PipeHawk plc

REPORT & ACCOUNTS

2022

PipeHawk plc
Underground Intelligence

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

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.

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.

Utsi is one of the global market leaders 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.

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) **Robert Randal MacDonnell** (Non-Executive) **Tim Williams** (Non-Executive)
Secretary:	**Andrew Tombs**
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

"This has been an extremely challenging year"

"We have invested significantly to be able to take advantage of the opportunities"

"I am confident therefore that the future looks very promising"

The Group reported an operating loss in the year ended 30 June 2022 (the "financial year" and the "2021/22 FY") of £1,312,000 (2021: £257,000), a loss before taxation for the financial year of £1,576,000 (2021: profit £79,000) and a loss after taxation of £868,000 (2021: profit £522,000). Turnover for the financial year reduced to £6.2 million (2021: £6.7 million). The loss per share for the financial year was 2.42p (2021: profit 1.50p).

In line with the outlook expressed in my Chairman's Statement last year, like others in the industry, we have been faced with difficult market conditions this financial year. As outlined on 24 March 2022 in the Group's unaudited results for the six months ended 31 December 2021 this has been an extremely challenging year. Just when we thought we were getting over the vicissitudes of the Coronavirus ("COVID-19") pandemic with its consequent delays caused by material shortages, extended lead times and increased costs, all suffered without the furlough buffer – then Russia invades the Ukraine, fuel costs soar and suddenly the world realises that energy is the key to our standard of living and economic livelihood at all levels.

As a consequence, the Group continued to see decisions across all levels of the chain be deferred and/or delayed throughout the financial year. The impact of the delay in receiving contract decisions continued to impact the Group right up to late September 2022. However, following September 2022, the Group has seen a number of larger orders that have previously been in abeyance for several months placed. In addition, the Group notes a shift in market sentiment, namely, that there appears to be a general willingness to actively re-engage and commit to forward-looking business decisions (as opposed to remaining in tick-over mode).

Despite the disappointing results for the financial year, the directors believe, for the reasons outlined above, that this merely represents a temporary blip in our growth trajectory. Notwithstanding this result, this financial year has been critical for the Group as seen by our underlying positive direction of travel. In addition, we have invested significantly to be able to take advantage of the opportunities evident from our groundwork. Not only have we expanded Thomson Engineering Design's ("TED") footprint fourfold (we have decided to retain, and rebuild its original premises whilst retaining its new premises, as we foresee the need for further growth), QM Systems Limited ("QM") footprint has increased fivefold, and a new line to QM business, contract manufacturing, has been established. Lastly, Adien is now fully engaged in 5G work and the integration of Utsi and PipeHawk's technology bodes well for the future.

I am confident therefore that the future looks very promising.

QM Systems

QM Systems has completed a challenging financial year where for a large part of that time the orderbook has been significantly below management expectation. This trend continued longer than expected into the 2021/22 FY resulting in the inability of QM Systems to pull through the expected level of revenue and profit. It does seem as though the effect of the pandemic eventually rippled through QM Systems later than initially anticipated. In addition, following Russia's invasion of the Ukraine, decision makers decided to defer making capital commitments, which manifested into expected orders being delayed by several months.

During the second half of the financial year, QM Systems completed a move into a modern and far larger facility on the Hartlebury Trading Estate. The move expands the available facilities from approximately 8,000 sq ft to approximately 45,000 sq ft; providing approx. 200% more office space and 600% more manufacturing capacity. The move was required to facilitate not only the anticipated growth in the company's project business but also the housing of the newly established contract manufacturing business unit. In addition, QM Systems has secured two manufacturing contracts with both expected to begin operation with manufactured product towards the end of the current 2022/23 FY. Both contract manufacturing projects bring the capacity for rapid growth in a new and exciting direction for QM Systems. Inevitably a move to a new facility of this size and scale brings commercial challenges and has required significant investment. In this regard, QM have invested over £750k in securing and fitting out the new facility to a very high standard.

Looking ahead, I am pleased to report that as we approached the end of the previous 2021/22 FY and entered the current FY order enquiries have increased dramatically. A number of projects that have been slow to gestate have now arrived resulting in an order intake for the first four months of the current FY alone at QM Systems being in excess of £3 million. Historically, this is an unprecedented order intake in such a short period of time and should enable QM Systems to rapidly recover the ground lost during the 2021/22 FY. In addition to orders received the order pipeline has again returned to a very healthy level with further significant order intake expected through the second quarter of the current FY and anticipated for the following quarter. It is also important to recognise that the projects won are sizeable projects that are expected to run across several months. This brings a further level of stability to QM Systems project business. To support the significant growth in the QM Systems projects business a number of new roles have been advertised for and subsequently filled across the engineering, projects and sales departments during the first third of the current FY. In addition to recruitment to support the project business the start and growth of the contract manufacturing business will see approximately 30 new employees join the QM Systems team over the next few months to support the production and administration activities required across the three contract manufacturing projects.

