PipeHawk plc

REPORT & ACCOUNTS

2021

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.

Contents

Directors	**Gordon G Watt** (Executive Chairman) **Soumitra P Padmanathan** (Finance Director) **Robert Randal MacDonnell** (Non-Executive)
Secretary	**Soumitra P Padmanathan**
Nominated Adviser and Broker	**Allenby Capital Limited** 5 St Helen's Place London EC3A 6AB
Registered number	**3995041**
Registered office	Manor Park Industrial Estate Wyndham Street Aldershot Hampshire GU12 4NZ
Auditor	**Crowe U.K. LLP** 55 Ludgate Hill London EC4M 7JW
Solicitors	**Gowling WLG** 4 More London Riverside London SE1 2AU

"enter the next financial year with healthiest orderbook ever"

"two businesses relocating to significantly larger premises"

"Significantly enhances the quality of our earnings"

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

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

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

QM Systems

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

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

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

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

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

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

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

Thomson Engineering Design ("TED")

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

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

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

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

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

Technology Division – PipeHawk Technology and Utsi Electronics

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

Adien

On balance it has been a good year for Adien.

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

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

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

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

Financial position

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

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

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

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

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

Strategy & Outlook

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

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

Gordon Watt
Chairman
Date: 2 November 2021

Financial results

Turnover for the year ended 30 June 2021 was £6.7 million (2020: £8.3 million). The Group achieved a profit after taxation for the year of £522,000 (2020: £590,000). The profit per share was 1.5p (2020: per share 1.69p). 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 and at note 2 "Segmental analysis". 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:

1. 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;
2. 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;
3. technological changes – mitigated by continued investment in research and development;
4. 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;
5. continued ability to obtain supply of key components to enable projects to be complete in a timely manner;
6. 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 17.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Directors of the Group must act in accordance with a set of general duties. These duties are detailed in section 172(1) of the U.K. Companies Act 2006, which is summarised as follows:

A Director of a Company must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

1. The likely consequences of any decision in the long term;
2. The interests of the Company's employees;
3. The need to foster the Company's business relationships with suppliers, customers and others;
4. The impact of the Company's operations on the community and the environment;
5. The desirability of the Company maintaining a reputation for high standards of business conduct; and
6. The need to act fairly as between members of the Company.

The Board consider that they have fulfilled their duties in accordance with section 172(1) of the UK Companies Act 2006 and have acted in a way which is most likely to promote the success of the Group for the benefit of its stakeholders as a whole in the following ways:

Long term benefit

Our strategy was designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering excellence with regards to service to its customers whilst ensuring the long term requirements of the other stakeholders are considered.

Employees
The Board considers the employees as one of the key stakeholders within the Group and fundamental to the long-term success of the business. We have various engagement mechanisms, many of which have been in place for a number of years. Annual employee reviews are undertaken and regular communication takes place between management and staff to ensure that any concern or issues are identified and appropriately addressed. The Group provides training to employees as well as social occasions to promote the well-being and connectivity of the teams.

The interest of the employees are always considered when determining the strategic decision and vision of the Group.

Customers
The commercial teams at each of the Group's companies are in regular contact with our customers' key people to ensure that they are well informed and satisfied with the progress of the Group's projects on their behalf. Face to face meetings take place, as well as other communication such as email and video or phone conferences which allows for an on-going dialogue with the aim of reducing any potential issues or concerns.

Suppliers
The group works closely with a number of suppliers in different disciplines. We aim to promote collaborative engagement and to build long term partnerships with our suppliers with an objective to minimise risk and optimise costs through the full lifecycle of our relationship. We seek to balance this with the need to ensure the company is not overly reliant on any single supplier.

Community and environment
The Board recognises its responsibilities with regard to the environment and wider community and takes actions to reduce any negative impact the provision of its services might have in this area. The board regularly looks at ways in which it can operate a sustainable business and has taken actions to reduce its carbon footprint. Currently all waste is recycled by responsible contractors, the target for the next year is to reduce all waste by 50%.

