a separate statement of comprehensive income for the parent Company has not been presented. For the year to 30 June 2019 the Company recorded a net profit after taxation of £81,000 (2018: loss £126,000).

### Basis of preparation

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

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 July 2018. As detailed in the accounting policies below the Directors have assessed that the adoption of these standards has no material impact on transition.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

The directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 16 "Leases". This is expected to apply to periods commencing on or after 1 January 2019 and therefore will impact the Group for the first time in the financial statements for the year ended 30 June 2020. Under the new standard the substantial majority of the Groups operating lease commitments would be bought onto the balance sheet and depreciated separately. There will be no impact on cashflows although the presentation of the cash flow statement will change significantly. As set out in note 20 the future aggregate minimum lease payments of the Groups operating leases were £189,000 at 30 June 2019 on an undiscounted basis.

### Basis of preparation – Going concern

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

### Basis of consolidation

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

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

## 1. Summary of Significant Accounting Policies (continued)

### Business combinations

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

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

### Goodwill

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

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

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

### Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint venture are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

The investment in joint venture is held at cost in the parent entity financial statements



## 1. Summary of Significant Accounting Policies (continued)

### Revenue recognition

For the year ended 30 June 2019 the Group used the five-step model as prescribed under IFRS 15 on the Group's revenue transactions. This included the identification of the contract, identification of the performance obligations under the same, determination of the transaction price, allocation of the transaction price to performance obligations and recognition of revenue.

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

### Sale of goods

Revenue generated from the sale of goods is recognised on delivery of the good to the customer on this basis revenue is recognised at a point in time. There is no change to the accounting policy resulting from the adoption of IFRS 15.

### Sale of services

In relation to the design and manufacture of complete software and hardware test solutions and the provision of specialist surveying, revenue is recognised through a review of the man-hours completed on the project at the year-end compared to the total man-hours required to complete the projects. Provision is made for all foreseeable losses if a contract is assessed as unprofitable. Management do not consider the impact of IFRS 15 to have a material impact on the financial statements because contracts with customers have one performance obligation, the delivery of the system solution or mapping drawings and the Group has a right to payment for performance completed to date.

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

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

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

### Property, plant and equipment

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

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

Equipment, fixtures and fittings	25%
Motor vehicles	25%

### Inventories and work in progress

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

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

## 1. Summary of Significant Accounting Policies (continued)

### **Financial assets**

IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement with new requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

IFRS 9 introduces a new forward-looking impairment model based on expected credit losses to replace the incurred loss model in IAS 39. This determines the recognition of impairment provisions as well as interest revenue.

The Group adopted IFRS 9 from 1 July 2018 with retrospective effect in accordance with the transitional provisions.

The Group's principal financial assets are cash and cash equivalents and receivables.

The Group has assessed the impact of IFRS 9 on the impairment of its financial assets and has concluded that the change in the impairment is immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

#### ***Financial assets held at amortised cost***

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

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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

#### ***Derecognition of financial assets***

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

#### ***Equity instruments***

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

#### ***Financial liabilities***

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

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

## 1. Summary of Significant Accounting Policies (continued)

### *Derecognition of financial liabilities*

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

### **Finance leases**

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

### **Operating leases**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **Pension scheme contributions**

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

### **Share based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 20.

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

### **Foreign currencies**

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

### **Taxation**

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

### ***Current tax***

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

## 1. Summary of Significant Accounting Policies (continued)

### *Deferred tax*

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

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

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

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

### *Current and deferred tax for the year*

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

### **Impairment of property, plant and equipment**

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

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

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

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

## 1. Summary of Significant Accounting Policies (continued)

### Research and development

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

### Critical judgements in applying accounting policies and key sources of estimation uncertainty

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

#### *Impairment of goodwill*

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

The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, see note 10 for further details.

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

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

#### *Impairment investment in subsidiaries and inter-company receivables*

As set out in note 10, an impairment assessment of the carrying value of investments in subsidiaries and inter-company receivables is in line with the methodologies adopted in the assessment of impairment of goodwill.

