Andrews Sykes Group plc

Annual Report and Financial Statements 2019

SYKES PUMPS | ANDREWS AIR CONDITIONING | ANDREWS HEAT FOR HIRE | ANDREWS DEHUMIDIFICATION | ANDREWS CHILLERS | ANDREWS BOILERS | ANDREWS VENTILATION

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Summary of Results

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Revenue from continuing operations	**77,246**	78,563
EBITDA* from continuing operations	**28,519**	26,737
Operating profit	**19,298**	20,681
Profit after tax for the financial period	**15,019**	17,046
Basic earnings per share from total operations (pence)	**35.61p**	40.39p
Interim and final dividends paid per equity share (pence)	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	**10.50p**	11.90p
Net cash inflow from operating activities	**18,522**	19,110
Total interim and final dividends paid	**10,038**	10,048
Cash reserves†	**23,897**	23,381
Net funds	**12,136**	23,381

* 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.

† Cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Chairman's Statement

Overview and financial highlights

Outlook

Andrews Sykes Group remains resilient as sectors in which we trade have shown continuous demand whilst facing an unprecedented challenge in the form of the coronavirus pandemic. We are thankful and proud of our team members who continue to respond as essential service providers.

The group trading in the first quarter of 2020 started positively, especially in the UK where the pump hire business benefited from the recent abnormally wet weather while March was unfavourably affected by the pandemic. As many of our products are sourced from China, our supply chain was only mildly affected as most of our goods had already been delivered before the virus spread. Customer demand in specific geographical areas of our business has been affected more than others. Our relatively small businesses in Italy and France faced strict lockdowns in late February and March, and the UK introduced a more flexible lockdown on 23 March 2020. The Benelux countries have adopted a similar approach, we are able to continue to trade, albeit at a reduced level and with increased health and safety and social distancing measures. In the UAE trading is also continuing but at a lower level than in the past.

The wellbeing of our employees and business partners is of paramount importance as we adhere to the local government guidelines. In the UK we temporarily closed some of our smaller depots, introduced social distancing measures in our larger depots and embraced at home working employees. Our priority is to keep operations safe for customers, employees and business partners.

The result for 2019 was the second best on record following the record result in 2018, and cash reserves* are robust. We have modelled with caution the effects of sales decline along with other factors to ensure the group remains within its bank facilities including cash flow forecasts for a period in excess of 12 months. The group has cash reserves* beyond May 2021 without renegotiating its bank facilities. The Board therefore considers the group is well positioned to manage through the impact of the pandemic considering its strong balance sheet and significant net cash position.

The Board has in the past declared two dividends, an interim of 11.9 pence per share payable in November and a final, also of 11.9 pence per share, payable the following June. The Board has decided to propose a final dividend of 10.5 pence per share that will be paid in June 2020.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

2019 trading summary

The group's revenue for the year ended 31 December 2019 was £77.2 million, a decrease of £1.3 million, or 1.7%, compared with the same period last year. This decrease had a more than proportionate impact on operating profit which decreased by 6.7%, or £1.4 million, from £20.7 million last year to £19.3 million in the year under review. This decrease would have been £0.3 million greater had it not been for the adoption of IFRS 16 for the first time this year. Further details of the effect of IFRS 16 on the results this year are disclosed in the strategic review and note 1 to the financial statements. Despite this decrease, which followed a 17.6% increase last year, the performances from both our hire and sales businesses in the UK and Europe continue to be strong supported by a further improved performance from our business in the Middle East. Although down on an exceptional result last year, the current year's trading performance is the second best on record.

Net finance costs were £0.7 million this year compared with net finance income of £0.4 million in 2018. This is largely attributable to two factors; firstly an interest charge of £0.5 million this year on right-of-use lease obligations following the adoption of IFRS 16 on 1 January 2019, further details of which are given in the strategic review and note 1 to the financial statements, and secondly a foreign exchange loss arising on the retranslation of inter-company balances of £0.3 million this year compared with a gain of £0.3 million in 2018. This reflects slight strengthening of Sterling compared with both the Euro and UAE Dirham.

The group has reported a decrease in the basic earnings per share of 4.78p, or 11.8%, from 40.39p in 2018 to 35.61p in the current year. This is mainly attributable to the above decrease in the group's operating profit and increase in net finance costs. Nevertheless, the basic EPS remains high and 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 £18.5 million compared with £19.1 million last year. Despite shareholder related cash outflows of £10.0 million on ordinary dividends, net cash reserves* increased by £0.5 million from £23.4 million at 31 December 2018 to £23.9 million at 31 December 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 £7.8 million was invested in the hire fleet this year, £0.3 million more than last year and significantly more than the wasting depreciation charge of £6.4 million. In addition, the group invested a further £0.8 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.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Operating performance

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

	Turnover £'000	Operating profit £'000
1st half 2019	**34,974**	**6,918**
1st half 2018	37,815	9,280
2nd half 2019	**42,272**	**12,380**
2nd half 2018	40,748	11,401
Total 2019	**77,246**	**19,298**
Total 2018	78,563	20,681

The above table demonstrates that after a disappointing result in the first half of 2019, trading improved significantly in the second half year. Whilst turnover in the first half of the year showed a 7.5% decrease compared with the same period in 2018, improved trading in the second half year resulted in turnover increasing by 3.7% compared with the second half of 2018. Overall turnover was only 1.7% below the record result returned last year.

Operating profit followed the trend in turnover. In the first half of the year, operating profit was 25.5% below the same period in 2018 but in the second half it improved significantly to show an 8.6% improvement compared with 2018. 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 and this factor was apparent this year.

The operating profit of our main business segment in the UK and Northern Europe decreased from £19.1 million last year to £16.9 million in the year under review. The winter of 2019 was much milder than 2018 meaning that there were less opportunities for our heating and boiler hire products. Trading improved in the second half and whilst revenue from our air conditioning business did not reach the very high levels of 2018, primarily due to the lack of a hot summer in the UK in 2019, it was in line with our expectations. The wet weather in the final quarter enabled the pump hire business to recover after a slow start to the year and the results of our heating business were also better than expected. 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 delivered a very good trading result. Operating profit for this business segment increased from £2.4 million in 2018 to £3.2 million in the current year reflecting a strong performance in both the first and second halves of the year. This result was driven by several large projects in the region including the 2020 Expo which is planned to be held in Dubai.

Our fixed installation business sector in the UK returned an improved operating profit of £0.2 million this year compared with £0.1 million in 2018. The market continues to be fragmented with high levels of price competition.

Central overheads were £1.0 million in the current year compared with £0.9 million in 2018.

Chairman's Statement
Overview and financial highlights (continued)

Profit for the financial year

Profit before tax was £18.6 million this year compared with £21.1 million last year, a decrease of £2.5 million. This is attributable to the above £1.4 million decrease in operating profit and by a swing in finance costs from a net credit of £0.4 million last year to a net charge of £0.7 million this year. This was due to two factors: an interest charge on right-of-use lease obligations of £0.5 million following the adoption of IFRS 16 for the first time in 2019 and a foreign exchange loss arising on the retranslation of inter-company balances of £0.3 million this year compared with a gain of £0.3 million in 2018 reflecting slight strengthening of Sterling compared with both the Euro and UAE Dirham.

Tax charges decreased from £4.0 million in 2018 to £3.6 million this year. The overall effective tax rate increased slightly from 19.0% in 2018 to 19.1% this year. 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 £15.0 million compared with £17.1 million last year.

Equity dividends

The company paid two dividends during the year. On 21 June 2019, a final dividend for the year ended 31 December 2018 of 11.9 pence per ordinary share was paid and this was followed on 8 November 2019 by the payment of an interim dividend for 2019, also of 11.9 pence per share. Therefore, during 2019, a total of £10.0 million in cash dividends has been returned to our ordinary shareholders.

For the reasons given in the outlook section above, the Board has decided to propose a final dividend of 10.5 pence per share. If approved at the forthcoming Annual General Meeting this dividend, which in total amounts to £4.4 million, will be paid on 19 June 2020 to shareholders on the register as at 29 May 2020.

Share buybacks

The company did not purchase any of its own ordinary shares for cancellation during the period under review. In previous years, purchases were made which enhanced earnings per share and were for the benefit of all shareholders. As at 11 May 2020, there remained an outstanding general authority for the directors to purchase 5,271,794 ordinary shares which was granted at last year's Annual General Meeting.

The Board believes that it is in the best interests of shareholders to have 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 cash reserves* and funds

At 31 December 2019, the group had net cash reserves* of £23.9 million compared with £23.4 million last year, an increase of £0.5 million despite shareholder related cash outflows of £10.0 million on ordinary dividends during the year.

As a result of adopting the accounting requirements of the new leasing standard, IFRS 16, existing lease commitments as at 1 January 2019 of £11.7 million were recognised on the balance sheet. The group adopted the standard's modified retrospective approach as at 1 January 2019 in accordance with which the cumulative effect of initially applying IFRS 16 was recognised as an adjustment to capitalise right-of-use assets and lease liabilities at the date of initial application. Comparative information was not restated. As at 31 December 2019 the group had right-of-use lease liabilities of £11.8 million and consequently net funds, after the IFRS 16 adjustment, at that date were £12.1 million.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

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 three loan repayments of £0.5 million were made in accordance with the bank agreement on 30 April 2018, 2019 and 2020. The remaining balance of £3.5 million is due to be repaid by one annual instalment of £0.5 million on 30 April 2021 followed by a final balloon repayment of £3 million due on 30 April 2022.

JG Murray
Chairman

11 May 2020

Strategic Report
Operational performance

Principal Objectives and Strategy

The Andrews Sykes Group is one of the market leaders in the rental of specialist hire equipment, offering bespoke solutions to our customers for their temporary or emergency needs. Our product range includes Pumping equipment, Air Conditioning, Chillers, Heaters, Boilers, Dehumidifiers and Ventilation units.

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 in 1857, we now have over 40 locations and operate with 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 Dubai, Abu Dhabi and Sharjah, with agents and partners based throughout the Middle East.

In addition to renting our products, we provide our equipment for sale along with a full service and repair backup. In the UK we also have a specialist Air Conditioning installation, service and maintenance subsidiary which provides a nationwide coverage from a base in Manchester.

By providing a premium 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 2019 we continued to develop new products and have a number of new developments ready for launching in 2020 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. During March 2020 the group was adversely affected by the COVID-19 pandemic, details of which are covered separately below.

2019 Operational Performance

Following the record results that the group reported in 2018, the operating profit reduced by £1.4 million in 2019; however, this result shows growth of £1.7 million when compared to 2017. Last year the cold winter was followed by a long hot summer, this provided the perfect environment for our climate related products; however, in 2019 the winter was much milder and the summer much cooler especially in the UK. The group operating profit for 2019 was £19.3 million after a net credit of £0.3 million due to adopting IFRS 16 as explained on pages 9 and 10. This is the second best ever result for the group, following last year's record performance.

The UK hire business experienced most of the decline when compared to last year, in particular the summer trading for our air conditioning fleet experienced a reduction in demand when compared to the previous summer. The weather in the UK was much cooler than 2018, whereas mainland Europe enjoyed a much hotter summer. Our air conditioning and heating products did however perform in line with the budgeted levels. Following a slow start to the year, our pumping products enjoyed a strong final quarter which was enabled by heavy rainfall throughout the UK. The pump hire revenue exceeded that of the previous year and maintains our recent year on year growth.

Operational performance (continued)

In mainland Europe our total turnover was slightly ahead of the previous year; however, the operating profit was slightly lower than the previous period. This was mostly due to an increase in payroll and overheads costs, which were related to the continuation of our strategy to expand existing depots, along with the investment in new depots. Much of the region enjoyed a long hot summer, although the winter periods were very mild. In the Benelux region our business continued the success of recent years providing strong results once again. Our Italian subsidiary Nolo Climat reported strong growth in 2019, this continues the year on year growth we have enjoyed since entering the market in 2011. In France the operating profit declined when compared to the previous year which was mostly due to our continued investment in new depots and human resources across the country. We opened in Marseille before the summer and then acquired our fifth French depot at the end of the year, the new depot is located close to Toulouse. Our Swiss subsidiary had another successful year providing a small operating profit growth when compared to the previous year. Further growth plans are being implemented in 2020 which include relocating our existing depot in the French canton and launching a German language website.

In the Middle East, Khansaheb Sykes produced a very good result for the year, the total revenue and operating profit were both significantly ahead of the previous year. Our HVAC rental division performed particularly well in the year, with several projects linked to the Dubai 2020 Expo. The pump division produced a strong performance and our sales revenue was ahead of the previous year.

The overall group operating profit of £19.3 million showed a decrease of £1.4 million when compared to the 2018 results. Net cash reserves* increased by £0.5 million from £23.4 million last year to £23.9 million at 31 December 2019 after dividends of £10.0 million.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

COVID-19 Impact assessment

As with most companies, the COVID-19 pandemic will have a significant effect on our business. The initial impact of the virus was first seen in China, where some of our products are manufactured, therefore putting our supply chain at risk. Fortunately, a vast majority of the products that we had procured for the forthcoming summer months had already been delivered to Europe before the virus had spread, thus ensuring continuity of supply throughout 2020. A few minor products have been slightly affected; however, we have since been able to source alternative suppliers within the UK and now have sufficient stocks for several months.

The next level of impact was seen in the Lombardy region of Italy, where we have an established hire operation along with a major supply partner. The seriousness of the situation first became known early in February and by the end of February many restrictions had been imposed by the Italian Government, leading to widespread lockdowns for many businesses. Our hire operations have managed to continue to trade to the best of their ability during the initial period and the impact on both revenue and profit has been somewhat limited. Our suppliers in the region have been less fortunate, around 50% of the equipment ordered has already been made available for delivery; however, the remaining equipment may be delayed by several months. Due to the size of our current European hire fleet any impact of this delay will be marginal to our overall results. As the situation develops in Italy we continue to trade, although some of our new business development projects are likely to be postponed until things return to normal.

By the middle of March, the virus had impacted all of our European trading territories, including the UK. Our operations in each country have remained open and continue to trade, in many cases providing equipment and solutions to essential services including the health, communications and utility sectors. Business levels have dropped, although only slightly below the previous year's level. Net profits for the first quarter of 2020 were ahead of the previous year.

During this period of uncertainty, we have been in constant contact with our staff, customers, banks and advisors to ensure clear concise communication. Our priority is to do all we can to ensure that our offices, depots and services are kept as safe as possible, in order to protect our employees and business partners at all times. Many of our employees and customers are experiencing very difficult circumstances and we continue to support them in many ways. The health and wellbeing of our people is our highest priority.