Culture and values
The Board actively seeks to establish and maintain a corporate culture which will attract both future employees, customers and suppliers. The Company promotes honesty, integrity and respect and all employees are expected to operate in an ethical manner in all their dealings, whether internal or external. We do not tolerate behaviour which goes against these values which could cause reputational damage to the business or create ongoing conflict or unnecessary tension internally.

Current trading
Current trading is satisfactory and in line with the directors' expectations. The strategic report was approved by the Board on 2 November 2021 and signed on its behalf by:

Padmanathan

Soumitra P Padmanathan
Finance Director

The directors present the annual report on the affairs of the Group together with the financial statements for the year ended 30 June 2021.

Principal activities and review of business

The principal activities of the Group during the year were the development, assembly and sale of test system and rail industry 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 17. The directors do not recommend the payment of a dividend for the year (2020: nil).

Subsequent events

There are no subsequent events to note.

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 2021		30 June 2020	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
G G Watt	5,721,500	16.4%	5,721,500	16.4%
R MacDonnell	1,431,436	4.1%	1,431,436	4.1%
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 interest 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	12.8%
P Lobbenberg	3,100,000	8.6%
R J Chignell	2,204,200	6.2%
P Snell	1,240,000	3.5%

Research and development

The Group continues to undertake research and development activities at its sites in Worcester, Aldershot, Cinderford, Cambridge and Doncaster. 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 17 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 2 November 2021 and signed on its behalf by:

Padmanathan

Soumitra 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. The ages have been amended this year, changing the retirement ages to 75 and 85 years respectively. 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 4 days per week for Gordon Watt, 6 days per annum for Randal MacDonnell and 15 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 four board meetings. Gordon Watt, Randal MacDonnell and Soumitra Padmanathan attended all 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 2021. 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 (68)

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 (57)

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, including General Motors Acceptance Corporation, Eversheds LLP, RBS and Alliance One International LLC.

R Randal MacDonnell
Non-executive Director (81)

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.

Statement of Directors' Responsibilities for the Annual Report

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 in conformity with the requirements of the Companies Act 2006.

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.

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 2021, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2021;
- the Group and Parent Company statements of financial position as at 30 June 2021;
- 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 in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements 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 2021 and of the Group's profit for the period then ended;
- the Group and Parent company financial statements have been properly prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006;
- 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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the entity's and the group's ability to continue to adopt the going concern basis of accounting included the following procedures:

We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make their assessment. We subjected this assessment to sensitivity testing to understand the impact of changes in the key assumptions. We further reviewed the Group's liquidity position to understand whether there was is an indication of further support being required from the Executive Chairman and the ability for this to be provided.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 £2,500. 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	*How the scope of our audit addressed the 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 £1.3 million arising on the acquisition of Adien Limited, QM Systems Limited, Thomson Engineering Design Limited, Wessex Precision Instruments Limited and UTSI Electronics 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.	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
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.	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.

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.

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 12, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatement in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and Industry in which the company operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, Listing rules and Tax legislation.

Our procedures involved enquiries with management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements. Our testing included but was not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquires of management;
- testing of journal postings made during the year to identify potential management override of controls;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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.

Leo Malkin
Senior Statutory Auditor
for and on behalf of
Crowe U.K. LLP
Statutory Auditor

London

Date: 2 November 2021

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

The notes on pages 23 to 43 form an integral part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2021

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

The notes on pages 23 to 43 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 2 November 2021 and signed on its behalf by:

