ANDREWS SYKES GROUP PLC

Andrews Sykes Group plc

Annual Report and Financial Statements 2018

SYKES PUMPS

ANDREWS AIR CONDITIONING

ANDREWS HEAT FOR HIRE

ANDREWS DEHUMIDIFICATION

ANDREWS CHILLERS

ANDREWS BOILERS

ANDREWS VENTILATION

Contents

Summary of Results

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Revenue from continuing operations	**78,563**	71,300
EBITDA* from continuing operations	**26,737**	22,851
Operating profit	**20,681**	17,589
Profit after tax for the financial period	**17,046**	14,101
Basic earnings per share from total operations (pence)	**40.39p**	33.37p
Interim and final dividends paid per equity share (pence)	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	**11.90p**	11.90p
Net cash inflow from operating activities	**19,110**	17,862
Total interim and final dividends paid	**10,048**	10,058
Net funds	**23,381**	20,293

*Earnings Before Interest, Taxation, Depreciation, profit on sale of property, plant and equipment, Amortisation and non-recurring items as reconciled on the consolidated income statement.

Chairman's Statement

Overview and financial highlights

Summary

The group's revenue for the year ended 31 December 2018 was £78.6 million, an increase of £7.3 million, or 10.2%, compared with the same period last year. This increase had a more than proportionate impact on operating profit which increased by 17.6%, or £3.1 million, from £17.6 million last year to £20.7 million in the year under review. This increase, which follows a 11.2% increase last year, reflects strong and improved performances from both our hire and sales businesses in the UK and Europe and a strong and stable performance from our business in the Middle East.

Net finance income was £0.4 million this year compared with net finance costs of £0.3 million in 2017. This is largely attributable to a foreign exchange gain arising on the retranslation of inter-company balances of £0.3 million this year compared with a loss of £0.3 million in 2017. This reflects further weakening of Sterling compared with both the Euro and UAE Dirham.

The group has reported an increase in the basic earnings per share of 7.02p, or 21%, from 33.37p in 2017 to 40.39p in the current year. This is mainly attributable to the above improvement in the group's operating profit which has enhanced the quality of earnings. The growth in the basic EPS is indicative of the underlying business performance and strength of the group.

The group continues to generate strong cash flows. Net cash inflow from operating activities was £19.1 million compared with £17.9 million last year. Despite shareholder related cash outflows of £10.5 million on ordinary dividends and share buybacks, net funds increased by £3.1 million from £20.3 million at 31 December 2017 to £23.4 million at 31 December 2018.

Our policy of returning affordable dividends to shareholders continues and, over the last five financial years, the group has paid £50.3 million in cash to shareholders. This has not been at the expense of our other obligations; the group pays its external creditors in accordance with their agreed credit terms, it operates well within its banking covenants and has met its obligations as they fall due to fund the defined benefit pension scheme. Therefore, in the light of the improved operating profit and substantial net funds that are available, the Board is once again proposing a further final dividend payment amounting to £5.0 million which, if approved at the forthcoming AGM, will be paid in June 2019.

Cost control, cash and working capital management continue to be priorities for the group. Capital expenditure is concentrated on assets that give a good return and in total £7.5 million was invested in the hire fleet this year, £0.6 million more than last year and significantly more than the wasting depreciation charge of £5.9 million. In addition, the group invested a further £1.1 million in property, plant and equipment. These actions will ensure that the group's infrastructure and revenue generating assets are sufficient to support future growth and profitability. Hire fleet utilisation, condition and availability continue to be the subjects of management focus.

Operating performance

The following table splits the results between the first and second half years:

	Turnover £'000	Operating profit £'000
1st half 2018	**37,815**	**9,280**
1st half 2017	35,334	8,171
2nd half 2018	**40,748**	**11,401**
2nd half 2017	35,966	9,418
Total 2018	**78,563**	**20,681**
Total 2017	71,300	17,589

The above table demonstrates that the successful performance in the first half of the year continued into the second half. Turnover in the first half of the year showed a 7.0% improvement over the same period in 2017 and, in the second half, the percentage improvement increased to 13.3%. Operating profit for the first half year showed a 13.6% improvement compared with the same period in 2017 and a 21.1% improvement for the second half year. Traditionally, the group makes more profit in the second half year due to the higher profit margins on its air conditioning products which are hired predominantly in the second half of the year. The effect this year was even more pronounced than normal due to the long and hot summer throughout Northern Europe providing excellent opportunities for this area of our business.

The operating profit of our main business segment in the UK and Northern Europe increased from £15.2 million last year to £19.1 million in the year under review. During the first quarter a period of very cold weather created good opportunities for our heating and boiler hire activities and this was followed by a long hot summer which provided excellent opportunities for our air conditioning and chiller products. The group's management team took advantage of the opportunities presented to them and the improved profitability would not have been forthcoming without the considerable efforts of all our staff. The pumping business again performed well following continued success over recent years. Our traditional businesses continue to be developed and supported by the expansion of non-weather dependent niche markets which benefit the performance of our specialist hire divisions. This year's result demonstrates that with properly directed investment, a well maintained hire fleet, a knowledgeable management team and dedicated employees we are able to take full advantage of opportunities when they are presented to us and deliver a strong performance for the benefit of all shareholders.

Our hire and sales business in the Middle East had another satisfactory trading year. Although the operating profit for this business segment reduced from £2.9 million in 2017 to £2.4 million in the current year, the majority of this reduction occurred in the first half of the year. Trading showed a significant improvement in the second half of the year.

Our fixed installation business sector in the UK returned a reduced operating profit of £0.1 million this year compared with £0.4 million in 2017. The market continues to be fragmented with high levels of price competition.

Central overheads were £0.9 million in both the current year and 2017.

Profit for the financial year

Profit before tax was £21.1 million this year compared with £17.3 million last year, an increase of £3.8 million. This is attributable to the above £3.1 million increase in operating profit which is supplemented by a swing in finance costs from a net charge of £0.3 million last year to a net credit of £0.4 million this year. This was primarily due to foreign exchange rate movements as discussed above.

Tax charges increased from £3.2 million in 2017 to £4.0 million this year. The overall effective tax rate increased from 18.4% in 2017 to 19.0%, primarily due to a change in mix of profits with a greater percentage of the group's profits being earned in Europe this year compared with the Middle East where corporation tax rates are very low. A detailed reconciliation of the theoretical corporation tax charge based on the accounts profit multiplied by 19% and the actual tax charge is given in note 11 to the consolidated financial statements. Profit for the financial year was £17.1 million compared with £14.1 million last year.

Chairman's Statement

Overview and financial highlights (continued)

Equity dividends

The company paid two dividends during the year. On 25 June 2018, a final dividend for the year ended 31 December 2017 of 11.9 pence per ordinary share was paid and this was followed on 9 November 2018 by the payment of an interim dividend for 2018, also of 11.9 pence per share. Therefore, during 2018, a total of £10.1 million in cash dividends has been returned to our ordinary shareholders.

I am pleased to announce that, in view of the group's ongoing profitability and its significant cash resources, the Board has proposed a final dividend for 2018, also of 11.9 pence per ordinary share. If approved at the forthcoming Annual General Meeting this dividend, which in total amounts to £5.0 million, will be paid on 21 June 2019 to shareholders on the register as at 31 May 2019.

Share buybacks

The company purchased 87,723 of its own one pence ordinary shares for cancellation during the period for a consideration of £0.4 million. This purchase enhanced earnings per share and was for the benefit of all shareholders. As at 9 May 2019, there remained an outstanding general authority for the directors to purchase 5,195,037 ordinary one pence shares that was granted at last year's Annual General Meeting.

The Board believes that it is in the best interests of shareholders if it has this authority in order that market purchases may be made in the right circumstances if the necessary funds are available. Accordingly, at the next Annual General Meeting, shareholders will be asked to vote in favour of a resolution to renew the general authority to make market purchases of up to 12.5% of the ordinary share capital in issue.

Net funds

At 31 December 2018, the group had net funds of £23.4 million compared with £20.3 million last year, an increase of £3.1 million despite shareholder related cash outflows of £10.5 million on ordinary dividends and share buybacks during the year.

Bank loan facilities

The group continues to operate within its bank covenants. In April 2017 a bank loan of £5 million was taken out with the group's bankers, Royal Bank of Scotland. The first loan repayment of £0.5 million was made in accordance with the bank agreement on 30 April 2018. The remaining balance of £4.5 million will be repaid by three equal annual instalments of £0.5 million per annum commencing on 30 April 2019 followed by a final balloon repayment of £3 million due on 30 April 2022.

Outlook

The group's policy to increase investments in new technologically advanced and environmentally friendly non-seasonal products will be continued into 2019. Investments will also continue in our traditional businesses to ensure we are ready to support our customers in times of extreme weather conditions.

The group continues to face both challenges and opportunities in all of its geographical markets but our business remains strong, cash generative and well developed, with positive net funds. The Board remains mindful of the favourable or adverse impact that the weather can have on our business.

JG Murray
Chairman

9 May 2019

Strategic Report
Operational performance

Principal Objectives and Strategy
The Andrews Sykes Group is one of the market leaders in the rental of Pumping equipment and Specialist Climate Control products which include Air Conditioning and Chillers, Heating and Boilers, Dehumidifiers and Ventilation.

We aim to provide the most modern, technically advanced and environmentally friendly rental equipment in the market. Our products and services are supplied throughout the UK, Europe and the Middle East via a network of depots which are supported by regional agents. Having been originally established in the UK since 1857 we now have over 40 locations and employ around 600 staff worldwide. Our operations in mainland Europe began over 40 years ago in Rotterdam and now extend to depots located throughout Holland, Belgium, Luxembourg, France, Italy and Switzerland. In the Middle East we have been operating from Dubai since the 1970s and now have locations in Abu Dhabi and Sharjah, with agents and partners based in Saudi Arabia, Oman, Qatar, Kuwait and Bahrain.

In addition to renting our products we provide our equipment for sale along with a full service and repair back up. In the UK we also have a specialist Air Conditioning installation, service and maintenance subsidiary which covers the whole of the UK from a base in Manchester.

By providing a first class level of service 24 hours per day, 365 days per year we have become the preferred suppliers to many major businesses and operations spanning a huge range of industries and geographic locations. Our reputation for providing high levels of training to our staff whilst maintaining a strict health and safety workplace, within an environmentally conscious culture, makes us an employer of choice for our Industry.

Continual investment in new technology ensures that we provide our customers with new solutions to overcome their operational challenges. We constantly review and refresh our fleet of rental equipment to ensure that we set the standards within the rental industry throughout the UK, Europe and the Middle East.

Future Development of the Business
Our success has been centred on providing technically advanced climate rental and pumping products to numerous geographic locations and market sectors. We plan to continue to develop new products and services within our specialist product line whilst continuing to expand our geographic coverage both within existing territories and new markets. During 2018 we continued to develop new products and have a number of new developments ready for launching in 2019 which will extend our product offering to both new and existing customers.

Although our business benefits from extreme climate conditions and is affected by regional economic influences, we aim to provide acceptable levels of success without relying on advantageous market conditions, whilst optimising favourable conditions when they arise. At the same time the company continues to carefully control its cost base to ensure that satisfactory levels of profit can be achieved even during difficult market conditions.

2018 Operational Performance
The group reported an increase in operating profits from last year of £3.1 million, this increase was driven by improved trading levels throughout the UK and mainland Europe, whilst the Middle East traded slightly below the previous year.

The UK produced a significant increase in revenue from the previous year, which was supported by favourable weather conditions. Both hire revenue and sales revenue performed ahead of last year. During the first quarter a period of very cold weather created good opportunities for our heating and boiler hire activities, these opportunities were fully optimised and provided successful growth. The long hot summer provided excellent opportunities for our air conditioning and chiller products, our sales and operational teams performed exceptionally well during this period enabling the business to report significant growth when compared with the previous year. Pump hire also performed well, continuing the year-on-year growth of recent years.

Strategic Report
Operational performance (continued)

In mainland Europe both our total turnover and operating profit increased compared with the previous year. Much of the region enjoyed the same beneficial weather conditions as the UK, which supported a strong overall performance. In the Netherlands our business continued the success of recent years providing strong growth once again. During the year our Dutch subsidiary relocated its main depot and regional head office, to a much larger and more modern facility. In Belgium our operation continued with the year-on-year growth and in Luxembourg, our relatively new business, produced another strong result with significant growth on previous years. Our Italian subsidiary, Nolo Climat, continued to grow in 2018, during the year we relocated our main Milan depot to a much improved and larger facility, this investment enabled the Italian subsidiary to produce additional revenue and profit in the year. In France our operations enjoyed further growth in the year and enabled a profit that was ahead of the previous year, during the second half of the year we opened a new facility in the South which will extend into a new depot close to Marseille during the early part of 2019. Our Swiss subsidiary had a successful year providing a profitable result following a small loss in the previous year.

Khansaheb Sykes produced a reasonable result for the year, although the operating profit was slightly lower than the previous year. Trading in the Middle East was difficult during the early part of the year, but we did see a marked improvement during the second half, with strong trading towards the end of the year.

The overall group operating profit of £20.7 million is an increase of £3.1 million when compared to the 2017 results. Net funds increased by £3.1 million from £20.3 million last year to £23.4 million at 31 December 2018 despite shareholder related cash outflows of £10.5 million on equity dividends and share buy backs.

Hire and Sales Europe
Summary
Turnover of the European hire and sales business sector increased from £55.0 million last year to £63.7 million in the current year, an increase of £8.7 million or 15.8% compared with last year. Operating profit increased by £3.9 million, or 25.2%, from £15.2 million in 2017 to £19.1 million in 2018. A reconciliation of the result of this and other business sectors to the consolidated results for the year is given in note 5 to the financial statements.

Andrews Sykes Hire Limited
Our main UK trading subsidiary Andrews Sykes Hire, has 26 locations covering the UK and employing over 330 members of staff. During the year we continued to develop our product range and service offering with further investment in our hire fleet, depots and infrastructure. The profit for 2018 was ahead of the 2017 performance, with most products ahead of the previous year. The cold weather during the early part of 2018 followed by the long hot summer had a very positive effect on the results.

Andrews Sykes BV
With over 40 years of experience in the Dutch market we currently have 4 depots strategically located throughout the Netherlands providing full coverage of the country as well as enabling access into the German market. During the year we relocated our regional head office and main depot, to a much larger facility that will be able to support further growth in future years. Our Dutch business also provides back up support to our operations in Belgium and Luxembourg. This subsidiary performed well and produced growth in 2018, following the increase in profits achieved in the previous three years.

Andrews Sykes BVBA
Our Belgian subsidiary is based in Brussels and provides the full range of Andrews Sykes climate rental products throughout Belgium. Trading in both French and Flemish languages, the business has dual language branding, literature and website for the Belgian market. Similar to the Dutch business, our Belgian subsidiary also produced a strong performance in the year.

Andrews Sykes Sarl
Our operation in Luxembourg was opened in 2014 and is located within easy reach of the capital, this enables us to provide the full range of our climate rental products throughout the country. This subsidiary produced strong growth during the year which was supported by further investment in products, staff and facilities. Our Luxembourg subsidiary works in conjunction with our Belgian operation, with administration and technical support provided from Brussels.

Nolo Climat SRL

Nolo Climat is our Italian subsidiary which opened in 2011. Our main depot is strategically located close to the centre of Milan where it is well placed to cover the Lombardy region and the North of Italy, with a second depot located in Bologna. Following the progress made in recent years this business provided another record result in 2018 with significant growth when compared to the previous year. During the year we moved our regional head office and main depot to a much larger and more modern facility that will be able to support further growth in the future.

Andrews Sykes Climat Location SAS

Our French subsidiary was established in 2012, since then we have established depots in Paris, Lyon and Lille, during the year we expanded our coverage into the South of the country which will lead to a new depot opening close to Marseille early in 2019. We continued to invest in this subsidiary throughout the year which enabled a profitable result for the region in 2018. Further growth is planned with new depots opening in future years in order to cover the whole of France.

Climat Location SA

Climat Location SA is our Swiss subsidiary which opened in 2013, this operation was established to service the French cantons and works closely with our French subsidiary. Following a loss in 2017 our Swiss operation produced an improved performance and a profitable result in 2018.

UK Installation Business

Andrews Air Conditioning and Refrigeration Limited

Andrews Air Conditioning and Refrigeration *(AAC&R)* is our UK based fixed air conditioning, service, maintenance and installation business. This subsidiary provides a specialist service to customers who have, or require permanently installed air conditioning systems. The total revenue for this business is split between the sale of new systems and the service and maintenance of existing systems. In 2018 the business experienced a downturn in revenue but was still able to provide a profitable result.

Hire and Sales Middle East

Khansaheb Sykes LLC

Khansaheb Sykes is our long established pump hire and dewatering business, which is based in the UAE with locations in Sharjah, Dubai and Abu Dhabi. These centres also provide a base from which we cover other parts of the Middle East for both pump sales and hire. We have agents based in Oman, Kuwait, Bahrain and Qatar, which allows us to provide our products and services in these local markets. Following a slow start to the year the business reported a decline in both revenue and profit in 2018. Trading improved during the final quarter and is likely to continue to trade in line with expectation during the early part of 2019.

Group Summary

The overall group result for 2018 shows an increase in operating profit of £3.1 million, or 17.6%, when compared to the previous year. This increase was driven by very strong performances from our hire operations in the UK and mainland Europe.

The Andrews Sykes business remains strong: the experience of our senior management team, coupled with our development plans, provide optimism for further progress in 2019. The group continues to develop new sales channels and propositions which will enable the business to take advantage of favourable market conditions and opportunities as they arise. At the same time the company continues to carefully control its cost base and ensure that satisfactory levels of profit can be achieved even during difficult market conditions.

Strategic Report
Review of risks, uncertainties and financial performance

Key Performance Indicators (KPIs)
The group's principal KPIs are as follows:

	12 months ended 31 December 2018	12 months ended 31 December 2017
Average revenue per employee	**£137,100**	£131,100
Operating cash flow[1] as a percentage of operating assets[1] employed	**62.5%**	69.7%
Net funds to equity percentage	**39.6%**	38.0%
Basic EPS from continuing operations (pence)	**40.39p**	33.37p

[1] Cash generated from operations before defined benefit pension scheme contributions. Operating assets are net assets employed excluding pension assets and liabilities, loans, deferred and corporation tax balances, bank deposit accounts and cash.

Non-financial KPIs internally monitored by the Board include asset utilisation and health and safety statistics. These are not quantified as management consider that to do so would give a business advantage to our competitors.

The average revenue per employee and the operating cash flow as a percentage of operating assets employed are indicative ratios used to monitor the revenue generation of the group relative to its fixed resources. The average revenue per employee shows another improvement this year and indicates a strong underlying operating performance and high staff utilisation levels. Operating cash flow as a percentage of operating assets continues to demonstrate both strong working capital management and high levels of asset utilisation.

The net funds-to-equity percentage is indicative of the group's strength and capacity for taking on additional finance as and when the need arises. A reconciliation of the movement in net funds during the year is provided on page 35.

The basic earnings per share *(EPS)* is the traditional ratio used by the group to monitor its performance relative to its equity base. This, in the long term, ultimately drives the share price and gives a good indication of how well the directors and staff are delivering the success of the company for the benefit of the members as a whole. The EPS increased markedly this year by 21.0% from 33.37p in 2017 to 40.39p in 2018 primarily due to the significant improvement in operating profit which is discussed further elsewhere in this strategic report.

Operating profit
The consolidated operating profit was £20.7 million for the year under review, an increase of £3.1 million, or 17.6 %, compared with last year's operating profit of £17.6 million which was itself 11.2% higher than the 2017 result. Note 5 to the financial statements analyses these results by business segment and this can be summarised as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Hire and sales Europe	**19,077**	15,237
Hire and sales Middle East	**2,422**	2,899
UK installation business	**145**	387
Sub total	**21,644**	18,523
Unallocated costs and eliminations	**(963)**	(934)
Consolidated operating profit	**20,681**	17,589

A review of the performance of each business sector is given in the operational performance section of this strategic report.

Net interest credit/(charge)

The net interest credit, including inter-company foreign exchange differences, for the current year is £364,000 compared with a charge of £304,000 in 2017. This can be analysed as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Interest charge on bank loans and overdrafts	**(95)**	(89)
Finance lease interest charge	**(2)**	(4)
Interest receivable	**41**	40
Foreign exchange gain/(loss) on inter-company loans	**336**	(293)
Net IAS 19 pension interest credit	**84**	42
Total net interest credit/(charge)	**364**	(304)

The interest charge on bank loans and overdrafts and interest receivable both continue to reflect low external interest rates in the primary economic environments in which the group operates.

The weighted average interest rate charged on the bank loans increased slightly from 1.53% last year to 1.75% in 2018 but the weighted average capital amount of the gross outstanding loans reduced from £5.0 million last year to £4.7 million in 2018, these two factors combined being the major reasons for the slight increase in the interest charge this year.

The average rate of interest receivable on short-term bank deposits decreased from last year's level of 0.29% to 0.2% but this was offset by higher levels of cash on deposit during the current year resulting in a virtually unchanged amount of interest receivable.

There was a foreign exchange gain on inter-company loans this year of £336,000 compared with a loss of £293,000 last year. This reflects further weakening of Sterling compared with both the Euro and UAE Dirham. The group's policy continues to be to not hedge its international assets with respect to foreign currency balance sheet translation exposure.