As a result of the above I fully expect to see QM Systems recover to a position of significant growth in both sales and profit during this current FY whilst securing a stable platform from which healthy growth can continue for the foreseeable future.

Thomson Engineering Design ("TED")

Revenue at Thomson Engineering Design ("TED") continued to grow into this financial year, with the best quarter on record achieved during the final quarter of the financial year. Revenue for FY2021/22 compared with the previous financial increased from approx. £1.2 million to £1.4 million (representing a circa16% increase). This did not however translate through into profit with a loss before taxation of £57k.

There are three key drivers within the year resulting in the reduction in profit versus expectation. The first is the significant upwards inflatory pressure regarding raw material cost which skewed the material content to be considerably higher than previous years. The second key factor was rising facility costs and investment into the new premises required during the 2021/22 FY. The third factor is that whilst we received a rent-free period in order to settle into and upgrade the new premises there is an accounting standard which requires us to amortise that rent free period over the life of the lease. The first two issues have been addressed through re-balancing margin on material and labour to accommodate higher material content and to provide for increased overhead recovery. The third is a non-cash cost in the short term.

Order intake at TED during the current 2022/23 FY continues to be strong, predominantly focused on the UK market with some export. Post the financial year, on 20 September 2022, TED entered into a memorandum of understanding with Unipart Rail, a global retailer of Rail equipment for Unipart Rail to be the exclusive partner for sales and distribution of TED rail equipment into territories in Europe, Asia, New Zealand, Australia and the Americas. This enables TED to facilitate its strategy for global growth by utilising an established and well-respected distribution partner. Unipart and TED jointly attended the InnoTrans Expo in Berlin to launch the new partnership, where a number of key TED products have been on display to premium rail clients. Since the year end, TED has also entered into a partnership with a key client to provide rail conversions for Kawasaki Utility vehicles. This innovative approach allows capital outlay and emissions to be significantly reduced and eliminates the need to use high-cost excavators when carrying smaller loads and tools. We expect this partnership to add substantial additional revenue potential to TED's current portfolio over the next few years.

Overall, having taken measures to address profitability the future for TED both in the UK and the wider global market appears significantly positive.

Adien

After a very promising start last year's results ended with a disappointing loss of £15k due to work volumes dropping in the last few months of the year. This was, mainly due to continually delayed starts from the 5G telecom sector. The order lethargy continued into July and August this year, but has picked up dramatically since the start of September.

Adien now supplies the majority of the key contractors to the telecom providers.

Adien's Ministry of Defence projects are also starting to come on stream after a slow start following the renewal of the framework contracts in April this year. Similarly, Scottish & Southern Electricity Networks has recently put significant funding in place which will allow us to progress with their larger sites.

Positively, clients in the construction and infrastructure sectors are showing increased activity both in volume of the orders placed and enquiries for new projects.

Hybrid working for staff in the Doncaster office and the rationalisation of the Scottish operation has resulted in efficiencies, cost reductions and reduced travel times as well as a reduction in the carbon footprint of the business.

Recent investment in new vehicles that are more efficient, cost effective, greener and continued investment in new hardware and software for the computer-aided design as well as field teams ensure Adien is able to survey and process data effectively to all our clients' various requirements.

The outlook for the current year remains positive.

UTSI

As enquiry levels have steadily risen through the 2022 calendar year, so too have material costs, component shortages and delivery timescales with the resulting lengthening transition times between enquiry, order and payment making the business of doing business, severely challenging. Sales of our flagship products; those manufactured and ordered in the largest quantities, have been most disrupted by the continuing supply delays, whereas those for more specialist, made to order products and those requiring bespoke alteration, have been less affected. Moving from just in time supply to just in case, namely, the increased stockholding of major "at risk" and "long lead time" components will reduce exposure to the worst supply chain excesses over the medium term. However, this change in approach has had a notable immediate effect on UTSI's cashflow and profits in the short term. While external R&D opportunities remain in recovery, bringing forward internal R&D timescales has offered a way towards achieving near term cost savings as tighter integration of existing PipeHawk & UTSI's product lines, becomes possible, whilst also offering the promise of attractive hybrid hardware/software solutions on the near horizon. While UTSI continues to seek out new opportunities, new partners and new markets, the restrictions imposed by global supply chain issues are expected to remain a significant limiting factor into the second half of 2022 and beyond.