Gordon G Watt
Director

Company No: 3995041

Parent Company Statement of Financial Position

at 30 June 2021

Assets	Note	30 June 2021 £'000	30 June 2020 £'000
Non-current assets			
Property, plant and equipment	9	3	-
Investment in subsidiaries	12	1,903	1,197
		1,906	1,197
Current assets			
Inventories	13	83	75
Current tax assets		94	94
Trade and other receivables	14	423	455
Cash and cash equivalents		14	2
		614	626
Total assets		2,520	1,823
Equity and liabilities			
Equity			
Share capital	18	349	349
Share premium		5,215	5,215
Retained earnings		(9,552)	(9,316)
		(3,988)	(3,752)
Non-current liabilities			
Borrowings	16	2,834	2,803
Trade and other payables	15	1,629	1,063
		4,463	3,866
Current liabilities			
Borrowings	16	1,796	1,663
Trade and other payable	15	249	46
		2,045	1,709
Total equity and liabilities		2,520	1,823

Equity includes loss for the year of the Parent Company of £236,000 (2020: loss £48,000).

The notes on pages 23 to 43 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 2 November 2021 and signed on its behalf by:

Gordon G Watt
Director

Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2021

	Note	30 June 2021 £'000	30 June 2020 £'000
Cash flows from operating activities			
Profits from operations		257	405
Adjustments for:			
Depreciation	4	192	191
		449	596
Increase in inventories		(171)	(18)
Increase in receivables		(136)	(52)
Increase/(decrease) in liabilities		581	(1,036)
Cash generated/(used) by operations		723	(510)
Interest paid		(50)	(69)
Corporation tax received		394	318
Net cash generated/ (used in) from operating activities		1,067	(261)
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired	21	42	23
Purchase of plant and equipment	9/10	(130)	(474)
Net cash used in investing activities		(88)	(451)
Cash flows from financing activities			
Proceeds from borrowings		339	523
Repayment of loan		(483)	(165)
Repayment of leases		(165)	(170)
Net cash (used in)/generated from financing activities		(309)	188
Net (decrease)/increase in cash and cash equivalents		670	(524)
Cash and cash equivalents at the beginning of year		250	774
Cash and cash equivalents at end of year		920	250

The notes on pages 23 to 43 form an integral part of these financial statements.

	Note	30 June 2021 £'000	30 June 2020 £'000
Cash flows from operating activities			
Loss from operations		(194)	(15)
Increase in inventories		(9)	(7)
Decrease/(increase) in receivables		32	(19)
Increase in liabilities		643	145
Cash generated by operations		472	104
Corporation tax received		88	63
Net cash generated from operating activities		560	167
Acquisition of business		(508)	-
Purchase of plant and equipment	9	(4)	(1)
Cash flow from investing activities		(512)	(1)
Proceeds from borrowings		150	-
Repayment of loan		(186)	(166)
Net cash used in financing activities		(36)	(166)
Net increase in cash and cash equivalents		12	-
Cash and cash equivalents at the beginning of year		2	2
Cash and cash equivalents at end of year		14	2

The notes on pages 23 to 43 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2021

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

Parent	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2019	344	5,205	(9,268)	(3,719)
Loss for the year	-	-	(48)	(48)
Total comprehensive loss	-	-	(48)	(48)
Issue of shares	5	10	-	(15)
As at 30 June 2020	349	5,215	(9,316)	(3,752)
Loss for the year	-	-	(236)	(236)
Total comprehensive income	-	-	(236)	(236)
As at 30 June 2021	349	5,215	(9,552)	(3,988)

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 pages 23 to 43 form an integral part of these financial statements.

1. Summary of significant accounting policies

1.1. General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006. The addresses of its registered office and principal place of business are disclosed in the company information on page 1. The principal activities of the Company and its subsidiaries (the Group) are described on page 7.

