

Company Information

PIPEHAWK Plc

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

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COMPANIES HOUSE

“positive outlook for all divisions”

“strong order book; strong team”

“strategic acquisition through synergies in business models”

I can report that turnover for the year ended 30 June 2018 was £4.8 million (2017: £5.7 million), a decrease of 15.8%. The Group made an operating loss in the year of £408,000 (2017: £16,000 loss) and incurred a loss before taxation for the year of £502,000 (2017: loss £193,000) and a loss after taxation of £151,000 (2017: profit £179,000). The loss per share was 0.45p (2017: profit per share 0.54p).

As I mentioned in my Interim Statement we had a most peculiar start to the year, the level of enquiries and indications that we would be awarded orders had never been higher, however the orders, whilst not going away, simply were not received until late in the financial year with consequent underutilisation of staff – and hence profitability. Nevertheless, as described below, since the third quarter the orders have flowed in and we are now extremely busy.

Despite these setbacks we acquired Thomson Engineering Design Limited during the year and, after a very slow start which exacerbated our group losses, it is now profitable and contributing to the Group.

QM Systems

As highlighted above the first half of the 2017/18 financial year witnessed difficult trading conditions with a lower than expected order intake. It is difficult to know what led to this however what appears to be clear is that a number of key expected projects were delayed. Quotation activity throughout the year remained buoyant and from January 2018 through until the end of the financial year order intake returned to the expected level. The retardation of orders received during the first half of the financial year resulted in our software and manufacturing teams being under occupied. It was important however to retain staffing levels given the continued imminence of orders being placed. Order intake post year end also continues to be buoyant and is worthy of note to mention the additional order received from Cox Powertrain for approximately £1.2 million in early July bringing the total order received from Cox since April 2018 to approximately £1.7 million.

In early 2018 we took the opportunity to restructure our mechanical engineering team. This initially resulted in a reduction in personnel to re-align key skills with current client requirements and this in turn created a temporary reduction in our ability to bring through new work quickly enough to have a material impact on recovery to a profitable position during the 2017/18 financial year. Our focus remains on ensuring that we have the right skill availability for the 2018/19 financial year. Here I am pleased to report that during the last four months we have recruited six Mechanical Design Engineers and five Software Engineers into our business. This provides us with a very significant increase in our ability to carry out the new projects won and with our overhead remaining stable this has enabled us to accelerate client projects and return to profitability. This combined with our significant increase in order book and large portfolio of potential orders enables us to enter our new financial year with considerable confidence.

During the 2017/18 financial year QM Systems undertook some very interesting projects, including the development of a machine that provides high accuracy inspection of aerospace components by combining robotics, high end vision inspection and laser scanning. The first system is very near completion and based on market feedback it is fully expected that a number of these systems will be sold over the next few years. QM Systems has also developed a test interface system with a key client for the petrochemical industry. This exciting development has led the client to select QM Systems to be its partner for the production of the final units and it is anticipated that 200-400 units could be required over the next 2-3 years.

During the period QM Systems has worked hard to build a strong order book including potential repeat sales together with a strong team to lead this dynamic business forward and I am very confident that we will witness a much improved 2018/19 financial year.

Thomson Engineering Design (“TED”)

Following the acquisition of TED at the end of November 2017 our focus has been to

develop new sales opportunities within TED. TED's existing business model is to provide expertise and innovation in providing trackside manipulation and handling equipment suitable for handling, laying and maintaining track, sleepers, track panels and electrification masts and supporting structures. TED has an excellent reputation within the industry, however its current model has predominantly focused on the UK markets in this very niche sector.