As the situation continues, cash management will be a key consideration; the Andrews Sykes Group has a healthy balance sheet, strong cash reserves and a track record for good cash generation. Debt collection remains consistent with previous years and staff costs will continue to be controlled using the Furlough process as explained within the going concern note on page 15. The Board therefore considers that its strong balance sheet and material net cash position means that it is well placed to navigate through the impact of COVID-19.

Hire and Sales Europe

Summary

Turnover of the European hire and sales business sector decreased from £63.7 million last year to £60.4 million in the current year, a decrease of £3.3 million or 5.1% compared with last year. Operating profit decreased by £2.2 million, or 11.2%, from £19.1 million in 2018 to £16.9 million in 2019. 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 employs over 330 members of staff. During the year we continued to develop both our product range and service offering, with further investments in our hire fleet, depots and infrastructure. The profit for 2019 was below that of the 2018 performance, but ahead of 2017.

Andrews Sykes BV

With over 40 years of experience in the Dutch market we currently have four depots strategically located throughout the Netherlands providing full coverage of the country. Our Dutch business also provides backup support to our operations in Belgium and Luxembourg. This subsidiary performed well with total revenue ahead of the previous year.

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, although slightly below the previous year.

Andrews Sykes Sarl

Our operation in Luxembourg was opened in 2014 and is strategically located to provide the full range of our climate rental products throughout the country. This subsidiary produced 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 2019 with significant growth when compared to the previous year.

Andrews Sykes Climat Location SAS

Our French subsidiary was established in 2012, since then we have established depots in Paris, Lyon, Lille and more recently in Marseille. The group has identified France as a region of potential growth and we have therefore accelerated our expansion plans with continued investment in our hire fleet, staff and additional depots. In 2020 we will open a new depot in Toulouse which will be supported by further investment in our hire fleet. We will continue to investigate new opportunities throughout the year in order to extend our coverage across 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 small profit in 2018 our Swiss operation produced another improved performance and a profitable result in 2019. We have recently relocated our operations to a larger facility and are now exploring further opportunities within the German cantons.

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 2019 the business produced improved levels of revenue and profitability.

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 throughout the Middle East including Oman, Kuwait, Bahrain and Qatar, which allows us to provide our products and services in these local markets. The business produced a very strong performance in 2019 with growth in both revenue and profit when compared to last year.

Group Summary

The overall group result for 2019 shows a decrease in operating profit of £1.4 million, or 6.7%, when compared to 2018, which was an exceptional result and a record for the group. However, the 2019 result was significantly ahead of 2017 which produced an operating profit of £17.6 million.

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.

The impact of COVID-19 will continue to be managed carefully with the necessary actions taken in order to protect our people whilst safeguarding the long-term future of the business wherever possible.

Strategic Report
Review of risks, uncertainties and financial performance

Impact of the adoption of IFRS 16, the new accounting standard on leases

The group has adopted IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosures of leases, with effect from 1 January 2019.

IFRS 16 introduced 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 adopted IFRS 16 on 1 January 2019 and applied the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to assets and liabilities 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, bringing onto the balance sheet the net present value of the remaining outstanding lease obligations as at the date of transition as both an asset and liability, and has also applied IFRS 16 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 lease exemption. The group also took advantage of the practical expedients to exclude initial indirect costs in measuring the right-to-use assets and applying hindsight to options to extend contracts when determining the lease term at the date of initial application.

The group has recognised a right-of-use asset and a lease liability for its operating leases of properties, plant machinery and equipment, other than those that fall within the above recognition exemption. The amount capitalised was the net present value of the future expected minimum capital payments under the group's operating lease obligations discounted at the group's incremental borrowing rate as at 1 January 2019. Prepaid and accrued lease payments were considered to be immaterial and therefore the right-to-use assets were measured at an amount equal to the leave liability. The nature of expenses related to these leases has changed because the group has recognised a depreciation charge for right-of-use assets and an interest expense, charged within finance costs, on the lease liabilities. The assets are depreciated on a straight-line basis over the remaining life of the lease and the interest expense is calculated in order to give a constant rate of interest on the outstanding capital liability. Previously, the group recognised operating lease expenses on a straight-line basis over the term of the lease as a reduction in operating profit, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 1 January 2019, the date of transition to IFRS 16, the group recognised an additional right-of-use asset of £11.7 million. A reconciliation of this amount and the right-of use asset at the balance sheet date is given in note 14 to the financial statements.

There was a significant impact on the group's net funds as a result of the adoption of IFRS 16 as at 1 January 2019. Net funds were reduced by £11.7 million as a result of capitalising existing lease obligations as at the date of transition. A reconciliation of this amount and the right-of-use lease obligations at the balance sheet date is given in note 29 to the financial statements. Details of maturity of the obligations are given in note 25.

There has been no change to the group's repayment obligations or commitments as a result of this change in accounting policy.

Review of risks, uncertainties and financial performance (continued)

As stated above the group has adopted the modified retrospective approach and has not restated the comparative figures. The key effects on the current year's consolidated income statement and balance sheet can be summarised as follows:

	2019 on a consistent basis with 2018 £'000	Effect of IFRS 16 £'000	As reported this year £'000
Income statement			
EBITDA	25,702	2,817	**28,519**
Depreciation	(7,203)	(2,538)	**(9,741)**
Profit on sale of fixed assets	520	–	**520**
Operating profit	19,019	279	**19,298**
Net finance costs	(212)	(526)	**(738)**
Profit before taxation	18,807	(247)	**18,560**
Taxation	(3,588)	47	**(3,541)**
Profit after taxation	15,219	(200)	**15,019**
Balance sheet			
Non-current assets	26,775	11,562	**38,337**
Net current assets	40,437	(2,279)	**38,158**
Total assets less current liabilities	67,212	9,283	**76,495**
Non-current liabilities	(3,490)	(9,482)	**(12,972)**
Net assets	63,722	(199)	**63,523**
Translation reserve	3,394	1	**3,395**
Share capital and other reserves	60,328	(200)	**60,128**
Shareholders' funds	63,722	(199)	**63,523**
Net funds	23,897	(11,761)	**12,136**

In summary, although there have been significant presentational changes as a result of adopting IFRS 16, the group's profit before tax was reduced by approximately £0.2 million primarily due to the effect of charging more interest at the beginning of the lease term.

There was no impact for the group's finance leases. IFRS 16 did not make any significant changes to the accounting for lessors, and therefore there were no changes for leases where the group acts as a lessor.

Key Performance Indicators (KPIs)

The group's principal KPIs are as follows:

	12 months ended 31 December 2019	12 months ended 31 December 2018
Average revenue per employee	**£130,500**	£137,100
EBITDA[(1)] from continuing operations	**£28,519k**	£26,737k
Operating cash flow[(2)] as a percentage of operating assets[(2)] employed	**58.6%**	62.5%
Cash reserves[(3)]	**£23,897k**	£23,381k
Net funds to equity percentage	**19.1%**	39.6%
Basic EPS from continuing operations (pence)	**35.61p**	40.39p

[(1)] 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.

[(2)] 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.

[(3)] Cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Non-financial KPIs monitored internally by the Board include asset utilisation and health and safety statistics. These are not quantified as management considers 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 continues to be high 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.

EBITDA is a traditional non-statutory measure used by the Board to monitor the ability of the group to generate cash.

Net cash reserves[3] are monitored by the Board as being indicative of the long-term financial stability of the group and to assist in directing capital investment decisions.

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 14.

The calculation of both the operating cash flow as a percentage of operating assets and the net funds-to-equity percentages has been affected this year by IFRS 16 which required the majority of operating leases to be capitalised as right-of-use assets and liabilities and the substitution of operating lease rental payments in the profit and loss account with depreciation and interest charges. The effect of IFRS 16 is discussed on more detail on pages 9 and 10 of this strategic report. On a consistent basis with 2018, the ratios would have been 51.1% and 37.5% respectively. The comparative figures have not been restated as permitted by IFRS 16.

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 decreased this year by 11.8% from 40.39p in 2018 to a still creditable 35.61p in 2019 primarily due to the decrease in operating profit and increase in net interest expenses which are discussed further elsewhere in this strategic report.

Operating profit

The consolidated operating profit including the impact of IFRS 16 was £19.3 million for the year under review, a decrease of £1.4 million, or 6.7%, compared with last year's operating profit of £20.7 million which was 17.6% 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 2019 £'000	12 months ended 31 December 2018 £'000
Hire and sales Europe	**16,933**	19,077
Hire and sales Middle East	**3,204**	2,422
UK installation business	**237**	145
Subtotal	**20,374**	21,644
Unallocated costs and eliminations	**(1,076)**	(963)
Consolidated operating profit	**19,298**	20,681

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

Net interest charge/(credit)

The net interest charge for the current year is £738,000 compared with a credit of £364,000 in 2018. This can be analysed as follows:

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Interest charge on bank loans and overdrafts	**88**	95
Finance lease interest charge	**–**	2
Interest charge on right-of-use lease liabilities	**526**	–
Interest receivable	**(108)**	(41)
Foreign exchange loss/(gain) on inter-company loans	**270**	(336)
Net IAS 19 pension interest credit	**(38)**	(84)
Total net interest charge/(credit)	**738**	(364)

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 1.75% last year to 1.93% in 2019 but the weighted average capital amount of the gross outstanding loans reduced from £4.7 million last year to £4.2 million, these two factors combined being the major reasons for the slight decrease in the interest charge this year.

The interest charge on the right-of-use lease liabilities is due to the adoption of IFRS 16 on 1 January 2019. The full impact of IFRS 16 is discussed in more detail elsewhere in this strategic report. The interest charge arises from the requirement to split the operating lease repayments between capital and interest and write off the interest element in the income statement so as to give a constant periodic charge on the outstanding lease obligations.

The average rate of interest receivable on short-term bank deposits increased from last year's level of 0.2% to 0.44% and, with cash on deposit remaining at a similar level in both years, this explains the increase in interest receivable this year.

There was a foreign exchange loss on inter-company loans this year of £270,000 compared with a gain of £336,000 last year. This reflects a slight strengthening 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 but the net credit has reduced reflecting a fall in the discount rate from 2.8% at 31 December 2018 to 2.0% at the current period end.

Tax on profit on ordinary activities

The group's tax charge on ordinary activities was £3,541,000 *(2018: £3,999,000)* resulting in an overall effective tax rate of 19.1% *(2018: 19.0%)*, slightly above the standard effective tax rate in the UK for the current year of 19.0% *(2018: 19.0%)*. A summary of the factors giving rise to this slight increase is given in the table below:

	£'000
Profit before taxation	**18,560**
Theoretical tax charge at the UK effective tax rate of 19.0 %	**3,526**
Effects of different tax rates of subsidiaries operating abroad	**(188)**
Overseas tax losses not recognised in deferred tax	**59**
Non tax-deductible expenses	**150**
Adjustments to prior periods	**(6)**
Total tax charge for the financial year	**3,541**

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 was, however, cancelled in the budget on 17 March 2020 and no further changes in the rate of UK corporation tax have currently been announced.

The deferred tax balances at both 31 December 2019 and 31 December 2018 have been calculated based on the rates that the directors anticipate will apply and when the temporary differences are expected to reverse.

Profit for the financial year

Profit after tax for the financial year was £15,019,000 compared with £17,046,000 last year.

Basic earnings per share (EPS)

The basic earnings per share decreased by 4.78p, or 11.8%, from 40.39p last year to 35.61p in 2019. There were no dilutive instruments outstanding in either 2019 or 2018 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 620 pence, the basic EPS gives a price to earnings ratio of 17.41 compared with 11.9 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 2019 £m	12 months ended 31 December 2018 £m
Operating profit	**19.3**	20.7
Depreciation and profit on the sale of plant and equipment	**6.7**	6.0
Depreciation of right-of-use assets	**2.5**	–
EBITDA*	**28.5**	26.7
Pension scheme administration costs in excess of defined benefit pension scheme contributions	**–**	0.5
Interest paid	**(0.6)**	(0.1)
Tax paid	**(3.8)**	(3.7)
Net working capital movements	**(5.6)**	(4.3)
Net cash inflow from operating activities	**18.5**	19.1

* 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. The impact of the adoption of IFRS 16 on operating profit, deprecation of right-of-use assets and interest is discussed elsewhere in this strategic review.

As well as cost control, management of working capital continues to be a priority. The net working capital increase of £5.6 million reflects an increase in stocks (£3.9 million), an increase in debtors (£1.8 million) and an increase in creditors (£0.1 million) compared with last year. Total outstanding debtor days at the year-end remained virtually unchanged from the previous year at 74 days *(2018: 73 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 159 days *(2018: 167 days)* and this is typical for the region. The debtor days for our main hire and sales business in the UK increased slightly from last year at 55 days *(2018: 54 days)*. The group's average debtor days for current unimpaired debts decreased slightly to 36 days from last year's level of 37 days.

Adequate provisions continue to be made for expected credit losses and impairment of trade debtors. In 2019 debts written off against the expected credit loss provision were £547,000 compared with £483,000 last year and there was a net charge of £535,000 *(2018: £711,000)* to the income statement from the expected credit loss provision, which was calculated on a consistent basis each year. Of these figures, £241,000 *(2018: £300,000)* of the debts written off and £454,000 *(2018: £393,000)* of the expected credit loss charge related to external debtors of our subsidiary in the Middle East.

Employer pension contributions of £120,000 *(2018: £120,000)* have been made by the group to the pension scheme in 2019. Pension scheme costs charged within administration expenses in the income statement in accordance with IAS 19 (2011) amounted to £110,000 *(2018: £563,000)*. Last year's charge included £432,000 in respect of "Guaranteed Minimum Pension equalisation". Pensions are discussed in more detail on pages 17 and 18 and in note 18 to the financial statements.