## 2. Segmental analysis

	2019 £'000	2018 £'000
<b>Turnover by geographical market</b>		
United Kingdom	6,509	4,787
Europe	29	-
Other	142	2
	<u>6,680</u>	<u>4,789</u>

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

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

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

# Notes to the Financial Statements

For the year ended 30 June 2019

## 2. Segmental analysis (continued)

In utility detection and mapping services one customer accounted for 20% of revenue in 2019 and 5% in 2018. In development, assembly and sale of GPR equipment one customer accounted for 39% of revenue in 2019 and two customers for 54% in 2018. In automation and test system solutions one customer accounted for 35% of revenue and 16% in 2018.

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

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
<b>Year ended 30 June 2019</b>				
Total segmental revenue	1,314	192	5,174	6,680
<b>Operating profit</b>	(47)	34	70	57
Finance costs	(10)	(1)	(34)	(45)
Profit/(loss) before taxation	(57)	33	36	12
Segment assets	529	1,322	2,679	4,530
Segment liabilities	481	4,239	3,157	7,877
Non-current asset additions	75	-	62	137
Depreciation and amortisation	55	-	35	90
<b>Year ended 30 June 2018</b>				
Total segmental revenue	1,534	173	3,082	4,789
<b>Operating profit</b>	52	(102)	(358)	(408)
Finance costs	(28)	(149)	(59)	(236)
Profit/loss before taxation	24	(109)	(417)	(502)
Segment assets	596	1,375	1,444	3,415
Segment liabilities	615	4,308	2,169	7,092
Non-current asset additions	91	-	457	548
Depreciation and amortisation	63	-	43	106

**3. Finance costs**

	2019 £'000	2018 £'000
Interest receivable and other income	(155)	-
Interest payable	200	236
	<u>45</u>	<u>236</u>
<b>Interest receivable and other income comprises of:</b>		
Loan adjustment (see below)	129	-
Other income	26	-
	<u>155</u>	<u>-</u>
<b>Interest payable comprises interest on:</b>		
Finance leases	14	8
Directors' loans	147	138
Other	39	90
	<u>200</u>	<u>236</u>

***Loan adjustment***

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

**4. Operating loss for the year**

This is arrived at after charging for the Group:

	2019 £'000	2018 £'000
Research and development costs not capitalised	1,774	1,049
Depreciation of wholly owned property, plant and equipment	27	51
Depreciation of property, plant and equipment held under finance leases	62	55
Auditor's remuneration		
- Fees payable to the Company's auditor for the audit of the Group's financial statements	43	28
- Fees payable to the Company's auditor and its subsidiaries for the provision of tax services	7	4
Operating lease rentals:		
- other including land and buildings	100	118
	<u>100</u>	<u>118</u>

The Company audit fee is £9,000 (2018: £8,500).

# Notes to the Financial Statements

For the year ended 30 June 2019

## 5. Staff costs

<b>Group</b>	<b>2019 No.</b>	<b>2018 No.</b>
Average monthly number of employees, including directors:		
Production and research	71	64
Selling and research	10	11
Administration	6	6
	<u>87</u>	<u>81</u>

<b>Group</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
Staff costs, including directors:		
Wages and salaries	2,928	2,408
Social security costs	284	253
Other pension costs	53	42
	<u>3,265</u>	<u>2,703</u>

<b>Company</b>	<b>2019 No.</b>	<b>2018 No.</b>
Average monthly number of employees, including directors:		
Production and research	-	1
Selling and research	2	2
Administration	2	2
	<u>4</u>	<u>5</u>

<b>Company</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
Staff costs, including directors:		
Wages and salaries	167	178
Social security costs	19	22
Other pension costs	7	5
	<u>193</u>	<u>205</u>



## 6. Directors' Remuneration

	Salary and fees £'000	Benefits in kind £'000	2019 Total £'000	2018 Total £'000
G G Watt	71	-	71	71
S P Padmanathan	25	-	25	25
R MacDonnell	4	-	4	2
Aggregate emoluments	<u>100</u>	<u>-</u>	<u>100</u>	<u>98</u>

## Directors' pensions

The number of directors who are accruing retirement benefits under:  
- defined contributions policies

	2019 No.	2018 No.
	<u>-</u>	<u>-</u>

The directors represent key management personnel.