Financial position

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

My letter of support dated 6 September 2021 was renewed on 11 October 2022 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 on 30 June 2022 and extended on identical terms, such that the CULS are now repayable on 13 August 2026.

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

Historically, my fees and interest payable have been deferred. During the year under review, the deferred element amounted to £160,000. At 30 June 2022, these deferred fees and interest amounted to approximately £1.8 million in total, all of which have been recognised as a liability in the Company's accounts.

Strategy & Outlook

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

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

G Watt

Gordon Watt
Chairman
Date: 28 November 2022

Financial results

Turnover for the year ended 30 June 2022 was £6.2 million (2021: £6.7 million). The Group made a loss after taxation for the year of £868,000 (2021: profit £522,000). The loss per share was 2.42p (2021: profit per share 1.50p). 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– this risk is mitigated by multi sourcing from several suppliers and allowing longer lead times for any potential delays; and
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

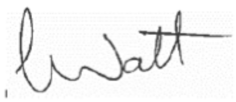
The Board recognises its responsibilities with regard to the environment and wider community and takes actions to reduce any negative impact the provision of its services might have in this area. The board regularly looks at ways in which it can operate a sustainable business and has taken actions to 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 28 November 2022 and signed on its behalf by:



Gordon G Watt
Executive Chairman

The directors present the annual report on the affairs of the Group together with the financial statements for the year ended 30 June 2022.

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. This includes the contract manufacturing, being fully engaged in 5G work, the integration of Utsi and PipeHawk Technology and "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 (2021: 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) – Resigned 30 June 2022
Robert Randal MacDonnell (Non-Executive)

The directors' beneficial interests in the share capital of the Company at the date of this report were as follows:

	30 June 2022		30 June 2021	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
G G Watt	5,721,500	15.8%	5,721,500	16.4%
R MacDonnell	1,431,436	3.9%	1,431,436	4.1%
T Williams (appointed 18/11/2022)	-	-	-	-

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 18.

Substantial share interests

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

	Ordinary Shares of 1p	% of issued share capital
S Hamilton	4,583,334	12.6%
P Lobbenberg	3,100,000	8.5%
R J Chignell	2,204,200	6.1%
N Slater	1,821,262	5.0%

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, rail handling and safety equipment, 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 28 November 2022 and signed on its behalf by:

Gordon Watt
Chairman
Date: 28 November 2022

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, and two non-executive directors, Randal MacDonnell and Tim Williams. Randal MacDonnell acts as Senior Independent Director. Although Randal MacDonnell has been a non-executive director since 2006, the Board still considers him to be independent.

Executive directors' normal retirement age is 75 and non-executive directors' normal retirement age is 85. 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, and 6 days per annum for Randal MacDonell and Tim Williams.

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 director 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 again in 2023. 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 attended all meetings, and Soumitra Padmanathan attended three of the 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 2022. 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 (69)

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.

R Randal MacDonnell
Non-executive Director (82)

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.

Tim Williams
Non-executive Director (67)

Tim joined the group earlier this month. He is an experienced HR Director with a broad background in global blue chip companies. He was previously Group HR Director of Redde Northgate Plc, having served also with Cadbury Schweppes Plc, HSBC, Cardinal Health Inc. and Revlan International.

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 UK-adopted international accounting standards (IAS).

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 2022, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2022;
- the Group and Parent Company statements of financial position as at 30 June 2022;
- the Group and Parent Company statements of cash flows for the year then ended:
- the Group and Parent Company 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 UK adopted International Accounting Standards.

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 2022 and of the Group’s loss for the period then ended;
- the Group and Parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, 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 director's 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 ability to continue to adopt the going concern basis of accounting included the following procedures:

We evaluated the Directors’ assessment of the Group’s and parent’s ability to continue as a going concern, which included a full assessment of the Group’s and parent’s financial resources and working capital forecasts. We reviewed the mathematical accuracy of the forecasts and challenged management on key assumptions including growth in revenue substantiated by orders signed subsequent to the year-end and expected pipeline, impact of inflation on cost to deliver the projects and other significant items of cashflow considered in the forecasts. We subjected this assessment to sensitivity testing to understand the impact of changes in the key assumptions. We further reviewed the Group and parent’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 (2021: £50,000), based on 0.75% of the Group’s revenue. Materiality for the Parent Company financial statements as a whole was set at £40,000 (2021: £30,000) based on 2% of Total assets excluding intercompany balances.