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

1.2. Basis of preparation

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

1.3. Basis of preparation – Going concern

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

1.4. Basis of consolidation

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

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

1.5. Business combinations

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

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

1. Summary of significant accounting policies (continued)

1.6. Goodwill

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

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

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

1.7. Revenue recognition

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

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

1.8. Sale of goods

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

1.9. Sale of services

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

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

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

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

1.10. Property, plant and equipment

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

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

Equipment, fixtures and fittings	25%
Motor vehicles	25%

1. Summary of significant accounting policies (continued)

1.11. Inventories and work in progress

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

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

1.12. Financial assets

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

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

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

Derecognition of financial assets

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

Equity instruments

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

Financial liabilities

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

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

Derecognition of financial liabilities

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

1. Summary of significant accounting policies (continued)

1.13. Leased/Right of Use assets

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

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

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

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

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

1.14. Pension scheme contributions

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

1.15. Share based payments

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

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

1.16. Foreign currencies

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

1.17. Taxation

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

Current tax

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

1. Summary of significant accounting policies (continued)

1.17. Taxation (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.

1.18. Impairment of property, plant and equipment

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

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

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

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

1. Summary of significant accounting policies (continued)

1.19. Research and development

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

1.20. Government grants

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

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

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

Impairment of goodwill

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

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

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

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

Impairment investment in subsidiaries and inter-company receivables

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

2. Segmental analysis

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

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

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

2. Segmental analysis (continued)

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

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

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

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

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

3. Finance costs

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

4. Operating profit for the year

This is arrived at after charging for the Group:

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

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

5. Staff costs

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

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

5. Staff costs (continued)

Company	2021 No.	2020 No.
Average monthly number of employees, including directors:		
Selling and research	1	2
Administration	1	1
	2	3

Company	2021 £'000	2020 £'000
Staff costs, including directors:		
Wages and salaries	127	150
Social security costs	20	18
Other pension costs	3	8
	150	176

6. Directors' remuneration

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

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

The directors represent key management personnel.

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

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

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

7. Taxation

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

Current tax reconciliation

	2021 £'000	2020 £'000
Taxable profit for the year	79	194
Theoretical tax at UK corporation tax rate 19% (2020: 19%)	15	37
Effects of:		
R&D tax credit adjustments	(428)	(414)
Income not taxable	-	(3)
Other expenditure that is not tax deductible	(12)	1
Deferred tax not recognised	28	-
Adjustments in respect of prior years	(18)	(17)
Utilisation of losses	(27)	-
Short term timing differences	(1)	-
Total income tax credit	(443)	(396)

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

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

8. Profit per share

Group

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

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

9. Property, plant and equipment

Group

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

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

Company

	Equipment, fixtures and fittings £'000	Lease improvements £'000	Total £'000
Cost			
At 1 July 2020	197	45	242
Additions	4	-	4
Write off	(197)	(45)	(242)
At 30 June 2021	4	-	4
Depreciation			
At 1 July 2020	197	45	242
Charged in year	1	-	1
Write off	(197)	(45)	(242)
At 30 June 2021	1	-	1
Net book value			
At 30 June 2021	3	-	3
At 30 June 2020	-	-	-

10. Right of use

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

11. Goodwill

Group	Goodwill £'000	Total £'000
Cost		
At 1 July 2020	1,405	1,405
Additions	12	12
At 30 June 2021	1,417	1,417
Impairment		
As at 30 June 2020 and 30 June 2021	60	60
Net book value		
At 30 June 2021	1,357	1,357
At 30 June 2020	1,345	1,345

11. Goodwill (continued)

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

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

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

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

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

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

12. Non-current investments

Company	Investment in subsidiaries £'000	Total £'000
Cost		
At 1 July 2020	1,197	1,197
Additions	706	706
At 30 June 2021	1,903	1,903
Impairment		
At 1 July 2020 and 30 June 2021	-	-
Net book value		
At 30 June 2021	1,903	1,903
At 30 June 2020	1,197	1,197

12. Non-current investments (continued)

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

An impairment assessment was performed in line with the assessment of goodwill, see note 11 for further details. On the basis of this assessment no impairment of the investment was required at 30 June 2021.

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

The registered office of Thomson Engineering Design Ltd is The Factory, Valley Road, Cinderford, Gloucestershire, GL14 2NZ.

The registered office of Utsi Electronics Ltd is Unit 26, Glenmore Business Park, Ely Road, Waterbeach, Cambridge, Cambridgeshire, CB25 9PG.