## Directors' share options

	At start of year	No. of options		Exercise price	Date from which exercisable
		Granted during year	At end of year		
R MacDonnell	500,000	-	500,000	3.0p	6-Mar-15
S P Padmanathan	200,000	-	200,000	3.9p	15-Nov-19

The Company's share price at 30 June 2019 was 4.25p. The high and low during the period under review were 6.20p and 3.52p respectively.

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

# Notes to the Financial Statements

For the year ended 30 June 2019

## 7. Taxation

	2019 £'000	2018 £'000
<b>United Kingdom Corporation Tax</b>		
Current taxation	(306)	(329)
Adjustments in respect of prior years	6	(22)
	<u>(300)</u>	<u>(351)</u>
Deferred taxation	-	-
Tax on profits/loss	<u>(300)</u>	<u>(351)</u>
<b>Current tax reconciliation</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Taxable profit/(loss) for the year	12	(502)
Theoretical tax at UK corporation tax rate 19% (2018: 19%)	2	(95)
Effects of:		
- R&D tax credit adjustments	(333)	(186)
- Income not taxable	(3)	(27)
- other expenditure that is not tax deductible	6	8
- adjustments in respect of prior years	4	(22)
- short term timing differences	24	(29)
	<u>(300)</u>	<u>(351)</u>
Total income tax credit	<u>(300)</u>	<u>(351)</u>

The Group has tax losses amounting to approximately £2,650,000 (2018: £2,460,000), available for carry forward to set off against future trading profits. No deferred tax assets have been recognised in these financial statements due to the uncertainty regarding future taxable profits.

Potential deferred tax assets not recognised are approximately £450,000 (2018: £418,000)

## 8. (Loss)/profit per share

### Group

**Basic (pence per share) 2019 – 0.91 profit per share; 2018 – 0.45 loss per share**

This has been calculated on a profit of £312,000 (2018: loss of £151,000) and the number of shares used was 34,126,707 (2018: 33,543,803) being the weighted average number of shares in issue during the year.

**Diluted (pence per share) 2019 – 0.72 profit per share; 2018 – 0.45 loss per share**

In the prior year the potential ordinary shares included in the weighted average number of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share. The current year calculation used earnings of £392,000 being the profit for the year, plus the interest paid on the convertible loan note (net of 20% tax) of £80,000 and the number of shares used was 54,657,116 being the weighted average number of shares outstanding during the year of 34,126,707 adjusted for shares deemed to be issued for no consideration relating to options and warrants of 530,409 and the impact of the convertible instrument of 20,000,000.

## 9. Property, plant and equipment

Group	Freehold £'000	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 July 2018	265	1,680	223	291	2,459
Additions	-	137	-	-	137
Disposals	-	(42)	-	-	(42)
At 30 June 2019	265	1,775	223	291	2,554
<b>Depreciation</b>					
At 1 July 2018	13	1,463	223	279	1,978
Charged in year	3	78	-	9	90
Disposals	-	(39)	-	-	(39)
At 30 June 2019	16	1,502	223	288	2,029
<b>Net book value</b>					
At 30 June 2019	249	273	-	3	525
At 30 June 2018	252	217	-	12	481

The net book value of the property, plant and equipment includes £199,268 (2018: £195,322) in respect of assets held under finance lease agreements. These assets have been offered as security in respect of these finance lease agreements. Depreciation charged in the period on those assets amounted to £61,791 (2018: £55,183).