Sales during the final part of the 2017/18 financial year have largely been based on quotation activity prior to acquisition and clearly this has limited the sales that could be achieved in the closing part of the financial year. During the time since acquisition the TED team have been integrated into the QM Systems family of divisions forming a core and central part of the QM Rail Systems division. This enables the group to provide a much greater level of engineering support into TED greatly enhancing the engineering capability. Since acquisition, the services that can be offered by TED have been widened both within the rail sector, where combined with QM Systems' capability far more automated systems can be provided and also by taking TED's key skills to opportunities that exist outside of the rail sector for similar equipment. The TED team are experts in providing light and heavy duty handling and manipulation systems and with the support of QM Systems' wide and diverse client network we are able to open many opportunities that previously were not accessible to TED. As a result TED's quotation activity has more than doubled compared with the six months prior to our acquisition and this is translating into sales such that TED is having to recruit more staff. In addition to this we have started to establish a wider distribution network to aid distribution of TED products and services into Europe and worldwide. We are beginning to see a marked increase in quotation activity with Europe and also evidence that TED's capability is being recognised worldwide.

Technology Division

During the 2017/18 financial year PipeHawk has not made the progress in sales development anticipated. This is

predominantly due to one of our key UK distributors ceasing trading. This has resulted in a temporary lower than anticipated domestic sales output as we work to re-establish sales channels. Following an increased presence at a number of trade shows and continued press coverage we are identifying new and exciting lines of enquiry for the e-Safe and e-Spade lite family of products. Many of these new opportunities are yet to materialise into real sales. However interest in the products has gained momentum. Since July we have seen the UK sales start to increase and take encouragement in the decision by Skanska, MWH Global and Balfour Beatty Joint Venture to evaluate e-Safe as part of their involvement in eight20, the largest water sector alliance in the UK. In addition to this we continue to see growth in support services, for example servicing and spares. Here we have developed a solution that enables our premier overseas distribution partners to service their in market client products. This is beginning to establish a regular income through added value for both our partners and us whilst providing the most efficient and environmentally friendly solution to sustainable product and support roll out. International sales have continued to grow with the Japanese market particularly worthy of note.

Our e-Safe PRO model, released in July 2017, has been well received. We have continued to develop our products with the addition of operator interface refinements and GPS log recording. In addition to increasing client appeal we have focused on cost reduction activity which has increased return per unit.

We continue to explore grant funding opportunities with refinement of our H2020 application together with exploring other more UK centric funding opportunities. Funding is required to realise a true global expansion of this exciting range of products.

Adien

Adien has improved further this year and marginally increased both the turnover and profit for the year.

This situation would have been further improved had Adien not suffered significant loss in both revenue and profit due to the failure of Carillion.

The first quarter of the new financial year has been very busy with our teams working to the full capacity available in the programme of works, the level of activity within the power supply and distribution industries continues at a significant level. Airports, highways and major infrastructure are all very active with only the rail sector being somewhat quiet at the moment, the MOD/DIO framework has started to increase the number of project start ups.

The levels of activity in Scotland continue to increase within the main sectors of power, infrastructure and civil works.

Adien has a significant order book going forward, with the prospect of some significant contract awards due over the next three to four months within our existing frameworks for our key clients.

SUMO

At the Annual General Meeting shareholders approved the sale to me of PipeHawk's minority interest in Sumo and this realised a profit for the Group over net book value of £142,000. In the period under review, on 13 October 2017 I paid the £197,000 cash consideration payable on my purchase of the minority interest in SUMO and therefore provided working capital support to the Company until completion occurred following shareholder approval at the Annual General Meeting on 12 December 2017. Since the year end, at the request of SUMO management, I sold some of those Sumo shares and remitted 50% of the profit thereon (£17,107) to PipeHawk, in accordance with the terms of the sale to me.

Financial position

The loss sustained during the year means that the group continues to be in a net liability position and reliant on my continuing financial support.

My letter of support dated 30 October 2017 was renewed on 24 October 2018 for a further year. Loans, other than those

Chairman's Statement

covered by the CULS agreement, are unsecured and accrue interest at an annual rate of Bank of England base rate plus 2.15%.

The CULS agreement for £1 million, provided by myself, was due to expire and be repaid on 13 August 2018. In agreement with the independent directors this has been extended for a further four years, on identical terms and is now repayable on 13 August 2022.