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 at £35,000, based on the overall 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 Parent 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 (refer note 11) **Parent Company – carrying value of investments in subsidiaries** The financial statements of Pipehawk Plc include goodwill of £1.4 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. Goodwill and parent company's investment in subsidiaries are assessed based on financial performance of the underlying business in both cases.	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 gained understanding of the process by which management prepares its business forecast and design of any key controls. 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 which includes growth in revenue substantiated by orders signed subsequent to the year-end and pipeline of orders, impact of inflation on cost to deliver the projects. 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 (refer note 1.7) The Group derives revenue from bespoke service contracts with customers which includes an element of sale of equipment and rendering of services. 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 completion basis where certain conditions are met.	We gained an understanding of the revenue recognition process and evaluated the design and implementation of key controls. 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 also tested invoices raised during the period and cash collected to gain evidence of existence. 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: 28 November 2022

	Note	30 June 2022 £'000	30 June 2021 £'000
Revenue	2	6,191	6,665
Staff costs	5	(3,861)	(3,478)
Operating costs		(3,642)	(2,930)
Operating (loss)/profit	4	(1,312)	257
Profit/(loss) before interest and taxation		(1,312)	257
Finance costs	3	(264)	(178)
(Loss)/profit before taxation		(1,576)	79
Taxation	7	708	443
(Loss)/profit for the year attributable to equity holders of the parent		(868)	522
Other comprehensive income		-	-
Total comprehensive (loss)/profit for the year attributable to equity holder of the parent		(868)	522
(Loss)/profit per share (pence) – basic	8	(2.42)	1.50
(Loss)/profit per share (pence) – diluted	8	(2.42)	0.80

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

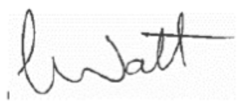
Consolidated Statement of Financial Position

at 30 June 2022

Assets	Note	30 June 2022 £'000	30 June 2021 £'000
Non-current assets			
Property, plant and equipment	9	828	528
Right of use	10	2,549	363
Goodwill	11	1,357	1,357
		4,734	2,248
Current assets			
Inventories	13	340	373
Current tax assets		710	442
Trade and other receivables	14	2,389	1,809
Cash and cash equivalents		4	920
		3,443	3,544
Total assets		8,177	5,792
Equity and liabilities			
Equity			
Share capital	18	363	349
Share premium		5,316	5,215
Retained earnings		(8,647)	(7,784)
		(2,968)	(2,220)
Non-current liabilities			
Borrowings	16	5,612	3,205
		5,612	3,205
Current liabilities			
Borrowings			
Trade and other payables	16	2,674	2,156
	15	2,859	2,651
		5,533	4,807
Total equity and liabilities		8,177	5,792

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 28 November 2022 and signed on its behalf by:



Gordon G Watt
Director

Company No: 3995041

Parent Company Statement of Financial Position

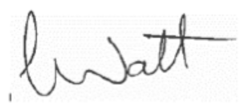
at 30 June 2022

Assets	Note	30 June 2022 £'000	30 June 2021 £'000
Non-current assets			
Property, plant and equipment	9	0	3
Investment in subsidiaries	12	1,903	1,903
		1,903	1,906
Current assets			
Inventories	13	-	83
Current tax assets		75	94
Trade and other receivables	14	510	423
Cash and cash equivalents		-	14
		585	614
Total assets		2,488	2,520
Equity and liabilities			
Equity			
Share capital	18	363	349
Share premium		5,316	5,215
Retained earnings		(9,834)	(9,552)
		(4,155)	(3,988)
Non-current liabilities			
Borrowings	16	3,082	2,834
Trade and other payables	15	1,398	1,629
		4,480	4,463
Current liabilities			
Borrowings	16	2,019	1,796
Trade and other payables	15	144	249
		2,163	2,045
Total equity and liabilities		2,488	2,520

Equity includes loss for the year of the Parent Company of £282,000 (2021: £236,000).