Review of risks, uncertainties and financial performance (continued)

Net funds

Despite shareholder related cash outflows of £10.0 million on ordinary dividends, net funds increased by £0.4 million from £11.7 million at 31 December 2018 (after the IFRS 16 transitional adjustment) to £12.1 million at 31 December 2019. The movement can be reconciled as follows:

	£m
Opening net funds prior to adoption of IFRS 16	**23.4**
IFRS 16 transitional adjustment for right-of use lease obligations	**(11.7)**
Opening net funds after adjustment for IFRS 16	**11.7**
Significant inflows:	
Cash inflow from operating activities	**18.5**
Sale of plant and equipment	**0.6**
Interest received	**0.1**
Significant outflows:	
Capital expenditure	**(6.2)**
Equity dividends paid	**(10.0)**
Significant non-cash movements:	
Foreign exchange rate changes	**–**
New IFRS 16 right-of-use lease obligations	**(2.6)**
Closing net funds	**12.1**
Comprises:	
Bank loans net of loan finance costs	**(4.0)**
Cash at bank	**27.9**
Total cash reserves	**23.9**
IFRS 16 right-of-use lease obligations	**(11.8)**
Closing net funds	**12.1**

The effect of IFRS 16 on the accounting for operating leases that was effective from 1 January 2019 has been discussed on pages 9 and 10 of this strategic review.

Foreign exchange rate changes include a loss on the reconversion of the group's net external foreign currency denominated assets that arises on consolidation of £0.9 million, which has been taken to the translation reserve, and an exchange gain on the reconversion of the element of the right-of-use lease obligations that are denominated in foreign currency.

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 1.93% *(2018: 1.75%)*. 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 £6.2 million *(2018: £7.1 million)*. In addition, £2.4 million of items held in stock at December 2018 have also been capitalised in the hire fleet this year *(2018: £1.5 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.

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. This loan was repayable in four annual instalments of £0.5 million commencing on 30 April 2018 followed by a balloon payment of £3 million due on 30 April 2022. The first three annual instalments have all been made in accordance with the agreement and the group is operating within the agreed bank covenants. 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 2019 financial year within its financial covenants as contained in the bank agreement.

The coronavirus pandemic will have an impact on our business during 2020. As explained on page 6, reduced customer demand and our ongoing ability to meet that demand have been identified as our main areas of risk. Our supply chain has not been badly affected as the majority of our goods had already been delivered before the virus spread.

Management has prepared a detailed "bottom-up" profit and loss and cash flow forecast for the 24 months ending 31 December 2021 on a cautiously realistic basis. This takes into account reduced activity levels across all income streams and geographical locations taking into account specific factors relevant in each of our businesses. It has been assumed that the impact of the coronavirus pandemic affects trading for the remainder of 2020 and thereafter things return to a more normal level. These forecasts have been reviewed and approved by the Board.

Certain product lines are more resilient than others and we are experiencing an increase in demand in certain sectors, notably healthcare, emergency temporary hires to cover the breakdown of customer equipment and the hire of dewatering equipment in the UAE to enable construction work to continue.

The impact on the business as of the end of March has been limited with trading levels close to expectation. Cash flow has not changed significantly and we continue to provide our full range of products and services across all territories. We are thankful and proud of our team members who continue to respond as essential service providers.

The wellbeing of our employees and business partners is of paramount importance as we adhere to the local government guidelines. We have temporarily mothballed some of our smallest depots, introduced social distancing measures in our larger depots and have enabled at home working for many employees. Appropriate supplies of PPE are provided to our staff to enable them to carry out their duties in a safe manner. Our priority is to keep operations safe for customers, employees and business partners.

In the UK, approximately 50% of our employees are furloughed. In France, Italy, Belgium and Luxembourg we are currently working with significantly reduced staff levels, with most of our staff enlisted to the appropriate government employment retention schemes. In the UAE and Holland, our employees are currently continuing to work in a close to normal way.

Our cash flow forecast assumes that cash collections will reduce over the next nine months as customers take longer to settle their debts. We will continue to make payments to our suppliers in accordance with our agreed terms and, with the exception of the May 2020 UK VAT payment that will be deferred until later in 2020, all fiscal payments to the UK and overseas government bodies will continue to be made on time. Bank loan repayments are also forecast to be made in accordance with the bank agreement. Due to the reduced level of activity, forecast capital expenditure for 2020 is *c.*£1.2 million less than 2019.

As explained in note 18 to the financial statements, a triennial funding valuation for the group defined benefit pension scheme is currently being prepared by the pension scheme trustees as at 31 December 2019. Management has received an estimate of the deficit as at that date and it has been assumed that this will be agreed and paid to the pension scheme by 31 December 2020.

For the purposes of the cash forecast only, we have assumed that a normal level of dividends will be resumed in November 2020.

The above factors have all been reflected in the forecast for the 24 months ending 31 December 2021. The headline numbers at a group level are as follows:

- The actual cash reserves* as at 31 March 2020 are £27.2 million compared with £23.9 million as at 31 December 2019. This increase reflects strong trading and debt collections in the first quarter with supplier and other payments being made on schedule with payment plans being agreed with some key suppliers and landlords. Group operating profit in the first quarter was *c.*£4.6 million.
- Group turnover for the 12 months ending 31 December 2020 is forecast to be lower than 2019. Operating profit is therefore consequently likely to reduce; however the group still expects to produce a profit for 2020.
- Closing cash reserves* as at 31 December 2020 are forecast to be below the level reported at 31 December 2019, although cash reserves* are not forecast to fall below *c.*£15 million at any month end.
- In 2021 we expect to return to normal levels of trading.

Therefore, it is forecast that the group will have significant cash reserves* throughout 2020 and 2021. Ignoring the positive cash flow in the first quarter, the group's net cash outflow in the nine months ending 31 December 2020 is forecast to be approximately £10 million. Even in an extreme scenario and this trend continued throughout 2021 resulting in an additional cash outflow of *c.*£12

million, the group would still have cash reserves* of *c.*£5 million at 31 December 2021. In this extreme scenario, further remedial action would be taken. Payroll costs could be controlled at the current levels until the business recovers, additional staff could be furloughed and capital expenditure could be postponed until a later date. Our bank has been very supportive and has indicated that it would be prepared to make additional loan facilities available the group if required. Dividend payments could also be reduced or suspended to further conserve cash. The Board is, however, confident that none of these additional measures will be necessary due to the level of confidence it has in the future trading performance of the group.

The group has considerable financial resources and a wide operational base. Based on the detailed forecast prepared by management taking into account the anticipated impact of the coronavirus pandemic, the Board has a reasonable expectation that the group has adequate resources to continue to trade for the foreseeable future even in the extreme scenario that the downturn continues throughout 2021. Accordingly, the Board continues to adopt the going concern basis when preparing this Annual Report and Financial Statements.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

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.

Due to the fact that the group has well-established autonomous businesses operating within each of its main geographical markets, 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 group has recently appointed a new head of Group IT to ensure that the appropriate developments and improvements continue to be made in this area.

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 2019 the pension scheme assets were £44.0 million which, after deducting the present value of the pension scheme liabilities of £42.0 million, calculated in accordance with IAS 19, results in a pre-tax surplus of £2.0 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 2019. The net surplus, before deferred tax, at the year end amounted to £2.0 million *(2018: £1.4 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 £1.4 million to the surplus as at 31 December 2019 of £2.0 million is as follows:

	£m
Opening IAS 19 surplus recognised in the financial statements	**1.4**
Contributions paid by the group into the scheme	**0.1**
Actual return less interest income on scheme assets	**3.9**
Actuarial loss on scheme liabilities	**(3.4)**
Administration expenses	**(0.1)**
Net finance income	**0.1**
Closing IAS 19 surplus recognised in the financial statements	**2.0**

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.

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.

Review of risks, uncertainties and financial performance (continued)

Throughout the subsequent periods, the group has 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 next formal triennial funding valuation is due as at 31 December 2019 and this is currently being worked upon by the advisors to the pension scheme trustees. Subject to the exceptional circumstances discussed elsewhere, this is due to be presented to the Board for consideration in the summer. In the light of this the group will continue to make the regular contributions of £10,000 per month towards expenses until the triennial funding valuation has been agreed and finalised.

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. The government has not currently made any announcements regarding further increases in these rates.

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 4.6% *(2018: 3.8%)*. The current period charge in the income statement amounted to £462,000 *(2018: £382,000)*. 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 £59.0 million at the beginning of the year to £63.5 million at 31 December 2019. The movement can be reconciled as follows:

	£m
Opening shareholders' funds	**59.0**
Profit for the financial period	**15.0**
IAS 19 actuarial gain net of deferred tax	**0.4**
Dividends declared and paid during the year	**(10.0)**
Currency translation differences on foreign currency net investments	**(0.9)**
Closing shareholders' funds	**63.5**

Details of dividends declared and paid during the year are given in the Directors' report on page 21.

An analysis of the net IAS 19 actuarial gain of £0.5 million, before an attributable deferred tax charge of £0.1 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 strengthened against both the Euro and the UAE Dirham and the combined impact on the group's foreign currency net investments was a loss of £0.9 million.

Share buybacks

No shares were purchased for cancellation in 2019 and to date the company has not purchased any of its own shares for cancellation during 2020. During 2018 the company purchased 87,723 of its one pence ordinary shares for cancellation for a total consideration of £438,000. These purchases enhanced earnings per share and were for the benefit of all shareholders.

At the forthcoming 2020 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.

Directors' duties

The directors of the company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in S172 of the Companies Act 2006 and are summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of the shareholders as a whole and in doing so to have regard, amongst other matters, to:

- The likely consequences of any decisions in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between shareholders of the company.

As part of their induction a director is briefed on their duties and they can access professional advice on these either from the company secretary or from an independent advisor. This support is available throughout the period a director holds office as well as on initial induction. The directors fulfil their duties partly through a governance framework. The company complies with the Quoted Companies Alliance (QCA) corporate governance code and details of compliance are set out in the corporate governance code on the company's website.

The following paragraphs summarise how the directors fulfil their duties:

Risk management

We aim to provide dependable high-quality services to our business partners in the UK, Northern Europe and Middle East. We often provide business critical solutions to key businesses and are instrumental in helping our customers achieve their goals. As we expand our business we face a number of challenges and risks which the directors address on a daily basis. These risks, and how they are addressed, are summarised in the principal risks and uncertainties section of this strategic report on pages 15 to 17 and paragraph 4 of the corporate governance code on the company's website.

Our employees

The company is committed to being a responsible employer. Our behaviour is aligned with the expectations of our employees and together we provide a first-class service to our clients, 24 hours per day all year round. Further details of how we engage with our employees is given in the employee development, involvement and engagement section of the directors' report on page 22.

Business relationships

Our business strategy prioritises organic growth. We regard customer relationships as being of the utmost importance and our key account customers, that account for approximately 50% of our business, are visited by a customer relationship manager on a quarterly basis to ensure we are meeting their expectations. The next largest 25% of customers are actively managed by desk top reviews supported by contact by telephone and the remaining customers' accounts are subject to periodic internal reviews to ensure no issues are apparent.

We employ a Supply Chain Manager who is responsible to the directors for ensuring that suppliers are aware of our requirements and have sufficient resources and abilities to meet our demands. Key suppliers are met regularly on a face-to-face basis and there is a non-conformance process in place. The company has certification to ISO 9001:2015.

Strategic Report

Review of risks, uncertainties and financial performance (continued)

Community and the environment

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 focused on environmental improvements covering initiatives such as reduced emissions and fuel efficiency. We have a long list of accreditations, including ISO 9001, ISO 14001, OHSAS 18001 and ISO 45001:2018, 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 who have had difficulties finding employment.

Business conduct

Our business strategy is to differentiate our services from those of our competitors by providing our customers with a first-class level of service 24 hours per day, all year round. Our reputation is among the best in the industry and means we are the employer and service provider of choice for many individuals and businesses alike.

Shareholders

The company is committed to openly engaging with our shareholders. The company has a controlling shareholder that owns 86.25% of the shares in issue and this shareholder has a number of representatives on the Board. A relationship agreement has been entered into with this shareholder (originally dated 10 December 1999 and updated on 21 September 2018) which confirms that the company's business and affairs will be managed for the benefit of shareholders as a whole.

Further details of how the directors fulfil their obligations with shareholders are given in the corporate governance code on the company's website.

Signed on behalf of the Board:

PT Wood
Director

11 May 2020

St David's Court
Union Street
Wolverhampton
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 20.

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 10 to 20.

Results and equity dividends

The results for the financial year are set out in the consolidated income statement on page 33.

The company paid two dividends during the year. On 21 June 2019 a final dividend for the year ended 31 December 2018 of 11.9 pence per share was paid to shareholders on the register on 31 May 2019. This was followed by an interim dividend for 2019, also of 11.9 pence per share, which was paid on 8 November 2019 to shareholders on the register on 11 October 2019. Total dividend payments made during the year amounted to £10,037,497 *(2018: £10,047,936)*.

The directors propose a final dividend for the year ended 31 December 2019 of 10.5 pence *(2018: 11.9 pence)* per ordinary share. If approved at the forthcoming Annual General Meeting, this dividend, which in total amounts to £4,428,308 *(2018: £5,018,749)*, will be paid on 19 June 2020 to shareholders on the register as at 29 May 2020.

Directors

The directors in office at 11 May 2020 are shown on page 24. No director was appointed or resigned during the year or subsequently.

In accordance with the Articles of Association Mr X Mignolet and Ms M-C Leon retire by rotation and, being eligible, will also offer themselves for re-election at the forthcoming 2020 Annual General Meeting.

Directors' interests

Other than the beneficial interests disclosed below, no director in office at 31 December 2019 had any disclosable interests in share capital of the company or any subsidiary undertaking.

	Ordinary one pence shares	
	At 31 December 2019	At 31 December 2018
JG Murray	**298,749**	298,749
JJ Murray	**231,800**	231,800
JP Murray	**1,160,886**	1,198,736
PT Wood	**7,945**	7,945

There were no changes to the above shareholdings between 31 December 2019 and 11 May 2020.

Substantial shareholdings

At 11 May 2020, 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 2019 held any options to subscribe for ordinary shares at either 31 December 2019 or 31 December 2018. There have been no changes in the directors' share options during the period from 31 December 2019 to 11 May 2020.

The mid-market price of the company's ordinary shares on 31 December 2019 was £6.20. The highest and lowest mid-market prices during the year ended 31 December 2019 were £7.70 and £4.81 respectively.

Directors' Report

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, CEMARS (in accordance with ISO 14064-1:2006) and ISO 45001:2018 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 and other stakeholder engagement

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. Employees also have access to third party assistance to provide them with support on personal issues.

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. Team talks are held regularly with departmental heads and any issues raised are noted, followed up and action taken as appropriate.

Externally, the group has strong relationships with a number of key suppliers, many of these relationships have been in place for ten 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.

Corporate governance

The group has chosen to apply the Quoted Companies Alliance (QCA) corporate governance code (the code) following the change to the AIM Rules for Companies in September 2018 which required all AIM companies to comply with a recognised corporate governance code.