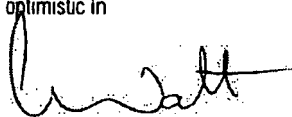
In addition to the loans I have provided to the Company in previous years, I have deferred a certain proportion of fees and the interest due until the Company is in a suitably strong position to make the full payments.

Further fees and interest, amounting to £71,000 were deferred in the year ended 30 June 2018. At 30 June 2018, these deferred fees and interest amounted to approximately £1.6 million in total, all of which have been recognised as a liability in the Company's accounts.

Strategy & Outlook

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

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



Gordon Watt
Chairman
16 November 2018

Financial results

Turnover for the year ended 30 June 2018 was £4.8 million (2017: £5.7 million). The Group incurred a loss after taxation for the year of £151,000 (2017: profit £179,000). The loss per share was 0.45p (2017: profit per share 0.54p). A detailed review of business as well as future developments is included in the Chairman's statement.

Key performance indicators

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

Principal risks and uncertainties

The principal risks and uncertainties facing the business are;

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

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

Current trading

Current trading is satisfactory and in line with the directors' expectations. The Strategic Report was approved by the Board on 16 November 2018 and signed on its behalf by:



Soumitra P Padmanathan
Finance Director

Report of the Directors

The directors present the annual report on the affairs of the Group together with the financial statements for the year ended 30 June 2018

Principal activities and review of business

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

Future developments

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

Results and dividends

The results for the Group for the year are set out in the consolidated statement of comprehensive income on page 15. The directors do not recommend the payment of a dividend for the year (2017: nil).

Subsequent events

See note 23 for details of the subsequent events.

Directors

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

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

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

	16 November 2018		30 June 2018		30 June 2017	
	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital	Ordinary Shares of 1p	% of issued share capital
G G Watt	5,721,500	16.8%	5,721,500	17.3%	5,721,500	17.3%
R MacDonnell	931,436	2.7%	931,436	3.1%	931,436	3.1%
S P Padmanathan	-	-	-	-	-	-

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

Substantial share interests

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

	Ordinary Shares of 1p	% of issued share capital
S Hamilton	4,583,334	13.5%
P Lobbenberg	3,100,000	9.1%
R J Chignell	2,204,200	6.5%
J T Twigg	1,054,830	3.1%
N G Wood	1,054,830	3.1%

Research and development

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

Auditor and disclosure of information to auditor

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

- (a) so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (b) each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditor in connection with preparing their report and to establish that the company's auditor is aware of that information.

Auditor

On 25 June 2018 Crowe Clark Whitehill LLP changed its name to Crowe U.K. LLP.

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

Financial instruments

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

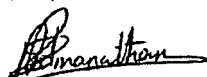
Going concern

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

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

Approval

The report of the directors was approved by the Board on 16 November 2018 and signed on its behalf by:



Soumitra P Padmanathan
Director

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

Strategy and Business Model

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

Directors

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

Executive directors' normal retirement age is 70 and non-executive directors' normal retirement age is 75. Both are executive and non-executive directors subject to periodic reappointment by shareholders. The requirements of the Company's articles result in each director being reappointed every three years. The time commitment required from each Director varies in line with the operations of the business.

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

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

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

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

The ability of individual members and the board as a whole to deliver the Company strategy is reviewed annually in an exercise undertaken by the Chairman. Due to the Company's size and nature, the Board does not consider it necessary to establish a formal board evaluation process, but Board composition will be reviewed and refreshed again in 2019. The Chairman and Board members can call on external advisers as the need arises.

Internal controls

The directors have overall responsibility for ensuring that the Group maintains a system of internal control, and for reviewing its effectiveness, to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which are designed to manage rather than eliminate risk and can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has undertaken an assessment of the major risk areas for the business and methods used to monitor and control them. In addition to financial risk, this covered operational, commercial, marketing and research and development risks. This risk review has become an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, with regular review by the Board.