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 28 November 2022 and signed on its behalf by:



Gordon G Watt
Director

Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2022

	Note	30 June 2022 £'000	30 June 2021 £'000
Cash flows from operating activities			
(Loss)/profit from operations		(1,312)	257
Adjustments for:			
Depreciation	4	424	192
		(888)	449
Decrease/(increase) in inventories		33	(171)
Decrease/(increase) in receivables		(580)	(136)
Increase/(decrease) in liabilities		286	581
Cash generated/(used) by operations		(1,149)	723
Interest paid		(124)	(50)
Corporation tax received		440	394
Net cash generated from/(used in) operating activities		(833)	1,067
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		-	42
Purchase of plant and equipment		(325)	(130)
Net cash used in investing activities		(325)	(88)
Cash flows from financing activities			
Proceeds/(repayments) from borrowings		286	339
Proceeds/(repayments) of loan		119	(483)
Repayment of leases		(163)	(165)
Net cash (used in)/generated from financing activities		242	(309)
Net (decrease)/increase in cash and cash equivalents		(916)	670
Cash and cash equivalents at the beginning of year		920	250
Cash and cash equivalents at end of year		4	920

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

	Note	30 June 2022 £'000	30 June 2021 £'000
Cash flows from operating activities			
Loss from operations		(186)	(194)
Depreciation		3	-
Decrease/(increase) in inventories		83	(9)
Decrease/(increase) in receivables		(87)	32
Increase in liabilities		(148)	643
Cash generated by operations		(335)	472
Interest paid		(32)	-
Corporation tax received		94	88
Net cash generated from operating activities		(273)	560
Acquisition of business		-	(508)
Purchase of plant and equipment	9	-	(4)
Cash flow from investing activities		-	(512)
Proceeds from borrowings		259	150
Repayment of loan		-	(186)
Net cash used in financing activities		259	(36)
Net increase in cash and cash equivalents		(14)	12
Cash and cash equivalents at the beginning of year		14	2
Cash and cash equivalents at end of year		-	14

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

Consolidated

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2020	349	5,215	(8,301)	(2,737)
Profit/(loss) for the year	-	-	522	522
Total comprehensive income	-	-	522	522
Issue of shares	-	-	-	-
As at 30 June 2021	349	5,215	(7,779)	(2,215)
Profit/(loss) for the year	-	-	(868)	(868)
Total comprehensive income			(868)	(868)
Issue of shares	14	101	-	115
As at 30 June 2022	363	5,316	(8,647)	(2,968)

Parent

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2020	349	5,215	(9,316)	(3,752)
Loss for the year	-	-	(236)	(236)
Total comprehensive loss	-	-	(236)	(236)
Issue of shares	-	-	-	-
As at 30 June 2021	349	5,215	(9,552)	(3,988)
Loss for the year	–	–	(282)	(282)
Total comprehensive income	-	-	(282)	(282)
Issue of shares	14	101	-	115
As at 30 June 2022	363	5,316	(9,834)	(4,155)

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 2022 the Company recorded a net loss after taxation of £282,000 (2021: £236,000).

1.2. Basis of preparation

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

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 G G Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the Group and Parent Company statement of financial positions. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements. However a material uncertainty exists regarding the ability of the Group and Parent Company to remain a going concern without the continuing financial support of the Executive Chairman.

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 is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

1.7. Revenue recognition

For the year ended 30 June 2022 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 reasonably certain to exercise that option based on operational needs and contractual terms. Subsequently, the lease liability is measured at amortised cost by increasing the carrying amount to reflect interest on the lease liability, and reducing it by the lease payments made. The lease liability is remeasured when the Group changes its assessment of whether it will exercise an extension or termination option.

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

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

Under IFRS16, right-of-use assets will be tested for impairment in accordance with IAS36 Impairment of Assets.

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

1.14. Pension scheme contributions

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

1.15. Share based payments

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

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

1.16. Foreign currencies

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

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 £1,357,000 (2021: £1,357,000). The investment in subsidiaries at the year-end was £1,903,000 (2021: £1,903,000).

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

Impairment investment in subsidiaries and inter-company receivables

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

2 Segmental analysis

	2022 £'000	2021 £'000
Turnover by geographical market		
United Kingdom	5,627	6,103
Europe	243	172
Other	321	390
	6,191	6,665

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

2. Segmental analysis (continued)

- 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

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

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

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2022				
Total segmental revenue	1,453	246	4,492	6,191
Operating profit/(loss)	21	(323)	(1,010)	(1,312)
Finance costs	(36)	(171)	(57)	(264)
(Loss)/profit before taxation	(15)	(494)	(1,067)	(1,576)
Segment assets	655	1,924	5,598	8,177
Segment liabilities	628	5,226	5,442	11,296
Non-current asset additions	17	55	2,941	3,013
Depreciation and amortisation	106	3	316	425

	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

3 Finance costs

	2022 £'000	2021 £'000
Interest payable	264	178
	264	178
Interest payable comprises interest on:		
Leases	69	25
Directors' loans	140	129
Other	55	24
	264	178

4 Operating profit for the year

This is arrived at after charging for the Group:

	2022 £'000	2021 £'000
Research and development costs not capitalised	2,333	2,285
Depreciation	424	192
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Group's financial statements	45	45
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	352	156

The Company audit fee is £9,000 (2021: £9,000).