The company's corporate governance disclosures are included on the compay's website, www.andrews-sykes.com.

Special business

Three resolutions are to be proposed at the forthcoming 2020 Annual General Meeting as special business: resolutions 6 and 7 as ordinary resolutions and resolution 8 as a special resolution. Notice of the 2020 Annual General Meeting (including the full text of each of these three Resolutions) is set out in a separate document being sent to all shareholders of the company.

Two resolutions, numbered 6 and 8, will be proposed at the Annual General Meeting for the purpose of conferring powers on the directors to allot or to 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 numbered 7 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 19.

Purchase of own shares

The company did not purchase any of its own ordinary shares for cancellation during the period from 1 January 2019 to 11 May 2020. Accordingly, as at 11 May 2020, there remained an outstanding general authority for the directors to purchase 5,271,794 ordinary shares that was granted at the Annual General Meeting held on 18 June 2019. The directors are seeking to renew the general authority in respect of 5,271,794 ordinary shares as set out in resolution number 7.

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.

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 2019 and subsequently.

Financial calendar

The current financial year will end on 31 December 2020.

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 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

11 May 2020

St David's Court
Union Street
Wolverhampton
WV1 3JE

Directors and Advisors

Non-executive Chairmen

JG Murray – Chairman
Age 100. Chairman of London Security plc, Nu Swift Limited and Ansul S.A. Mr Murray has a long successful history in the industrial services sector.

JJ Murray MBA – Vice-Chairman
Age 53. Chairman of the Remuneration Committee. Executive Vice-Chairman of London Security plc, Nu Swift Limited and Ansul S.A

Executive Director

PT Wood
Age 57. 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

AJ Kitchingman FCA
Age 55. 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 56. Non-executive director of London Security plc.

X Mignolet (HEC-Economics)
Age 55. Director of London Security plc, Ansul S.A. and Importex S.A. Member of the Audit Committee.

JP Murray
Age 52. Non-executive director of London Security plc.

EDOA Sebag MBA
Age 52. 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 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Total Income, the Consolidated and Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements comprise the notes to the consolidated financial statements, the notes to the company financial statements and the group 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 2019 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

Audit work performed

In evaluating whether the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate and whether a material uncertainty exists 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, we undertook procedures to evaluate management's assessment of the impact of Covid-19 on the group's working capital and covenant conditions. These procedures comprised:

- Obtaining management's original forecasts and covenant calculations covering the period to December 2021. We assessed how these forecasts were compiled, including assessing the accuracy of management's forecasts by applying appropriate sensitivities to the underlying assumptions;
- Assessing the reliability of management's forecasting by comparing the accuracy of actual financial performance to the forecast information;
- Obtaining management's revised forecasts prepared to assess the potential impact of Covid-19. We evaluated the assumptions applied, including the reduction in revenue, the depleted workforce and the resulting effect on working capital during the estimated period of Covid-19, for reasonableness and determined whether they had been applied accurately. We also considered whether the assumptions are consistent with our understanding of the business;
- Assessing management's determination of the impact of the mitigating factors available to them to restrict the cash impact of the pandemic. This assessment included the corroboration of mitigating actions taken by management to relevant documentation and evaluation of their application in the revised forecasts for accuracy;
- Performing sensitivity analysis on management's revised forecasts to determine the reduction in EBIT that would lead to elimination of the headroom in their original cash flow forecasts; and
- Assessing the adequacy of the going concern disclosures included within the accounting policies of the financial statements.

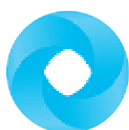
Conclusions relating to going concern

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.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.



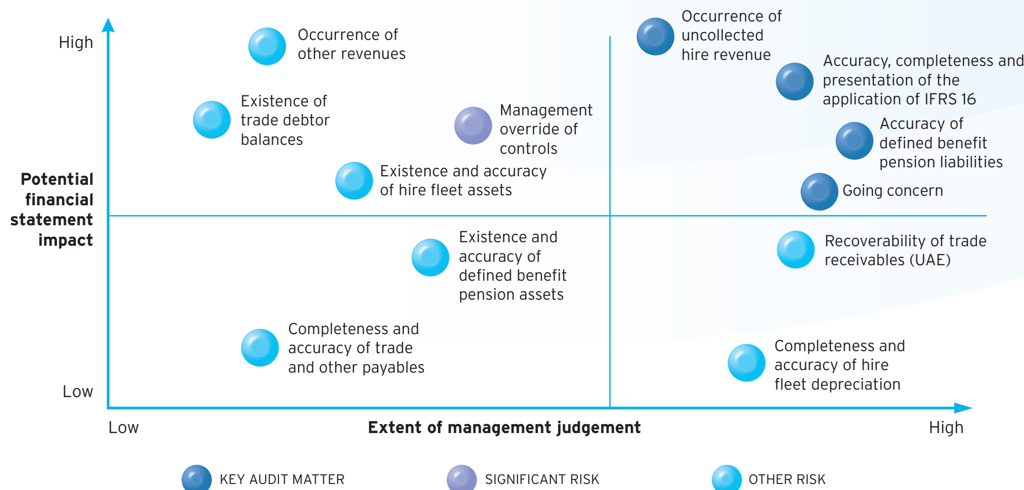
Overview of our audit approach

- Overall materiality: £925,000, which represents approximately 5% of the group's profit before taxation;
- Key audit matters were identified as the accuracy, completeness and presentation of the IFRS 16 transition, the occurrence of uncollected hire revenue and the accuracy of the defined benefit pension liabilities for the group; and
- We performed full-scope procedures on the financial information of certain group components in the United Kingdom, the Netherlands and the United Arab Emirates (UAE). We performed analytical procedures on the financial information of other group components in Belgium, Italy, France, Luxembourg, Switzerland and the United Kingdom.
- We issued instructions to component auditors Grant Thornton UAE and Grant Thornton Netherlands in respect of their procedures on the financial information of the significant group components in the Netherlands and the UAE.

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

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 judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those 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, which include the matter described in the 'The impact of macro-economic uncertainties on our audit' section, 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.

Key Audit Matter – Group

Risk 1 – Occurrence of uncollected hire revenue

Under International Standards on Auditing (UK) 240: 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Incomplete or inaccurate revenue recognition could have an adverse impact on the group's profitability, net asset value, earnings per share, and its level of dividend cover. We considered the risk of fraud in revenue recognition to be in respect of uncollected hire revenue as this is the revenue stream most susceptible to manipulation by management in close proximity to the year end, where there is an incentive to meet performance targets.

We therefore identified the occurrence of uncollected hire revenue as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- assessing the design effectiveness of relevant controls by performing a walkthrough;
- testing the operating effectiveness of relevant controls over order authorisation, invoicing and customer collections;
- testing a sample of uncollected hire revenue transactions at the year end, confirming that the sale was made to a bona fide customer, in the correct period and agreeing the occurrence of the sale to supporting documentation including invoices and signed delivery notes; and
- testing that the group's revenue recognition policy has been correctly applied and that it is in accordance with IFRS 16: 'Leases'.

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 uncollected hire revenue recognised in the year to 31 December 2019.

Risk 2 – Accuracy, completeness and presentation of the application of IFRS 16

IFRS 16 'Leases' has been adopted in the financial statements for the year ended 31 December 2019, for which the group has performed an assessment of the impact that the new accounting standard will have on its balance sheet.

This is the first year of application of the standard and significant judgements and estimates have been applied in the determination of its impact.

Management has performed an exercise to summarise all property, equipment and other lease data so that it can be assessed for any IFRS 16 implications.

Where the implicit rate of interest in a lease was not readily determinable, the incremental borrowing rate (IBR) method was adopted.

Due to both the level of judgement exercised by the directors in determining the IBR, as well as the financial statement impact of transitioning to the new standard, we identified the accuracy, completeness and presentation of the application of IFRS 16 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:

- assessing the design effectiveness of the key controls in place throughout the transition process;
- using the work of an auditor's expert in assessing the appropriateness of the discount rates applied;
- testing the accuracy of a sample of the underlying lease data used in management's calculation by agreeing significant lease terms to original lease agreements or other supporting documentation;
- obtaining supporting contractual information for transactions considered to be potentially indicative of unrecorded lease liabilities and testing whether they met the definition of a leasing arrangement under IFRS 16;
- re-performing the calculations used in management's lease liability schedules to test the mathematical accuracy;
- testing the reconciliation between the group's operating lease commitments and the IFRS 16 assessment to evidence completeness; and
- assessing the disclosures in the financial statements to determine whether they are appropriate and sufficient for the requirements of the new accounting standard.

The group's accounting policy for IFRS 16 is shown in note 2 and related disclosures are included in notes 14 and 25.

Key observations

Based on our audit work, we did not identify evidence of material misstatement in the application of IFRS 16 as at 31 December 2019.

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

Risk 3 – Accuracy of defined benefit pension liabilities

The group operates a defined benefit pension scheme that provides benefits to a number of current and former employees. At 31 December 2019 the defined benefit pension scheme's net surplus was £2 million. The gross value of pension scheme liabilities amounted to £42 million.

The valuation of the pension liabilities in accordance with International Accounting Standard ('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.

We therefore identified the accuracy of defined benefit liabilities 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:

- documenting our understanding of management's process and methodology used for valuing the defined benefit pension scheme and assessing the design effectiveness of relevant controls through performing a walkthrough;
- testing the accuracy and completeness of the data and inputs used in the year end valuation; and
- using the work of an auditor's expert to challenge the assumptions used, including discount rates, growth rates and mortality rates and assessing the calculation methods employed in the calculation of the pension liability.

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 did not identify evidence of material misstatement in the defined benefit pension liability recognised as at 31 December 2019.

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	£925,000 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 lower than the level that we determined for the year ended 31 December 2018 to reflect the group's decreased profit before tax in the current year.	£584,000 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 lower than the level that we determined for the year ended 31 December 2018 to reflect the company's decreased 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.	We determined a lower level of materiality for directors' remuneration and related party transactions outside of the normal course of business.
Communication of misstatements to the audit committee	£46,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£29,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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 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 operating effectiveness of the group's internal controls in order to reduce substantive testing. We assessed the design effectiveness of relevant controls through a walkthrough, then tested that these controls were operating effectively for a sample of items. 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 information of the parent company, Andrews Sykes Group plc, and of other group components in the United Kingdom, the Netherlands and the UAE. The components that were subject to full-scope audit procedures totalled approximately 83.5 percent of consolidated revenues and 88.0 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 components 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 and financial statements 2019', 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.

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

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 statement of directors' responsibilities in respect of the annual report and financial statements 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 Accountants
Birmingham

11 May 2020

Consolidated Income Statement
For the 12 months ended 31 December 2019

	Note	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Continuing operations			
Revenue	4	**77,246**	78,563
Cost of sales		**(32,244)**	(31,908)
Gross profit		**45,002**	46,655
Distribution costs		**(11,996)**	(12,073)
Administrative expenses		**(13,708)**	(13,901)
Operating profit		**19,298**	20,681
EBITDA*		**28,519**	26,737
Depreciation and impairment losses		**(7,203)**	(6,666)
Depreciation of right-of-use assets		**(2,538)**	–
Profit on the sale of plant and equipment		**520**	610
Operating profit		**19,298**	20,681
Finance income	6	**146**	461
Finance costs	7	**(884)**	(97)
Profit before taxation	8	**18,560**	21,045
Taxation	11	**(3,541)**	(3,999)
Profit for the financial period attributable to equity holders of the parent		**15,019**	17,046

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

Earnings per share from continuing and total operations			
Basic (pence)	12	**35.61p**	40.39p
Diluted (pence)	12	**35.61p**	40.39p
Interim and final dividends paid per equity share (pence)	33	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	33	**10.50p**	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 2019

	Note	**12 months ended 31 December 2019 £'000**	12 months ended 31 December 2018 £'000
Profit for the financial period		**15,019**	17,046
Other comprehensive (charges)/income			
Items that may be reclassified to profit and loss:			
Currency translation differences on foreign operations		**(906)**	405
Foreign exchange difference on IFRS 16 adjustments		**1**	–
Related deferred tax		**–**	–
Items that will never be reclassified to profit and loss:			
Remeasurement of defined benefit assets and liabilities	18	**559**	(1,649)
Related deferred tax	11	**(106)**	313
Other comprehensive (charges) for the period net of tax		**(452)**	(931)
Total comprehensive income for the period		**14,567**	16,115

Consolidated Balance Sheet
As at 31 December 2019

	Note	31 December 2019 £'000	31 December 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Non-current assets					
Property, plant and equipment	13		**24,561**		23,651
Right-of-use assets	14		**11,515**		–
Prepayments	15		**44**		45
Deferred tax asset	17		**254**		677
Retirement benefit pension surplus	18		**1,963**		1,356
			38,337		25,729
Current assets					
Stocks	19	**6,333**		5,083	
Trade and other receivables	20	**21,333**		19,994	
Cash and cash equivalents	21	**27,880**		27,862	
		55,546		52,939	
Current liabilities					
Trade and other payables	22	**(12,942)**		(12,889)	
Current tax liabilities	23	**(1,674)**		(2,294)	
Bank loans	24	**(493)**		(493)	
Right-of-use lease obligations	25	**(2,279)**		–	
Obligations under finance leases	25	**–**		(5)	
		(17,388)		(15,681)	
Net current assets			**38,158**		37,258
Total assets less current liabilities			**76,495**		62,987
Non-current liabilities					
Bank loans	24	**(3,490)**		(3,983)	
Right-of-use lease obligations	25	**(9,482)**		–	
			(12,972)		(3,983)
Net assets			**63,523**		59,004
Equity					
Called-up share capital	26		**422**		422
Share premium	27		**13**		13
Retained earnings	27		**59,447**		54,013
Translation reserve	27		**3,395**		4,300
Other reserves	27		**246**		246
Surplus attributable to equity holders of the parent			**63,523**		58,994
Non-controlling interests			**–**		10
Total equity			**63,523**		59,004

These consolidated financial statements of Andrews Sykes Group plc, company number 00175912, were approved and authorised for issue by the Board of directors on 11 May 2020 and were signed on its behalf by:

JJ Murray
Vice-Chairman

Consolidated Cash Flow Statement

For the 12 months ended 31 December 2019

	Note	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Cash flows from operating activities			
Cash generated from operations	28	**22,917**	22,888
Interest paid		**(609)**	(88)
Net UK corporation tax paid		**(2,227)**	(2,236)
Overseas tax paid		**(1,559)**	(1,454)
Net cash flow from operating activities		**18,522**	19,110
Investing activities			
Sale of property, plant and equipment		**685**	944
Purchase of property, plant and equipment		**(6,207)**	(7,142)
Interest received		**100**	41
Net cash flow from investing activities		**(5,422)**	(6,157)
Financing activities			
Loan repayments		**(500)**	(500)
Capital repayments for right-of-use lease obligations		**(2,296)**	–
Finance lease capital repayments		**–**	(45)
Equity dividends paid		**(10,038)**	(10,048)
Purchase of own shares		**–**	(438)
Net cash flow from financing activities		**(12,834)**	(11,031)
Net increase in cash and cash equivalents		**266**	1,922
Cash and cash equivalents at the beginning of the period		**27,862**	25,311
Effect of foreign exchange rate changes		**(248)**	629
Cash and cash equivalents at the end of the period	21	**27,880**	27,862
Reconciliation of net cash flow to movement in net funds in the period			
Net increase in cash and cash equivalents		**266**	1,922
Cash outflow from the repayment of loans and right-of-use lease obligations		**2,796**	545
Non-cash movements in respect of costs of raising loan finance		**(7)**	(8)
Non-cash movements re new right-of-use lease obligations		**(2,593)**	–
Increase in net funds during the period		**462**	2,459
Opening net funds at the beginning of the period		**23,381**	20,293
Transitional adjustment for right-of-use leases at the start of the period		**(11,699)**	–
Effect of foreign exchange rate changes on right-of-use lease obligations		**240**	–
Effect of foreign exchange rate changes		**(248)**	629
Closing net funds at the end of the period	29	**12,136**	23,381

Consolidated Statement of Changes in Equity

For the 12 months ended 31 December 2019

	Note	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	Non-controlling interests £'000	Total equity £'000
		Attributable to equity holders of the parent company									
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 income and (charges)											
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 income and (charges)		–	–	(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
Profit for the financial period		**–**	**–**	**15,019**	**–**	**–**	**–**	**–**	**15,019**	**–**	**15,019**
Other comprehensive income and (charges)											
Items that may be reclassified to profit and loss:											
Currency translation differences on foreign operations		**–**	**–**	**–**	**(906)**	**–**	**–**	**–**	**(906)**	**–**	**(906)**
Foreign exchange difference on IFRS 16 adjustments		**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Related deferred tax		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Items that will never be reclassified to profit and loss:											
Remeasurement of defined benefit assets and liabilities		**–**	**–**	**559**	**–**	**–**	**–**	**–**	**559**	**–**	**559**
Related deferred tax		**–**	**–**	**(106)**	**–**	**–**	**–**	**–**	**(106)**	**–**	**(106)**
Total other comprehensive income and (charges)		**–**	**–**	**453**	**(905)**	**–**	**–**	**–**	**(452)**	**–**	**(452)**
Transactions with owners recorded directly in equity:											
Dividends paid	33	**–**	**–**	**(10,038)**	**–**	**–**	**–**	**–**	**(10,038)**	**–**	**(10,038)**
Write-off of non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Total transactions with owners		**–**	**–**	**(10,038)**	**–**	**–**	**–**	**–**	**(10,038)**	**(10)**	**(10,048)**
At 31 December 2019		**422**	**13**	**59,447**	**3,395**	**158**	**79**	**9**	**63,523**	**–**	**63,523**

Group Accounting Policies
For the 12 months ended 31 December 2019

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 Acts 1908–1917. The address of the registered office is given on page 27. 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 21.

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 Board remains satisfied with the group's funding and liquidity position. The group has operated throughout the 2019 financial year within its financial covenants as contained in the bank agreement.

The coronavirus pandemic will have an impact on our business during 2020. As explained on page 6, reduced customer demand and our ongoing ability to meet that demand have been identified as our main areas of risk. Our supply chain has not been badly affected as the majority of our goods had already been delivered before the virus spread.

Management has prepared a detailed "bottom-up" profit and loss and cash flow forecast for the 24 months ending 31 December 2021 on a cautiously realistic basis. This takes into account reduced activity levels across all income streams and geographical locations taking into account specific factors relevant in each of our businesses. It has been assumed that the impact of the coronavirus pandemic affects trading for the remainder of 2020 and thereafter things return to a more normal level. These forecasts have been reviewed and approved by the Board.

Certain product lines are more resilient than others and we are experiencing an increase in demand in certain sectors, notably healthcare, emergency temporary hires to cover the breakdown of customer equipment and the hire of dewatering equipment in the UAE to enable construction work to continue.

The impact on the business as of the end of March has been limited with trading levels close to expectation. Cash flow has not changed significantly and we continue to provide our full range of products and services across all territories. We are thankful and proud of our team members who continue to respond as essential service providers.

The wellbeing of our employees and business partners is of paramount importance as we adhere to the local government guidelines. We have temporarily mothballed some of our smallest depots, introduced social distancing measures in our larger depots and have enabled at home working for many employees. Appropriate supplies of PPE are provided to our staff to enable them to carry out their duties in a safe manner. Our priority is to keep operations safe for customers, employees and business partners.

In the UK, approximately 50% of our employees are furloughed. In France, Italy, Belgium and Luxembourg we are currently working with significantly reduced staff levels, with the most of our staff enlisted to the appropriate government employment retention schemes. In the UAE and Holland, our employees are currently continuing to work in a close to normal way.

Our cash flow forecast assumes that cash collections will reduce over the next nine months as customers take longer to settle their debts. We will continue to make payments to our suppliers in accordance with our agreed terms and, with the exception of the May 2020 UK VAT payment that will be deferred until later in 2020, all fiscal payments to the UK and overseas government bodies will continue to be made on time. Bank loan repayments are also forecast to be made in accordance with the bank agreement. Due to the reduced level of activity, forecast capital expenditure for 2020 is *c.*£1.2 million less than 2019.

As explained in note 18 to the financial statements, a triennial funding valuation for the group defined benefit pension scheme is currently being prepared by the pension scheme trustees as at 31 December 2019. Management has received an estimate of the deficit as at that date and it has been assumed that this will be agreed and paid to the pension scheme by 31 December 2020.

For the purposes of the cash forecast only, we have assumed that a normal level of dividends will be resumed in November 2020.

The above factors have all been reflected in the forecast for the 24 months ending 31 December 2021. The headline numbers at a group level are as follows:

- The actual cash reserves* as at 31 March 2020 are £27.2 million compared with £23.9 million as at 31 December 2019. This increase reflects strong trading and debt collections in the first quarter with supplier and other payments being made on schedule with payment plans being agreed with some key suppliers and landlords. Group operating profit in the first quarter was *c.*£4.6 million.
- Group turnover for the 12 months ending 31 December 2020 is forecast to be lower than 2019. Operating profit is therefore consequently likely to reduce, however the group still expects to produce a profit for 2020.
- Closing cash reserves* as at 31 December 2020 are forecast to be below the level reported at 31 December 2019, although cash reserves* are not forecast to fall below *c.*£15 million at any month end.
- In 2021 we expect to return to normal levels of trading.

Therefore, it is forecast that the group will have significant cash reserves* throughout 2020 and 2021. Ignoring the positive cash flow in the first quarter, the group's net cash outflow in the nine months ending 31 December 2020 is forecast to be approximately £10 million. Even in an extreme scenario and this trend continued throughout 2021 resulting in an additional cash outflow of *c.*£12 million, the group would still have cash reserves* of *c.*£5 million at 31 December 2021. In this extreme scenario, further remedial action would be taken. Payroll costs could be controlled at the current levels until the business recovers, additional staff could be furloughed and capital expenditure could be postponed until a later date. Our bank has been very supportive and has indicated that it would be prepared to make additional loan facilities available the group if required. Dividend payments could also be reduced or suspended to further conserve cash. The Board is, however, confident that none of these additional measures will be necessary due to the level of confidence it has in the future trading performance of the group.

The group has considerable financial resources and a wide operational base. Based on the detailed forecast prepared by management taking into account the anticipated impact of the coronavirus pandemic, the Board has a reasonable expectation that the group has adequate resources to continue to trade for the foreseeable future even in the extreme scenario that the downturn continues throughout 2021. Accordingly, the Board continues to adopt the going concern basis when preparing this Annual Report and Financial Statements.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Accounting period

The current period is for the 12 months ended 31 December 2019 and the comparative period is for the 12 months ended 31 December 2018.

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 77 to 85, 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 2019

With the exception of the adoption of the new leasing standard, IFRS 16, 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.

1 General information (continued)

The group has adopted IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosures of leases, with effect from 1 January 2019.

IFRS 16 introduced 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 adopted IFRS 16 on 1 January 2019 and applied the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to assets and liabilities 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, bringing onto the balance sheet the net present value of the remaining outstanding lease obligations as at the date of transition as both an asset and liability, and has also applied IFRS 16 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 lease exemption. The group also took advantage of the practical expedients to exclude initial indirect costs in measuring the right-of-use assets and applying hindsight to options to extend contracts when determining the lease term at the date of initial application.

The group has recognised a right-of-use asset and a lease liability for its operating leases of properties, plant machinery and equipment, other than those that fall within the above recognition exemption. The amount capitalised was the net present value of the future expected minimum capital payments under the group's operating lease obligations discounted at the group's incremental borrowing rate as at 1 January 2019. Prepaid and accrued lease payments were considered to be immaterial and therefore the right-of-use assets were measured at an amount equal to the lease liability. The nature of expenses related to these leases has changed because the group has recognised a depreciation charge for right-of-use assets and an interest expense, charged within finance costs, on the lease liabilities. The assets are depreciated on a straight-line basis over the remaining life of the lease and the interest expense is calculated in order to give a constant rate of interest on the outstanding capital liability. Previously, the group recognised operating lease expenses on a straight-line basis over the term of the lease as a reduction in operating profit, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 1 January 2019, the date of transition to IFRS 16, the group recognised an additional right-of-use asset and associated right-of-use lease obligations of £11.7 million.

As stated above, the group has adopted the modified retrospective approach and has not restated the comparative figures. The key effects on the current year's consolidated income statement and balance sheet can be summarised as follows:

	2019 on a consistent basis with 2018 £'000	Effect of IFRS 16 £'000	**As reported this year £'000**
Income statement			
EBITDA	25,702	2,817	**28,519**
Depreciation	(7,203)	(2,538)	**(9,741)**
Profit on sale of fixed assets	520	–	**520**
Operating profit	19,019	279	**19,298**
Net finance costs	(212)	(526)	**(738)**
Profit before taxation	18,807	(247)	**18,560**
Taxation	(3,588)	47	**(3,541)**
Profit after taxation	15,219	(200)	**15,019**
Balance sheet			
Non-current assets	26,775	11,562	**38,337**
Net current assets	40,437	(2,279)	**38,158**
Total assets less current liabilities	67,212	9,283	**76,495**
Non-current liabilities	(3,490)	(9,482)	**(12,972)**
Net assets	63,722	(199)	**63,523**
Translation reserve	3,394	1	**3,395**
Share capital and other reserves	60,328	(200)	**60,128**
Shareholders' funds	63,722	(199)	**63,523**
Net funds	23,897	(11,761)	**12,136**

There was no significant impact for the group's finance leases which were repaid in full during 2019.

IFRS 16 did not made any significant changes to the accounting for lessors, and therefore there was no significant change in this area as a result of adopting IFRS 16.

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:

- Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The above standards and interpretations 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 2019. 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.

2 Significant accounting policies (continued)

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 fittings	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 hiring to customers 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

As stated in note 1, the group adopted IFRS 16 "Leases" with effect from 1 January 2019.

All operating leases, other than those of a short-term nature, are capitalised and included on the balance sheet as a right-of-use asset and a right-of use lease obligation. The amount capitalised is the net present value of the future expected minimum capital payments under the group's operating lease obligations discounted at the group's marginal cost of borrowing. The right-of use assets are then depreciated over the term of the lease. Interest is charged to the income statement and is calculated based on the incremental borrowing rate.

Last year, operating lease payments were charged as an expense in the income statement on a straight-line basis over the lease term. This accounting policy continues to be adopted for short-term leases, as defined by IFRS 16, and non-capital payments under all operating leases, for example maintenance costs on vehicles. The commitments for such leases continue to be disclosed as operating lease obligations in note 31. Comparative information has not been restated.

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.

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. Deferred tax is provided on the difference between the carrying value of the right-of-use asset and the associated lease liability, both calculated in accordance with IFRS 16. Although not specifically covered by IAS 12 or IFRS 16, this is consistent with the group's accounting policy to fully provide for deferred tax on temporary differences.

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.

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".

2 Significant accounting policies (continued)

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.

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 and cash reserves

Net funds are defined as including cash and cash equivalents, ring-fenced deposit accounts, bank and other loans, finance lease obligations, right-of use lease obligations calculated in accordance with IFRS 16 and derivative financial instruments stated at current fair value. Cash reserves are defined as being net funds before deducting right-of-use lease obligations calculated in accordance with IFRS 16.

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 IFRS 16. 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 sale 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
- Revenue relating to installation and sale of units is recognised at a point in time (i.e when the installation of units is complete) in accordance with IFRS 15.

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 the 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.

2 Significant accounting policies (continued)

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 considers 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.

Notes to the Consolidated Financial Statements
For the 12 months ended 31 December 2019

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 62.

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.

Valuation of right-of-use assets and associated lease liabilities

IFRS 16 was adopted on 1 January 2019. As part of that adoption management had to calculate the group's incremental borrowing rate as at that date assuming that the group borrowed over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar environment.

In calculating the incremental borrowing rate, which was based on external evidence, management had to make various estimates and assumptions that impact the calculation of the net present value of the right-of-use assets and associated lease liabilities. These estimates and assumptions included flexing the incremental borrowing rate to take into account different periods of lease term and rates applicable in different geographical markets.

The net present value of right-of-use assets and associated liabilities as at the date of transition to IFRS 16 was £11,699,000. If the actual incremental borrowing rate was 0.5% lower than that estimated by management at date of transition then the valuation of right-of-use assets and associated lease liabilities would have been increased by £223,000. If the rate were 0.5% higher then the valuations would have been reduced by a similar amount.