The net IAS 19 pension interest credit has been calculated by the group's actuary based on the assumptions as set out in note 18 to the financial statements. In accordance with IAS 19 (2011) the expected percentage return on assets has been limited to an equivalent rate used to discount the scheme's liabilities. A net credit arises in both periods as the scheme has a surplus calculated in accordance with IAS 19 (2011) at the end of both the current and previous financial years.

Review of risks, uncertainties and financial performance (continued)

Tax on profit on ordinary activities

The group's tax charge on ordinary activities was £3,999,000 *(2017: £3,184,000)* resulting in an overall effective tax rate of 19.0% *(2017: 18.4%)* which is in line with the standard effective tax rate in the UK for the current year of 19.0% *(2017: 19.25%)*. A summary of the factors giving rise to this decrease is given in the table below:

	£'000
Profit before taxation	**21,045**
Theoretical tax charge at the UK effective tax rate of 19.0%	**3,999**
Effects of different tax rates of subsidiaries operating abroad	**(78)**
Movement in overseas trading losses not recognised in deferred tax	**(44)**
Non-tax deductible expenses	**114**
Adjustments to prior periods	**8**
Total tax charge for the financial year	**3,999**

A detailed reconciliation of the theoretical corporation tax charge based on the accounts profit multiplied by 19.0% and the actual tax charge is given in note 11 to the consolidated financial statements.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016 and received Royal Assent on 15 September 2016. This reduction should further reduce the group's current tax charge.

The deferred tax balances at both 31 December 2018 and 31 December 2017 have been calculated based on the rates that were substantively enacted at the balance sheet dates that the directors' anticipate will apply when the timing differences are expected to reverse. Accordingly, a rate of 19% has been used as at 31 December 2018 and 31 December 2017.

Profit for the financial year

Profit after tax for the financial year was £17,046,000 compared with £14,101,000 last year.

Basic earnings per share (EPS)

The basic earnings per share increased substantially by over 7 pence, or 21.0%, from 33.37p last year to 40.39p in 2018. There were no dilutive instruments outstanding in either 2018 or 2017 and therefore there is no difference between the basic and diluted earnings per share figures.

Based on a year-end mid-market share price of 481 pence, the basic EPS gives a price to earnings ratio of 11.9 compared with 16.63 last year.

Cash flow from operating activities

The table below summarises the group's cash flow from operating activities compared with the previous year:

	12 months ended 31 December 2018 £m	12 months ended 31 December 2017 £m
Operating profit	**20.7**	17.6
Depreciation and profit on the sale of plant and equipment	**6.0**	5.3
EBITDA*	**26.7**	22.9
Write off of trade investment	**–**	0.2
Pension scheme administration costs in excess of/(less than) defined benefit pension scheme contributions	**0.5**	(0.8)
Interest paid	**(0.1)**	(0.1)
Tax paid	**(3.7)**	(3.1)
Net working capital movements	**(4.3)**	(1.2)
Net cash inflow from operating activities	**19.1**	17.9

* Earnings Before Interest, Taxation, Depreciation, profit on sale of property, plant and equipment, Amortisation and non-recurring items as reconciled on the consolidated income statement.

As demonstrated by the table above, the group continues to generate strong operating cash flows.

As well as cost control, management of working capital continues to be a priority. The net working capital increase of £4.3 million reflects an increase in stocks (£2.7 million), an increase in debtors (£2.1 million) and an increase in creditors (£0.5 million) compared with last year. Total outstanding debtor days at the year end remained virtually unchanged from the previous year at 73 days (*2017: 72 days*). Although still high in UK terms, the debtor day statistic in both years includes our subsidiary in the Middle East whose debtor days were 167 days (*2017: 155 days*) and this is typical for the region. The debtor days for our main hire and sales business in the UK remained unchanged from last year at 54 days. The group's average debtor days for current unimpaired debts also remained unchanged from last year at 37 days.

Adequate provisions continue to be made for bad and doubtful debtors. In 2018 debts written off against the bad debt provision were 483,000 compared with £312,000 last year and there was a net charge of £711,000 *(2017: £451,000)* to the income statement from the bad debt provision, which was calculated on a consistent basis each year. Of the current year figures, £300,000 of the debts written off and £393,000 of the bad debt charge related to our subsidiary in the Middle East.

Employer pension contributions of £120,000 (*2017: £920,000*) have been made by the group to the pension scheme in 2018. Pension scheme costs charged within administration expenses in the income statement in accordance with IAS 19 (2011) amounted to £563,000 (*2017: £150,000*). The current year charge includes £432,000 in respect of "Guaranteed Minimum Pension equalisation". Pensions are discussed in more detail on page 14 and in note 18 to the financial statements.

Net funds

Despite shareholder related cash outflows of £10.5 million on ordinary dividends and the purchase of own shares, net funds increased by £3.1 million from £20.3 million at 31 December 2017 to £23.4 million at 31 December 2018. The movement can be reconciled as follows:

	£m
Opening net funds	**20.3**
Significant inflows:	
Cash inflow from operating activities	**19.1**
Sale of plant and equipment	**0.9**
Significant outflows:	
Capital expenditure	**(7.1)**
Equity dividends paid	**(10.1)**
Purchase of own shares	**(0.4)**
Significant non-cash movements:	
Effect of foreign exchange rate changes	**0.7**
Closing net funds	**23.4**
Comprises:	
Bank loans net of loan finance costs and finance lease obligations	**(4.5)**
Cash at bank	**27.9**
Total net funds	**23.4**

The effect of the foreign exchange rates includes the gain on the conversion of the inter-company balances included in the income statement of £0.3 million and a gain on the reconversion of the group's net external foreign currency denominated assets that arises on consolidation of £0.4 million which has been taken to the translation reserve.

The bank loan repayment profile is set out in note 24 to the financial statements. Interest is charged based on the three month LIBOR rate plus a margin of 1.1%. The weighted average interest rate charged in the year was 1.75% *(2017: 1.53%)*. Costs of raising loan finance are being amortised to the income statement over the period of the loan.

Management has been careful to ensure that the hire fleet is up to date and well maintained in order to meet customer demand. Total cash spent on the hire fleet, property plant and equipment and vehicles amounted to £7.1 million *(2017: £5.8 million)*. In addition, £1.5 million of items held in stock at December 2017 have also been capitalised in the hire fleet this year *(2017: £2.2 million)*. Capital expenditure has been concentrated on hire fleet assets with high levels of utilisation and good rates of return as well as business development opportunities. Savings continue to be made in non-essential areas and hire fleet maintenance and utilisation have been prioritised.

Strategic Report

Review of risks, uncertainties and financial performance (continued)

Bank loan facilities

The group continues to operate within its bank covenants. In April 2017 a bank loan of £5 million was taken out with the group's bankers, Royal Bank of Scotland. The first loan repayment of £0.5 million was made in accordance with the bank agreement on 30 April 2018. The remaining balance of £4.5 million will be repaid by three equal annual instalments of £0.5 million per annum commencing on 30 April 2019 followed by a final balloon repayment of £3 million due on 30 April 2022. Interest is being charged at the three month LIBOR rate plus a margin of 1.1%.

Principal risks and uncertainties

The group's principal risks are as follows:

Going concern

The Board remains satisfied with the group's funding and liquidity position. The group has operated throughout the 2018 financial year and until the date of signing these accounts within its financial covenants as contained in the bank agreement.

Both loan capital and interest payments have been made in accordance with the bank agreements. As noted above, the first annual repayment due in accordance with the loan agreement dated 30 April 2017 of £0.5 million was made on 30 April 2018. The group's profit and cash flow projections indicate that the financial covenants included within the new bank loan agreement will be met for the foreseeable future.

The group continues to have substantial cash resources which at 31 December 2018 amounted to £27.9 million compared with £25.3 million as at 31 December 2017. Profit and cash flow projections for 2019 and 2020, which have been prepared on a conservative basis taking into account reasonably possible changes in trading performance, indicate that the group will be profitable and generate positive cash flows after loan repayments. These forecasts and projections indicate that the group should be able to operate within the new bank facility agreement and that all associated covenants will be met.

The Board considers that the group has considerable financial resources and a wide operational base. As a consequence, the Board believes that the group is well placed to manage its business risks successfully, as demonstrated by the current year's result, despite some uncertain external influences.

After making enquiries, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis when preparing this Annual Report and Financial Statements.

Strategic risks

In common with all entities operating in a dynamic marketplace, the group faces a number of strategic risks. Management has developed long-term business plans to manage the impact of these risks to ensure that the group continues to deliver a satisfactory performance in future years. The main strategic risks faced by the business, together with the actions taken by management to mitigate their impact, are set out below.

The directors do not consider that the group has significant cross border trading that may potentially be adversely affected by "Brexit". In addition, the directors do not expect that the group's performance will be impacted by changes to the mobility in the labour market as a consequence of this process. The group does have an investing relationship in its EU based subsidiaries but it is not envisaged that there will be any significant barriers to investing imposed by any authority as a consequence of the UK leaving the EU.

Consequently, the directors consider that there are minimal specific risks to the group as a direct consequence of "Brexit". There is a general risk that the UK and / or the EU economies may slow down, thereby affecting the group's future trading performance, but at this stage, given the current levels of uncertainty, any potential impact cannot be quantified with any degree of accuracy.

Competition, product innovations and industry changes are regarded as the main strategic risks. These are mitigated by investment in new environmentally friendly, technologically advanced products and equipment and providing service levels that are recognised as being among the best in the industry. Market research and customer satisfaction studies are undertaken to ensure that our products and services continue to meet the needs of our customers.

In order to remain competitive, management recognises the need to invest in appropriate IT equipment and software. Consequently, the communication network, website and data capture systems are all being constantly reviewed and updated to ensure they remain at the forefront of industry standards.

The potential impact of the weather has been reduced over the past few years by the expansion of our non-weather related business. The group also has a diverse product range of pumps, heaters and air conditioning and environmental control equipment which enables it to take maximum advantage of the opportunities presented by any extremes in weather conditions whenever they arise. This, combined with our policy of reducing fixed costs and linking them to a sustainable level of turnover, enables the group to achieve a satisfactory level of profits even in non-extreme weather conditions.

Financial risks

There has been no change during the year, or since the year end, to the type of financial risks faced by the group or the group's management of those risks.

The key risks, which are discussed in more detail in note 30 to the consolidated financial statements, are:

- Interest rate risk
- Market risk
- Credit risk
- Funding and liquidity risk

Pension scheme surplus

As set out in note 18 to the consolidated financial statements, as at 31 December 2018 the pension scheme assets were £41.1 million which, after deducting the present value of the pension scheme liabilities of £39.7 million, calculated in accordance with IAS 19, results in a pre-tax surplus of £1.4 million. When assessing the appropriateness of the recognition of this surplus, the directors have considered the guidance in IAS 19 and IFRIC 14 and have concluded that because of the rights upon wind-up it is appropriate to recognise this asset in the financial statements.

Management continues to work with the pension scheme trustees to maximise the return from the pension scheme assets and to match that return with the pension scheme liabilities as they crystallise in order to minimise the exposure to the group. The net surplus or deficit is sensitive to changes in assumptions, which are at least in part influenced by changes in external market conditions, and therefore this area continues to be subject to management focus.

Andrews Sykes Group Pension Schemes

Defined benefit pension scheme

The group had for many years operated a defined benefit pension scheme for the benefit of the majority of its UK employees. This scheme provided a pension based on the employee's final salary and length of service.

The Board reviewed the appropriateness of the scheme taking into account the interests of both the employees and the shareholders. Accordingly, to minimise the impact on the group's results in the future and with the agreement of the trustees, the scheme was closed to new entrants on 31 December 2002. Existing members are no longer eligible to make contributions to the scheme and no further pension liabilities accrue as a result of any future service.

The group has adopted the requirements of IAS 19 (2011) – Employee Benefits and the scheme surplus has been calculated in accordance with the rules set out in the standard by an independent qualified actuary. The results were based on the last full actuarial valuation as at 31 December 2016 and have been rolled forward by an independent qualified actuary to 31 December 2018. The net surplus, before deferred tax, at the year end amounted to £1.4 million (*2017: £3.4 million*) and this has been recognised as a separate item, within non-current assets, on the face of the consolidated balance sheet.

A reconciliation of the surplus at the beginning of the year of £3.4 million to the surplus as at 31 December 2018 of £1.4 million is as follows:

	£m
Opening IAS 19 surplus recognised in the financial statements	**3.4**
Contributions paid by the group into the scheme	**0.1**
Actual return less interest income on scheme assets	**(2.6)**
Actuarial gain on scheme liabilities	**1.0**
Administration expenses	**(0.6)**
Net finance income	**0.1**
Closing IAS 19 surplus recognised in the financial statements	**1.4**

From 1 January 2011, the government amended the basis for statutory increases to deferred pensions and pensions in payment. Such increases are now based on inflation measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Having reviewed the scheme rules and considered the impact of changes on this pension scheme, the directors consider that future increases to all deferred pensions and Guaranteed Minimum Pensions accrued between 6 April 1988 and 5 April 1997 and currently in payment will be based on CPI rather than RPI. Accordingly, this assumption was adopted for the first time as at 31 December 2010 and has continued to be applied in subsequent years.

Other assumptions adopted by the directors, including mortality assumptions and discount rates, used to arrive at the above surplus are set out in note 18 to the financial statements.

Pension scheme administration charges include £432,000 in respect of a Guaranteed Minimum Pension equalisation charge. This arose following a High Court judgement in the case of Lloyds Banking Group on 26 October 2018 when it was clarified that pension benefits paid by UK defined benefit pension schemes do need to be equalised for previously unequal Guaranteed Minimum Pensions. Any future changes to the assumptions adopted this year when calculating this charge will be recognised in the consolidated statement of comprehensive total income as a re-measurement item.

Defined benefit scheme funding valuation

Following the triennial recalculation of the funding deficit as at 31 December 2016 a revised schedule of contributions and recovery plan was agreed with the pension scheme trustees in October 2017. In accordance with this schedule of contributions the group made additional contributions in 2017 to remove the funding deficit calculated as at 31 December 2016 of £710,000 and this has now been eliminated.

Throughout 2017 and 2018 the group has continued to make a contribution towards expenses of £10,000 per month. In addition, the group made additional voluntary pension contributions of £30,000 per month for the three months ended March 2017. Accordingly, total employer pension contributions of £120,000 were made during 2018 *(2017: £920,000)*.

The next formal triennial funding valuation is due as at 31 December 2019. The group has agreed to continue to make the current level of monthly contributions towards expenses until such time as the next formal schedule of contributions is agreed with the trustees.

Defined contribution pension scheme and auto enrolment

The group operates the Andrews Sykes Stakeholder Pension Plan, for which the majority of UK employees are eligible. The scheme is managed on behalf of the group by Legal & General. Both the employer and employee contributions vary, generally based upon the individual's length of service with the company.

The group has adopted the requirements of auto enrolment for all eligible UK employees. Until 1 October 2017 employee and employer contributions were made at the rate of 1% each of pensionable salary which were then increased to 3% for employees and 2% for employers. On 6 April 2019 these rates were further increased to 5% and 3% respectively.

Contributions for both existing members and members that have been auto enrolled are made to the same scheme. The employers' contribution rates vary from 1% to 15%, the current average being 3.8% *(2017: 2.2%)*. The current period charge in the income statement amounted to £382,000 *(2017: £262,000)*. Employee contribution rates normally vary between 1% and 5% with the employees having the option of increasing their contributions after five years of membership. The contributions are used to purchase a specific fund for the individual employee with both gains and losses from changes in the fund's market value accruing to that employee.

Reconciliation of movement in group shareholders' funds

Group shareholders' funds have increased from £53.4 million at the beginning of the year to £59.0 million at 31 December 2018. The movement can be reconciled as follows:

	£m
Opening shareholders' funds	**53.4**
Profit for the financial period	**17.0**
IAS 19 actuarial loss net of deferred tax	**(1.3)**
Dividends declared and paid during the year	**(10.1)**
Purchase of owned shares	**(0.4)**
Currency translation differences on foreign currency net investments	**0.4**
Closing shareholders' funds	**59.0**

Details of dividends paid and proposed during the year are given in the Directors' report on page 17.

An analysis of the net IAS 19 actuarial loss of £1.6 million, before an attributable deferred tax credit of £0.3 million, is given in note 18 to the consolidated financial statements.

The currency translation difference on foreign currency net investments arises on consolidation and is primarily due to movements in Sterling compared with the Euro and the UAE Dirham. During the current year Sterling weakened against both the Euro and the UAE Dirham and the combined impact on the group's foreign currency net investments was a gain of £0.4 million.

Strategic Report
Review of risks, uncertainties and financial performance (continued)

Share buybacks
During the current year the company purchased 87,723 of its one pence ordinary shares for cancellation for a total consideration of £438,000. This purchase enhanced earnings per share and was for the benefit of all shareholders. No shares were purchased for cancellation in 2017 and to date the company has not purchased any of its own shares for cancellation during 2019.

At the next Annual General Meeting shareholders will be asked to vote in favour of a resolution to renew the general authority to make market purchases of up to 12.5% of the ordinary share capital in issue. Any purchases will only be made on the London Stock Exchange and they will only be bought back for cancellation provided they enhance earnings per share. If this resolution is passed it should not be taken to imply that shares will be purchased but the Board believes that it is in the best interest of shareholders if it has this authority in order that market purchases may be made in the right circumstances if the necessary funds are available.

Signed on behalf of the Board:

PT Wood	St David's Court
Director	Union Street
	Wolverhampton
9 May 2019	WV1 3JE

Directors' Report

Principal activity

The principal activity of the group continues to be the hire, sale and installation of a range of equipment, including pumping, portable heating, air conditioning, drying and ventilation equipment. A review of the group's activities and an indication of likely future developments are set out in the Chairman's Statement and the Strategic Report on pages 2 to 16.

The principal activity of the company is that of an investment holding company.

Financial management objectives and policies

Financial management objectives and policies are discussed in the strategic report on pages 8 to 16.

Results and equity dividends

The results for the financial year are set out in the consolidated income statement on page 32.

The company paid two dividends during the year. On 25 June 2018 a final dividend for the year ended 31 December 2017 of 11.9 pence per share was paid to shareholders on the register on 1 June 2018. This was followed by an interim dividend for 2018, also of 11.9 pence per share, which was paid on 9 November 2018 to shareholders on the register on 12 October 2018. Total dividend payments made during the year amounted to £10,047,936 *(2017: £10,058,376)*.

The directors propose a final dividend of 11.9 pence *(2017: 11.9 pence)* per ordinary share. If approved at the forthcoming Annual General Meeting, this dividend, which in total amounts to £5,018,749 *(2017: £5,029,188)*, will be paid on 21 June 2019 to shareholders on the register as at 31 May 2019.

Directors

The directors in office at 9 May 2019 are shown on page 24.

On 5 March 2018 Mr M Gailer passed away after a short illness. Mr Gailer had been the senior independent non-executive director and Chairman of the Audit Committee for a number of years and a Board member since June 1994.

On 10 July 2018 the directors appointed Mr AJ Kitchingman as senior independent non-executive director. Mr Kitchingman also serves as the Chairman of the Audit Committee and a member of the Remuneration Committee of the company's Board.

Mr Kitchingman is a Fellow of the Institute of Chartered Accountants in England and Wales and enjoyed a long career in corporate finance, working for both consultancy firms and stockbrokers, including KPMG, Hill Samuel, Albert E Sharp, Brewin Dolphin and WH Ireland, across a wide range of business sectors, both public and private. He holds a number of other non-executive positions, including as chairman of AIM listed Mpac Group plc.

In accordance with the Articles of Association, Mr AJ Kitchingman will retire at the forthcoming Annual General Meeting and will offer himself for re-election. In addition Messrs JJ Murray and EDOA Sebag retire by rotation and, being eligible, will also offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' interests

Other than the beneficial interests disclosed below, no director in office at 31 December 2018 had any disclosable interests in share capital of the company or any subsidiary undertaking.

	Ordinary one pence shares	
	At 31 December 2018	At 31 December 2017
JG Murray	**298,749**	298,749
JJ Murray	**231,800**	231,800
JP Murray	**1,198,736**	1,198,736
PT Wood	**7,945**	7,945

On 8 February 2019 Mr JP Murray's daughter reached 18 years of age. Accordingly 37,850 shares held directly by his daughter are no longer included in his beneficial interest. Mr JP Murray's resultant beneficial interest from that date is therefore 1,160,886 ordinary shares. There were no other changes to the above shareholdings between 31 December 2018 and 9 May 2019.

Directors' Report

Substantial shareholdings

At 9 May 2019, the company had been notified of the following interest of 3% or more in the company's issued ordinary share capital:

	Number	Percentage
EOI Sykes Sarl	**36,377,213**	**86.25%**

Directors' share options

None of the directors in office at 31 December 2018 held any options to subscribe for ordinary shares at either 31 December 2018 or 31 December 2017. There have been no changes in the directors' share options during the period from 31 December 2018 to 9 May 2019.

The mid-market price of the company's ordinary shares on 31 December 2018 was £4.81. The highest and lowest mid-market prices during the year ended 31 December 2018 were £6.55 and £4.55 respectively.

Health, safety and the environment

Andrews Sykes Group plc aims to achieve world class performance in health and safety by providing our staff with a safe environment in which to work, thereby helping to eliminate injuries and work-related ill health. Health and safety officers are appointed at each location and receive periodic training to keep abreast of both legislative requirements and technological advances. This is further enhanced with regular internal audits by our own fully qualified health and safety managers, along with training, induction and awareness programmes for our staff.