5 Staff costs

Group	2022 No.	2021 No.
Average monthly number of employees, including directors:		
Production and research	79	78
Selling and research	9	10
Administration	7	5
	95	93

Group	2022 £'000	2021 £'000
Staff costs, including directors:		
Wages and salaries	3,387	3,032
Social security costs	361	350
Other pension costs	113	96
	3,861	3,478

5. Staff costs (continued)

Company	2022 No.	2021 No.
Average monthly number of employees, including directors:		
Selling and research	0	1
Administration	1	1
	1	2

Company	2022 £'000	2021 £'000
Staff costs, including directors:		
Wages and salaries	131	127
Social security costs	7	20
Other pension costs	4	3
	142	150

6 Directors' remuneration

	Salary and fees £'000	Benefits in kind £'000	2022 Total £'000	2021 Total £'000
G G Watt	71	-	71	71
S P Padmanathan	58	8	66	72
R MacDonnell	2	-	2	2
Aggregate emoluments	131	8	139	145

Directors' pensions	2022 No.	2021 No.
The number of directors who are accruing retirement benefits under:		
Defined contributions policies	1	1

The directors represent key management personnel.

Refer to note 18 for details of directors share options.

7 Taxation

	2022 £'000	2021 £'000
United Kingdom Corporation Tax		
Current taxation	(708)	(435)
Adjustments in respect of prior years	-	(8)
	(708)	(443)
Deferred taxation	-	-
Tax on profit/(loss)	(708)	(443)

Current tax reconciliation

	2022 £'000	2021 £'000
Taxable profit/(loss) for the year	(1,576)	79
Theoretical tax at UK corporation tax rate 19% (2021: 19%)	(289)	15
Effects of:		
R&D tax credit adjustments	(350)	(428)
Fixed asset timing differences	(101)	-
Not deductible for tax purposes	2	(12)
Deferred tax not recognised	45	28
Adjustments in respect of prior years	1	(18)
Utilisation of losses	-	(27)
Short term timing differences	(16)	(1)
Total income tax credit	(708)	(443)

The Group has tax losses amounting to approximately £3,033,706 (2021: £3,008,408), 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 £576,404 (2021: £541,065).

8 Loss/profit per share

Group

Basic (pence per share) 2022 – Loss 2.42 profit per share; 2021 – 1.50 profit per share
This has been calculated on a loss of £868,000 (2021: Profit £522,000) and the number of shares used was 35,812,823 (2021: 34,860,515) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2022 – 2.42 loss per share; 2021 – 0.80 profit per share
In the current year the potential ordinary shares included in the weighted average of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share. The prior year calculation used earnings of £442,000 being the profit for the year plus the interest paid on the convertible loan note (net of 20% tax) of £80,000 and the number of shares used was 55,344,987 being the weighted average number of shares outstanding during the year of 34,860,515 adjusted for shares deemed to be issued for no consideration relating to options and warrants and the impact of the convertible instrument.

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 2021	426	1,233	143	268	2,070
Additions	-	97	331	-	428
Disposals	-	-	-	(31)	(31)
Write off	-	(10)	-	-	(10)
At 30 June 2022	426	1,320	474	237	2,457
Depreciation					
At 1 July 2021	40	1,091	143	268	1,542
Charged in year	5	94	25	-	124
Disposals	-	-	-	(31)	(31)
Write off	-	(6)	-	-	(6)
At 30 June 2022	45	1,179	168	237	1,629
Net book value					
At 30 June 2022	381	141	306	-	828
At 30 June 2021	386	142	-	-	528

The net book value of the property, plant and equipment includes £2,549,000 (2021: £363,000) 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 £314,000 (2021: £138,000) – see note 10.