Company	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
<b>Cost</b>			
At 1 July 2018 and 30 June 2019	196	45	241
<b>Depreciation</b>			
At 1 July 2018 and 30 June 2019	196	45	241
<b>Net book value</b>			
At 30 June 2019	-	-	-
At 30 June 2018	-	-	-

## 10. Goodwill

Group	Goodwill £'000	Total £'000
<b>Cost:</b>		
At 1 July 2018 and 30 June 2019	1,250	1,250
<b>Impairment</b>		
At 1 July 2018 and 30 June 2019	60	60
<b>Net book value</b>		
At 30 June 2019	1,190	1,190
At 30 June 2018	1,190	1,190

The goodwill carried in the statement of financial position of £1,190,000 arose on the acquisition of Adien Limited in 2002 (£212,000) and the acquisition of QM Systems Limited in 2006 (£849,000), and the acquisition of TED in 2017 (£129,000).

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

QM Systems Limited is involved in projects surrounding:

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

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

The recoverable amounts are determined from value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a five year period. The key assumptions are those regarding the discount rates, growth rates and expected changes to sales and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. This has been estimated at 10% per annum reflecting the prevailing pre-tax cost of capital in the Company. The growth rates are based on forecasts and historic margins achieved in both Adien Limited, QM Systems Limited and TED. For Adien these have been assessed as 8% growth for revenue in years 1 and 5% for years 2 and 3 and 2.5% thereafter and 2.5% for overhead growth. For QM Systems these have been assessed as 34% growth for revenue in year 1 and 10% in year 2 and 3 and 5% for years 3 to 5 and 5% for overhead growth. For TED these have been assessed as 20% growth for revenue in year 1 and 10% in year 2 and 3 and 5% for years 3 to 5 and 2.5% for overhead growth. No terminal growth rate was applied. The reason for the significant Year 1 revenue growth in QM and TED is an expectation based on current trading and the pipeline.

The directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of goodwill attributed to Adien Limited, QM Systems Limited and TED to exceed the recoverable amount except as disclosed below:

If the Adien starting revenue growth was reduced to FY 2019 levels and inflationary growth rates applied to revenue and costs then goodwill would be impaired by £130,000. The directors have regard to the sales pipeline and are satisfied that the forecast revenues and growth rates used can be achieved.

## 11. Non-current investments

Company	Investments in subsidiaries £'000	Total £'000
<b>Cost</b>		
1 July 2018 and 30 June 2019	1,197	1,197
Disposal	-	-
<b>Impairment</b>		
At 1 July 2018 and 30 June 2019	-	-
<b>Net book value</b>		
At 30 June 2019	1,197	1,197
At 30 June 2018	1,197	1,197

Subsidiary	Parent and group interest in ordinary shares and voting rights	Country of incorporation	Principal activity
Adien Limited	100%	England & Wales	Specialist surveying
QM Systems Limited	100%	England & Wales	Test solutions
Thomson Engineering Design Limited	100%	England & Wales	Specialist in railway equipment
Tech Sales Services Limited	100%	England & Wales	Dormant
Minehawk Limited	100%	England & Wales	Dormant

An impairment assessment was performed in line with the assessment of goodwill, see note 10 for further details. On the basis of this assessment no impairment of the investment was required at 30 June 2019.

The registered office of the above-named subsidiaries is Manor Park Industrial Estate, Wyndham Street, Aldershot, Hampshire, GU12 4NZ.

## 12. Inventories

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Raw materials	71	87	61	86
Finished goods	63	91	6	6
	<u>134</u>	<u>178</u>	<u>67</u>	<u>92</u>

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

The cost of inventories recognised as an expense during the year amounted to £2,241,000 (2018: £1,157,000). For the Parent Company this was £35,000 (2018: £37,000).