4 Revenue

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

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Continuing operations		
Revenue outside the scope of IFRS 15 and recognised as lease income in accordance with IFRS 16:		
Hire	**67,411**	67,813
Revenue recognised at a point in time in accordance with IFRS 15:		
Sales	**5,782**	6,817
Maintenance	**1,876**	1,791
Installation and sale of units	**2,177**	2,142
Group consolidated revenue from the sale of goods and provision of services	**77,246**	78,563

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) and 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 (which 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. Whilst there is a level of currency fluctuation between these entities, the directors do not consider the currencies themselves (Sterling, Euro and Swiss Franc) to be particularly volatile when compared to the group's presentational currency or to be exposed to significant fluctuations that would indicate the economic characteristics of those operations are not appropriate to be aggregated as reportable segments under IFRS 8. 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.

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 2019

Revenue	**Hire & sales Europe £'000**	**Hire & sales Middle East £'000**	**Installation and maintenance £'000**	**Subtotal £'000**	**Eliminations £'000**	**Consolidated results £'000**
External sales:						
Hire	**56,581**	**10,830**	**–**	**67,411**	**–**	**67,411**
Sales	**3,382**	**2,400**	**–**	**5,782**	**–**	**5,782**
Maintenance	**–**	**–**	**1,876**	**1,876**	**–**	**1,876**
Installations	**–**	**–**	**2,177**	**2,177**	**–**	**2,177**
Total external sales	**59,963**	**13,230**	**4,053**	**77,246**	**–**	**77,246**
Inter-segment sales	**457**	**–**	**45**	**502**	**(502)**	**–**
Total revenue	**60,420**	**13,230**	**4,098**	**77,748**	**(502)**	**77,246**
Segment result	**16,933**	**3,204**	**237**	**20,374**	**(75)**	**20,299**
Unallocated overheads and expenses						**(1,001)**
Operating profit						**19,298**
Finance income						**146**
Finance costs						**(884)**
Profit before taxation						**18,560**
Taxation						**(3,541)**
Profit for the period from continuing and total operations						**15,019**

Income statement analysis
12 months ended 31 December 2018

Revenue	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Subtotal £'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

5 Business and geographical segmental analysis (continued)

Balance sheet information As at 31 December 2019	**Hire & sales Europe £'000**	**Hire & sales Middle East £'000**	**Installation and maintenance £'000**	**Subtotal £'000**	**Eliminations £'000**	**Consolidated results £'000**
Segment assets	**78,472**	**12,233**	**3,527**	**94,232**	**(2,684)**	**91,548**
Deferred tax asset						**254**
Retirement benefit pension surplus						**1,963**
Unallocated corporate assets						**118**
Consolidated total assets						**93,883**
Segment liabilities	**(23,838)**	**(2,720)**	**(524)**	**(27,082)**	**2,684**	**(24,398)**
Current tax liabilities						**(1,674)**
Bank loans						**(3,983)**
Unallocated corporate liabilities						**(305)**
Consolidated total liabilities						**(30,360)**

Balance sheet information As at 31 December 2018	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Subtotal £'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)

Other information 12 months ended 31 December 2019	**Hire & sales Europe £'000**	**Hire & sales Middle East £'000**	**Installation and maintenance £'000**	**Subtotal £'000**	**Eliminations £'000**	**Consolidated results £'000**
Capital additions	**7,119**	**1,493**	**2**	**8,614**	**–**	**8,614**
Right-of-use asset additions	**2,511**	**20**	**62**	**2,593**	**–**	**2,593**
Depreciation	**5,765**	**1,415**	**22**	**7,202**	**–**	**7,202**
Right-of-use asset depreciation	**2,434**	**48**	**56**	**2,538**	**–**	**2,538**

Other information 12 months ended 31 December 2018	Hire & sales Europe £'000	Hire & sales Middle East £'000	Installation and maintenance £'000	Subtotal £'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

Geographical segments

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

	By origin		By destination	
	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000	**12 months ended 31 December 2019 £'000**	12 months ended 31 December 2018 £'000
United Kingdom	**45,711**	49,092	**45,011**	47,984
Rest of Europe	**18,305**	18,202	**18,818**	19,100
Middle East and Africa	**13,230**	11,269	**13,240**	11,427
Rest of the World	**–**	–	**177**	52
	77,246	78,563	**77,246**	78,563

The carrying amounts of segment assets and non-current assets (excluding retirement benefit pension surplus 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 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
United Kingdom	**60,326**	48,902	**23,165**	15,066
Rest of Europe	**19,203**	15,967	**9,987**	5,837
Middle East and Africa	**12,019**	11,614	**2,968**	2,793
	91,548	76,483	**36,120**	23,696

6 Finance income

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Net pension scheme interest income on pension scheme surplus (note 18)	**38**	84
Interest receivable on bank deposit accounts	**108**	41
Net inter-company foreign exchange gains	**–**	336
	146	461

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7 Finance costs

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Interest charge on bank loans and overdrafts	**88**	95
Interest charge on right-of-use lease obligations	**526**	–
Inter-company foreign exchange losses	**270**	–
Finance lease interest charge	**–**	2
	884	97

8 Profit before taxation

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

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Net foreign exchange trading losses and (gains)	**36**	(86)
Bank charges	**45**	53
Depreciation of property, plant and equipment	**7,203**	6,666
Depreciation of right-of-use assets	**2,538**	–
Net foreign exchange losses and (gains) on inter-company financing (see notes 6 and 7)	**270**	(336)
Profit on the sale of plant and equipment	**(520)**	(610)
Customer compensation receipts credited to revenue for lost or damaged plant and equipment	**(2,678)**	(2,738)
Operating lease rental payments:		
Property	**424**	1,570
Plant, machinery and motor vehicles	**573**	1,861
Auditor's remuneration (see note 9)	**201**	188
Staff costs (see note 10)	**21,553**	20,889
Defined benefit pension scheme past service cost – GMP equalisation (see note 18)	**–**	432

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 2019 £'000	12 months ended 31 December 2018 £'000
Fees payable to the company's auditor in respect of audit services:		
The audit of the consolidated accounts	**38**	38
The audit of the group's subsidiaries pursuant to legislation	**129**	108
Total audit fees	**167**	146
Fees payable to the company's auditor in respect of non-audit services:		
Tax compliance services	**34**	42
Total non-audit fees	**34**	42
	201	188

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 2019 Number	12 months ended 31 December 2018 Number
Sales and distribution	**192**	187
Engineers	**261**	251
Managers and administration	**139**	135
	592	573

Staff costs, including directors' remuneration, amounted to:

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Wages and salaries	**18,615**	18,008
Redundancy and termination payments	**34**	164
Social security costs	**2,201**	2,087
Other pension costs	**703**	630
	21,553	20,889

10 Employee information (continued)

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 2019 £'000	12 months ended 31 December 2018 £'000
Short-term employee benefits	**2,502**	2,623
Post employment benefits – Pensions	**140**	165
Other long-term benefits	**345**	361
Redundancy and termination payments	**–**	61
	2,987	3,210

Directors' emoluments

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

	12 months ended 31 December 2019			12 months ended 31 December 2018		
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
A Kitchingman (appointed 10 July 2018)	**28**	**–**	**28**	13	–	13
MC Leon	**20**	**–**	**20**	20	–	20
JJ Murray	**29**	**–**	**29**	28	–	28
JP Murray	**20**	**–**	**20**	20	–	20
PT Wood (highest paid director)	**449**	**10**	**459**	528	38	566
	546	**10**	**556**	615	38	653

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 2019 Number	12 months ended 31 December 2018 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 £22,342 *(2018: £21,694)*; the transfer value of the accumulated fund as at 31 December 2019 was £580,698 *(2018: £526,752)*.

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

11 Taxation

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Current tax		
UK corporation tax at 19% *(2018: 19%)*		
based on the taxable profit for the period	**2,020**	2,807
Adjustments to corporation tax in respect of prior periods	**(211)**	(32)
	1,809	2,775
Overseas tax based on the taxable profit for the period	**1,390**	1,444
Adjustments to overseas tax in respect of prior periods	**25**	42
Total current tax charge	**3,224**	4,261
Deferred tax		
Deferred tax on the origination and reversal of temporary differences	**137**	(260)
Adjustments to deferred tax in respect of prior periods	**180**	(2)
Total deferred tax charge (note 17)	**317**	(262)
Total tax charge for the financial period attributable to continuing operations	**3,541**	3,999

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% *(2018: 19%)* as follows:

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Profit before taxation from continuing and total operations	**18,560**	21,045
Tax at the UK effective corporation tax rate of 19% *(2018: 19%)*	**3,526**	3,999
Effects of:		
Expenses not deductible for tax purposes	**150**	114
Effects of different tax rates of subsidiaries operating abroad	**(188)**	(78)
Utilisation of overseas tax losses	**–**	(44)
Overseas tax losses not recognised	**59**	–
Adjustments to tax charge in respect of previous periods	**(6)**	8
Total tax charge for the financial period	**3,541**	3,999

11 Taxation (continued)

Deferred tax recognised in other comprehensive income

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Deferred tax charge/(credit) on remeasurement of defined benefit liabilities and assets	**106**	(313)
Deferred tax charge on IFRS 16 right-of-use foreign exchange adjustments	**–**	–
Total deferred tax recognised in other comprehensive income	**106**	(313)

Matters affecting future tax charges

The reduction in the UK corporation tax rate from 19% to 17% that was to be effective from 1 April 2020 was reversed in the budget on 11 March 2020. There are currently no plans announced to change the rate of UK corporation tax from its current rate of 19%.

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 2019	
	Total earnings £'000	**Number of shares**
Basic earnings/weighted average number of shares	**15,019**	**42,174,359**
Basic earnings per ordinary share (pence)	**35.61p**	

	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	

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.

13 Property, plant and equipment

	Property £'000	Equipment for hire £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost					
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
Exchange differences	**(18)**	**(1,192)**	**(57)**	**(67)**	**(1,334)**
Additions	**14**	**7,783**	**292**	**525**	**8,614**
Disposals	**–**	**(2,831)**	**(204)**	**(110)**	**(3,145)**
At 31 December 2019	**5,255**	**65,127**	**1,827**	**5,754**	**77,963**
Accumulated depreciation					
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
Exchange differences	**(6)**	**(897)**	**(46)**	**(49)**	**(998)**
Charge for the period	**124**	**6,375**	**284**	**420**	**7,203**
Disposals	**–**	**(2,696)**	**(175)**	**(109)**	**(2,980)**
At 31 December 2019	**1,291**	**46,696**	**1,213**	**4,202**	**53,402**
Carrying value					
At 31 December 2019	**3,964**	**18,431**	**614**	**1,552**	**24,561**
At 31 December 2018	4,086	17,453	646	1,466	23,651

The carrying value of plant and machinery includes £Nil *(2018: £5,000)* of assets subject to finance lease and hire purchase agreements. Depreciation amounting to £5,000 was charged on these assets during the year *(2018: £30,000)*.

The group did not have any non-cancellable contractual commitments for the acquisition of property, plant and equipment at either 31 December 2019 or 31 December 2018.

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

	31 December 2019 £'000	31 December 2018 £'000
Freehold land and buildings	**3,661**	3,721
Long leasehold buildings	**46**	47
Short leasehold buildings	**257**	318
	3,964	4,086

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.

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2019

14 Right-of-use assets

	Property £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2019 being date of adoption of IFRS 16	8,677	2,565	457	11,699
Exchange differences	**(204)**	**(52)**	**(4)**	**(260)**
Additions	**1,078**	**1,260**	**255**	**2,593**
At 31 December 2019	**9,551**	**3,773**	**708**	**14,032**
Accumulated depreciation				
At 1 January 2019 being date of adoption of IFRS 16	–	–	–	–
Exchange differences	**(12)**	**(8)**	**(1)**	**(21)**
Charge for the period	**1,155**	**1,193**	**190**	**2,538**
At 31 December 2019	**1,143**	**1,185**	**189**	**2,517**
Carrying value				
At 31 December 2019	**8,408**	**2,588**	**519**	**11,515**
At 1 January 2019 being date of adoption of IFRS 16	8,677	2,565	457	11,699

IFRS 16 introduced a single, on-balance-sheet leasing model for lessees. A lessee now recognises a right-of-use asset representing its right to use the underlying asset and a lease liability to make lease payments (see note 25). The group adopted IFRS 16 on 1 January 2019 using the standard's modified retrospective approach. Under this approach the net present value of the future expected minimum capital repayments under the group's operating lease obligations were recognised on the balance sheet as a right-of-use asset and an obligation under right-of-use leases (see note 25). The assets are then depreciated over the length of the lease term. The group took advantage of the exemption available not to capitalise short-term leases with a duration of 12 months or less and therefore these leases continue to be treated as off-balance-sheet operating leases, see notes 8 and 31.

As disclosed in note 25, the right-to-use lease obligations are secured on the above assets.

The expense relating to short-term leases for which the group has made the use of the short-term lease exemption is disclosed in note 8. The lease commitments for short-term leases is disclosed in note 31 and the maturity analysis of lease liabilities is in note 25.

Interest expense on lease liabilities is disclosed in note 7.

The total cash outflow for leases is disclosed in the consolidated cash flow statement.

15 Prepayments

	31 December 2019 £'000	31 December 2018 £'000
Prepayments	**44**	45

The above prepayments are amounts that are not recoverable within 12 months.

16 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.

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:

	Temporary differences on lease liabilities £'000	Temporary differences on fixed assets £'000	Pension surplus £'000	Provisions and other short-term timing differences £'000	Total £'000
Asset/(liability) at 31 December 2017	–	68	(639)	673	102
Credited to income statement (note 11)	–	203	–	59	262
Credited to equity (note 11)	–	–	313	–	313
Effect of pension payments in excess of interest and administration expenses	–	–	68	(68)	–
Asset/(liability) at 31 December 2018		271	(258)	664	677
Effect of adoption of IFRS 16	**2,229**	**(2,229)**	**–**	**–**	**–**
Credited/(charged) to income statement (note 11)	**6**	**(75)**	**–**	**(248)**	**(317)**
Charged to equity (note 11)	**–**	**–**	**(106)**	**–**	**(106)**
Effect of interest and administration expenses in excess of pension payments	**–**	**–**	**(9)**	**9**	**–**
Asset/(liability) at 31 December 2019	**2,235**	**(2,033)**	**(373)**	**425**	**254**

The deferred tax balances at both 31 December 2019 and 31 December 2018 have been calculated based on the rates that the directors anticipate will apply and when the temporary differences are expected to reverse.

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 2019, excluding the liability on the pension surplus, is £627,000 *(2018: £935,000)*. Of this amount, approximately £376,000 *(2018: £283,000)* 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 2019, the group had a net defined benefit pension scheme surplus, calculated in accordance with IAS 19 using the assumptions as set out below, of £1,963,000 *(2018: £1,356,000)*. This asset has been recognised in these financial statements as the directors are satisfied that it is recoverable in accordance with IFRIC 14.