Company

	Equipment, fixtures and fittings £'000	Lease improvements £'000	Total £'000
Cost			
At 1 July 2021	3	-	3
Additions	-	-	-
Write off	(2)	-	(2)
At 30 June 2022	1	-	1
Depreciation			
At 1 July 2021	1	-	1
Charged in year	-	-	-
Write off	-	-	-
At 30 June 2022	1	-	1
Net book value			
At 30 June 2022	0	-	0
At 30 June 2021	3	-	3

10 Right of use

Group	Freehold £'000	Equipment, fixtures and fittings £'000	Leasehold improvement £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2021	248	250	-	147	645
Additions	2,416	-	168	-	2,584
Disposal	(84)	(14)			(98)
At 30 June 2022	2,580	236	168	147	3,131
Depreciation					
At 1 July 2021	101	109	-	73	283
Charged in year	198	47	12	42	299
Disposal	-	-	-	-	-
At 30 June 2022	299	156	12	115	582
Net book value					
At 30 June 2022	2,281	80	156	32	2,549
At 30 June 2021	147	142	-	74	363

11 Goodwill

Group	Goodwill £'000	Total £'000
Cost		
At 1 July 2021	1,357	1,357
Additions	-	-
At 30 June 2022	1,357	1,357
Impairment		
As at 30 June 2021 and 30 June 2022	-	-
Net book value		
At 30 June 2022	1,357	1,357
At 30 June 2021	1,357	1,357

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.

11. Goodwill (continued)

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 rate assumptions are based on forecasts and historic margins.

- Adien these have been assessed as 22% growth for revenue in years 1 and 5% for years 2 and 3, 2.5% thereafter.
- UTSI and PipeHawk combined these have been assessed as 15% for growth for revenue in year 1 and 55.2% for year 2, 65.9% for year 3, 35% for year 4, 8% year 5.
- QM have been assessed largely based on the current orderbook, in addition to the expected orderbook. The business has seen significant growth in order intake and has received confirmed orders in the first four months exceeding £3 million. Management is expecting to convert a strong pipeline into orders which would see a 300% increase in year 1, a 183% increase in year 2. This is followed by an expected 10 % in year 3 and 4 and 5% for year 5.
- TED these have been assessed as 26% growth for revenue in year 1, 10% growth in years 2 and 3 and 5% thereafter. The reason for the significant Year 1 revenue growth in Adien, QM 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 2021	1,903	1,903
Additions	-	-
At 30 June 2022	1,903	1,903
Impairment		
At 1 July 2021 and 30 June 2022	-	-
Net book value		
At 30 June 2022	1,903	1,903
At 30 June 2021	1,903	1,903

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 2022.

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

The registered office of Thomson Engineering Design Ltd is Units 2a & 3 Crabtree Road, Forest Vale Industrial Estate Cinderford, Gloucestershire, United Kingdom, GL14 2YQ.

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

13 Inventories

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Raw materials	150	287	-	77
Finished goods	190	86	-	6
	340	373	-	83

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 £1,886,000 (2021: £2,078,000). For the Parent company this was £41,612 (2021: £16,024).

14 Trade and other receivables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current				
Trade receivables	1,261	1,066	-	3
Amounts owed by Group undertakings	-	-	469	405
Other Debtors	522	464	-	-
Accrued income	332	3	41	3
Prepayments	274	276	-	12
	2,389	1,809	510	423

15 Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current				
Trade payables	972	581	38	5
Other taxation and social security	447	501	-	5
Payments received on account	839	786	-	-
Accruals and other creditors	601	783	106	239
	2,859	2,651	144	249

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Non-current				
Amounts owed to Group undertakings	-	-	1,398	1,629
Other creditors	-	-	-	-
	-	-	1,398	1,629

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	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Due within one year				
Bank and other loans	708	269	375	103
Directors' loan	1,644	1,748	1,644	1,693
Obligations under lease agreements	322	139	-	-
	2,674	2,156	1,753	1,796

16 Borrowing analysis (continued)

Due after more than one year				
Bank and other loans	491	628	331	442
Directors' loan	2,751	2,392	2,751	2,392
Obligations under lease agreements	2,370	185	-	-
	5,612	3,205	3,136	2,834
Repayable				
Due within 1 year	2,729	2,156	2,072	1,796
Over 1 year but less than 2 years	3,249	2,576	2,861	2,503
Over 2 years but less than 5 years	2,361	629	221	331
	8,339	5,361	5,154	4,630

Directors' loans
Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to G G Watt of £1,644,000 (2021: £1,643,000). 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 £2,750,000 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 £1,750,000 (2021: £1,339,000) was outstanding in relation to this loan. During the year to 30 June 2022 £200,000 (2021: £130,000) was repaid. The Company has the right to defer payment for a period of 366 days.