13. Inventories

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

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

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

14. Trade and other receivables

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Current				
Trade receivables	1,066	1,010	3	-
Amounts owed by Group undertakings	-	-	405	444
Other Debtors	464	364	-	-
Accrued income	3	-	3	-
Prepayments	276	280	12	11
	1,809	1,654	423	455

15. Trade and other payables

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

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

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

16. Borrowing analysis

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Due within one year				
Bank and other loans	269	275	103	-
Directors' loan	1,748	1,718	1,693	1,663
Obligations under lease agreements	139	144	-	-
	2,156	2,137	1,796	1,663

16. Borrowing analysis (continued)

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

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

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

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

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

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

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

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

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

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

16. Borrowing analysis (continued)

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

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

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

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

*Included in working capital adjustments in cash flow statement

17. Financial instruments

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

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

Credit risk
The credit risk exposure is the carrying amount of the financial assets as shown in note 14 (with the exception of prepayments which are not financial assets) and the exposure to the cash balances. Of the amounts owed to the Group at 30 June 2021, the top 3 customers comprised 43% (2020: 45.00%) of total trade receivables.

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

17. Financial instruments (continued)

An analysis of trade and other receivables:

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

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

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

As disclosed in note 16 the Group is exposed to changes in interest rates on its borrowings with a variable element of interest. If interest rates were to increase by one percentage point the interest charge would be £15,000 higher. An equivalent decrease would be incurred if interest rates were reduced by one percentage point.

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

Contractual maturity analysis for financial liabilities:

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

2020	Due or due in less than 1 month £'000	Due between 1-3 months £'000	Due between 3 months-1 year £'000	Due between 1-5 years £'000	Total £'000
Trade and other payables	1,055	-	-	6	1,061
Borrowings	55	386	1,696	3,255	5,392
	1,110	386	1,696	3,261	6,453

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

17. Financial instruments (continued)

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

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

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

18. Share capital

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

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

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

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

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

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

Employee options

Date Options Exercisable	Number of Shares	Exercise Price
Between March 2015 and March 2022	500,000	3.75p
Between July 2016 and July 2023	80,000	3.00p
Between November 2019 and November 2026	600,000	3.875p
Between November 2020 and November 2027	300,000	3.75P
Between March 2024 and March 2031	1,590,000	8.00p

18. Share capital (continued)

Directors' share options

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

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

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

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

19. Related party transactions

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

G G Watt – £128,531

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

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

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

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

There is no ultimate controlling party of PipeHawk plc.

20. Government grants

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

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

21. Business combination

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

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

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

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

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

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

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 11 a.m. on 6 December 2021 for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary business

The following resolutions will be proposed as ordinary resolutions:

1. To receive the accounts for the year ended 30 June 2021 together with the reports of the directors and auditor thereon. **(Resolution 1)**
2. To re-appoint Randal McDonnell as Non-Executive Director, who retires but, being eligible, offers himself for re-election. **(Resolution 2)**
3. To re-appoint Crowe U.K. LLP as auditor of the Company and to authorise the Directors to set their remuneration. **(Resolution 3)**

To transact any other ordinary business

Serious loss of capital

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

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

By order of the Board

S P Padmanathan
Secretary

Dated: 2 November 2021

Notes:

1. A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A form of proxy for the use of members who are unable to attend the AGM in person is enclosed. A proxy need not be a member of the Company. This instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of that power, must be deposited with the Company's Registrars, SLC Registrars, P.O.Box 5222, Lancing, BN99 9FG, 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 2nd December 2021 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of ordinary shares in their names at that time. Changes to entries on the register of members after 18.30 on 2nd December 2021 shall be disregarded in determining the rights of any person to attend/or vote at the AGM.

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

Perivan 262034

PipeHawk plc
Manor Park Industrial Estate
Wyndham Street
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Hampshire
GU12 4NZ