The group aims to continually improve its performance in order to meet changing business and regulatory requirements, to minimise the effect of our activities on the environment and to provide products and services that fully and consistently meet the requirements of our customers, both now and in the future. In the UK, the group has met the mandatory requirements of the Energy Savings Opportunity Scheme (ESOS) and also has certification to the ISO 9001:2015, ISO 14001:2015,OHSAS 18001:2007 and CEMARS (in accordance with ISO 14064-1:2006) standards. In the UAE, the group has certification to ISO 9001:2015 and ISO 14001:2015.

Employment of disabled persons

The group makes every reasonable effort to give disabled applicants and existing employees who become disabled equal opportunities for work, training and career development in keeping with their individual aptitudes and abilities.

Employee development and involvement

The group operates a training and development programme for its employees. By improving employee skill levels the group aims to encourage staff retention and provide opportunities for internal promotion. Regular personal development reviews are conducted, with training and development plans being devised for each employee.

The group recognises the need to ensure effective communications with employees to encourage involvement in the group's performance and achieve a common awareness of factors affecting that performance. Policies and procedures have been developed to suit the needs of each subsidiary undertaking, taking into account factors such as numbers employed and location, including newsletters and communication meetings.

Directors' and officers' liability insurance

Directors' and officers' third party indemnity insurance is in place for all directors and officers in office as at 31 December 2018 and subsequently.

Corporate governance

The group has chosen to apply the Quoted Companies Alliance (QCA) corporate governance code with effect from 27 September 2018 following the recent changes to the AIM rules which require all AIM companies to comply with a recognised corporate governance code. Details of the group's compliance with the code are set out below.

1. Establish a strategy and business model which promote long-term value for shareholders

The principle activity of Andrews Sykes Group PLC (the "Company") and its subsidiaries (the "group") is the hire, sale and installation of a range of equipment including pumping, portable heating and air conditioning. The group's operates from depots in the UK, France, Italy, The Netherlands, Belgium, Luxembourg, Switzerland and the UAE.

Shareholder value in the medium term to long term is intended to be delivered by driving operational excellence across the group and growing within selected markets and geographies. The Board believes that the presence and requirements of a longstanding controlling shareholder helps focus the company's strategy on long-term shareholder value creation.

The group's strategy and business model is discussed, agreed and reviewed on a regular basis by the Board and is set out each year in the strategic report with updates *(as appropriate)* provided in the half year financial results announcements. The presence and requirements of a longstanding majority shareholder has resulted in a strategy with the key aim of creating long–term shareholder value.

2. Seek to understand and meet shareholder needs and expectations

The company has a controlling 86.25% shareholder which has a number of representatives on the Board.

The company monitors its share register and ensures that dialogue is entered into with other shareholders as appropriate. The Vice Chairman and the Managing Director respond to all enquiries made of them by shareholders and Andrew Kitchingman, the Senior Independent Non-Executive Director, not only provides an independent view of the group but is also a point of shareholder access which is independent of the executive team or the majority shareholder.

The Board recognises the importance of communication with the company's shareholders. The annual report and the half year accounts and related announcements are made available promptly on the company's website in accordance with the AIM Rules.

All shareholders are invited to attend the company's Annual General Meeting (''AGM''). The AGM includes a question and answer session and directors make themselves available to meet with shareholders following the meeting.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The company recognises that long term success is driven by good relations with both internal and external stakeholders. Internally, the senior management team communicates with staff at all levels by both formal and informal communication channels, feedback from these channels is often used to drive improvements and provide new initiatives for product and service developments.

Externally, the group has strong relationships with a number of key suppliers, many of these relationships have been in place for 10 years or more. Regular meetings are held with these suppliers to ensure that relationships are optimised, with new innovation high on the agenda. We communicate with our customers in many ways and channel feedback via a line management structure which is much flatter than many companies within our sector. Customer communication ranges from social media through to high level contract reviews. Customer feedback is monitored by senior management on a regular basis. Executive and non-executive directors communicate with shareholders directly and make themselves available for such meetings.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The group's principle risks, and plans to mitigate these risks, are identified and set out in the strategic report.

The Board considers carefully the key risks impacting upon the group based on the information presented to it and makes key decisions taking into account a range of risks, both internal and external to the company, including its supply chain.

Key elements of the group's system of internal controls are:

Control environment – the Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. This is under the direct supervision of the Managing Director, supported by appropriate policy statements.

Risk management – the Managing Director is responsible for identifying risks facing the business and for putting in place procedures to mitigate and monitor risks. Risks are assessed and monitored at Board level on an ongoing basis, as well as during the annual business planning process.

Information systems – the group has a comprehensive system of financial reporting. The annual budget is approved by the Board. Actual results and variances compared with the budget are reported to the Board monthly, supported by detailed management commentaries. Revised forecasts are regularly prepared and reported to the Board.

Control procedures – policies and procedures manuals are maintained at all significant business locations. In particular, there are clearly defined policies for capital expenditure, including appropriate authorisation levels. Larger capital projects and major investments and divestment decisions require Board approval.

Monitoring systems – internal controls are monitored by executive management. The Board routinely consider the effectiveness of the company's system of internal controls. The Board has established an Audit Committee, further details of which are set out below. The Audit Committee considers risk and internal control as a fundamental part of its responsibilities.

The Board reports upon internal financial controls in accordance with the ICAEW's guidance "Internal Control and Financial Reporting".

5. Maintain the Board as a well-functioning, balanced team led by a chair

The Board consists of eight members, led by Jean-Jacques Murray, the Non-Executive Vice Chairman who, on behalf of the Chairman, manages and provides leadership to the Board to ensure that it is effective in its task of setting and implementing the company's direction and strategy.

There is one executive member of the Board - Paul Wood (Managing Director) - who develops and implements the group's strategy, manages performance and ensures the Board is informed about business matters. Andrew Phillips (Group Chief Financial Officer) who, provides financial reporting to the Board, maintains financial records and acts as business partner to the Managing Director, has been in his role since 2015 and attends all Board meetings but is not a member of the Board.

There are seven non-executive directors of which one, Andrew Kitchingman, is independent. The other non-executive directors – Jacques-Gaston Murray, Jean-Jacques Murray, Jean-Pierre Murray, Marie-Claire Leon, Emmanuel Sebag and Xavier Mignolet – are all associated with EOI (the company's major shareholder) and are not considered independent.

The non-executives directors provide oversight and scrutiny of the performance of the executive team to ensure that the company's key strategic objectives are met, as well as representing the shareholders of the company. None of the non-executive directors participate in any performance related remuneration / share option schemes.

Since the implementation of the corporate governance code on 27 September 2018, the group has held one Board meeting. This was attended by all directors with the exception of Messrs Jacques-Gaston Murray and Jean-Pierre Murray who were not available to attend.

The company has only one independent non-executive director whereas the Code recommends that boards have at least two independent non-executive directors. The Board considers that there is sufficient independence on the Board taking into account the shareholder base of the company. For this reason the board has no current plans to appoint an additional independent non-executive director, but will keep the matter under review.

Andrews Sykes and EOI have entered into a relationship agreement (originally dated 10 December 1999 and updated on 21 September 2018) in which EOI has provided certain assurances to Andrews Sykes with regard to its relationship with Andrews Sykes. The agreement confirms that the business and affairs of Andrews Sykes shall be managed by the Board in accordance with Andrews Sykes' Memorandum and Articles of Association and with applicable laws and all relevant statutory provisions for the benefit of shareholders as a whole. Any transactions or other relationships between EOI and Andrews Sykes will be at arm's length and on a normal commercial basis. Where appropriate, Board members associated with EOI must declare their interest and take no part in decisions.

The Managing Director and the Group Chief Financial Officer work full time in the business and are contracted to make such contribution and time commitment as is required for the fulfilment of their duties. The non-executive directors are required to prepare for and to attend Board meetings and meetings of such Board committees of which they are members. They are expected to commit sufficient time to enable them to fulfil their duties. Each director has access to the company secretary who is responsible to the Board for ensuring that all applicable procedures and regulations are complied with. Each director also has the right to take independent professional advice in connection with his or her duties at the company's expense.

Further details of the eight Board members are provided on page 24 of this Annual Report and on the directors' section of the company's website.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Board is considered to comprise individuals with a good blend of relevant experience in the company's sector, the financial and the public markets and with the necessary experience and strategic and operational skills required to drive the group forward.

The Directors' biographies and skill sets are set out on page 24 of this Annual Report and on the directors' section of the company's website.

Each director keeps up to date with their specialist experience and knowledge by following relevant information and publications. From time to time this is supported by the company's advisors and specialist consultants.

7. Evaluate Board Performance based on clear and relevant objectives, seeking continuous improvement

The Board's performance is primarily measured by the financial performance of the group and its ability to meet key business objectives. In recent years the financial performance of the group has been strong which has encouraged the Board to believe that its membership is appropriate. The Board also consider that the stability of its membership over recent years has been a major contributor to the company's success. We do, however, recognise that from time to time new Board members will add value and bring fresh ideas. In addition to financial results the Board is also measured on its ability to meet key business objectives, such as the group's geographic growth within mainland Europe.

The Vice Chairman evaluates the Board performance informally on a regular basis and formally at least twice per year. The group reviews succession and contingency plans frequently and takes great care and consideration when selecting new Board members.

8. Promote a corporate culture that is based on ethical values and behaviours

The group has a long-established heritage and reputation based on sound ethical values and the Board considers this to be of great ongoing value. Many companies within our market sector envy our reputation and we frequently optimise this commercially and by attracting new staff.

The group's corporate policies are based on our ethical values and can be found on the "Our Policies" page on our website. In recent years many of our product innovations have been focussed on environmental improvements covering initiatives such as reduced emissions and fuel efficiency. We have a long list of accreditations, including ISO9001, ISO14001 and OHSAS18001, details of which can be found on the "Accreditations" page of the company's website.

We pride ourselves in providing our staff with a good working environment within a strong ethical culture. The group's HR policies are regularly reviewed by the senior operations team, are provided to all staff both on commencement of employment and are available at all times via a company intranet site. The group has a large number of long serving staff members, many with 30 plus years service, which is a testament to our working culture. We engage with a number of Community Trusts and Charities to offer opportunities to those that have had difficulties finding employment.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board is responsible for creating value for shareholders, determining strategy, investment and acquisition policy, approving significant items of expenditure and for the consideration of significant financing and legal matters. Matters specifically reserved for decision by the full Board, include matters of business strategy, material corporate actions, approval of budgets and approval of financial statements.

The Board meets on at least three occasions each year. Due to the consistent nature and strategy of the group, this is considered sufficient. Interim meetings or appropriate sub-committees are established when urgent decisions are required on matters specifically reserved for the Board between scheduled Board meetings. In addition, all Directors receive appropriate monthly management information and have the opportunity to discuss this with the Managing Director or any member of the executive team.

All directors receive a pre-board meeting briefing pack and post-board meeting minutes and appropriate attachments from the company secretary. A number of Board members are based overseas and cannot always attend all meetings in person. Where a director cannot attend a meeting in person *(or by telephone)* he/she can give their contributions in advance to an attending director or the company secretary and relay any comments concerning the Board minutes before they are adopted. Should there be any matter that requires further discussion, a supplementary telephone Board meeting is convened.

Directors' Report

The roles of Vice Chairman and Managing Director are held by separate directors and there is a clear division of responsibilities between them. The Vice Chairman leads the Board and ensures its effectiveness and approach to corporate governance. He sets the Board agenda and ensures that all directors make an effective contribution. The Vice Chairman is also responsible for ensuring the Board and broader management framework is established, operates effectively and is compliant with relevant statutory codes and company policies and for the regular assessment of the effectiveness of the Board and its committees. The Managing Director has responsibility for all operational matters and implementation of the company's strategy as approved by the Board. The non-executive directors have particular responsibility in ensuring that the strategies proposed by executive management are fully challenged.

All directors, with the exception of the Managing Director, must offer themselves for re-election on a rotational basis with one third of the directors (rounded down) offering themselves for re-election each year.

The Board maintains two standing committees – the Audit Committee, which is chaired by Andrew Kitchingman, the independent non-executive director, and the Remuneration Committee which is chaired by Jean-Jacques Murray, the non-executive vice chairman.

The Audit Committee is responsible for ensuring that the financial performance of the group is properly monitored, controlled and reported upon. It meets at least three times a year, to review the half year and full year financial results, to meet the company's auditors to discuss the audit and to review the internal controls framework of the Group. The audit committee comprises Andrew Kitchingman (independent non-executive director) and Xavier Mignolet (non-executive director).

The Remuneration Committee meets at least once a year to review the performance of executive management and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. The Remuneration Committee comprises Jean-Jacques Murray (non-executive vice-chairman), Emmanuel Sebag (non-executive director) and Andrew Kitchingman (independent non-executive director). Details of the directors' remuneration are set out in note 10 of the financial statements.

All Board appointments are considered by the Board as a whole and, as such, it has not been considered necessary to establish a Nomination Committee. The removal of any Board member is also a matter for the Board as a whole.

The Board and its committees are considered to comprise individuals with the necessary experience and strategic and operational skills required to drive the group forward and to deliver its strategy for the benefit of shareholders over the medium to long term.

The terms of reference for the Audit and Remuneration Committees can be found on the company's website under the corporate governance section.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The company reports on its financial performance and updates its corporate governance at least two times each year, at the half year and full year financial results. The financial results are also communicated to the stock market via RNS announcements.

These reports and announcements are available on the corporate publications and announcements section of the company's website. Copies of previous years reports since 2010 are also on the company's website.

The Board pays particular attention to the votes cast by the shareholders at the AGM. In the event that a significant proportion (>20% including proxies) of independent votes are cast against a resolution at a General Meeting of the company, the Board intends, on a timely basis, to explain any action it has taken or will take as a result of that vote.

Special business

Three resolutions are to be proposed at the Annual General Meeting as special business: resolutions 7 and 8 as ordinary resolutions and resolution 9 as a special resolution.

Two resolutions, numbered 7 and 9, will be proposed at the Annual General Meeting for the purpose of conferring powers on the directors to allot or grant options over ordinary shares up to a maximum nominal value of £63,261 (representing 15% of the company's existing issued share capital) as they see fit. If the resolutions are approved at the Annual General Meeting, the directors will then be able to allot or grant options as aforesaid, otherwise than pro rata to existing shareholders, to motivate key employees and to reinforce the link between their personal interest and those of the shareholders.

Resolution number 8 would, if approved at the Annual General Meeting, renew the powers of the directors to make market purchases of the company's own shares of up to a maximum of 5,271,794 ordinary shares of one pence each representing 12.5% of the current ordinary issued share capital. This authority would then enable the directors to carry out the strategy of making own market purchases to increase shareholder value as set out in the Strategic Report on page 16.

Purchase of own shares

The company purchased 87,723 of its own one pence ordinary shares for cancellation during the period from 1 January 2018 to 9 May 2019. Accordingly, as at 9 May 2019, there remained an outstanding general authority for the directors to purchase 5,195,037 ordinary one pence shares that was granted at the Annual General Meeting held on 20 June 2018. The directors are seeking to renew the general authority in respect of 5,271,794 ordinary one pence shares as set out in resolution number 8.

Financial calendar

The current financial year will end on 31 December 2019.

Auditor

Grant Thornton UK LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as a directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Signed on behalf of the Board.

JJ Murray
Vice Chairman

9 May 2019

St David's Court
Union Street
Wolverhampton
WV1 3JE

Directors and Advisors

Non-executive Chairman

JG Murray
Age 99. Chairman of London Security plc, Nu Swift Limited and Ansul S.A. Mr Murray has a long successful history in the industrial services sector.

Executive Director

PT Wood
Age 56. Managing Director. Industry specialist, having joined the group in August 1978. Appointed Director of Operations on 1 March 2006 and Group Managing Director on 5 December 2006.

Non-executive Directors

JJ Murray MBA
Age 52. Non-executive Vice-Chairman, Chairman of the Remuneration Committee. Executive Vice-Chairman of London Security plc, Nu Swift Limited and Ansul S.A.

AJ Kitchingman FCA
Age 54. Appointed senior independent non-executive director on 10 July 2018. Chairman of the Audit Committee and member of the Remuneration Committee. Chairman of Mpac Group plc.

MC Leon BS
Age 55. Non-executive director of London Security plc.

X Mignolet (HEC-Economics)
Age 54. Director of London Security plc.
Formerly a manager at PWC, member of the Audit Committee.

JP Murray
Age 51. Non-executive director of London Security plc.

EDOA Sebag MBA
Age 51. Director of London Security plc and Nu Swift Limited.
Member of the Remuneration Committee.

Company Secretary

MJ Calderbank ACA
Appointed Company Secretary on 13 October 1999.
Formerly a senior manager at KPMG.

Registered Office and Company Number
St David's Court
Union Street
Wolverhampton
West Midlands
WV1 3JE
Company number 00175912

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Nominated Advisor
GCA Altium Limited
Mansfield House
1 Southampton Street
London
WC2R 0LR

Stockbroker
Arden Partners plc
125, Old Broad Street
London
EC2N 1AR

Auditor
Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Bankers
Royal Bank of Scotland plc
National Westminster Bank plc

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. As required by the 'AIM Rules For Companies' of the London Stock Exchange, they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland') and the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the group financial statements state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent company financial statements state whether applicable UK 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's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Andrews Sykes Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Andrews Sykes Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Total Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- 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 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 and the parent company 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

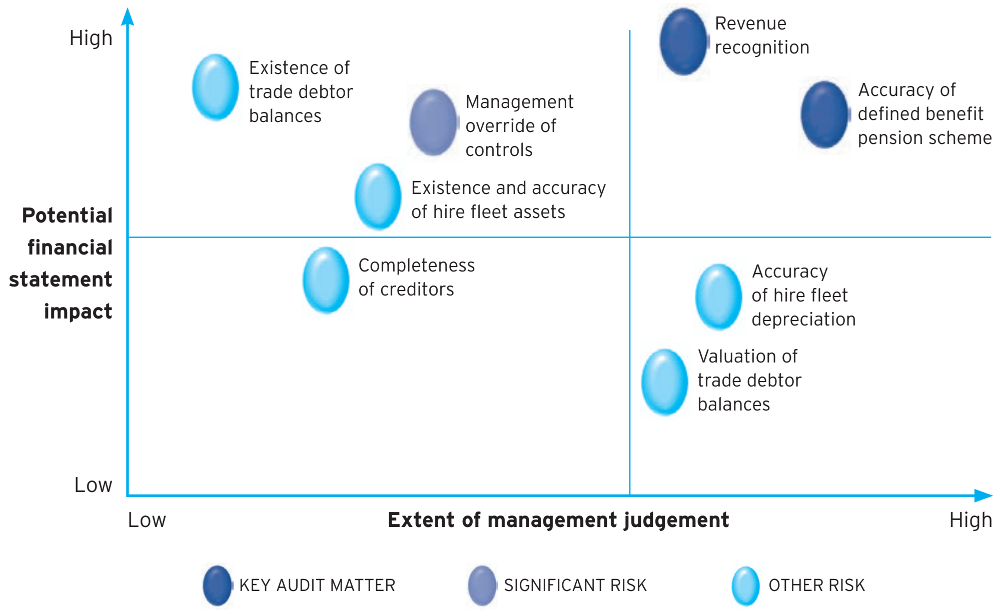
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's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

Overview of our audit approach

- Overall materiality: £1,050,000, which represents approximately 5% of the group's profit before taxation;
- Key audit matters were identified as revenue recognition and accuracy of defined benefit pension scheme for the group; and
- We performed full-scope procedures on all group entities in the United Kingdom and certain group entities in the Netherlands and the United Arab Emirates (UAE). We performed analytical procedures over component locations in Belgium, Italy, France, Luxembourg and Switzerland.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, 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 that 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.

Independent Auditor's Report to the Members of Andrews Sykes Group plc

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 1 – Revenue recognition Under International Standard on Auditing *(UK)* 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition. Further, revenue is a key driver of the business and is generated through a high volume of transactions. It represents the fair value of the consideration received and receivable for the hire, sale and installation of environmental control products. Revenue recognised from these sources are net of trade discounts and volume rebates, which increase the risk of error in revenue recognition. Incomplete or inaccurate revenue recognition could have an adverse impact on the group's net asset value, earnings per share, and its level of dividend cover. We therefore identified the recognition of revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • walkthroughs of each material source of revenue and assessing the design effectiveness of key controls; • testing the operating effectiveness of certain key controls over order authorisation, invoicing and customer collections; • testing a sample of revenue items for hire, sales and installation revenue, confirming that the sale was made to a bona fide customer and agreeing the occurrence of the sale to supporting documentation including invoices and signed delivery notes; • testing that the group's revenue recognition policy has been correctly applied and that it is in accordance with IAS 17: 'Leases' for hire revenue and IFRS 15: 'Revenue from Contracts with Customers' for non-hire revenue. The group's accounting policy on revenue recognition is shown in note 2 and related disclosures are included in note 4. **Key observations** Based on our audit work, we did not identify evidence of material misstatement in the revenue recognised in the year to 31 December 2018.
Risk 2 – Valuation of defined benefit pension scheme The group operates a defined benefit pension scheme that provides benefits to a number of current and former employees. At 31 December 2018 the defined benefit pension scheme's net surplus was £1.4 million. The gross value of pension scheme assets and liabilities which form the net surplus amount to £41.0 million and £39.6 million respectively. The valuation of the pension liabilities in accordance with IAS 19: 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the group financial statements. The impact of the equalisation of Guaranteed Minimum Pensions *(GMPs)* on the accounting for the defined benefit pension scheme also requires to be considered by management and their expert. Management needs to interpret the scheme rules in order to assess whether it is appropriate to recognise a pension surplus within the provisions of IFRIC 14: 'The Limit on a Defined Benefit Pension Asset, Minimum Funding Requirements and their Interaction'. We therefore identified accuracy of defined benefit scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • performing a walkthrough of management's process and methodology used for valuing the defined benefit pension scheme and assessing the design effectiveness of key controls; • testing the accuracy and appropriateness of the data and inputs used in the year end valuation, utilising the support of an auditor's expert to challenge the assumptions used, including discount rates, growth rates and mortality rates and reviewing the calculation methods employed in the calculation of the pension liability; • using the work of our auditor's expert to assess the accuracy of the GMP impact calculation and the appropriateness of the accounting treatment in the accounts; • directly confirming the existence of pension scheme assets with external asset managers; • confirming management's conclusion that it is appropriate to recognise a pension surplus within the provisions of IFRIC 14 by checking the pension trust deeds and verifying that the company has a right to refund of any surplus after settlement of the scheme's liabilities.