On 13 August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock ("CULS") to G G Watt, the Chairman of the Company. The CULS were issued to replace loans made by G G Watt to the Company amounting to £1million and has been recognised in non-current liabilities of £2,750,000.

Pursuant to amendments made on 13 November 2014 and 9 November 2018, and 30 June 2022 the principal terms of the CULS are as follows:

– The CULS may be converted at the option of Gordon Watt at a price of 3p per share at any time prior to 13 August 2026;
– Interest is payable at a rate of 10% per annum on the principal amount outstanding until converted, prepaid or repaid, calculated and compounded on each anniversary of the issue of the CULS. On conversion of any CULS, any unpaid interest shall be paid within 20 days of such conversion;
– The CULS are repayable, together with accrued interest on 13 August 2026 ("the Repayment Date").

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

Leases
The future minimum lease payments under lease agreements at the year end date was £206,033 (2021: £123,382). 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 £299,635 (2021: £142,710). The principle terms of which are interest at 2.58% over Bank of England base rate and secured on the company's debtors.

Included in bank and other loans is a secured mortgage of £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.

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 £15,359.

16 Borrowing analysis (continued)

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%.

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

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

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 2022, the top 3 customers comprised 34% (2021: 43.00%) 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:

2022	Weighted average loss rate	Gross carrying value £'000	Impairment loss allowance £'000
Performing	0.00%	1,809	-

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

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:

2022	Less than 1 year £'000	Due between 1-2 years £'000	Due between 2-5 years+ £'000	Total £'000
Trade and other payables	1,876	-	-	1,576
Borrowings	2,405	2,887	355	5,647
Lease liability	322	363	2,007	2,692
	4,603	3,250	2,362	10,215

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

17 Financial instruments (continued)

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.

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

	2022 No.	2022 £'000	2021 No.	2021 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
Allotted and fully paid				
Brought forward	34,860,515	349	34,360,515	344
Issued during the year	1,452,308	14	500,000	5
Carried forward	36,312,823	363	34,860,515	349

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

11,773,703 (2021: 12,773,703) share options were outstanding at the year end, comprising the 1.12m employee options and the 10,653,703 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.

18 Share capital (continued)

Employee options

Date Options Exercisable	Number of Shares	Exercise Price
Between July 2016 and July 2023	80,000	3.00p
Between November 2019 and November 2026	400,000	3.875p
Between November 2020 and November 2027	300,000	3.75p
Between March 2024 and March 2031	1,290,000	8.00p

Directors' share options

	No. of options					
	At start of year	Granted during the year	Lapsed during the year	At end of year	Exercise price	Date from which exercisable
G G Watt	750,000		-	750,000	8.0p	18 Mar 2024
S P Padmanathan	200,000		(200,000)	-	3.9p	
S P Padmanathan	300,000		(300,000)	-	8.0p	
R MacDonnell	200,000		-	200,000	8.0p	18 Mar 2024

The Company's share price at 30 June 2022 was 16.5p. The high and low during the period under review were 37p and 5.6p respectively.

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

The weighted average contractual life of share options outstanding at the year end is 7.09 years (2021: 6.87 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 – £140,005

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:

	2022 £	2021 £
Balance due from:		
TED Limited	462,482	405,010
Wessex Precision Engineering Limited	6,120	-
Balance due to:		
Adien Limited	147,738	116,998
QM Systems Limited	979,323	1,369,416
Utsi Electronics Limited	271,115	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	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Coronavirus Job Retention Scheme grants	48	340	3	30
	48	340	3	30

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 11.30 a.m. on 22 December 2022 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 2022 together with the reports of the directors and auditor thereon. **(Resolution 1)**

2. Randal MacDonnell retires by rotation, in accordance with the Articles of Association of the Company and having consented to be considered for re-appointment, is hereby re-appointed as a director of the Company. **(Resolution 2)**

3. Tim Williams, having been appointed as a director of the Company since the date of the last annual general meeting, becomes subject to retirement by rotation in accordance with the Articles of Association of the Company and having consented to be considered for re-appointment, is hereby re-appointed as a director of the Company **(Resolution 3)**

4. To re-appoint Crowe U.K. LLP as auditor of the Company and to authorise the directors to set their remuneration. **(Resolution 4)**

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

A Tombs
Secretary

Dated: 28 November 2022

Notes:

1. A member of the Company entitled to attend and vote at the AGM may appoint one or more proxies to attend and 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 6.30 p.m. on 20 December 2022 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 6.30 p.m. on 20 December 2022 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 264196

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