18 Retirement benefit pension schemes (continued)

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.

Thoughout the subsequent periods, the group has 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 2019 *(2018: £120,000)*.

The next formal triennial funding valuation is due as at 31 December 2019. This is currently being worked upon and, subject to unforeseen circumstances discussed elsewhere, will be presented to the Board for consideration in the summer. In the light of this the group will continue to make the regular contributions of £10,000 per month towards expenses until the triennial funding valuation has been agreed and finalised.

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 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 2019	31 December 2018
Rate of increase in pensionable salaries	**N/A**	N/A
Rate of increase in pensions in payment	**3.00%**	3.20%
Rate of increase in pensions in deferment	**2.00%**	2.20%
Discount rate applied to scheme liabilities	**2.00%**	2.80%
Inflation assumption – RPI	**3.00%**	3.20%
Inflation assumption – CPI	**2.00%**	2.20%
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_2018 *(2018: 110% S2NA CMI_2017)* with a 1.25% per annum long-term improvement rate for both males and females *(2018: 1.25% for both males and females)*.

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 2019	31 December 2018
Male, current age 45	**22.8 years**	22.8 years
Female, current age 45	**25.2 years**	24.9 years
Male, current age 65	**21.5 years**	21.4 years
Female, current age 65	**23.7 years**	23.4 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 2019 £'000	31 December 2018 £'000
Listed investments:		
UK equities	**16,126**	14,416
Corporate bonds	**17,559**	17,052
Gilts	**9,889**	9,439
	43,574	40,907
Cash	**421**	129
Total fair value of plan assets	**43,995**	41,036
Present value of defined benefit obligation	**(42,032)**	(39,680)
Pension scheme surplus recognised on the balance sheet	**1,963**	1,356

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

	31 December 2019 £'000	31 December 2018 £'000
Fair value of plan assets at the start of the period	**41,036**	45,657
Interest income on pension scheme assets	**1,120**	1,103
Actual return less interest income on pension scheme assets	**3,925**	(2,645)
Administration expenses charged in the income statement	**(110)**	(131)
Employer contributions	**120**	120
Benefits paid	**(2,096)**	(3,068)
Fair value of plan assets at the end of the period	**43,995**	41,036

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.

18 Retirement benefit pension schemes (continued)

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

	31 December 2019 £'000	31 December 2018 £'000
Present value of defined benefit funded obligation at the beginning of the period	**(39,680)**	(42,293)
Interest on defined benefit obligation	**(1,082)**	(1,019)
Past service cost – GMP equalisation	**–**	(432)
Actuarial gain/(loss) recognised in the CSOCTI* arising from:		
Demographic assumptions	**(63)**	198
Financial assumptions	**(3,514)**	1,210
Experience adjustments	**211**	(412)
Benefits paid	**2,096**	3,068
Present value of defined benefit funded obligation at the end of the period	**(42,032)**	(39,680)

* Consolidated Statement of Comprehensive Total Income.

The present value of the defined benefit obligation of £42,032,000 *(2018: £39,680,000)* comprised approximately 45% relating to deferred participants and 55% relating to pensioners *(2018: 47% deferred participants and 53% pensioners)*.

The expected average duration of the DB scheme's liabilities is around 14 years *(2018: 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 *(2018: £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 £0.6 million *(2018: £0.5 million)* and £0.5 million *(2018: £0.4 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.

Amounts recognised in the income statement	**31 December 2019 £'000**	31 December 2018 £'000
The amounts charged/(credited) in the income statement were:		
Administration expenses:		
Past service cost – GMP equalisation	**–**	432
Pension scheme administration expenses	**110**	131
Pension scheme costs charged within administration expenses	**110**	563
Interest income on pension scheme assets	**(1,120)**	(1,103)
Interest expense on pension scheme liabilities	**1,082**	1,019
Net pension scheme interest income on pension scheme surplus (note 6)	**(38)**	(84)
Net pension charge	**72**	479

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 was recognised in the previous 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 was recognised in the income statement as the ruling was considered to have created a new obligation which was not previously incorporated into the calculation of the liabilities. Any changes in the assumptions adopted last year will now be recognised in the consolidated statement of comprehensive total income as a remeasurement item.

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

	31 December 2019 £'000	31 December 2018 £'000
The amounts (credited)/charged in the CSOCTI* were:		
Actual return less interest income on pension scheme assets	**(3,925)**	2,645
Experience gains and losses arising on plan obligation	**(211)**	412
Changes in demographic and financial assumptions underlying the present value of plan obligations	**3,577**	(1,408)
Net actuarial (gain)/loss recognised in the CSOCTI*	**(559)**	1,649
Cumulative actuarial loss recognised in the CSOCTI*	**6,781**	7,340

* Consolidated Statement of Comprehensive Total Income.

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

	31 December 2019 £'000	31 December 2018 £'000
Interest income on pension scheme assets	**1,120**	1,103
Actuarial gain/(loss) recognised in the CSOCTI* representing the difference between expected and actual return on assets	**3,925**	(2,645)
Actual surplus/(deficit) on plan assets	**5,045**	(1,542)

* 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.

18 Retirement benefit pension schemes (continued)

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 4.6% *(2018: 3.8%)*. The current period charge in the income statement amounted to £462,000 *(2018: £382,000)*.

Overseas defined contribution pension scheme arrangements

Overseas companies make their own pension arrangements, the charge for the period being £241,000 *(2018: £248,000)*. No additional disclosure is given on the basis of materiality.

19 Stocks

	31 December 2019 £'000	31 December 2018 £'000
Raw material and consumables	**371**	268
Work in progress	**3**	36
Finished goods	**5,959**	4,779
	6,333	5,083

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 £9,542,000 *(2018: £10,017,000)* and, in addition, a further £2,407,000 of items held in stock at 31 December 2018 *(2018: £1,460,000 items in stock at 31 December 2017)* have been capitalised in the hire fleet this year. The net release in the income statement for net realisable value provisions was £109,000 *(2018: charge of £41,000)*.

20 Trade and other receivables

	31 December 2019 £'000	31 December 2018 £'000
Trade debtors:		
Current debtors not considered to be overdue	**9,284**	8,835
Overdue impaired debtors:		
Gross	**12,143**	11,317
Less allowance for doubtful debts and credit losses	**(2,549)**	(2,642)
Net overdue trade debtors	**9,594**	8,675
Net trade debtors	**18,878**	17,510
Amounts due from related parties	**83**	96
Lease prepayments – long leasehold land premiums	**–**	2
Prepayments and accrued income	**1,740**	1,769
Other debtors	**632**	617
	21,333	19,994

No collateral is held in respect of overdue trade debtors.

Current trade debtors not considered to be overdue 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 trade debtors not considered to be overdue as at 31 December 2019 was 36 days *(2018: 37 days)*. The expected credit loss arising on current debtors not considered to be overdue is considered to be immaterial.

The age profile of the trade debtors that are past due is as follows:

31 December 2019	**Gross carrying amount £'000**	**Lifetime expected credit loss £'000**	**Net carrying amount £'000**	**Expected credit loss rate %**
Not more than 3 months overdue	**6,774**	**(292)**	**6,482**	**4.3%**
More than 3 months and not more than 6 months overdue	**1,649**	**(219)**	**1,430**	**13.3%**
More than 6 months and not more than 12 months overdue	**1,448**	**(506)**	**942**	**34.9%**
More than 12 months overdue	**2,272**	**(1,532)**	**740**	**67.4%**
Overdue trade debtors	**12,143**	**(2,549)**	**9,594**	

31 December 2018	Gross carrying amount £'000	Lifetime expected credit loss £'000	Net carrying amount £'000	Expected credit loss rate %
Not more than 3 months overdue	6,144	(329)	5,815	5.4%
More than 3 months and not more than 6 months overdue	1,494	(348)	1,146	23.3%
More than 6 months and not more than 12 months overdue	1,285	(406)	879	31.6%
More than 12 months overdue	2,394	(1,559)	835	65.1%
Overdue trade debtors	11,317	(2,642)	8,675	

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 2019 £'000	31 December 2018 £'000
Balance at the beginning of the period	**2,642**	2,327
Foreign exchange difference	**(81)**	87
Net amounts written off during the period	**(547)**	(483)
Income statement charge	**535**	711
Balance at the end of the period	**2,549**	2,642

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 2019 £'000	31 December 2018 £'000
Cash at bank	**7,844**	6,851
Deposit accounts	**20,036**	21,011
	27,880	27,862

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 0.5% *(2018: 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 2019 £'000	31 December 2018 £'000
Trade creditors	**4,665**	4,030
Amounts due to related parties	**444**	421
Other tax and social security	**1,867**	1,748
Accruals and deferred income	**5,810**	6,151
Other creditors	**156**	539
	12,942	12,889

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 37 days *(2018: 40 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 2019 £'000	31 December 2018 £'000
UK corporation tax	**1,440**	1,858
Overseas tax (denominated in Euros)	**234**	436
	1,674	2,294

24 Bank loans

	31 December 2019 £'000	31 December 2018 £'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	**2,997**	3,490
Total	**3,983**	4,476
Disclosed:		
Within current liabilities (on demand or within one year)	**493**	493
Within non-current liabilities	**3,490**	3,983
Total	**3,983**	4,476
Total bank loans may be further analysed as follows:		
Gross bank loans	**4,000**	4,500
Unamortised costs of raising loan finance	**(17)**	(24)
Net carrying value of bank loans	**3,983**	4,476

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 took out a new five-year bank loan of £5 million. This loan was 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. The first three annual instalments have all been made in accordance with the agreement and the group is operating within the agreed bank covenants.

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 1.93% *(2018: 1.75%)*. Costs incurred raising the loan are being amortised over the loan period.

25 Obligations under finance leases and right-of-use lease obligations

Right-of-use lease obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2019 £'000	31 December 2018 £'000	31 December 2019 £'000	31 December 2018 £'000
Amounts payable under right-of-use lease obligations:				
Within one year	**2,696**	–	**2,279**	–
In the second to fifth years inclusive	**6,649**	–	**5,586**	–
After five years	**4,508**	–	**3,896**	–
	13,853	–	**11,761**	–
Less future finance charges	**(2,092)**	–		
Present value of lease obligations	**11,761**	–		
Disclosed:				
Within current liabilities (payable within one year)			**2,279**	–
Within non-current liabilities			**9,482**	–
Total			**11,761**	–

IFRS 16 introduced a single, on-balance-sheet leasing model for lessees. A lessee now recognises a right-of-use asset representing its right to use the underlying asset (see note 14) and a lease liability to make lease payments. The group adopted IFRS 16 on 1 January 2019 using the standard's modified retrospective approach. Under this approach the net present value of the future expected minimum capital repayments under the group's operating lease obligations were recognised on the balance sheet as a right-of-use asset (see note 14) and an obligation under right-of-use leases. The interest charge is charged to the income statement within finance costs (see note 7) and is calculated based on the incremental borrowing rate.

25 Obligations under finance leases and right-of-use lease obligations (continued)

The group took advantage of the exemption available not to capitalise short-term leases with a duration of 12 months or less and these leases continue to be treated as off-balance-sheet operating leases, see notes 8 and 31. In addition, any non-capital payments under operating leases, for example maintenance costs on vehicles, have not been capitalised and continue to be disclosed as lease obligations.

The group's obligations under these leases are secured over the right-of-use assets to which they relate, see note 14.

Finance leases

The finance lease obligation as at 31 December 2018 of £5,000 relates to the present value of minimum lease payments related to plant and machinery prior to the transition to IFRS 16.

26 Called-up share capital

	31 December 2019 £'000	31 December 2018 £'000
Issued and fully paid:		
42,174,359 ordinary shares of one pence each *(2018: 42,174,359 ordinary shares of one pence each)*	**422**	422

During the year the company did not purchase any ordinary shares of 1p each *(2018: 87,723 ordinary 1p shares)* for cancellation *(2018: consideration of £437,689)*.

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 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
Total comprehensive income for the period	**–**	**–**	**15,472**	**(905)**	**–**	**14,567**
Dividends paid	**–**	**–**	**(10,038)**	**–**	**–**	**(10,038)**
At 31 December 2019	**422**	**13**	**59,447**	**3,395**	**246**	**63,523**

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 2019 £'000**	31 December 2018 £'000
Capital redemption reserve	**158**	158
UAE legal reserve	**79**	79
Netherlands capital reserve	**9**	9
	246	246

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

Last year, 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. This year the company did not purchase any of its own shares and consequently there has been no movement in the capital redemption reserve. There were no 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 2019 £'000	12 months ended 31 December 2018 £'000
Profit for the period attributable to equity shareholders	**15,019**	17,046
Adjustments for:		
Taxation charge	**3,541**	3,999
Finance costs	**884**	97
Finance income	**(146)**	(461)
Profit on the sale of property, plant and equipment	**(520)**	(610)
Depreciation	**7,203**	6,666
Depreciation of right-of-use assets	**2,538**	–
Excess of normal pension contributions compared with administration expenses	**(10)**	443
Cash generated from operations before movements in working capital	**28,509**	27,180
Movement in stocks	**(3,834)**	(2,682)
Movement in trade and other receivables	**(1,818)**	(2,139)
Movement in trade and other payables	**60**	529
Cash generated from operations	**22,917**	22,888

29 Analysis of net funds and movement in financing liabilities

	31 December 2019 £'000	31 December 2018 £'000
Cash and cash equivalents per consolidated cash flow statement and note 21	**27,880**	27,862
Gross funds	**27,880**	27,862
Bank loans:		
At the beginning of the period	**(4,476)**	(4,968)
Loans repaid	**500**	500
Other non-cash changes	**(7)**	(8)
At the end of the period	**(3,983)**	(4,476)
Right-of-use lease obligations:		
Transitional adjustment at start of period	**(11,699)**	–
Capital repayments for right-of-use lease obligations	**2,291**	–
New right-of-use asset leases entered into during the period	**(2,593)**	–
Effect of foreign exchange rate changes on right-of-use leases	**240**	–
At the end of the period	**(11,761)**	–
Finance lease liabilities:		
At the beginning of the period	**(5)**	(50)
Leases repaid	**5**	45
At the end of the period	**–**	(5)
Gross debt	**(15,744)**	(4,481)
Net funds	**12,136**	23,381

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 2019 £'000	31 December 2018 £'000
Net funds per note 29	**12,136**	23,381
Equity attributable to equity holders of the parent company as per note 27	**63,523**	58,994
Net funds to equity percentage	**19.1%**	39.6%

Right-of-use lease obligations were brought onto the balance sheet as at 1 January 2019 as required by IFRS 16. As at 31 December 2019 these amounted to £11,761,000 and is the primary reason for the decrease in net funds of £11,245,000 during the year.