Risk 2 – Valuation of defined benefit pension scheme (continued)

The group's accounting policy on the defined benefit pension scheme is shown in note 2 and related disclosures are included in note 18.

Key observations

Based on our audit work, we found the valuation methodologies including the inherent actuarial assumptions to be balanced and consistent with the expectation of our auditor's expert. We found no errors in calculations.

We did not identify any Key Audit Matters relating to the audit of the financial statements of the Parent Company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£1,050,000 which is approximately 5% of the group's profit before taxation. This benchmark is considered the most appropriate because this is a key performance measure used by the directors to report to investors on the financial performance of the group. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the group's increased profit before tax in the current year	£651,000 which is based on 2% of the parent company's total assets, capped at component materiality for the group audit. This benchmark was considered to be the most appropriate as it most appropriately reflects the company's status as a non-trading holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the company's increased asset base in the current year.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group's overall control environment, we determined a performance materiality at 75% of the financial statement materiality.	Based on our risk assessment, including the company's overall control environment, we determined a performance materiality at 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for directors' remuneration and related party transactions outside of the normal course of business due to their sensitivity in the view of key stakeholders.	We determined a lower level of materiality for directors' remuneration and related party transactions outside of the normal course of business due to their sensitivity in the view of key stakeholders.
Communication of misstatements to the audit committee	£52,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£32,550 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report to the Members of Andrews Sykes Group plc

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. The components of the group were evaluated by the group audit team based on a measure of materiality, considering each as a percentage of the group's total assets, revenues and profit before taxation, to assess the significance of the component to determine the planned audit response.

A full-scope audit approach for all components evaluated as significant was determined based on their relative materiality to the group and our assessment of the audit risk. For significant components requiring a full-scope approach we or the component auditors evaluated the controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters. We sought, wherever possible, to rely on the effectiveness of the group's internal controls in order to reduce substantive testing. We then undertook substantive testing on significant transactions and material account balances.

In order to address the described audit risks identified during our planning procedures, we performed a full-scope audit of the financial statements of the parent company, Andrews Sykes Group plc, and of the group's operations through the United Kingdom and certain group entities in the Netherlands and the UAE. The operations that were subject to full-scope audit procedures totalled 88.1 percent of consolidated revenues and 88.9 percent of consolidated profit before taxation. Statutory audits of subsidiaries, where required by local laws, were performed at a lower materiality where applicable.

The remaining operations of the group were subjected to analytical procedures with a focus on applicable risks identified above and the significance to the group's balances.

Detailed audit instructions were issued to the auditors of the reporting components where a full-scope approach had been identified. The instructions highlighted the significant risks to be addressed through the audit procedures and detailed the information that we required to be reported to the group audit team. The group audit team conducted a review of the work performed by the component auditors, and communicated with all component auditors throughout the planning, fieldwork and concluding stages of the local audits.

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.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the 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 the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- 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 directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 25, 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 the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs *(UK)* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

Rebecca Eagle
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountant
Birmingham
9 May 2019

Consolidated Income Statement

For the 12 months ended 31 December 2018

	Note	**12 months ended 31 December 2018 £'000**	12 months ended 31 December 2017 £'000
Continuing operations			
Revenue	4	**78,563**	71,300
Cost of sales		**(31,908)**	(30,086)
Gross profit		**46,655**	41,214
Distribution costs		**(12,073)**	(11,571)
Administrative expenses		**(13,901)**	(12,054)
Operating profit		**20,681**	17,589
EBITDA*		**26,737**	22,851
Depreciation and impairment losses		**(6,666)**	(5,917)
Profit on the sale of plant and equipment		**610**	655
Operating profit		**20,681**	17,589
Finance income	6	**461**	82
Finance costs	7	**(97)**	(386)
Profit before taxation	8	**21,045**	17,285
Taxation	11	**(3,999)**	(3,184)
Profit for the financial period attributable to equity holders of the parent		**17,046**	14,101

There were no discontinued operations in either of the above periods.

Earnings per share from continuing and total operations			
Basic (pence)	12	**40.39p**	33.37p
Diluted (pence)	12	**40.39p**	33.37p
Interim and final dividends paid per equity share (pence)	33	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	33	**11.90p**	11.90p

Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non-recurring items.

Consolidated Statement of Comprehensive Total Income

For the 12 months ended 31 December 2018

	Note	**12 months ended 31 December 2018 £'000**	12 months ended 31 December 2017 £'000
Profit for the financial period		**17,046**	14,101
Other comprehensive (charges)/income			
Items that may be reclassified to profit and loss:			
Currency translation differences on foreign operations		**405**	(2)
Items that will never be reclassified to profit and loss:			
Remeasurement of defined benefit assets and liabilities	18	**(1,649)**	1,391
Related deferred tax	11	**313**	(264)
Other comprehensive (charges)/income for the period net of tax		**(931)**	1,125
Total comprehensive income for the period		**16,115**	15,226

Consolidated Balance Sheet

As at 31 December 2018

	Note	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Non-current assets					
Property, plant and equipment	13		**23,651**		21,911
Lease prepayments	14		**45**		47
Deferred tax asset	17		**677**		102
Retirement benefit pension surplus	18		**1,356**		3,364
			25,729		25,424
Current assets					
Stocks	19	**5,083**		3,860	
Trade and other receivables	20	**19,994**		17,852	
Cash and cash equivalents	21	**27,862**		25,311	
		52,939		47,023	
Current liabilities					
Trade and other payables	22	**(12,889)**		(12,358)	
Current tax liabilities	23	**(2,294)**		(1,696)	
Bank loans	24	**(493)**		(493)	
Obligations under finance leases	25	**(5)**		(43)	
		(15,681)		(14,590)	
Net current assets			**37,258**		32,433
Total assets less current liabilities			**62,987**		57,857
Non-current liabilities					
Bank loans	24	**(3,983)**		(4,475)	
Obligations under finance leases	25	**–**		(7)	
			(3,983)		(4,482)
Net assets			**59,004**		53,375
Equity					
Called-up share capital	26		**422**		423
Share premium	27		**13**		13
Retained earnings	27		**54,013**		48,789
Translation reserve	27		**4,300**		3,895
Other reserves	27		**246**		245
Surplus attributable to equity holders of the parent			**58,994**		53,365
Non-controlling interests			**10**		10
Total equity			**59,004**		53,375

These consolidated financial statements of Andrews Sykes Group plc, company number 00175912, were approved and authorised for issue by the Board of directors on 9 May 2019 and were signed on its behalf by:

JJ Murray
Vice-Chairman

Consolidated Cash Flow Statement

For the 12 months ended 31 December 2018

	Note	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Cash flows from operating activities			
Cash generated from operations	28	**22,888**	21,090
Interest paid		**(88)**	(84)
Net UK corporation tax paid		**(2,236)**	(2,142)
Overseas tax paid		**(1,454)**	(1,002)
Net cash flow from operating activities		**19,110**	17,862
Investing activities			
Sale of property, plant and equipment		**944**	861
Purchase of property, plant and equipment		**(7,142)**	(5,790)
Interest received		**41**	51
Net cash flow from investing activities		**(6,157)**	(4,878)
Financing activities			
Loan repayments		**(500)**	(5,000)
New loans raised		**–**	4,963
Finance lease capital repayments		**(45)**	(101)
Equity dividends paid		**(10,048)**	(10,058)
Purchase of own shares		**(438)**	–
Net cash flow from financing activities		**(11,031)**	(10,196)
Net increase in cash and cash equivalents		**1,922**	2,788
Cash and cash equivalents at the beginning of the period		**25,311**	22,819
Effect of foreign exchange rate changes		**629**	(296)
Cash and cash equivalents at the end of the period	21	**27,862**	25,311

	Note	2018 £'000	2017 £'000
Reconciliation of net cash flow to movement in net funds in the period			
Net increase in cash and cash equivalents		**1,922**	2,788
Cash outflow from the repayment of loans and finance leases		**545**	5,101
Cash inflow from the drawdown of new loans net of charges		**–**	(4,963)
Non-cash movements in respect of costs of raising loan finance		**(8)**	(10)
Increase in net funds during the period		**2,459**	2,916
Opening net funds at the beginning of the period		**20,293**	17,673
Effect of foreign exchange rate changes		**629**	(296)
Closing net funds at the end of the period	29	**23,381**	20,293

Consolidated Statement of Changes in Equity

For the 12 months ended 31 December 2018

	Note	Attributable to equity holders of the parent company								Non-controlling interests £'000	Total equity £'000
		Share capital £'000	Share premium £'000	Retained earnings £'000	Translation reserve £'000	Capital redemption reserve £'000	UAE legal reserve £'000	Netherlands capital reserve £'000	Total £'000		
At 31 December 2016		423	13	43,619	3,897	157	79	9	48,197	10	48,207
Profit for the financial period		–	–	14,101	–	–	–	–	14,101	–	14,101
Other comprehensive income and (charges)											
Items that may be reclassified to profit and loss:											
Currency translation differences on foreign operations		–	–	–	(2)	–	–	–	(2)	–	(2)
Items that will never be reclassified to profit and loss:											
Remeasurement of defined benefit assets and liabilities		–	–	1,391	–	–	–	–	1,391	–	1,391
Related deferred tax		–	–	(264)	–	–	–	–	(264)	–	(264)
Total other comprehensive income and (charges)		–	–	1,127	(2)	–	–	–	1,125	–	1,125
Transactions with owners recorded directly in equity:											
Dividends paid	33	–	–	(10,058)	–	–	–	–	(10,058)	–	(10,058)
Total transactions with owners		–	–	(10,058)	–	–	–	–	(10,058)	–	(10,058)
At 31 December 2017		423	13	48,789	3,895	157	79	9	53,365	10	53,375
Profit for the financial period		**–**	**–**	**17,046**	**–**	**–**	**–**	**–**	**17,046**	**–**	**17,046**
Other comprehensive (charges) and income											
Items that may be reclassified to profit and loss:											
Currency translation differences on foreign operations		**–**	**–**	**–**	**405**	**–**	**–**	**–**	**405**	**–**	**405**
Items that will never be reclassified to profit and loss:											
Remeasurement of defined benefit assets and liabilities		**–**	**–**	**(1,649)**	**–**	**–**	**–**	**–**	**(1,649)**	**–**	**(1,649)**
Related deferred tax		**–**	**–**	**313**	**–**	**–**	**–**	**–**	**313**	**–**	**313**
Total other comprehensive (charges) and income		**–**	**–**	**(1,336)**	**405**	**–**	**–**	**–**	**(931)**	**–**	**(931)**
Transactions with owners recorded directly in equity:											
Purchase of own shares	26	**(1)**	**–**	**(438)**	**–**	**1**	**–**	**–**	**(438)**	**–**	**(438)**
Dividends paid	33	**–**	**–**	**(10,048)**	**–**	**–**	**–**	**–**	**(10,048)**	**–**	**(10,048)**
Total transactions with owners		**(1)**	**–**	**(10,486)**	**–**	**1**	**–**	**–**	**(10,486)**	**–**	**(10,486)**
At 31 December 2018		**422**	**13**	**54,013**	**4,300**	**158**	**79**	**9**	**58,994**	**10**	**59,004**

Group Accounting Policies

For the 12 months ended 31 December 2018

1 General information

Legal status and country of incorporation

Andrews Sykes Group plc, company number 00175912, was incorporated in England and Wales under the Companies Act 1908-1917. The address of the registered office is given on page 24. The nature of the group's operations and its principal activities are set out in note 5 and in the strategic report and directors' report on pages 5 to 16.

Basis of preparation

These financial statements have been prepared in accordance with International Accounting Standards *(IAS)* and International Financial Reporting Standards as adopted by the European Union *(IFRS)* and with the Companies Act 2006. Therefore, the group financial statements comply with the "AIM rules for Companies".

The accounts are presented on the historical cost basis of accounting except for:

(a) Properties held at the date of transition to IFRS which are stated at deemed cost;
(b) Pension scheme assets and liabilities calculated at fair value in accordance with IAS 19.

Going concern

The directors have prepared these financial statements on the fundamental assumption that the group is a going concern and will continue to trade for at least 12 months following the date of approval of the financial statements.

Further information explaining why the directors believe that the group is a going concern is given in the strategic report on page 12.

Accounting period

The current period is for the 12 months ended 31 December 2018 and the comparative period is for the 12 months ended 31 December 2017.

Functional and presentational currency

The financial statements are presented in pounds Sterling because that is the functional currency of the primary economic environment in which the group's primary trading subsidiaries operate. Foreign operations are included in accordance with the accounting policy as set out in note 2.

Adoption of International Financial Reporting Standards

On 1 January 2006 the group adopted IFRS for the first time when advantage was taken of the following exemptions as permitted by IFRS 1:

- The requirements of IFRS 3 – Business Combinations were not applied to business combinations that occurred before the date of transition to IFRS.
- The carrying values of freehold and leasehold properties are based on previously adopted UK GAAP valuations and these were taken as deemed cost on transition to IFRS.

IFRS has only been applied to the group's consolidated financial statements. The parent company's financial statements, which are set out on pages 74 to 81, have been prepared in accordance with FRS 102 and the Companies Act 2006. The UK subsidiaries company financial statements will also be prepared in accordance with FRS 102 and the Companies Act 2006. Advantage will continue to be taken, where applicable, of the reduced disclosure framework, as set out in paragraph 1.12 of FRS 102, as no objections have been received from shareholders to this request.

International Financial Reporting Standards (IFRS) adopted for the first time in 2018

There were no new standards or amendments to standards adopted for the first time this year that had a material impact on the results of the group. The prior year comparatives have not been restated for any changes in accounting policies that were required due to the adoption of new standards this year.

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', and several revenue-related Interpretations this year. The group has adopted IFRS 15 through the "modified retrospective approach" and determined that there was no material impact on the financial statements of the group hence no cumulative catch up adjustment has been booked to the opening balance sheet at 1 January 2018.

1 General information (continued)

In 2018, 86.3% *(2017:83.2%)* of the group's revenue was derived from the hire of assets, primarily on short-term leases, which is out of the scope of IFRS 15. A further 8.7% *(2017: 10.5%)* of the group's 2018 revenue was derived from the sale of goods which is treated in a consistent manner under IFRS 15 with revenue continuing to be recognised at a point in time when the transfer of risks and rewards occurs. The remaining revenue in 2018 of £3,933,000 *(2017: £4,501,000)* was derived from the installation and maintenance of fixed air conditioning systems. Of this amount, £1,791,000 *(2017: £1,823,000)* relates to maintenance and the balance relates to installations.

The installation revenue derives from relatively short-term contracts and both the number of contracts and value of work in progress as at both 31 December 2018 and 31 December 2017, the revenue from which would potentially be recognised differently in accordance with IFRS 15, was not significant. Revenue from maintenance contracts is currently recognised at a point in time when the service is performed which is also in accordance with IFRS 15.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the group has applied transitional relief and opted not to restate prior periods. There were no material differences arising from the adoption of IFRS 9 in relation to the classification, measurement and impairment of financial assets and there have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

Future adoption of International Financial Reporting Standards

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been applied early by the group. Management anticipates that the following pronouncements relevant to the group's operations will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

- IFRS 16 Leases (IASB effective 1 January 2019, EU endorsed)
- Amendments to IFRS 9 Prepayment features with negative compensation (IASB effective 1 January 2019, EU endorsed)
- Annual Improvements to IFRS 2014-2016 Cycle relating to IFRS 12 Disclosure of interests in other entities (IASB effective 1 January 2017, not yet EU endorsed)
- Annual Improvements to IFRS 2015-2017 Cycle (IASB effective 1 January 2019, not yet EU endorsed)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (IASB effective 1 January 2019, not yet EU endorsed)
- Amendments to IFRS 3 Business Combinations (IASB effective 1 January 2020, not yet EU endorsed)
- Amendments to IAS 28 Long term interests in associates and joint ventures. (IASB effective 1 January 2019, not yet EU endorsed)
- Amendments to references to the conceptual framework in IFRS standards (IASB effective 1 January 2020, not yet EU endorsed)

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It will require leases to be recorded in the balance sheet in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the group have decided not to early adopt.

The group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements. The actual impact of adopting the standard may change as the new accounting policies are subject to change until the group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The group is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated. Management has decided to make use of the practical expedient not to perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. There are recognition exemptions for short-term leases and leases of low-value items and the group has decided to make use of the short-term leases exemptions.

The group will recognise new assets and liabilities for its operating leases of properties, plant machinery and equipment *(see note 31)*. The nature of expenses related to those leases will now change because the group will recognise a depreciation charge for right-of-use assets and an interest expense on lease liabilities.

Previously, the group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the group estimates that it will recognise additional right of use assets and lease liabilities of approximately £11.2 million as at 1 January 2019 and that IFRS 16 will increase the group's EBITDA by approximately £2.2 million and reduce profits before tax by approximately £0.15 million.

No significant impact is expected for the group's finance leases.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the group does not expect any changes for leases where they are acting as a lessor.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December 2018. Control is achieved when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination *(see below)* and the minority's share of changes in equity since the date of the combination.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement 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 the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method. The assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at their acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell. Any excess of the cost over the asset valuation as calculated above is recognised as goodwill.

In accordance with the options that were available under IFRS 1 on transition to IFRS, the group elected not to apply IFRS 3 retrospectively to past business combinations that occurred before 1 January 2006, the date of transition to IFRS. Accordingly, goodwill amounting to £37,206,000 that had previously been offset against reserves under UK GAAP was not recognised in the opening IFRS balance sheet.

The interest of any non-controlling shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Group Accounting Policies

For the 12 months ended 31 December 2018

2 Significant accounting policies *(continued)*

Investments in associates and trade investments

An associate is an entity over which the group is in a position to exercise significant influence, but not control, over its financial and operating policy decisions. Significant influence is defined as the power, whether or not it is exercised, to be able to participate in the financial and operating decisions of the investee.

The results and assets and liabilities of associates are incorporated into these financial statements using the equity method of accounting except when they are classified as trade investments and carried at fair value through profit and loss at the end of the reporting period (see below).

The results of entities over which the group is not in a position to be able to exercise significant influence despite holding a significant shareholding are not accounted for as associates and therefore are not equity accounted. These companies are classified as trade investments and are carried at fair value through profit and loss at the end of the reporting period. Dividend income is recognised in the income statement on a receipts basis.

Property, plant and equipment

Property is carried at deemed cost at the date of transition to IFRS based on the previous UK GAAP valuations adopted in 1998. Plant and equipment held at the date of transition and subsequent additions to property, plant and equipment are stated at purchase cost including directly attributable costs. The group does not have a revaluation policy.

Freehold land is not depreciated. Depreciation of other property, plant and equipment is provided on a straight-line basis using rates calculated to write down the cost of each asset to its estimated residual value over its estimated useful life as follows:

Property	
Freehold and long leasehold buildings	2%
Short leasehold buildings	Period of the lease
Equipment for hire:	
Heating, air conditioning and other environmental control equipment	20%
Pumping equipment	10% to 33%
Accessories	33%
Motor vehicles	20% to 25%
Plant and machinery	7.5% to 33%
Fixtures and fitting	20%

Annual reviews are made of estimated useful lives and material residual values.

Profit on the sale of plant and equipment is credited within operating profit.

Leased assets

Lessor accounting

The group does not hold any assets for hire under finance leases.

Assets held for use under operating leases are recorded as hire fleet assets within property, plant and equipment and are depreciated over their useful lives to their estimated residual value. The group does not have any material non-cancellable operating leases.

Lessee accounting

Initial rental payments in respect of operating leases are included in current and non-current assets as appropriate and amortised to the income statement over the period of the lease. Ongoing rental payments are charged as an expense in the income statement on a straight-line basis over the lease term. Finance leases are capitalised and depreciated in accordance with the accounting policy for property, plant and equipment.

As permitted by IFRS 1 at the date of transition to IFRS, the carrying value of long leasehold properties is based on the previous UK GAAP valuations adopted in 1998 and this has been taken as deemed cost.