# Notes to the Financial Statements

For the year ended 30 June 2019

## 13. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Current</b>				
Trade receivables	1,038	720	3	5
Amounts owed by Group undertakings	-	-	322	533
Prepayments and accrued income	554	455	111	3
	<u>1,592</u>	<u>1,175</u>	<u>436</u>	<u>541</u>

## 14. Non-current liabilities: Borrowings

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Borrowings (note 16)	<u>2,661</u>	<u>2,966</u>	<u>2,433</u>	<u>2,537</u>

## 15. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Current</b>				
Bank overdraft	-	13	-	13
Trade payables	1,071	743	7	40
Other taxation and social security	272	329	21	6
Payments received on account	1,431	437	-	-
Accruals and other creditors	496	450	127	41
	<u>3,270</u>	<u>1,972</u>	<u>155</u>	<u>100</u>

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Non-current</b>				
Trade payables	-	-	-	-
Amounts owed to Group undertakings	-	-	1,232	1,439
Other creditors	3	8	-	-
	<u>3</u>	<u>8</u>	<u>1,232</u>	<u>1,439</u>

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

## 16. Borrowing Analysis

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
<b>Due within one year</b>				
Bank and other loans	146	426	-	-
Directors' loan	1,714	1,658	1,651	1,658
Obligations under finance lease agreements	83	62	-	-
	<u>1,943</u>	<u>2,146</u>	<u>1,651</u>	<u>1,658</u>
<b>Due after more than one year</b>				
Obligations under finance lease agreements	89	118	-	-
Bank and other loans	139	311	-	-
Directors' loan	2,433	2,537	2,433	2,537
	<u>2,661</u>	<u>2,966</u>	<u>2,433</u>	<u>2,537</u>
<b>Repayable</b>				
Due within 1 year	1,943	2,146	1,651	1,658
Over 1 year but less than 2 years	2,472	2,774	2,433	2,537
Over 2 years but less than 5 years	189	192	-	-
	<u>4,604</u>	<u>5,112</u>	<u>4,084</u>	<u>4,195</u>

**Directors' loan**

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to G G Watt of £1,601,000 (2018: £1,658,000). The accrued fees and interest is repayable on demand and no interest accrues on the balance.

The director's loan due in more than one year is a loan of £2,433,000 from G G Watt. Directors' loans attract interest at 2.15% over Bank of England base rate. During the year to 30 June 2018 £100,000 (2018: £nil) was repaid. The Company has the right to defer repayment for a period of 366 days.

On 13 August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock ("CULS") to G G Watt, the Chairman of the Company. The CULS were issued to replace loans made by G G Watt to the Company amounting to £1 million and has been recognised in non-current liabilities of £2,433,000.

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

- The CULS may be converted at the option of Gordon Watt at a price of 5p per share at any time prior to 13 August 2022;
- Interest is payable at a rate of 10 per cent per annum on the principal amount outstanding until converted, prepaid or repaid, calculated and compounded on each anniversary of the issue of the CULS. On conversion of any CULS, any unpaid interest shall be paid within 20 days of such conversion;
- The CULS are repayable, together with accrued interest on 13 August 2022 ("the Repayment Date").

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

**Finance leases**

Finance lease agreements with Close Motor Finance are at a rate of 4.5% and 5.19% over base rate. The future minimum lease payments under finance lease agreements at the year end date was £133,822 (2018: £116,844) and £38,102 (2018: £62,167). The difference between the minimum lease payments and the present value is wholly attributable to future finance charges.

## 16. Borrowing Analysis (continued)

### *Bank and other loans*

A working capital loan balance of £227,000 was given by Mirrasand Partnership from a trust settled by Mr G Watt. The loan attracts interest at 10% per annum. The loan was repaid on 25 April 2019.

Included in bank and other loans is an invoice discounting facility of £127,000 (2018 £133,000).

Included in bank and other loans is a secured mortgage of £157,850 which incurred an interest of 4.42% until March 2019 followed by a rate of 2.44% over base rate for 10 years, and an interest rate of 2.64% over base rate until March 2029. The mortgage is secured over the freehold property.