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 2019 £'000	31 December 2018 £'000
Financial assets		
Amortised cost (including cash and cash equivalents):		
Trade debtors and amounts due by related parties	**18,961**	17,606
Other debtors	**632**	617
Cash and cash equivalents	**27,880**	27,862
	47,473	46,085
Financial liabilities		
Amortised cost:		
Trade creditors and amounts due to related parties	**5,109**	4,451
Accruals and other creditors	**5,926**	6,690
Loans	**3,983**	4,476
Right-of-use lease obligations	**11,761**	–
Finance lease obligations	**–**	5
	26,779	15,622
	26,779	15,622

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 2019 *(2018: £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 £32,000 *(2018: £46,000)*; 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 2019 £'000	31 December 2018 £'000
Financial assets (excluding cash) denominated in:		
Euros	**7,403**	3,584
UAE Dirhams	**7,136**	6,625
Cash denominated in:		
Euros	**2,696**	4,206
UAE Dirhams	**945**	1,290
Liabilities denominated in:		
Euros	**6,550**	2,536
UAE Dirhams	**2,720**	2,361

A 10% increase in the Euro:Sterling exchange rate would reduce the consolidated operating profit by £800,000 *(2018: £1,000,000)*. 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 £300,000 *(2018: £220,000)*. 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 creditworthiness. Trade receivables are written off when there is considered to be little likelihood of recovery of the debt.

The group's lifetime expected credit loss percentage analysed by age category of debt is disclosed in note 20.

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 gross funds, which at 31 December 2019 amounted to £27,880,000 *(2018: £27,862,000)*, 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 £12,136,000, or £23,897,000 before the IFRS 16 adjustment *(2018: £23,381,000)*, 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 2019	**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**	**10,548**	**4,068**	**–**	**–**	**–**	**14,616**
Gross variable interest bank loans	**1.93%**	**–**	**503**	**3,648**	**–**	**(151)**	**4,000**
Right-of-use lease obligations	**4.49%**	**706**	**1,990**	**6,649**	**4,508**	**(2,092)**	**11,761**
Total		**11,254**	**6,561**	**10,297**	**4,508**	**(2,243)**	**30,377**

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

Notes to the Consolidated Financial Statements

For the 12 months ended 31 December 2019

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 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Amounts payable under operating leases:				
Within one year	**173**	1,287	**253**	1,599
In the second to fifth years inclusive	**–**	4,005	**304**	2,272
After five years	**–**	4,362	**–**	–
	173	9,654	**557**	3,871

Property lease payments represent rentals payable by the group for certain of its operating locations and offices the duration of which are for 12 months or less.

Plant, machinery and equipment leases represent short-term leases for motor vehicles, office and general equipment also with a duration of 12 months or less. In addition, any non-capital payments under operating leases, for example maintenance costs on vehicles, have not been capitalised and continue to be treated as off-balance-sheet operating leases and the commitments included within the table above.

Leases with a duration of over 12 months have been included within right-to-use assets in accordance with IFRS 16, see note 14. The adjustment has been applied from 1 January 2019 using the modified retrospective approach and comparatives have not been restated. The commitment as at 31 December 2018 and the amount capitalised as a right-of-use asset and lease liability on transition to IFRS 16 can be reconciled as follows:

	Property £'000	**Plant, machinery, vehicles and equipment £'000**	**Total £'000**
Operating lease commitment as at 31 December 2018	9,654	3,871	13,525
Effect of discounting using the incremental borrowing rate	**(2,032)**	**(164)**	**(2,196)**
Effect of different lease conditions under IFRS 16	**1,055**	**(685)**	**370**
ROU asset and lease liability recognised on transition (notes 14 and 30)	**8,677**	**3,022**	**11,699**

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 2019 £'000	31 December 2018 £'000
Sale of goods and services to associates within the London Security plc group	**4**	–
Sale of goods and services to Oasis Sykes	**–**	5
Purchase of goods and services from associates within the London Security plc group	**117**	112
Amount owed by the group to associates within the London Security plc group	**2**	2
Amounts owed to the group by Sweepax Pumps Limited	**–**	27
Amount owed by the group to Sweepax Pumps Limited	**–**	33
Sales of goods and services to companies connected with Khansaheb Sykes LLC	**89**	43
Amounts owed to the group by companies connected with Khansaheb Sykes LLC	**83**	69
Purchase of goods and services from associates connected with Khansaheb Sykes LLC	**918**	786
Amounts owed by the group to companies connected with Khansaheb Sykes LLC	**442**	386

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.

Notes to the Consolidated Financial Statements
For the 12 months ended 31 December 2019

33 Dividend payments
The directors declared and paid the following dividends during the 12-month periods ended 31 December 2019 and 31 December 2018:

	12 months ended 31 December 2019		12 months ended 31 December 2018	
	Pence per share	**Total dividend paid £'000**	Pence per share	Total dividend paid £'000
Final dividend for the 12 months ended 31 December 2018 paid to members on the register at 31 May 2019 on 21 June 2019	**11.90**	**5,019**	0.00	–
Interim dividend declared on 26 September 2019 and paid to shareholders on the register at 11 October 2019 on 8 November 2019	**11.90**	**5,019**	0.00	–
Final dividend for the 12 months ended 31 December 2017 paid to members on the register at 1 June 2018 on 25 June 2018	**–**	**–**	11.90	5,029
Interim dividend declared on 27 September 2018 and paid to shareholders on the register at 12 October 2018 on 9 November 2018	**–**	**–**	11.90	5,019
	23.80	**10,038**	23.80	10,048

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 10.50 pence *(2018: 11.90 pence)* per ordinary share. If approved at the forthcoming Annual General Meeting, this dividend, which in total amounts to £4,428,000 *(2018: £5,019,000)*, will be paid on 19 June 2020 to shareholders on the register at 29 May 2020.

34 Ultimate parent company
As at 11 May 2020, 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.

35 Non-adjusting post balance sheet event
The Coronavirus pandemic, which began in early 2020, has had a significant impact on the economy and businesses across the world in recent months. Management's assessment of the impact of the pandemic on the group is considered in the going concern accounting policy notes.

Company Balance Sheet
As at 31 December 2019

	Note	31 December 2019		31 December 2018	
		£'000	**£'000**	£'000	£'000
Fixed assets					
Investments	3		**32,131**		32,115
Current assets					
Debtors	4	**34,761**		29,510	
Cash at bank and in hand	5	**18**		22	
		34,779		29,532	
Creditors: Amounts falling due within one year	6	**(7,943)**		(8,206)	
Net current assets			**26,836**		21,326
Total assets less current liabilities			**58,967**		53,441
Creditors: Amounts falling due after more than one year	6		**(3,490)**		(3,983)
Net assets			**55,477**		49,458
Capital and reserves					
Called-up share capital	8		**422**		422
Share premium	10		**13**		13
Profit and loss account	10		**52,673**		46,654
Capital redemption reserve	10		**158**		158
Other reserve	10		**2,211**		2,211
Shareholders' funds	11		**55,477**		49,458

The profit for the financial period dealt with in the profit and loss account of the company was £16,057,000 *(2018: £15,740,000).*

These financial statements of Andrews Sykes Group plc, company number 00175912, were approved and authorised for issue by the Board of directors on 11 May 2020 and were signed on its behalf by:

JJ Murray
Vice-Chairman

Company Statement of Changes in Equity

For the 12 months ended 31 December 2019

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
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
Profit for the financial period	**–**	**–**	**16,057**	**–**	**16,057**
Transactions with owners recorded directly in equity:					
Dividends paid	**–**	**–**	**(10,038)**	**–**	**(10,038)**
Total transactions with owners	**–**	**–**	**(10,038)**	**–**	**(10,038)**
At 31 December 2019	**422**	**13**	**52,673**	**2,369**	**55,477**

Notes to the Company Financial Statements
For the 12 months ended 31 December 2019

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 note 1 of the group accounting policies.

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.

Notes to the Company Financial Statements

For the 12 months ended 31 December 2019

1 Significant accounting policies (continued)

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 2018 or 2019 paid directly by Andrews Sykes Group plc.

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	8,633
Release for the period	**(16)**
At the end of the period	**8,617**
Net book value	
At 31 December 2019	**32,131**
At 31 December 2018	32,115

The company's subsidiary undertakings (* denotes directly owned by Andrews Sykes Group plc) as at 31 December 2019 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* (non-trading)
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 with a registered address of St David's Court, Union Street, Wolverhampton, WV1 3JE. Their principal activity is the hire, sales, service and/or installation of specialist environmental control products mainly in the country of incorporation.

The registered office address of Andrews Industrial Equipment (Scotland) Limited and Heat for Hire (Scotland) Limited is West Mains Industrial Estate, Grangemouth, Stirlingshire, Scotland, FK3 8YE.

The registered office address of AS Holding B.V. and Andrews Sykes B.V. is Marconistraat 32, Bleiswijk 2665 JE, The Netherlands.

3 Fixed asset investments (continued)

The registered office address of Khansaheb Sykes LLC is P.O. Box 1848, Industrial Area 10, Geeco Signal, Sharjah 1848, United Arab Emirates.

The registered office address of Andrews Sykes BVBA is Industrialaan 35, Groot Bijgaarden, Dilbeek 1702, Belgium.

The registered office address of Nolo Climat S.R.L. is 27 Via Giulini, Parabiago 20015, Italy.

The registered office address of Andrews Sykes Climat Location SAS is 2 Rue des Meuniers, ZI du Moulin de Lamblin, Hallennes Lez Haubourdin 59320, France.

The registered office address of Andrews Sykes Climat Location SA is 122 Rue de Geneve, Neuvecelle, Thonex 1226, Switzerland.

The registered office address of Andrews Sykes Luxembourg SARL is 18 Route de Capellen, Holzem 8279, Luxembourg.

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 2019 £'000	31 December 2018 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	**33,646**	27,902
Corporation tax and group relief	**948**	1,434
Other debtors	**125**	125
Deferred tax	**38**	43
Prepayments and accrued income	**4**	6
	34,761	29,510

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
Profit and loss account charge	**(5)**
Asset at the end of the period at 19%	**38**

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 2019 £'000	31 December 2018 £'000
Cash at bank and in hand	**18**	22

6 Creditors

	31 December 2019 £'000	31 December 2018 £'000
Amounts falling due within one year:		
Bank loans and overdrafts	**493**	493
Amounts owed to group undertakings	**7,183**	7,439
Accruals and deferred income	**267**	274
	7,943	8,206

	31 December 2019 £'000	31 December 2018 £'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	**2,997**	3,490
	3,490	3,983

Total bank loans may be further analysed as follows:		
Gross bank loans	**4,000**	4,500
Unamortised costs of raising loan finance	**(17)**	(24)
Net carrying value of bank loans	**3,983**	4,476

Total company bank loans and overdrafts of £4,000,000 *(2018: £4,500,000)* 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 2019 or 31 December 2018.

Notes to the Company Financial Statements

For the 12 months ended 31 December 2019

8 Called-up share capital

	31 December 2019 £'000	31 December 2018 £'000
Issued and fully paid:		
42,174,359 ordinary shares of one pence each *(2018: 42,174,359 ordinary shares of one pence each)*	**422**	422

During the year the company did not purchase any ordinary shares of 1p each *(2018: 87,723 ordinary 1p shares)* for cancellation *(2018: consideration of £437,689)*.

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 2019 or 31 December 2018.

10 Reserves

	Share premium £'000	**Profit and loss account £'000**	**Capital redemption reserve £'000**	**Other reserve £'000**	**Total £'000**
At the beginning of the period	13	46,654	158	2,211	49,036
Profit for the period	–	**16,057**	–	–	**16,057**
Dividends declared and paid	–	**(10,038)**	–	–	**(10,038)**
At the end of the period	**13**	**52,673**	**158**	**2,211**	**55,055**

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 2019 £'000	12 months ended 31 December 2018 £'000
Profit for the financial period	**16,057**	15,740
Consideration for the purchase of own shares	**–**	(438)
Dividends declared and paid	**(10,038)**	(10,048)
Net increase in shareholders' funds	**6,019**	5,254
Shareholders' funds at the beginning of the period	**49,458**	44,204
Shareholders' funds at the end of the period	**55,477**	49,458

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 2019 £'000	31 December 2018 £'000
Purchase of goods and services from associates within the London Security plc group	**86**	83
Dividend received from Sweepax Pumps Limited	**–**	10
Amount owed to the company by Sweepax Pumps Limited	**27**	27

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 11 May 2020, 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.

14 Non-adjusting post balance sheet event

The Coronavirus pandemic, which began in early 2020, has had a significant impact on the economy and businesses across the world in recent months. Management's assessment of the impact of the pandemic on the group as a whole is considered in the group's going concern accounting policy notes.

Five Year History

	12 months ended 31 December 2019 £'000	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
Revenue	**77,246**	78,563	71,300	65,389	60,058
Operating profit from continuing activities*					
Trading profit before exceptional items	**19,298**	20,681	17,589	15,816	13,208
Profit on the disposal of property	**–**	–	–	–	–
	19,298	20,681	17,589	15,816	13,208
Interest charge on right-of-use leases	**(526)**	–	–	–	–
Inter-company foreign exchange (losses)/gains	**(270)**	336	(293)	1,567	43
Net interest credit/(charge) excluding inter-company foreign exchange and right-of-use interest charge	**58**	28	(11)	158	116
Profit before taxation	**18,560**	21,045	17,285	17,541	13,367
Taxation	**(3,541)**	(3,999)	(3,184)	(3,068)	(2,567)
Profit for the financial period	**15,019**	17,046	14,101	14,473	10,800
Dividends per share paid in the year	**23.80p**	23.80p	23.80p	23.80p	23.80p
Dividends paid during the year	**10,038**	10,048	10,058	10,058	10,058
Basic earnings per share from continuing operations	**35.61p**	40.39p	33.37p	34.25p	25.55p
Proposed ordinary final dividend per share	**10.50p**	11.90p	11.90p	11.90p	11.90p

* Defined at the end of each reporting period.

Consultancy, design and production by:
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