Immaterial peppercorn rentals and ground rents in respect of all properties are expensed to the income statement on an accruals basis.

Plant and equipment held under finance leases is recognised as an asset at fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to give a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Impairment of non-financial assets

Property, plant and equipment are assessed for impairment when events or changes in circumstances indicate that the carrying amount may not be recovered. If there are such indications then a test is performed on the asset affected to assess its recoverable amount against carrying value.

An impaired asset is written down to the higher of value in use and its fair value less costs to sell.

Deferred and current taxation

The charge for taxation is based on the taxable profit or loss for the period and takes into account taxation deferred because of differences between the treatment of certain items for taxation and for accounting purposes. Full provision is made for the tax effects of these differences.

Current income tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to current or prior periods that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to fiscal periods to which they relate based on the taxable profit for the year.

Deferred tax is calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases.

The carrying amount of deferred tax assets is reviewed at each balance sheet date to ensure that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Assets and liabilities, in respect of both deferred and current tax, are only offset when there is a legally enforceable right to offset and the assets and liabilities relate to taxes levied by the same taxation authority.

Deferred and current tax are charged or credited in the income statement except when they relate to items charged directly to equity, in which case the associated tax is also dealt with in equity.

Stocks

Stocks are valued at the lower of cost of purchase and net realisable value. Cost comprises actual purchase price and, where applicable, associated direct costs incurred bringing the stock to its present location and condition. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

2 Significant accounting policies (continued)

Financial instruments

Recognition criteria, classification and initial carrying value

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument.

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an asset is under a contract whose terms require delivery of the investment within the time frame established by the market concerned. Financial assets are classified as "loans and receivables at amortised cost, assets at fair value through profit or loss and fair value through other comprehensive income" depending upon the nature and purpose of the financial asset. The classification is determined at the time of the initial recognition.

Financial assets are generally classified as assets held at amortised cost and are initially measured at fair value including transaction costs incurred. No financial assets are currently classified as assets at fair value through profit or loss and fair value through other comprehensive income. The categories of financial assets are trade receivables, other receivables and cash.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are normally classified as "other financial liabilities" and are initially measured at fair value, normally cost, net of transaction costs. There are currently no financial liabilities held at "fair value through profit or loss".

Assets held at amortised cost

Trade receivables, loans and other receivables (including cash held on ring-fenced deposit accounts) are measured on initial recognition at fair value and, except for short-term receivables where the recognition of interest would be immaterial, are subsequently remeasured at amortised cost using the effective interest rate method as reduced by appropriate allowances for estimated irrecoverable amounts.

The group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The group uses its historical experience, external indicators and forward-looking information to calculate the expected credit loss using a provision matrix.

The group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and they have been grouped based on the number of days overdue. See note 20 for an analysis of how the impairment requirements of IFRS 9 are applied.

Derivative financial instruments and hedge accounting

The group's policy is not to hedge its international assets with respect to foreign currency balance sheet translation exposure, nor against foreign currency transactions. Generally, the group does not enter into any forward exchange contracts and it does not use financial instruments for speculative purposes.

The group does not hold any derivative financial instruments or embedded derivative financial instruments at either period end.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash at bank and short-term highly liquid investments that are readily convertible into known amounts of cash within three months from the date of initial acquisition with an insignificant risk of a change in value. Cash held in ring-fenced bank deposit accounts to which the group does not have access within three months from the date of initial acquisition is classified within other financial assets.

Other financial liabilities

Other financial liabilities, including trade payables, are measured on initial recognition at fair value and, except for short-term payables where the recognition of interest would be immaterial, are subsequently remeasured at amortised cost using the effective interest rate method.

Bank loans

Interest-bearing bank loans are recorded at the proceeds received less capital repayments made. Initial costs incurred entering into the bank loans are carried as an asset, presented as a deduction from the carrying value of the loans, which is amortised to the income statement over the period of the loans. Ongoing finance charges are accounted for on an accruals basis in the income statement using the effective interest rate method. They are included within accruals to the extent that they are not settled in the period in which they arise.

Provisions

Provisions are created where the group has a present obligation (legal or constructive) as a result of a past event where it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions are only discounted to present value where the effect is material.

Retirement benefit costs

Defined benefit scheme

As disclosed in note 18 the group previously operated a defined benefit pension scheme for the majority of its employees. This scheme was closed to new entrants and all existing members became deferred members on 29 December 2002.

Interest income on pension assets less interest on pension scheme liabilities is shown within finance income. The rate used to calculate the expected return on pension assets is capped at a rate equivalent to the rate used to discount the scheme's liabilities. Settlement gains and losses and pension scheme administration expenses are also included within the income statement, either within administration expenses or as part of a separate disclosure where material. Actuarial remeasurement gains and losses are recognised immediately in other comprehensive income.

The defined benefit scheme is funded with the assets of the scheme held separately in trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained triennially and are updated at each balance sheet date in accordance with IAS 19 (2011).

Net defined benefit pension scheme surpluses and deficits are presented separately on the balance sheet within non-current assets and liabilities respectively before tax relief. The attributable deferred tax liability / asset is included within deferred tax and is subject to the recognition criteria as set out in the accounting policy on deferred and current taxation. Net defined benefit pension scheme surpluses are only recognised to the extent of any future refunds or reductions in future contributions to the scheme.

Defined contribution schemes

Employer's contributions are charged to the income statement on an accruals basis.

Net funds

Net funds are defined as including cash and cash equivalents, ring-fenced deposit accounts, bank and other loans, finance lease obligations and derivative financial instruments stated at current fair value.

2 Significant accounting policies (continued)

Revenue recognition

Revenue

Revenue represents the fair value of the consideration received and receivable for the hire, sale, maintenance and installation of environmental control products after deducting trade discounts and volume rebates. Revenue excludes Value Added Tax.

The group has four categories of revenue:

- Rental or lease income that is recognised on a straight-line basis over the period of the hire in accordance with IAS 17. Hire revenue includes compensation receipts for lost or damaged equipment, chargeable to the customer under the terms of the hire agreement, which is recognised on an accruals basis when the loss or damage is identified;
- Revenue for the sales of goods which is recognised at a point in time (i.e. on the despatch of goods) in accordance with IFRS 15;
- Maintenance revenue which is recognised at a point in time (i.e. when the service is completed on a daily basis) in accordance with IFRS 15; and
- Installation revenue which is recognised on an inputs basis over time, in accordance with IFRS 15, as the contract progresses on the basis of work completed.

Contracts are entered into with customers to provide one of the above goods or services on a standalone basis. The standalone selling price of the related performance obligation is therefore clearly determined from the contract. The total transaction price is estimated as the amount of consideration to which the group expects to be entitled in exchange for transferring the promised goods or services after deducting trade discounts and volume rebates. Trade discounts and volume rebates are estimated based on the terms of the contractually agreed arrangements.

Payment terms are between 30 and 60 days for all types of sale and therefore the impact of the time value of money is minimal.

Investment and interest income

Dividend income is recognised in the income statement when the group's right to receive payment has been established.

Interest income from bank deposit accounts is recognised on an accruals basis calculated by reference to the principal on deposit and the effective interest rate applicable.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into pounds Sterling at the financial year-end rates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The results of overseas subsidiary undertakings, associates and trade investments are translated into pounds Sterling at average rates for the period unless exchange rates fluctuate significantly during that period, in which case exchange rates at the date of transactions are used. The closing balance sheets are translated at the year-end rates and the exchange differences arising are transferred to the group's translation reserve as a separate component of equity and are reported within the CSOCTI. All other exchange differences are included within the consolidated income statement for the year. Inter-company foreign exchange gains and losses arising from financing activities are included within finance income and costs respectively. All other exchange differences are included in operating profit.

In accordance with IFRS 1, the translation reserve was set to zero at 1 January 2006, the date of transition to IFRS. Cumulative translation differences that are included within the translation reserve at the date of disposal of the relevant overseas company are recognised in the consolidated income statement.

Operating profit

Operating profit is defined as the profit for the period from continuing operations after all operating costs and income but before investment income, income from trade investments, finance income, finance costs, other gains and losses and taxation. Operating profit is disclosed as a separate line on the face of the income statement.

Normalised operating profit is the same as the above but excludes non-recurring items, for example profit on the sale of property. When applicable, normalised operating profit is reconciled to operating profit on the face of the income statement.

EBITDA

Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non-recurring items *(EBITDA)* is disclosed as a separate line on the face of the consolidated income statement and reconciled to operating profit.

EBITDA is a traditional non-statutory measure of the ability of the group to generate cash and management consider that its disclosure provides useful information to shareholders in conjunction with the statutory indicators.

Other gains and losses

Other gains and losses are material items that arise from unusual non-recurring events. They are disclosed separately, in aggregate, on the face of the income statement after operating profit where, in the opinion of the directors, such disclosure is necessary in order to fairly present the results for the financial period.

Finance costs

Finance costs are recognised in the income statement on an accruals basis in the period in which they are incurred.

3 Use of critical accounting assumptions and estimates

Estimates and judgements are continually evaluated and assessed based on historical experience and other factors, including expectations of future events that are believed to be reasonable given the circumstances prevailing when the accounts are approved.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

Pension scheme assumptions and mortality tables

As set out in note 18, the carrying value of the defined benefit pension scheme is calculated using actuarial valuations. These valuations are based on assumptions including the selection of the most appropriate mortality table for the profile of the members in the scheme and the financial assumptions concerning discount rates and inflation. All these are estimates of future events and are therefore uncertain. The choices are based on advice received from the scheme actuaries that are checked from time to time with benchmark surveys. Sensitivity analysis regarding assumptions concerning longevity, discount rates and inflation is provided in note 18 on page 61.

When assessing the appropriateness of the recognition of a surplus, the directors have considered the guidance in IAS 19 and IFRIC 14 and have concluded that because of the rights upon wind-up it is appropriate to recognise the asset in the consolidated financial statements.

Useful economic life of hire fleet assets included within property, plant and equipment

Management reviews its estimate of the useful lives of equipment for hire assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates include those relating to technological obsolescence that may change the utility of certain equipment Information on the estimated useful lives of equipment for hire is included in the accounting policies.

4 Revenue

An analysis of the group's revenue by income stream is as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Continuing operations		
Revenue outside the scope of IFRS 15 and recognised as lease income in accordance with IAS 17:		
Hire	**67,813**	59,314
Revenue recognised at a point in time in accordance with IFRS 15:		
Sales	**6,817**	7,485
Maintenance	**1,791**	1,823
Revenue recognised over time in accordance with IFRS 15:		
Installations	**2,142**	2,678
Group consolidated revenue from the sale of goods and provision of services	**78,563**	71,300

5 Business and geographical segmental analysis

Explanation

The group operates in the United Kingdom, Europe (The Netherlands, Belgium, Italy, France, Switzerland and Luxembourg) and the United Arab Emirates providing the hire and sale of a range of environmental control equipment. It also installs and maintains fixed air conditioning equipment within the United Kingdom.

The group operates through statutory entities that are based in each of the above locations. In the case of the main UK operation there are separate statutory entities for hire and sales (Andrews Sykes Hire Limited), installation and maintenance (Andrews Air Conditioning and Refrigeration Limited) as well as a separate property holding company. Each operating company has its own Divisional Director who is responsible to the Board for that company's operating result.

All the group's external loans are held in the parent company, Andrews Sykes Group plc. No attempt is made in the internal management accounts to allocate the interest charge to either individual entities or activities. Similarly, the internal management accounts provided to the Board do not include a balance sheet; cash flow information is provided only on an entity and consolidated basis. Capital expenditure and working capital movements are reviewed on an entity basis.

The directors therefore consider that the group's revenue-generating operating segments that are reviewed on a regular basis by the Board (who is collectively the Chief Operating Decision Maker), and for which discrete financial information is available, are:

Activity	Entity	Location
Hire and sales	Andrews Sykes Hire Limited	United Kingdom
	Andrews Sykes BV	The Netherlands
	Andrews Sykes BVBA	Belgium
	Nolo Climat S.R.L.	Italy
	Climat Location SAS	France
	Climat Location SA	Switzerland
	Khansaheb Sykes LLC	United Arab Emirates
	Andrews Sykes Luxembourg SARL	Luxembourg
Installation and maintenance	Andrews Air Conditioning and Refrigeration Limited	United Kingdom

The directors consider that the long-term economic characteristics of the hire and sales operations based in the United Kingdom, The Netherlands, Belgium, Italy, France, Luxembourg and Switzerland are similar. These entities have similar products and services, operate in the same manner providing services to a similar customer base and incur similar risks and rewards. However, the operation based in the United Arab Emirates, whilst similar in many ways, faces significantly different risks due to the local environment in which it operates. The installation business operates in a different manner and regulatory environment to the rest of the group.

The reportable segments are therefore:

Segment	Incorporating the following operating entities	Location
Hire and sales Europe	Andrews Sykes Hire Limited	United Kingdom
	Andrews Sykes Properties Limited	United Kingdom
	Andrews Sykes BV	The Netherlands
	Andrews Sykes BVBA	Belgium
	Nolo Climat S.R.L.	Italy
	Climat Location SAS	France
	Climat Location SA	Switzerland
	Andrews Sykes Luxembourg SARL	Luxembourg
Hire and sales Middle East	Khansaheb Sykes LLC	United Arab Emirates
Installation and maintenance	Andrews Air Conditioning and Refrigeration Limited	United Kingdom

The property holding company, Andrews Sykes Properties Limited, has been included within the Hire and Sales Europe segment as it holds properties mainly for the use of Andrews Sykes Hire Limited.

Transactions between the above reportable segments are made on an arm's length basis after taking into account the reduced levels of risks incurred.

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2018

5 Business and geographical segmental analysis (continued)

The above segments exclude the results of non-revenue earning holding companies, including Andrews Sykes Group plc. These entities' results have been included as unallocated items (overheads and expenses, corporate assets and corporate liabilities as appropriate) in the tables below.

The group has a diverse customer base with no single customer accounting for 10% or more of the group's revenue in either the current or previous financial period.

Business segments

Income statement analysis

12 months ended 31 December 2018

Revenue	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Sub total £'000	Eliminations £'000	Consolidated results £'000
External sales:						
Hire	**58,796**	**9,017**	**–**	**67,813**	**–**	**67,813**
Sales	**4,565**	**2,252**	**–**	**6,817**	**–**	**6,817**
Maintenance	**–**	**–**	**1,791**	**1,791**	**–**	**1,791**
Installations	**–**	**–**	**2,142**	**2,142**	**–**	**2,142**
Total external sales	**63,361**	**11,269**	**3,933**	**78,563**	**–**	**78,563**
Inter-segment sales	**317**	**–**	**29**	**346**	**(346)**	**–**
Total revenue	**63,678**	**11,269**	**3,962**	**78,909**	**(346)**	**78,563**
Segment result	**19,077**	**2,422**	**145**	**21,644**	**(52)**	**21,592**
Unallocated overheads and expenses						**(911)**
Operating profit						**20,681**
Finance income						**461**
Finance costs						**(97)**
Profit before taxation						**21,045**
Taxation						**(3,999)**
Profit for the period from continuing and total operations						**17,046**

Income statement analysis

12 months ended 31 December 2017

Revenue	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Sub total £'000	Eliminations £'000	Consolidated results £'000
External sales:						
Hire	50,526	8,788	–	59,314	–	59,314
Sales	4,392	3,093	–	7,485	–	7,485
Maintenance	–	–	1,823	1,823	–	1,823
Installations	–	–	2,678	2,678	–	2,678
Total external sales	54,918	11,881	4,501	71,300	–	71,300
Inter-segment sales	71	–	20	91	(91)	–
Total revenue	54,989	11,881	4,521	71,391	(91)	71,300
Segment result	15,237	2,899	387	18,523	(14)	18,509
Unallocated overheads and expenses						(920)
Operating profit						17,589
Finance income						82
Finance costs						(386)
Profit before taxation						17,285
Taxation						(3,184)
Profit for the period from continuing and total operations						14,101

Balance sheet information *As at 31 December 2018*	**Hire & sales Europe £'000**	**Hire & sales Middle East £'000**	**Installation and maintenance £'000**	**Sub total £'000**	**Eliminations £'000**	**Consolidated results £'000**
Segment assets	**63,571**	**11,651**	**3,822**	**79,044**	**(2,561)**	**76,483**
Deferred tax asset						**677**
Retirement benefit pension surplus						**1,356**
Unallocated corporate assets						**152**
Consolidated total assets						**78,668**
Segment liabilities	**(12,398)**	**(2,361)**	**(381)**	**(15,140)**	**2,561**	**(12,579)**
Current tax liabilities						**(2,294)**
Bank loans						**(4,476)**
Obligations under finance leases						**(5)**
Unallocated corporate liabilities						**(310)**
Consolidated total liabilities						**(19,664)**

Balance sheet information *As at 31 December 2017*	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Sub total £'000	Eliminations £'000	Consolidated results £'000
Segment assets	57,899	10,015	3,697	71,611	(2,836)	68,775
Trade investments						
Deferred tax asset						102
Retirement benefit pension surplus						3,364
Unallocated corporate assets						206
Consolidated total assets						72,447
Segment liabilities	(12,425)	(2,041)	(469)	(14,935)	2,836	(12,099)
Current tax liabilities						(1,696)
Bank loans						(4,968)
Obligations under finance leases						(50)
Unallocated corporate liabilities						(259)
Consolidated total liabilities						(19,072)

Other information *12 months ended 31 December 2018*	**Hire & sales Europe £'000**	**Hire & sales Middle East £'000**	**Installation and maintenance £'000**	**Sub total £'000**	**Eliminations £'000**	**Consolidated results £'000**
Capital additions	**7,189**	**1,374**	**38**	**8,601**	**–**	**8,601**
Depreciation	**5,369**	**1,278**	**19**	**6,666**	**–**	**6,666**

Other information *12 months ended 31 December 2017*	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Sub total £'000	Eliminations £'000	Consolidated results £'000
Capital additions	6,361	1,524	61	7,946	–	7,946
Depreciation	4,839	1,076	2	5,917	–	5,917

5 Business and geographical segmental analysis (continued)

Geographical segments

The geographical analysis of the group's revenue is as follows:

	By origin		By destination	
	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000	**12 months ended 31 December 2018 £'000**	12 months ended 31 December 2017 £'000
United Kingdom	**49,092**	44,704	**47,984**	44,307
Rest of Europe	**18,202**	14,715	**19,100**	14,959
Middle East and Africa	**11,269**	11,881	**11,427**	11,982
Rest of the World	**–**	–	**52**	52
	78,563	71,300	**78,563**	71,300

The carrying amounts of segment assets and non-current assets (excluding trade investments and deferred tax) analysed by the entity's country of origin are as set out below. There is no significant difference between the analysis by origin and that by physical location of the assets.

	Segment assets		Non-current assets	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
United Kingdom	**48,902**	42,768	**15,066**	13,896
Rest of Europe	**15,967**	16,327	**5,837**	5,441
Middle East and Africa	**11,614**	9,680	**2,793**	2,621
	76,483	68,775	**23,696**	21,958

6 Finance income

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Net pension scheme interest income on pension scheme surplus (note 18)	**84**	42
Interest receivable on bank deposit accounts	**41**	40
Net inter-company foreign exchange gains	**336**	–
	461	82

7 Finance costs

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Interest charge on bank loans and overdrafts	**95**	89
Finance lease interest charge	**2**	4
Inter-company foreign exchange losses	**–**	293
	97	386

8 Profit before taxation

The following have been charged/(credited) in arriving at the profit before taxation:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Net foreign exchange trading losses and (gains)	**(86)**	37
Bank charges	**53**	48
Depreciation of property, plant and equipment	**6,666**	5,917
Write-off of trade investment	**0**	164
Net foreign exchange (gains) and losses on inter-company financing (see notes 6 and 7)	**(336)**	293
Profit on the sale of plant and equipment	**(610)**	(655)
Customer compensation receipts credited to revenue for lost or damaged plant and equipment	**(2,738)**	(2,336)
Operating lease rental payments:		
Property	**1,570**	1,667
Plant, machinery and motor vehicles	**1,861**	1,791
Auditor's remuneration (see note 9)	**188**	171
Staff costs (see note 10)	**20,889**	19,004
Defined benefit pension scheme past service cost – GMP equalisation (see note 18)	**432**	–

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2018

9 Auditor's remuneration

A more detailed analysis of the auditor's remuneration on a worldwide basis is as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Fees payable to the company's auditor in respect of audit services:		
The audit of the consolidated accounts	**38**	19
The audit of the group's subsidiaries pursuant to legislation	**108**	119
Total audit fees	**146**	138
Fees payable to the company's auditor in respect of non-audit services:		
Tax compliance services	**42**	33
Total non-audit fees	**42**	33
	188	171

Fees payable to the auditor and associates for non-audit services to the company are not disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

10 Employee information

Staff costs charged in the income statement

The average number of employees employed during the period was:

	12 months ended 31 December 2018 Number	12 months ended 31 December 2017 Number
Sales and distribution	**187**	180
Engineers	**251**	235
Managers and administration	**135**	129
	573	544

Staff costs, including directors' remuneration, amounted to:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Wages and salaries	**18,008**	16,554
Redundancy and termination payments	**164**	82
Social security costs	**2,087**	1,891
Other pension costs	**630**	477
	20,889	19,004

Key management compensation

Amounts paid to individuals, including directors, having authority and responsibility for planning, directing and controlling the group's activities, were as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Short-term employee benefits	**2,623**	2,069
Redundancy and termination payments	**61**	–
Post employment benefits – Pensions	**165**	135
Other long-term benefits	**361**	284
	3,210	2,488

Directors' emoluments

Directors' emoluments for the current and prior financial periods were as follows:

	12 months ended 31 December 2018			12 months ended 31 December 2017		
Director	**Emoluments £'000**	**Pension scheme contributions £'000**	**Total £'000**	Emoluments £'000	Pension scheme contributions £'000	Total £'000
M Gailer (deceased 5 March 2018)	**6**	**–**	**6**	31	–	31
A Kitchingman (appointed 10 July 2018)	**13**	**–**	**13**	–	–	–
MC Leon	**20**	**–**	**20**	20	–	20
JJ Murray	**28**	**–**	**28**	34	–	34
JP Murray	**20**	**–**	**20**	20	–	20
PT Wood (highest paid director)	**528**	**38**	**566**	508	38	546
	615	**38**	**653**	613	38	651

No directors were granted or exercised share options during either the current or previous financial periods.