2019	Brought forward	Cash flows	Non-cash: New leases	Non-cash: Accrued fees/ interest	Carried forward
Director loan	4,195	(207)	-	159	4,147
Finance leases	180	(69)	62	(1)	172
Other	737	(469)	-	17	285
Loans and borrowings	<u>5,112</u>	<u>(745)</u>	<u>62</u>	<u>175</u>	<u>4,604</u>

2018	Brought forward	Cash flows	Cash: advance	Cash: Discounting facility*	Non-cash: Accrued costs	Carried forward
Director loan	4,083	(10)	-	-	122	4,195
Finance leases	64	(34)	76	74	-	180
Other	306	-	408	-	23	737
Loans and borrowings	<u>4,453</u>	<u>(44)</u>	<u>484</u>	<u>74</u>	<u>145</u>	<u>5,112</u>

\*Included in working capital adjustments in cashflow statement

## 17. Financial Instruments and derivatives

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

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

### *Credit risk*

The credit risk exposure is the carrying amount of the financial assets as shown in note 13 (with the exception of prepayments which are not financial assets) and the exposure to the cash balances. Of the amounts owed to the Group at 30 June 2019, the top 3 customers comprised 56.78% (2018: 19.38%) of total trade receivables.

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



## 17. Financial Instruments and derivatives (continued)

An analysis of trade and other receivables:

2019	Carrying amount	Neither impaired nor past due	Past due but not impaired		
			61-90 days	91-120 days	More than 121 days
Trade and other receivables	1,038	919	46	13	60

2018	Carrying amount	Neither impaired nor past due	Past due but not impaired		
			61-90 days	91-120 days	More than 121 days
Trade and other receivables	720	532	102	12	74

### Interest rate risk

As disclosed in note 16 the Group is exposed to changes in interest rates on its borrowings with a variable element of interest. If interest rates were to increase by one percentage point the interest charge would be £28,000 higher. An equivalent decrease would be incurred if interest rates were reduced by one percentage point.

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

The Group allows an average receivables payment period of 60 days after invoice date. It is the Group's policy to assess receivables for recoverability on an individual basis and to make provision where it is considered necessary. No debtors' balances have been renegotiated during the year or in the prior year. As at 30 June 2019, trade receivables of £nil (2018: £nil) were impaired and provided for.

### Liquidity risk

As stated in note 1 the Executive Chairman, G G Watt, has pledged to provide ongoing financial support for a period of at least twelve months from the approval date of the Group statement of financial position. It is on this basis that the directors consider that neither the Group nor the Company is exposed to a significant liquidity risk. Notes 15 and 16 disclose the maturity of financial liabilities.

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

2019	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
	Trade and other payables	1,567	-	-	

## 17. Financial Instruments and derivatives (continued)

2018	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
Trade and other payables	1,206	-	-	8	1,214

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

### *Interest rate risk*

The Group finances its operations through a mixture of shareholders' funds and borrowings. The Group borrows exclusively in Sterling and principally at fixed and floating rates of interest and are disclosed at note 16.

### *Fair value of financial instruments*

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

### *Capital risk management*

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

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

## 18. Share Capital

	2019 No.	2019 £'000	2018 No.	2018 £'000
<b>Authorised</b>				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
<b>Allotted and fully paid</b>				
Brought forward	34,020,515	340	33,020,515	330
Issued during the year	340,000	4	1,000,000	10
Carried forward	34,360,515	344	34,020,515	340

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

During the year the Company issued 340,000 ordinary 1p shares for 5p per share as part of the consideration for the vendor loan adjustment regarding the acquisition of Thomson Engineering Design Limited.

11,403,703 (2018:11,403,703) share options were outstanding at the year end, comprising the 1m employee options and the 10,403,703 share options and warrants held by directors disclosed below. No options or warrants were exercised.

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

## 18. Share Capital (continued)

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

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

### Employee options

Date Options Exercisable	Number of Shares	Exercise Price
Between March 2015 and March 2022	500,000	3.75p
Between July 2016 and July 2023	100,000	3.00p
Between November 2019 and November 2026	400,000	3.875p

### Directors' share options

	No. of options			Exercise price	Date from which exercisable
	At start of year	Granted during year	At end of year		
R MacDonnell	500,000	-	500,000	3.0p	6-Mar-15
S P Padmanathan	200,000	-	200,000	3.9p	15-Nov-19

The Company's share price at 30 June 2019 was 4.25p. The high and low during the period under review were 6.20p and 3.52p respectively.