The number of directors in office at the year end to whom retirement benefits are accruing are as follows:

	12 months ended 31 December 2018 Number	12 months ended 31 December 2017 Number
Defined contribution	**1**	1
Defined benefit	**1**	1

The highest paid director had an accrued annual pension under the defined benefit pension scheme of £21,694 *(2017: £21,035)*; the transfer value of the accumulated fund as at 31 December 2018 was £526,752 *(2017: £505,386)*.

No contributions were paid during the current or preceding financial period.

11 Taxation

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Current tax		
UK corporation tax at 19% (*2017: 19.25%*) based on the taxable profit for the period	**2,807**	1,947
Adjustments to corporation tax in respect of prior periods	**(32)**	(62)
	2,775	1,885
Overseas tax based on the taxable profit for the period	**1,444**	1,125
Adjustments to overseas tax in respect of prior periods	**42**	(19)
Total current tax charge	**4,261**	2,991
Deferred tax		
Deferred tax on the origination and reversal of temporary differences	**(260)**	163
Adjustments to deferred tax in respect of prior periods	**(2)**	30
Total deferred tax charge (note 17)	**(262)**	193
Total tax charge for the financial period attributable to continuing operations	**3,999**	3,184

The tax charge for the financial period can be reconciled to the profit before tax per the income statement multiplied by the standard effective corporation tax rate in the UK of 19% *(2017: 19.25%)* as follows:

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Profit before taxation from continuing and total operations	**21,045**	17,285
Tax at the UK effective corporation tax rate of 19% (*2017: 19.25%*)	**3,999**	3,327
Effects of:		
Expenses not deductible for tax purposes	**114**	144
Effects of different tax rates of subsidiaries operating abroad	**(78)**	(225)
Utilisation of overseas tax losses	**(44)**	(30)
Overseas tax losses not recognised	**–**	21
Effect of change in tax rate to 19%	**–**	(2)
Adjustments to tax charge in respect of previous periods	**8**	(51)
Total tax charge for the financial period	**3,999**	3,184

Deferred tax recognised in other comprehensive income

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Deferred tax (credit)/charge on remeasurement of defined benefit liabilities and assets	**(313)**	264

Matters affecting future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016 and received Royal Assent on 15 September 2016.

This reduction should further reduce the group's current tax charge.

12 Earnings per share

Basic earnings per share

The basic figures have been calculated by reference to the weighted average number of ordinary shares in issue and the post-tax earnings as set out below. There were no discontinued operations in either period.

	12 months ended 31 December 2018	
	Total earnings £'000	**Number of shares**
Basic earnings/weighted average number of shares	**17,046**	**42,207,255**
Basic earnings per ordinary share (pence)	**40.39p**	

	12 months ended 31 December 2017	
	Total earnings £'000	Number of shares
Basic earnings/weighted average number of shares	14,101	42,262,082
Basic earnings per ordinary share (pence)	33.37p	

Diluted earnings per share

There were no dilutive instruments outstanding during either the current or preceding financial period. Consequently, the diluted earnings per share is the same as the basic earnings per share for both periods.

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2018

13 Property, plant and equipment

	Property	Equipment for hire	Motor vehicles	Plant and machinery	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 31 December 2016	6,562	52,781	1,641	5,000	65,984
Exchange differences	9	(41)	(17)	(8)	(57)
Additions	44	6,946	296	660	7,946
Disposals	(1,190)	(3,663)	(320)	(162)	(5,335)
At 31 December 2017	5,425	56,023	1,600	5,490	68,538
Exchange differences	**3**	**572**	**38**	**34**	**647**
Additions	**203**	**7,547**	**249**	**602**	**8,601**
Disposals	**(372)**	**(2,775)**	**(91)**	**(720)**	**(3,958)**
At 31 December 2018	**5,259**	**61,367**	**1,796**	**5,406**	**73,828**
Accumulated depreciation					
At 31 December 2016	2,476	38,540	1,007	3,899	45,922
Exchange differences	9	(77)	(3)	(12)	(83)
Charge for the period	118	5,115	238	446	5,917
Disposals	(1,162)	(3,513)	(300)	(154)	(5,129)
At 31 December 2017	1,441	40,065	942	4,179	46,627
Exchange differences	**3**	**451**	**24**	**30**	**508**
Charge for the period	**101**	**5,862**	**253**	**450**	**6,666**
Disposals	**(372)**	**(2,464)**	**(69)**	**(719)**	**(3,624)**
At 31 December 2018	**1,173**	**43,914**	**1,150**	**3,940**	**50,177**
Carrying value					
At 31 December 2018	**4,086**	**17,453**	**646**	**1,466**	**23,651**
At 31 December 2017	3,984	15,958	658	1,311	21,911

The carrying value of plant and machinery includes £5,000 *(2017: £35,000)* of assets subject to finance lease and hire purchase agreements. Depreciation amounting to £30,000 was charged on these assets during the year *(2017: £28,000)*.

The group did not have any non-cancellable contractual commitments for the acquisition of property, plant and equipment at either 31 December 2018 or 31 December 2017.

The carrying value of the group's property is as follows:

	31 December 2018	31 December 2017
	£'000	£'000
Freehold land and buildings	**3,721**	3,779
Long leasehold buildings	**47**	49
Short leasehold buildings	**318**	156
	4,086	3,984

As disclosed in note 24, the group's bank loans are secured by fixed and floating charges over the group's assets including property, plant and equipment.

14 Lease prepayments

	31 December 2018 £'000	31 December 2017 £'000
Long leasehold land prepayments:		
Total	**47**	49
Split:		
Non-current assets	**45**	47
Current assets	**2**	2
	47	49

The current element of long leasehold land premiums is included within trade and other receivables in note 20.

15 Subsidiaries

A complete list of the investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest, is given in note 3 to the company's separate financial statements.

With the exception of Khansaheb Sykes LLC, the group holds 100% of the issued share capital of its subsidiaries. Whilst the group only holds 49% of the issued share capital of Khansaheb Sykes LLC, this shareholding entitles the group to 90% of the profits for the period and control of the company by virtue of the right to appoint the majority of the company's directors.

The 51% shareholder has waived his right to receive the 10% profit share and therefore the group has consolidated 100% of the company's result for the period.

16 Trade investments

Cost	£'000
At 31 December 2016	164
Write off	(164)
As at 31 December 2017 and 2018	–
Carrying amount (fair value)	
At 31 December 2018	–
At 31 December 2017	–

The above investment represented a 40% interest in the ordinary share capital of Oasis Sykes Limited, a company incorporated in Saudi Arabia and having an issued share capital of £410,000. The investment was not accounted for as an associate as the group does not and is unable to exercise significant influence, including decisions concerning the declaration and payments of dividends. Dividends were accounted for on a receipts basis, no amounts were received in the current or preceding period.

During 2017, the directors performed a review of the operation and formed the opinion that the carrying value in the books was not supported by underlying assets and there were no realistic prospects of a recovery in the future. Accordingly, the investment was written off last year as its fair value is considered to be negligible.

17 Deferred tax asset

The deferred tax assets and liabilities recognised by the group and the movements thereon during the current and prior periods are as follows:

	Capital allowances in excess of depreciation £'000	Pension surplus £'000	Provisions and other short term timing differences £'000	Total £'000
Asset/(liability) at 31 December 2016 at 19%	261	(221)	519	559
Charged to income statement (note 11)	(193)	–	–	(193)
Charged to equity (note 11)	–	(264)	–	(264)
Effect of pension payments in excess of interest and administration expenses	–	(154)	154	–
Asset/(liability) at 31 December 2017 at 19%	68	(639)	673	102
Credited to income statement (note 11)	**203**	**–**	**59**	**262**
Credited to equity (note 11)	**–**	**313**	**–**	**313**
Effect of interest and administration expenses in excess of pension payments	**–**	**68**	**(68)**	**–**
Asset/(liability) at 31 December 2018 at 19%	**271**	**(258)**	**664**	**677**

Deferred tax has been calculated using the substantively enacted tax rate that is expected to apply when the majority of the temporary timing differences reverse. Consequently, a deferred tax rate of 19% *(2017: 19%)* has been used.

The group does not have any unused capital losses or any unrecognised UK deferred tax assets or liabilities at either the current or preceding period end.

Deferred tax assets have not been recognised in respect of overseas tax losses because it is uncertain that future tax profits will be available, against which the group can utilise them.

The deferred tax asset as at 31 December 2018, excluding the liability on the pension surplus, is £935,000 *(2017: £741,000)*. Of this amount, approximately £283,000 *(2017: £360,000)* is expected to be recovered after more than 12 months.

18 Retirement benefit pension schemes

Defined benefit pension scheme

The group operates two pension arrangements in the UK: the Andrews Sykes Group Pension Scheme ("the DB scheme and the Andrews Sykes Stakeholder Pension Plan ("the DC Plan")).

The group's UK pension arrangements include defined benefit and defined contribution schemes. The DB scheme is established under trust law and complies with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2014 and all other relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex in so far as this is required by current legislation.

The DB scheme was closed to new members on 29 December 2002 and over recent years the group has taken steps to manage the ongoing risks associated with its defined benefit liabilities.

As at 31 December 2018, the group had a net defined benefit pension scheme surplus, calculated in accordance with IAS 19 using the assumptions as set out below, of £1,356,000 *(2017: £3,364,000)*. This asset has been recognised in these financial statements as the directors are satisfied that it is recoverable in accordance with IFRIC 14.

Following the triennial recalculation of the funding deficit as at 31 December 2016, a revised schedule of contributions and recovery plan was agreed with the pension scheme trustees in October 2017. In accordance with this schedule of contributions, which was backdated to be effective from 1 January 2017, the group made additional contributions during 2017 to remove the funding deficit in the group scheme calculated as at 31 December 2016 of £710,000 and this was eliminated by 31 December 2017.

Throughout 2017 and 2018, the group continued to make a contribution towards expenses of £10,000 per month and this will continue until the next formal schedule of contributions is agreed with the pension scheme trustees. The group made total pension contributions of £120,000 during 2018 *(2017: £920,000)*.

The next formal triennial funding valuation is due as at 31 December 2019. The group currently expects to make pension contributions of £120,000 during 2019 in accordance with the current schedule of contributions.

Principal risks

The following table summarises the principal risks associated with the group's DB scheme:

Investment risk	The present value of defined benefit liabilities is calculated using a discount rate set by reference to high-quality corporate bond yields. If scheme assets underperform corporate bonds, this will create a deficit
Interest rate risk	A fall in bond yields would increase the value of the liabilities. This would only be partially offset by an increase in the value of the bond investments held.
Inflation risk	An increase in inflation would increase the value of pension liabilities. The assets would be expected to also increase, to the extent they are linked to inflation, but this would not be expected to fully match the increase in liabilities.
Longevity risk	The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of the scheme members. If members live longer than this mortality assumption, this will increase the liabilities.

Assumptions

The last full actuarial valuation was carried out as at 31 December 2016. A qualified independent actuary has updated the results of this valuation to calculate the surplus as disclosed below:

The major assumptions used in this valuation to determine the present value of the scheme's defined benefit obligation were as follows:

	31 December 2018	31 December 2017
Rate of increase in pensionable salaries	**N/A**	N/A
Rate of increase in pensions in payment	**3.20%**	3.10%
Rate of increase in pensions in deferment	**2.20%**	2.10%
Discount rate applied to scheme liabilities	**2.80%**	2.50%
Inflation assumption - RPI	**3.20%**	3.10%
Inflation assumption - CPI	**2.20%**	2.10%
Percentage of deferred members taking maximum tax-free lump sum on retirement	**75%**	75%

From 1 January 2011, the Government amended the basis for statutory increases to deferred pensions and pensions in payment. Such increases are now based on inflation measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Having reviewed the scheme rules and considered the impact of the change on this pension scheme, the directors consider that future increases to all deferred pensions and Guaranteed Minimum Pensions accrued between 6 April 1988 and 5 April 1997 and currently in payment will be based on CPI rather than RPI. Accordingly, this assumption was adopted as at 31 December 2010 and subsequently.

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics. The current mortality table used is 110% S2NA CMI_2017 *(2017: 110% S2NA CMI_2016)* with a 1.25% per annum long-term improvement rate for both males and females *(2017: 1.25% for both males and females)*.

18 Retirement benefit pension schemes (continued)

The assumed average life expectancy in years of a pensioner retiring at the age of 65 given by the above tables is as follows:

	31 December 2018	31 December 2017
Male, current age 45	**22.8 years**	22.9 years
Female, current age 45	**24.9 years**	25.0 years
Male, current age 65	**21.4 years**	21.5 years
Female, current age 65	**23.4 years**	23.5 years

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

Valuations

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are inherently uncertain, were as follows:

	31 December 2018 £'000	31 December 2017 £'000
Listed investments:		
UK equities	**14,416**	17,126
Corporate bonds	**17,052**	18,840
Gilts	**9,439**	9,492
	40,907	45,458
Cash	**129**	199
Total fair value of plan assets	**41,036**	45,657
Present value of defined benefit obligation	**(39,680)**	(42,293)
Pension scheme surplus recognised on the balance sheet	**1,356**	3,364

The movement in the fair value of the scheme's assets during the period is as follows:

	31 December 2018 £'000	31 December 2017 £'000
Fair value of plan assets at the start of the period	**45,657**	43,368
Interest income on pension scheme assets	**1,103**	1,159
Actual return less interest income on pension scheme assets	**(2,645)**	2,047
Administration expenses charged in the income statement	**(131)**	(150)
Employer contributions	**120**	920
Benefits paid	**(3,068)**	(1,687)
Fair value of plan assets at the end of the period	**41,036**	45,657

The above pension scheme assets do not include any investments in the parent company's own shares or property occupied by the company or its subsidiaries at either period end. The group did not hold any unlisted investments at either period end.

The movement in the present value of the defined benefit obligation during the period was as follows:

	31 December 2018 £'000	31 December 2017 £'000
Present value of defined benefit funded obligation at the beginning of the period	**(42,293)**	(42,207)
Interest on defined benefit obligation	**(1,019)**	(1,117)
Past service cost – GMP equalisation	**(432)**	–
Actuarial gain/(loss) recognised in the CSOCTI* arising from:		
Demographic assumptions	**198**	(501)
Financial assumptions	**1,210**	(315)
Experience adjustments	**(412)**	160
Benefits paid	**3,068**	1,687
Present value of defined benefit funded obligation at the end of the period	**(39,680)**	(42,293)

*Consolidated Statement of Comprehensive Total Income.

The present value of the defined benefit obligation of £39,680,000 was comprised of approximately 47% relating to deferred participants and 53% relating to pensioners.

The expected average duration of the DB scheme's liabilities is around 15 years.

Key assumptions — sensitivity analysis

The key assumptions used to calculate the scheme's liabilities are longevity, discount rate and the inflation assumptions (RPI and CPI).

If the average actual longevity from the age of 65 years is one year greater than that assumed, the pension scheme liabilities would increase by approximately £1.9 million *(2017: £1.9 million)*. If the actual longevity is one year less than that assumed, the pension scheme liabilities would reduce by a similar amount.

A 0.1% increase in the discount rate applied to the scheme liabilities and a 0.1% increase in the inflation assumptions would reduce/increase the present value of the defined benefit obligation by approximately £0.5 million *(2017: £0.6 million)* and £0.4 million *(2017: £0.5 million)* respectively. A 0.1% decrease in these assumptions would increase/reduce the present value of the defined benefit obligation by a similar amount.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. No allowance has been made for any change in assets that might arise under any of the scenarios set out above. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised within the consolidated balance sheet.

The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future. Economic markets are volatile and market metrics used to derive the discount rate and price inflation assumptions could increase or decrease in the future, by more or less than the change set out.

This methodology is unchanged from last year's disclosures.

18 Retirement benefit pension schemes (continued)

Amounts recognised in the income statement	**31 December 2018 £'000**	31 December 2017 £'000
The amounts charged/(credited) in the income statement were:		
Administration expenses:		
Past service cost - GMP equalisation	**432**	–
Pension scheme administration expenses	**131**	150
Pension scheme costs charged within administration expenses	**563**	150
Interest income on pension scheme assets	**(1,103)**	(1,159)
Interest expense on pension scheme liabilities	**1,019**	1,117
Net pension scheme interest income on pension scheme surplus (note 6)	**(84)**	(42)
Net pension charge	**479**	108

Although the DB scheme was closed to new members on 29 December 2002, and future benefits ceased to accrue to existing members on that date, a GMP equalisation charge of £432,000 has been recognised in the current year within past service costs. This followed a High Court judgement in the case of Lloyds Banking Group on 26 October 2018 when it was clarified that pension benefits paid by UK defined benefit pension schemes do need to be equalised for previously unequal Guaranteed Minimum Pensions (GMP). This charge has been recognised in the income statement as the ruling is considered to have created a new obligation which was not previously incorporated into the calculation of the liabilities. Any future changes in the assumptions adopted this year will be recognised in the consolidated statement of comprehensive total income as a re-measurement item.

Actuarial gains and losses recognised in the consolidated statement of comprehensive total income (CSOCTI*)

	31 December 2018 £'000	31 December 2017 £'000
The amounts charged/(credited) in the CSOCTI* were:		
Actual return less interest income on pension scheme assets	**2,645**	(2,047)
Experience gains and losses arising on plan obligation	**412**	(160)
Changes in demographic and financial assumptions underlying the present value of plan obligations	**(1,408)**	816
Net actuarial loss/(gain) recognised in the CSOCTI*	**1,649**	(1,391)
Cumulative actuarial loss recognised in the CSOCTI*	**7,340**	5,691

*Consolidated Statement of Comprehensive Total Income.

The actual return on plan assets can therefore be summarised as follows:

	31 December 2018 £'000	31 December 2017 £'000
Interest income on pension scheme assets	**1,103**	1,159
Actuarial (loss) / gain recognised in the CSOCTI* representing the difference between expected and actual return on assets	**(2,645)**	2,047
Actual (deficit) / surplus on plan assets	**(1,542)**	3,206

*Consolidated Statement of Comprehensive Total Income.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy as restricted to a rate equal to the assumed discount rate applied to the scheme's liabilities. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Defined contribution pension scheme and auto enrolment
The group operates the Andrews Sykes Stakeholder Pension Plan, to which the majority of UK employees are eligible. Both the employer and employee contributions vary, generally based upon the individual's length of service with the company.

The group has adopted the requirements of auto enrolment for all eligible UK employees. Until 1 October 2017, employee and employer contributions were made at the rates of 1% each of pensionable salary which were then increased to 3% for employees and 2% for employers. On 6 April 2019 these rates were further increased to 5% and 3% respectively.

Contributions for both existing members and members that have been auto enrolled are made to the same scheme. The employer's contribution rates vary from 1% to 15%, the current average being 3.8% *(2017: 2.2%)*. The current period charge in the income statement amounted to £382,000 *(2017: £262,000)*.

Overseas defined contribution pension scheme arrangements
Overseas companies make their own pension arrangements, the charge for the period being £248,000 *(2017: £215,000)*. No additional disclosure is given on the basis of materiality.

19 Stocks

	31 December 2018 £'000	31 December 2017 £'000
Raw material and consumables	**268**	185
Work in progress	**36**	57
Finished goods	**4,779**	3,618
	5,083	3,860

As disclosed in note 24, the group's bank loans are secured by fixed and floating charges over the group's assets including stocks.

The cost of stock recognised as an expense in the period was £10,017,000 *(2017: £9,937,000)* and, in addition, a further £1,460,000 of items held in stock at 31 December 2017 have been capitalised in the hire fleet this year *(2017: £2,156,000)*. The net charge in the income statement for net realisable value provisions was £41,000 *(2017: £39,000)*.

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2018

20 Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Trade debtors:		
Current unimpaired debtors	**8,835**	7,987
Overdue impaired debtors:		
Gross	**11,317**	9,671
Less allowance for doubtful debts and credit losses	**(2,642)**	(2,327)
Net overdue trade debtors	**8,675**	7,344
Net trade debtors	**17,510**	15,331
Amounts due from related parties	**96**	27
Lease prepayments - long leasehold land premiums	**2**	2
Prepayments and accrued income	**1,769**	1,770
Other debtors	**617**	722
	19,994	17,852

No collateral is held in respect of overdue trade debtors.

Current unimpaired trade debtors represents amounts due from customers that are not overdue in accordance with the specific credit terms agreed with those customers. The average outstanding debtor days for current unimpaired trade debtors at 31 December 2018 is 37 days (2017: 37 days).

The age profile of the trade debtors that are past due but not impaired is as follows:

	31 December 2018 £'000	31 December 2017 £'000
Not more than 3 months overdue	**5,815**	5,240
More than 3 months and not more than 6 months overdue	**1,146**	1,059
More than 6 months and not more than 12 months overdue	**879**	704
More than 12 months overdue	**835**	341
Net overdue trade debtors	**8,675**	7,344

The allowance for doubtful debts and credit losses is based on past default experience, external indicators and forward looking information. Debts with customers in liquidation or receivership are fully provided against until they have been written off.

The movement in the provision during the period is as follows:

	31 December 2018 £'000	31 December 2017 £'000
Balance at the beginning of the period	**2,327**	2,315
Foreign exchange difference	**87**	(127)
Net amounts written off during the period	**(483)**	(312)
Income statement charge	**711**	451
Balance at the end of the period	**2,642**	2,327

The directors consider that the carrying value of trade debtors approximates to fair value and that no impairment provisions are required against other receivables.

Information concerning credit, liquidity and market risks together with an analysis of monetary assets held in currencies other than pounds Sterling is given in note 30.

21 Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank	**6,851**	6,140
Deposit accounts	**21,011**	19,171
	27,862	25,311

Cash at bank comprises cash held by the group in interest-free bank current accounts.

Deposit accounts comprise instant access interest-bearing accounts and other short-term bank deposits with an original maturity of three months or less. Interest was received at an average floating rate of approximately 0.2% *(2017: 0.2%)*.

The carrying value of cash and cash equivalents approximates to their fair value.

Total cash balances and other monetary assets and liabilities denominated in foreign currencies are disclosed in note 30.

22 Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Trade creditors	**4,030**	4,549
Amounts due to related parties	**421**	49
Other tax and social security	**1,748**	1,597
Accruals and deferred income	**6,151**	5,713
Other creditors	**539**	450
	12,889	12,358

Trade creditors, accruals and other creditors mainly comprise amounts outstanding from trade purchases and other normal business-related costs. The average credit period taken for trade purchases is 40 days *(2017: 47 days)*.

Information concerning credit, liquidity and market risks together with an analysis of monetary liabilities held in currencies other than pounds Sterling is given in note 30.

The carrying value of trade and other payables approximates to their fair value.

23 Current tax liabilities

	31 December 2018 £'000	31 December 2017 £'000
UK corporation tax	**1,858**	1,318
Overseas tax (denominated in Euros)	**436**	378
	2,294	1,696

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2018

24 Bank loans

	31 December 2018 £'000	31 December 2017 £'000
The borrowings are repayable as follows:		
On demand or within one year	**493**	493
In the second year	**493**	493
In the third to fifth years inclusive	**3,490**	3,982
Total	**4,476**	4,968
Disclosed:		
Within current liabilities (on demand or within one year)	**493**	493
Within non-current liabilities	**3,983**	4,475
Total	**4,476**	4,968
Total bank loans may be further analysed as follows:		
Gross bank loans	**4,500**	5,000
Unamortised costs of raising loan finance	**(24)**	(32)
Net carrying value of bank loans	**4,476**	4,968

The group's Sterling denominated bank loans are secured by fixed and floating charges over the assets of the group and by cross guarantees between group undertakings.

On 30 April 2017, the group repaid the final instalment of £5 million due on the previous bank loan and subsequently took out a new five-year bank loan of the same amount. The new loan is repayable in four annual instalments of £0.5 million commencing 30 April 2018 followed by a balloon payment of £3 million on 30 April 2022. Costs incurred raising the loan are being amortised over the period of the loan.

Interest is charged on the group's borrowings based on the three-month LIBOR rate plus a margin of 1.1%. The weighted average interest rate charged during the year was 1.75% *(2017: 1.53%)*.

The directors consider that the fair value of the floating rate bank loans are not materially different from their book values. There are no fixed rate liabilities or undrawn borrowing facilities outstanding at either period end.

25 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Amounts payable under finance leases:				
Within one year	**5**	44	**5**	43
In the second to fifth years inclusive	**–**	7	**–**	7
	5	51	**5**	50
Less future finance charges	**–**	(1)		
Present value of lease obligations	**5**	50		
Disclosed:				
Within current liabilities (payable within one year)			**5**	43
Within non-current liabilities			**–**	7
Total			**5**	50

Last year the present value of minimum lease payments included £15,000 in respect of leased properties which were capitalised as finance leases in accordance with IAS 37. These leases all terminated during the current year. The present value of the minimum lease payments was calculated based on the group's historic weighted average cost of capital at the date of initial capitalisation as the interest rates implicit in the leases was not known. The group's obligations under these leases were secured over the short leasehold assets being leased, the carrying values of which are disclosed in note 13.

The remaining present value of minimum lease payments of £5,000 *(2017: £35,000)* relates to plant and machinery and the group's obligations under these leases are secured on the equipment being leased, the carrying values of which are disclosed in note 13.

All lease obligations are denominated in Sterling and the fair value of the group's lease obligations is approximately equal to their carrying value.

26 Called-up share capital

	31 December 2018 £'000	31 December 2017 £'000
Issued and fully paid:		
42,174,359 ordinary shares of one pence each (*2017: 42,262,082 ordinary shares of one pence each*)	**422**	423

During the year the company purchased 87,723 ordinary shares of 1p each *(2017: Nil)* for cancellation for a total consideration of £437,689 *(2017: £Nil)*.

The company has one class of ordinary shares which carries no right to fixed income.

No share options were exercised, granted, forfeited or expired during either the current or preceding financial period. There were no outstanding share options at the end of either the current or preceding financial period.

27 Share capital and reserves

	Share capital £'000	**Share premium £'000**	**Retained earnings £'000**	**Translation reserve £'000**	**Other reserves £'000**	**Total £'000**
At 31 December 2016	423	13	43,619	3,897	245	48,197
Total comprehensive income for the period	–	–	15,228	(2)	–	15,226
Dividends paid	–	–	(10,058)	–	–	(10,058)
At 31 December 2017	423	13	48,789	3,895	245	53,365
Total comprehensive income for the period	**–**	**–**	**15,710**	**405**	**–**	**16,115**
Purchase of own shares	**(1)**	**–**	**(438)**	**–**	**1**	**(438)**
Dividends paid	**–**	**–**	**(10,048)**	**–**	**–**	**(10,048)**
At 31 December 2018	**422**	**13**	**54,013**	**4,300**	**246**	**58,994**

The translation reserve represents the cumulative translation differences on the foreign currency net investments held at the period end since the date of transition to IFRS.

Other reserves comprise:	**31 December 2018 £'000**	31 December 2017 £'000
Capital redemption reserve	**158**	157
UAE legal reserve	**79**	79
Netherlands capital reserve	**9**	9
	246	245

Local legislation in the United Arab Emirates requires Khansaheb Sykes LLC to maintain a non-distributable reserve equal to 50% of its share capital.

The capital redemption reserve increased by £877 following the purchase by the company of 87,723 of its own 1 pence ordinary shares during the period.

With the exception of the above, there were no other movements on any of the other reserves during either the current or preceding financial period.

28 Cash generated from operations

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Profit for the period attributable to equity shareholders	**17,046**	14,101
Adjustments for:		
Taxation charge	**3,999**	3,184
Finance costs	**97**	386
Finance income	**(461)**	(82)
Profit on the sale of property, plant and equipment	**(610)**	(655)
Depreciation	**6,666**	5,917
Write-off of trade investment	**–**	164
Shortfall/(excess) of normal pension contributions compared with administration expenses	**443**	(770)
Cash generated from operations before movements in working capital	**27,180**	22,245
Movement in stocks	**(2,682)**	(1,022)
Movement in trade and other receivables	**(2,139)**	563
Movement in trade and other payables	**529**	(696)
Cash generated from operations	**22,888**	21,090

29 Analysis of net funds and movement in financing liabilities

	31 December 2018 £'000	31 December 2017 £'000
Cash and cash equivalents per consolidated cash flow statement and note 21	**27,862**	25,311
Gross funds	**27,862**	25,311
Bank loans:		
At the beginning of the period	**(4,968)**	(4,995)
Loans repaid	**500**	5,000
Loans drawn down	**–**	(4,963)
Other non-cash changes	**(8)**	(10)
At the end of the period	**(4,476)**	(4,968)
Finance lease liabilities:		
At the beginning of the period	**(50)**	(50)
Leases repaid	**45**	101
At the end of the period	**(5)**	(50)
Gross debt	**(4,481)**	(5,018)
Net funds	**23,381**	20,293

30 Financial instruments

Capital risk management

The group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the group consists of net funds, which are analysed in note 29, and equity comprising issued share capital, reserves and retained earnings as disclosed in note 27. The net funds to equity percentage is:

	31 December 2018 £'000	31 December 2017 £'000
Net funds per note 29	**23,381**	20,293
Equity attributable to equity holders of the parent company as per note 27	**58,994**	53,365
Net funds to equity percentage	**39.6%**	38.0%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and liability, are disclosed in note 2 to the financial statements.

Categories of financial instruments

The carrying values of each category of financial instrument are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents):		
Trade debtors and amounts due by related parties	**17,606**	15,358
Other debtors	**617**	722
Cash and cash equivalents	**27,862**	25,311
	46,085	41,391
	46,085	41,391
Financial liabilities		
Amortised cost:		
Trade creditors and amounts due to related parties	**4,451**	4,598
Accruals and other creditors	**6,690**	6,163
Loans	**4,476**	4,968
Finance lease obligations	**5**	50
	15,622	15,779
	15,622	15,779

Financial risk management

The key risks that potentially impact on the group's results are market risk, credit risk and liquidity and interest rate risks. The group's exposure to each of these risks and the management of that exposure is discussed below. There has been no change in the period, or since the period end, to the type of financial risks faced by the group or to the management of those risks.

30 Financial instruments (continued)

Market risk

The group's activities expose it primarily to the financial risks of changes in interest rates. When appropriate, the group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate caps that limit the group's exposure to fluctuations in LIBOR on its bank loans. However, due to the current low interest rates and the indications that these will not increase substantially in the immediate future, the directors do not consider that interest rate caps are currently cost-effective. Accordingly, the group does not hold any interest rate caps or any other derivative financial instrument as at 31 December 2018 *(2017: £Nil)* although this position is constantly under review.

A 1% increase in the average bank loan agreement rate for the period would have increased the net bank loan interest charge by £46,000 *(2017: £50,000)*; a 1% decrease would have decreased it by a similar amount.

The group's policy is not to hedge its international assets with respect to foreign currency balance sheet translation exposure, nor against foreign currency transactions. The group generally does not enter into forward exchange contracts and it does not use financial instruments for speculative purposes.

The carrying amounts of the group's foreign currency denominated financial assets and liabilities at the end of the financial period are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Financial assets (excluding cash) denominated in:		
Euros	**3,584**	3,162
UAE Dirhams	**6,625**	5,368
Cash denominated in:		
Euros	**4,206**	6,125
UAE Dirhams	**1,290**	1,082
Liabilities denominated in:		
Euros	**2,536**	2,620
UAE Dirhams	**2,361**	2,041

A 10% increase in the Euro:Sterling exchange rate would reduce the consolidated operating profit by £1,000,000 *(2017: £325,000)*. A 10% decrease would increase the consolidated operating profit by a similar amount.

A 10% increase in the Dirham:Sterling exchange rate would reduce the consolidated operating profit by £220,000 *(2017: £300,000)*. A 10% decrease would increase the consolidated operating profit by a similar amount.

Monetary assets and liabilities denominated in currencies other than Sterling, the Euro and UAE Dirhams were not significant at either period end.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Creditworthiness is verified by independent rating agencies when available. The group's exposure to and credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by senior management on a regular basis.

Trade receivables consist of a large number of customers spread across diverse industries and geographical locations. A review of all bad debt history was carried out to evaluate whether this was indicative of any expected future credit exposures. These historical rates of credit loss were then looked at in the context of current and future factors affecting customer credit worthiness. Trade receivables are written off when there is considered to be little likelihood of recovery of the debt.

The group's expected credit loss percentage is an immaterial amount despite the fact that an allowance for doubtful debts and credit losses of £2,642,000 has been provided as at 31 December 2018, see note 20. This is because a significant proportion of the allowance relates to business carried out in the Middle East where provisions have been made for overdue payments. The group's current assessment is that no future credit losses will arise but the group continues to monitor its exposure to expected credit losses and further disclosure will be provided in future periods if the assessed expected credit losses are considered significant.

The group does not have any significant credit risk exposure to any single counterparty or connected counterparties at the reporting date where "significant" is defined as 5% of gross financial assets. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

Liquidity risk management

The group manages liquidity risk by maintaining adequate cash reserves, which at 31 December 2018 amounted to £27,862,000 *(2017: £25,311,000)*, by operating within its agreed banking facilities, by continuously monitoring forecast and actual cash flows, by matching the maturity profiles of monetary assets and liabilities and by monitoring and discussing its covenants with the bank.

In view of the significant levels of net funds available to the group of £23,381,000 *(2017: £20,293,000)*, the directors believe that additional unutilised borrowing facilities are not required.

Liquidity and interest risk tables

The following table details the group's remaining contractual maturity for its non-derivative financial liabilities. The table has been prepared based on the undiscounted contractual maturities of the financial instruments. The future finance charges represent the charges that will be charged to the income statement in future periods based on the current weighted average interest rates and have not been included within the carrying amount of the financial liability:

31 December 2018	**Weighted average interest rate**	**Due within 3 months £'000**	**Due 3 months to 1 year £'000**	**Due over 1 year and less than 5 years £'000**	**Due after 5 years £'000**	**Future finance charges £'000**	**Total £'000**
Non-interest bearing	**N/A**	**10,199**	**4,984**	**–**	**–**	**–**	**15,183**
Gross variable interest bank loans	**1.75%**	**–**	**503**	**4,207**		**(210)**	**4,500**
Fixed interest finance leases	**0.00%**		**5**	**–**	**–**	**–**	**5**
Total		**10,199**	**5,492**	**4,207**	**–**	**(210)**	**19,688**

31 December 2017	Weighted average interest rate	Due within 3 months £'000	Due 3 months to 1 year £'000	Due over 1 year and less than 5 years £'000	Due after 5 years £'000	Future finance charges £'000	Total £'000
Non-interest bearing	N/A	9,669	4,385	–	–	–	14,054
Gross variable interest bank loans	1.53%	–	503	4,747	–	(250)	5,000
Fixed interest finance leases	8.00%	12	32	7	–	(1)	50
Total		9,681	4,920	4,754	–	(251)	19,104

31 Operating lease arrangements

At the balance sheet date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property		Plant, machinery and equipment	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Amounts payable under operating leases:				
Within one year	**1,287**	1,053	**1,599**	1,632
In the second to fifth years inclusive	**4,005**	3,089	**2,272**	2,371
After five years	**4,362**	2,869	**–**	5
	9,654	7,011	**3,871**	4,008

Property lease payments represent rentals payable by the group for certain of its operating locations and offices. Leases are negotiated over various terms to suit the particular requirements at that time. Break clauses are included wherever appropriate and the above liability has been calculated from the balance sheet date to either the end of the lease or the first break clause, whichever is the earlier.

Plant, machinery and equipment leases represent short-term leases for motor vehicles, office and general equipment.

32 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

During the period, the group entered into the following transactions in the normal course of business with associated companies on an arm's length basis:

	31 December 2018 £'000	31 December 2017 £'000
Sale of goods and services to associates within the London Security plc group	**–**	2
Sale of goods and services to Oasis Sykes	**5**	29
Purchase of goods and services from associates within the London Security plc group	**112**	113
Amount owed by the group to associates within the London Security plc group	**2**	–
Amounts owed to the group by Sweepax Pumps Limited	**27**	27
Amount owed by the group to Sweepax Pumps Limited	**33**	47
Sales of goods and services to companies connected with Khansaheb Sykes LLC	**43**	130
Amounts owed to the group by companies connected with Khansaheb Sykes LLC	**69**	147
Purchase of goods and services from associates connected with Khansaheb Sykes LC	**786**	890
Amounts owed by the group to companies connected with Khansaheb Sykes LLC	**386**	378

The group did not hold any security and there were no impairment charges in respect of any of the above transactions.

London Security plc is associated through common control. 50% of the share capital of Sweepax Pumps Limited is owned by Andrews Sykes Group plc; Sweepax Pumps Limited, which is not consolidated on the grounds of materiality, did not trade during the year.

Khansaheb Sykes LLC, a company that is 49% owned by the group and 100% of the profits accrue to the group, trades in the normal course of business with its other shareholder and companies connected with that shareholder.

Transactions with key management personnel

Details of remuneration paid to directors and key management personnel are disclosed in note 10 above.

33 Dividend payments

The directors declared and paid the following dividends during the 12 month periods ended 31 December 2018 and 31 December 2017:

	12 months ended 31 December 2018		12 months ended 31 December 2017	
	Pence per share	**Total dividend paid £'000**	Pence per share	Total dividend paid £'000
Final dividend for the 12 months ended 31 December 2017 paid to members on the register at 1 June 2018 on 25 June 2018	**11.90p**	**5,029**	–	–
Interim dividend declared on 27 September 2018 and paid to shareholders on the register at 12 October 2018 on 9 November 2018	**11.90p**	**5,019**	–	–
Final dividend for the 12 months ended 31 December 2016 paid to members on the register at 26 May 2017 on 26 June 2017	**–**	**–**	11.90	5,029
Interim dividend declared on 28 September 2017 and paid to shareholders on the register at 6 October 2017 on 3 November 2017	**–**	**–**	11.90	5,029
	23.80p	**10,048**	23.80	10,058

The above dividends were charged against reserves as shown in the consolidated statement of changes in equity and in note 27 to these financial statements.

The directors recommend the payment of a final dividend of 11.90 pence *(2017: 11.90 pence)* per ordinary share. If approved at the forthcoming Annual General Meeting, this dividend, which in total amounts to £5,019,000 *(2017: £5,029,000)*, will be paid on 21 June 2019 to shareholders on the register at 31 May 2019.

34 Ultimate parent company

As at 9 May 2019, EOI Sykes Sarl, which is incorporated in Luxembourg, held 86.25% of the share capital of Andrews Sykes Group plc and is therefore the immediate parent company. The ultimate holding company is the Tristar Corporation, a company incorporated in the Republic of Panama. The Tristar Corporation is held jointly, in equal proportions, by the Ariane Trust and the Eden Trust and controlled by the trustees of these trusts through a Trustees' Committee. The directors therefore consider that the trustees of the Ariane and Eden Trusts are the ultimate controlling parties of Andrews Sykes Group plc.

Company Balance Sheet

As at 31 December 2018

	Note	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Fixed assets					
Investments	3		**32,115**		32,101
Current assets					
Debtors	4	**29,510**		24,451	
Cash at bank and in hand	5	**22**		59	
		29,532		24,510	
Creditors: Amounts falling due within one year	6	**(8,206)**		(7,932)	
Net current assets			**21,326**		16,578
Total assets less current liabilities			**53,441**		48,679
Creditors: Amounts falling due after more than one year	6		**(3,983)**		(4,475)
Net assets			**49,458**		44,204
Capital and reserves					
Called-up share capital	8		**422**		423
Share premium	10		**13**		13
Profit and loss account	10		**46,654**		41,400
Capital redemption reserve	10		**158**		157
Other reserve	10		**2,211**		2,211
Shareholders' funds	11		**49,458**		44,204

The profit for the financial period dealt with in the profit and loss account of the company was £15,740,000 *(2017: £12,563,000)*.

These financial statements of Andrews Sykes Group plc, company number 00175912, were approved and authorised for issue by the Board of directors on 9 May 2019 and were signed on its behalf by:

JJ Murray
Vice-Chairman

Company Statement of Changes in Equity

For the 12 months ended 31 December 2018

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
At 31 December 2016	423	13	38,895	2,368	41,699
Profit for the financial period	–	–	12,563	–	12,563
Transactions with owners recorded directly in equity:					
Dividends paid	–	–	(10,058)	–	(10,058)
Total transactions with owners	–	–	(10,058)	–	(10,058)
At 31 December 2017	423	13	41,400	2,368	44,204
Profit for the financial period	**–**	**–**	**15,740**	**–**	**15,740**
Transactions with owners recorded directly in equity:					
Dividends paid	**–**	**–**	**(10,048)**	**–**	**(10,048)**
Purchase of own shares	**(1)**		**(438)**	**1**	**(438)**
Total transactions with owners	**(1)**	**–**	**(10,486)**	**1**	**(10,486)**
At 31 December 2018	**422**	**13**	**46,654**	**2,369**	**49,458**

Notes to the Company Financial Statements

For the 12 months ended 31 December 2018

1. Significant accounting policies

Basis of preparation

These separate financial statements of Andrews Sykes Group plc (the company) have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) and the Companies Act 2006.

Reduced disclosure framework

Advantage has been taken of paragraph 1.12 of FRS 102 and the company has applied the reduced disclosure framework as permitted by that paragraph. In accordance with paragraph 1.11, shareholders have been notified and did not object to the adoption of the reduced disclosure framework. Accordingly, these individual company financial statements:

- do not contain a cash flow statement as otherwise required by section 7 of FRS 102;
- do not contain accounting policies for financial instruments, as otherwise required by sections 11 and 12 of FRS 102, as these have been disclosed in the consolidated accounts;
- do not disclose key management remuneration as otherwise required by section 33 of FRS 102;
- do not disclose a reconciliation of the number of shares outstanding from the beginning to the end of the period; and
- do not include the disclosures otherwise required by FRS 102.11 for basic and FRS 102.12 for other financial instruments.