In addition to the above, in consideration of loans made to the Company, G G Watt has warrants over 3,703,703 ordinary shares at an exercise price of 13.5p and a further 6,000,000 ordinary shares at an exercise price of 3.0p, the warrants expired on 12 December 2018.

The weighted average contractual life of options and warrants outstanding at the year-end is 3.89 years (2018: 1.2 years).

## 19. Financial Commitments

Group	2019 £'000	2018 £'000
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### Capital commitments

Capital expenditure commitments contracted for, but not provided in the financial statements were as follows:

-	-
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### Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019	2018	2019	2018
	Land and buildings		Motor vehicles	
- Within one year	37	35	16	16
- One to five years	140	-	19	-
- Over five years	12	-	-	-
	189	35	35	16
	189	35	35	16

## 20. Related Party Transactions

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

G G Watt                      £146,993

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

As at 30 June 2019, there was an amount of £nil (2018: £3,444) due from Online Engineering Limited, a company that G G Watt is also a Director.

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

	2019	2018
	£	£
Balance due from:		
Adien Limited	-	-
QM Systems Limited	-	459,375
Thomson Engineering Design Limited	322,603	73,643
Balance due to:		
Adien Limited	106,858	32,141
QM Systems Limited	1,125,390	1,405,866

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

There is no ultimate controlling party of PipeHawk plc.

## 21. Subsequent events

On 16 October 2019 the Group announced that it had acquired the entire issued share capital of Wessex Precision Instruments Limited ("Wessex") for a consideration of £1 (the "Acquisition"). Wessex produces and sells a range of equipment for testing the slip resistance characteristics of aggregates used in public areas, including in supermarkets and around swimming pools. The Board believes that the Wessex business presents a number of synergistic cost saving opportunities for the Company and will complement the Company's subsidiary QM Systems and its existing portfolio of test and measurement equipment.

In the year ended 31 March 2019, Wessex recorded unaudited revenues of approximately £340,000 and an unaudited loss after tax of approximately £61,000. As at 31 March 2019, Wessex had net liabilities of approximately £52,000.

The Company is evaluating the fair value of the assets acquired and liabilities assumed and any necessary pro forma financial information.

# Notice of Annual General Meeting

## PIPEHAWK PLC

(Registered in England & Wales No. 3995041)

NOTICE IS HEREBY GIVEN that the annual general meeting (the AGM) will be held at the offices of Allenby Capital Limited, 5 St Helen's Place, London, EC3A 6AB at 10.00 a.m. on Thursday 12 December 2019 for the purpose of considering and, if thought fit, passing the following resolutions:

### Ordinary business

The following resolutions will be proposed as ordinary resolutions:

1. To receive the accounts for the year ended 30 June 2019 together with the reports of the directors and auditor thereon. **(Resolution 1)**
2. To re-appoint Soumitra Padmanathan as Director, who retires but, being eligible, offers herself for re-election. **(Resolution 2)**
3. To re-appoint Crowe U.K. LLP as auditor of the Company and to authorise the Directors to set their remuneration. **(Resolution 3)**

To transact any other ordinary business

### Serious loss of capital

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

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

By order of the Board

S P Padmanathan  
Secretary

Dated: 22 October 2019

#### Notes:

1. A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A form of proxy for the use of members who are unable to attend the AGM in person is enclosed. A proxy need not be a member of the Company. This instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notationally certified copy of that power, must be deposited with the Company's Registrars, SLC Registrars, Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey, KT13 0TS, not less than 48 hours before the time of the General Meeting.
2. The completion of a proxy does not preclude a member from attending the AGM and voting in person.
3. As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders who are registered on the Company's Register of Members at 18.30 on 10 December 2019 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares in their names at that time. Changes to entries on the register of members after 18.30 on 10 December 2019 shall be disregarded in determining the rights of any person to attend/or vote at the AGM.
4. Copies of all the Directors' service contracts are available for inspection at the Company's registered office during normal business hours on business days from the date of this notice until the close of the AGM and will be available for inspection at the place of the AGM for 15 minutes before the AGM and during the AGM.







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