The company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Exemptions taken in the preparation of these financial statements on transition to FRS 102

The effective date of transition to FRS 102 was 1 January 2014. In accordance with paragraph 35.10 of FRS 102, in 2015 the company elected to take advantage of the following exemptions that were available on transition:

- Section 19 of FRS 102 was not applied retrospectively to business combinations that occurred before the date of transition to FRS 102; and
- Investments in subsidiaries are stated at cost less impairment provisions and not at fair value.

Company profit and loss account

As permitted by Section 408 of the Companies Act 2006, the company has elected not to present its own profit and loss account for the period.

Principal accounting policies

The principal accounting policies, which have all been applied consistently throughout the current and preceding accounting periods, are summarised below.

Going concern

These financial statements have been prepared on the fundamental assumption that the company is a going concern and will continue to trade for at least 12 months following the date of approval of the financial statements.

Further information explaining why the directors believe that the group as a whole is a going concern is given in the strategic report on page 12.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment. Cost is defined as the aggregate of:

(a) the cash consideration;
(b) the nominal value of shares issued as consideration where Section 612 of the Companies Act 2006 applies;
(c) the market value of the company's shares on the date they were issued where Section 612 does not apply;
(d) the fair value of any other consideration; and
(e) costs of acquisition.

Investments are assessed for indicators of impairment at each balance sheet date. If there is such an indication the recoverable amount of the investment is compared to the carrying amount of the investment. If the recoverable amount of the investment is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the investment is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like loans from banks and group undertakings and loans to group undertakings.

Debt instruments (other than those wholly repayable or receivable within one year), including loans, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax is provided in full on timing differences that result in an obligation to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax law enacted or substantively enacted. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on unremitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Current tax

Current tax payable and recoverable is based on the taxable profit or loss for the year using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from the profit as reported in the profit and loss account as it is adjusted for both items that will never be taxable or deductible and temporary timing differences.

Borrowing costs

All borrowing costs are recognised in the company's profit and loss account on an accruals basis.

Related party transactions

Under the provisions of FRS 102 paragraph 33.1A, the company has not disclosed details of intra-group transactions with wholly-owned subsidiary companies.

2 Employee information

The company has no employees other than the directors. The directors received no remuneration in 2017 or 2018 paid directly by Andrews Sykes Group plc.

Notes to the Company Financial Statements

For the 12 months ended 31 December 2018

3 Fixed asset investments

	Subsidiary undertakings shares £'000
Cost	
At the beginning and end of the period	**40,748**
Provisions	
At the beginning of the period	8,647
Release for the period	**(14)**
At the end of the period	**8,633**
Net book value	
At 31 December 2018	**32,115**
At 31 December 2017	32,101

The company's subsidiary undertakings (*denotes directly owned by Andrews Sykes Group plc) as at 31 December 2018 were as follows:

Andrews Sykes Hire Limited*
Andrews Air Conditioning and Refrigeration Limited*
Sykes Pumps International Limited (overseas sales of specialist environmental control products)
Climate Contingency Services Limited*
Andrews Sykes Investments Limited* (intermediate holding company)
A.S. Group Management Limited* (intermediate holding company)
Andrews Sykes International Limited* (intermediate holding company)
Andrews Sykes Properties Limited* (property holding company)
Company 3533273 Limited* (non-trading)
Sykes Ground Water Control Limited* (non-trading)
Refrigeration Compressor Remanufacturers Limited* (non-trading)
Sykes Pumps Limited* (dormant)
Expert Hire Plant Limited* (dormant)
Plant Mart Limited* (dormant)
Andrews Accommodation Limited (dormant)
AAC&R Limited (dormant)
Andrews Industrial Equipment (Scotland) Limited* (Scotland, dormant)
Heat for Hire (Scotland) Limited* (Scotland, dormant)
AS Holding B.V. (Netherlands, Intermediate holding company)
Khansaheb Sykes LLC (49%, United Arab Emirates)
Andrews Sykes B.V. (Netherlands)
Andrews Sykes BVBA (Belgium)
Nolo Climat S.R.L. (Italy)
Andrews Sykes Climat Location SAS (France)
Andrews Sykes Climat Location SA (Switzerland)
Andrews Sykes Luxembourg SARL (Luxembourg)

Unless otherwise indicated, all are incorporated in England and Wales and undertake hire, sales, service and / or installation of specialist environmental control products, mainly in the country of incorporation. The group holds 100% of the ordinary share capital of all of the above, unless otherwise stated. 100% of the profits of Khansaheb Sykes LLC accrue to the group.

The movement in provisions relates to adjustments to the net carrying value of investments in non-trading subsidiaries to underlying net asset value.

4 Debtors

	31 December 2018 £'000	31 December 2017 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	**27,902**	23,129
Corporation tax and group relief	**1,434**	1,150
Other debtors	**125**	125
Deferred tax	**43**	43
Prepayments and accrued income	**6**	4
	29,510	24,451

The movements on the deferred tax asset during the year were as follows:

	Short-term timing differences £'000
Asset at the beginning of the year at 19%	43
Credit to profit and loss account	–
Asset at the end of the period at 19%	**43**

There were no provided or unprovided deferred tax assets or liabilities at the end of either period.

5 Cash at bank and in hand

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank and in hand	**22**	59

6 Creditors

	31 December 2018 £'000	31 December 2017 £'000
Amounts falling due within one year:		
Bank loans and overdrafts	**493**	493
Amounts owed to group undertakings	**7,439**	7,195
Accruals and deferred income	**274**	244
	8,206	7,932

	31 December 2018 £'000	31 December 2017 £'000
Amounts falling due after more than one year:		
Bank loans repayable between one and two years	**493**	493
Bank loans repayable between two and five years	**3,490**	3,982
	3,983	4,475

Total bank loans may be further analysed as follows:

Gross bank loans	**4,500**	5,000
Unamortised costs of raising loan finance	**(24)**	(32)
Net carrying value of bank loans	**4,476**	4,968

6 Creditors (continued)

Total company bank loans and overdrafts of £4,500,000 *(2017: £5,000,000)* are secured by fixed and floating charges on the assets of the group and by cross guarantees between group undertakings. There are no unsecured bank loans at either period end.

Details of the bank loan facilities are given in note 24 to the consolidated financial statements.

All inter-company loans are repayable on demand, and accordingly, have been classified within current liabilities. Interest is charged on all inter-company loans at commercial rates of interest.

The company did not have any undrawn committed borrowing facilities at either period end.

7 Financial Instruments

The group's policies, objectives and exposure in respect of capital and financial (encompassing market, credit and liquidity) risk management are set out in note 30 to the consolidated financial statements and these are also applicable to the company. The company did not hold any derivative financial instruments at either 31 December 2018 or 31 December 2017.

8 Called-up share capital

	31 December 2018 £'000	31 December 2017 £'000
Issued and fully paid:		
42,174,359 ordinary shares of one pence each (*2017: 42,262,082 ordinary shares of one pence each*)	**422**	423

During the year the company purchased 87,723 ordinary shares of 1p each *(2017: Nil)* for cancellation for a total consideration of £437,689 *(2017: £Nil)*.

The company has one class of ordinary shares which carries no right to fixed income.

No share options were exercised, granted, forfeited or expired during either the current or preceding financial period. There were no outstanding share options at the end of either the current or preceding financial period.

9 Capital commitments and guarantees

There are no commitments or guarantees outstanding as at 31 December 2018 or 31 December 2017.

10 Reserves

	Share premium £'000	**Profit and loss account £'000**	**Capital redemption reserve**	**Other reserve £'000**	**Total £'000**
At the beginning of the period	13	41,400	157	2,211	43,781
Profit for the period	–	**15,740**	**–**	**–**	**15,740**
Purchase of own shares	–	**(438)**	**1**	**–**	**(437)**
Dividends declared and paid	–	**(10,048)**	**–**	**–**	**(10,048)**
At the end of the period	**13**	**46,654**	**158**	**2,211**	**49,036**

The other reserve represents a non-distributable reserve which arose following the receipt of dividends paid out of internally generated profits within the group and are therefore not payable outside the group to its shareholders.

Details of dividends declared and paid are given in note 33 to the consolidated financial statements.

11 Reconciliation of movements in shareholders' funds

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000
Profit for the financial period	**15,740**	12,563
Consideration for the purchase of own shares	**(438)**	–
Dividends declared and paid	**(10,048)**	(10,058)
Net increase in shareholders' funds	**5,254**	2,505
Shareholders' funds at the beginning of the period	**44,204**	41,699
Shareholders' funds at the end of the period	**49,458**	44,204

12 Related party transactions

Transactions between the company and its wholly-owned subsidiaries, which are related parties, are not disclosed in this note in accordance with paragraph 33.1A of FRS 102.

During the period, the company entered into the following transactions in the normal course of business with associated companies on an arm's length basis:

	31 December 2018 £'000	31 December 2017 £'000
Purchase of goods and services from associates within the London Security plc group	**83**	88
Dividend received from Sweepax Pumps Limited	**10**	–
Amount owed by the company to Sweepax Pumps Limited	**27**	47

The company did not hold any security and there were no impairment charges in respect of any of the above transactions.

London Security plc is associated through common control. 50% of the share capital of Sweepax Pumps Limited is owned by Andrews Sykes Group plc.

13 Ultimate parent company

As at 9 May 2019, EOI Sykes Sarl, which is incorporated in Luxembourg, held 86.25% of the share capital of Andrews Sykes Group plc and is therefore the immediate parent company. The ultimate holding company is the Tristar Corporation, a company incorporated in the Republic of Panama. The Tristar Corporation is held jointly, in equal proportions, by the Ariane Trust and the Eden Trust and controlled by the trustees of these trusts through a Trustees' Committee. The directors therefore consider that the trustees of the Ariane and Eden Trusts are the ultimate controlling parties of Andrews Sykes Group plc.

Five Year History

	12 months ended 31 December 2018 £'000	12 months ended 31 December 2017 £'000	12 months ended 31 December 2016 £'000	12 months ended 31 December 2015 £'000	12 months ended 31 December 2014 £'000
Revenue	**78,563**	71,300	65,389	60,058	56,400
Operating profit from continuing activities*					
Trading profit before exceptional items	**20,681**	17,589	15,816	13,208	11,311
Profit on the disposal of property	**–**	–	–	–	–
	20,681	17,589	15,816	13,208	11,311
Income from trade investments	**–**	–	–	–	517
Inter-company foreign exchange gains (losses)	**336**	(293)	1,567	43	(222)
Net interest (charge)/credit excluding inter-company forex	**28**	(11)	158	116	150
Profit before taxation	**21,045**	17,285	17,541	13,367	11,756
Taxation	**(3,999)**	(3,184)	(3,068)	(2,567)	(2,445)
Profit for the financial period	**17,046**	14,101	14,473	10,800	9,311
Dividends per share paid in the year	**23.80p**	23.80p	23.80p	23.80p	23.80p
Dividends paid during the year	**10,048**	10,058	10,058	10,058	10,058
Basic earnings per share from continuing operations	**40.39p**	33.37p	34.25p	25.55p	22.03p
Proposed ordinary final dividend per share	**11.90p**	11.90p	11.90p	11.90p	11.90p

*Defined at the end of each reporting period.

Notice of Annual General Meeting

Notice is hereby given that the ninety-sixth Annual General Meeting of Andrews Sykes Group plc will be held at 2 Eaton Gate, London, SW1W 9BJ on 18 June 2019 at 10.30 a.m. for the following purposes:

As ordinary business:

Ordinary resolutions

1. That the financial statements for the 12 months ended 31 December 2018, together with the strategic report, directors' report and auditor's report, be and they are hereby received and adopted.
2. That Mr AJ Kitchingman, who, in accordance with the Articles of Association, retires at the first AGM subsequent to his appointment by the Board of Directors and offers himself for re-election, be and is hereby re-elected.
3. That Mr JJ Murray, who retires by rotation and offers himself for re-election, be and is hereby re-elected.
4. That Mr EDOA Sebag, who retires by rotation and offers himself for re-election, be and is hereby re-elected.

   Details of directors are set out on page 24 of the financial statements.
5. That a final dividend of 11.9 pence per share for the 12 months ended 31 December 2018 be paid to shareholders on the register as at 31 May 2019 on 21 June 2019.
6. That Grant Thornton UK LLP be and is hereby reappointed as auditor of the company, to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the company, at a remuneration to be fixed by the directors.

As special business:

Ordinary resolutions

7. That the directors, in substitution for all authorities previously conferred upon them (save to the extent that such authorities shall have been exercised), be and they are hereby authorised generally and unconditionally for the purposes of Section 551 of the Companies Act 2006 to allot or grant options over relevant securities (as therein defined) up to a maximum aggregate nominal amount of £63,261, such authority to expire at the end of the Annual General Meeting of the company to be held in 2020 save where the directors exercise such authority pursuant to an offer or agreement made prior to the date of such meeting.
8. That the company be given the general authority to make market purchases (as defined by Section 693(4) of the Companies Act 2006) of ordinary shares of one pence each in its capital, subject as follows:

   8.1 the maximum number of shares which may be so purchased is 5,271,794 ordinary shares of one pence each;

   8.2 the minimum price which may be paid for such shares is the nominal value of such shares;

   8.3 the maximum price which may be paid per share is a sum equal to 105% of the average of the market values of the ordinary shares of the company in the Daily Official List of the Stock Exchange on the five business days immediately preceding the date of purchase;

   8.4 the authority conferred by this resolution shall expire on 30 June 2019 or the date of the Annual General Meeting of the company to be held in 2020, whichever is the earlier.

Special resolutions

9. That, subject to the passing of resolution numbered 7 above, the directors be and they are hereby generally and unconditionally authorised to allot equity securities (as defined in Section 560(1) of the Companies Act 2006) pursuant to the authority conferred by the resolution numbered 7 above as if Section 561(1) of the said Act did not apply to any such allotment of equity securities and so that references to allotment in this resolution shall be construed in accordance with Section 561(3) of the said Act, provided that the authority hereby conferred shall be limited (a) to the allotment of equity securities in connection with a rights issue in favour of the holders of equity securities in proportion to their respective holdings of such securities or (as the case may be) in accordance with the rights attached hereto, but subject to such exclusions or arrangements as the directors shall deem necessary in relation to fractional entitlements or pursuant to the laws of any territory or requirements of any regulatory body or any stock exchange in any territory, and (b) the allotment (otherwise than pursuant to (a) of this resolution) of equity securities up to an aggregate nominal amount of £63,261; this authority to expire at the end of the next Annual General Meeting of the company to be held in 2020 save to the extent that the directors exercise such authority pursuant to an offer or agreement made prior to the date of such meeting.

Notice of Annual General Meeting

Recommendation

Your directors unanimously recommend the ordinary shareholders to vote in favour of the resolutions to be proposed at the Annual General Meeting of the company, as they intend to do in respect of their own beneficial holdings amounting to 1,699,380 ordinary shares representing approximately 4.03% of the current issued ordinary shares. You are referred to the directors' report on page 23 for an explanation for each resolution to be considered as special business.

In respect of resolution numbered 8 it is intended that any share purchases by the company will only be made on the London Stock Exchange. This should not be taken to imply that shares will be purchased. The directors believe it is in the best interests of all the shareholders that the company should have the flexibility to make market purchases of its own shares. The effect of such purchases will be to reduce the number of shares in issue and the directors would accordingly only make such purchases after considering the effect on earnings per share and the benefit for shareholders.

By order of the Board

St David's Court
Union Street
Wolverhampton
WV1 3JE

MJ Calderbank ACA
Company Secretary
9 May 2019

Notes:

1. The following documents will be available at the registered office of the company on any weekday during normal business hours and at the Annual General Meeting:
   a. the register of directors' share interests.
   b. copies of the contracts of service between the company and its directors.

2. a. A member is entitled to appoint a proxy to attend and, on a poll, to vote on his or her behalf. A proxy need not be a member of the company.
   b. The appointment of the proxy does not preclude a member from attending the meeting and voting in person if he or she so wishes.
   c. A form of proxy is enclosed for use by ordinary shareholders in relation to the meeting, which, to be effective, must be completed and deposited with the company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA at least 48 hours before the time appointed for holding the meeting.
   d. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the company of the votes they may cast), members must be entered on the register of members of the company by 6.30 p.m. on 16 June 2019. Changes to entries on the register of members after 6.30 p.m. on 16 June 2019 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
   e. For security reasons, the company will refuse admission to any individual who is not an invited guest and is unable to prove that they are a registered shareholder in the company by reference to either the current register of members or a letter of authority from their nominee account holder.

Andrews Sykes Group plc

Form of Proxy

For use at the 2019 Annual General Meeting

I/We the undersigned, being member(s) of the company, hereby appoint the Chairman of the Meeting or (see note 2)
.... (Please use block letters)

☐ Tick box (if one of multiple proxy appointments) [ ] Number of shares (if not full voting entitlement) (See note 2)

as my/our proxy to vote on my/our behalf as indicated below (or at his/her discretion in respect of any other matters arising) at the Annual General Meeting of the company to be held at 2 Eaton Gate, London SW1W 9BJ on 18 June 2019 at 10.30 a.m.

	Ordinary Resolutions	For	Against	Withheld
1	To receive and adopt the financial statements for the 12 months ended 31 December 2018			
2	To re-elect Mr AJ Kitchingman as a director			
3	To re-elect Mr JJ Murray as a director			
4	To re-elect Mr EDOA Sebag as a director			
5	To declare a final ordinary dividend of 11.9 pence per share			
6	To appoint Grant Thornton UK LLP as auditor and authorise the directors to fix their remuneration			
7	To authorise the directors to allot or grant options over relevant securities up to a maximum nominal value of £63,261 as set out in the Annual Report and Financial Statements			
8	To authorise the directors to make market purchases of up to a maximum of 5,271,794 of the company's ordinary shares of one pence each as set out in the Annual Report and Financial Statements			
	Special Resolution			
9	Subject to the passing of Ordinary Resolution 7 above, to authorise the directors to allot equity securities for cash disapplying pre-emption rights (in limited circumstances)			

Dated 2019

Signatures(s) or common seal ....

Full name(s) ....(Please use block letters)

Address ....

....

Notes

1 Only holders of ordinary shares, or their duly appointed representatives, are entitled to attend and vote at the meeting. A member so entitled may appoint (a) proxy(ies), who need not be (a) member(s), to exercise all or any of his/her rights to attend, speak and vote on his/her behalf.

2 You can appoint the Chairman of the meeting or anyone else to be your proxy at the Annual General Meeting. You can also, if you wish, appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you.
- **To appoint more than one proxy,** you should photocopy the Form of Proxy. Please indicate, in the box next to the proxy holder's name, the number of shares in relation to which you authorise them to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this Form of Proxy has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Please also indicate, by marking the box on the Form of Proxy, if the proxy instruction is one of multiple instructions being given. All Forms of Proxy must be signed and should be returned together to the company's Registrar, Equiniti, in the envelope provided.
- **To appoint the Chairman as your sole proxy** in respect of all your shares, fill in any voting instructions and sign and date the Form of Proxy, but leave all other proxy appointment details blank.
- **To appoint a single proxy** in respect of all your shares other than the Chairman, cross out only the words 'the Chairman of the Meeting or' and insert the name of your proxy (who need not be a member of the company). Then complete the rest of the Form of Proxy.

3 Please indicate with an 'X' in the boxes provided how you wish your vote to be cast. Unless otherwise instructed, the person appointed as proxy will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting on any particular resolution and on any other business (including amendments to resolutions and any procedural business) which may come before the meeting.

4 The 'Withheld' option on the Form of Proxy is provided to enable you to abstain on any particular resolution. However, a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes 'For' and 'Against' a resolution.

5 If you complete and return the Form of Proxy this will not prevent you from attending in person and voting at the Annual General Meeting should you subsequently decide to do so.

6 If the Form of Proxy is signed by someone else on your behalf, their authority to sign must be returned with the Form of Proxy. In the case of a joint holding, any holder may sign. If the shareholder is a corporation, the Form of Proxy may be executed under its common seal or by the signature of a duly authorised officer or attorney.

7 In the case of joint holders, only one need sign this Form of Proxy, but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.

8 To be valid the Form of Proxy must reach the company's Registrar, Equiniti, by no later than 10.30 a.m. on 16 June 2019.

Notes: attendance at the Annual General Meeting

- If you are attending the Annual General Meeting please sign this card, bring it with you and hand it in on arrival. This will speed up your admission to the Annual General Meeting.
- For your safety and security, there may be checks and bag searches of those attending the Annual General Meeting. We recommend you arrive a little early to allow time for these procedures. The company will refuse admission to any individual who is not an invited guest and is unable to prove that they are a registered shareholder in the company by reference to either the current register of members or a letter of authority from their nominee account holder.
- Cameras, recording equipment and other items which might interfere with the good order of the Annual General Meeting will not be permitted.

2 Eaton Gate, London
SW1W 9BJ

St David's Court, Union Street
Wolverhampton, WV1 3JE
Tel: 01902 328700
E-mail: info@andrews-sykes.com
andrews-sykes.com