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

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

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

Identification of business risk

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

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

Remuneration

Basic salaries are set having regard to each director's responsibilities and pay levels for comparable positions. In framing its remuneration policy, the committee aims to attract and retain directors to run the Company successfully without making excessive payments.

Details of individual directors' share options are included in the notes to the financial statements and details of their remuneration including long term incentive schemes are included in note 6 to the audited financial statements. The notice period in all the directors' service contracts is one year.

Shareholder relationships

The Board attaches a high priority to communications with shareholders. Presentations are made to shareholders, institutions and analysts once a year to coincide with the announcement of the final results. Additional dialogue with institutional shareholders is entered into as necessary.

The Company's next annual general meeting is to be held on 13 December 2018. The resolutions to be proposed at the annual general meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting on page 45. All shareholders are invited to attend the AGM. Following the AGM, the Company usually gives a short presentation on each aspect of the Group, and time is set aside to allow for questions from attending shareholders to any Board member.

Other information about the Company is available on the Company's website. The Company's details are displayed on its website allowing shareholders to contact the Company if they so wish. As the Company is small, it does not have a dedicated investor relations department and so the Chairman, Gordon Watt, is responsible for reviewing and dealing with all communications received from members.

Corporate Culture

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

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

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

Directors' Biographies

Gordon Watt BA, FCA, FRSA

Chairman (65)

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

Soumitra P. Padmanathan BSc, FCA, CTA

Finance Director (54)

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

R Randal MacDonnell

Non-executive Director (78)

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

Statement of Directors' Responsibilities for the Annual Report

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

The maintenance and integrity of the PipeHawk plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

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

Independent Auditor's Report to the Shareholders of PipeHawk plc

Opinion

We have audited the financial statements of Pipehawk Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2018, which comprise:

- the Group statement of comprehensive income for the year ended 30 June 2018;
- the Group and Parent Company statements of financial position as at 30 June 2018;
- the Group and Parent Company statements of cash flows and statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2018 and of the Group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

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

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £40,000, based on 8% of the Group's loss before tax.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £2,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The Group and its subsidiaries are accounted for from one central operating location, the group's registered office. Our audit was conducted from the main operating location and all group companies were within the scope of our audit testing.

Independent Auditor's Report to the Shareholders of PipeHawk plc

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Key audit matter

Group – carrying value of goodwill

Parent company – carrying value of investments in subsidiaries

The financial statements of Pipehawk Plc include goodwill of £1.2 million arising on the acquisition of Adien Limited, QM Systems Limited and Thomson Engineering Design Limited. As required by IAS 38, goodwill is subject to an annual impairment review and the recoverable amount of goodwill is measured in accordance with IAS 36. There is a risk that the carrying value of goodwill in the Group financial statements and of investments in subsidiaries in the Parent Company financial statements are impaired.

Revenue recognition

The Group recognises revenue over the period of contracts. Revenue from contracts is material.

The Group uses the percentage of completion method to determine the appropriate amount of revenue to recognise in the period. A number of judgements are made by management in making its assessment of estimated costs and profitability. There is a risk that revenue may be inappropriately recognised.

How the scope of our audit addressed the key audit matter

We evaluated the appropriateness of managements' identification of cash generating units. We benchmarked and challenged key assumptions in management's valuation models used to determine recoverable amount and discount rates, performed testing of the mathematical accuracy of the cash flow models and challenged and agreeing key assumptions to available data.

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

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

We challenged management on the contract budgeting process by analysing historical contract performance compared to actual outcome.

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

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Shareholders of PipeHawk plc

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Bullock

Senior Statutory Auditor

for and on behalf of

Crowe U.K. LLP

Chartered Accountants, Statutory Auditor

St Bride's House

10 Salisbury Square

London

EC4Y 8EH

United Kingdom

Date: 16 November 2018

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	30 June 2018 £'000	30 June 2017 £'000
Revenue	2	4,789	5,702
Staff costs	5	(2,703)	(2,876)
Operating costs		(2,494)	(2,842)
Operating loss		(408)	(16)
Share of post-tax profits of equity accounted joint venture	11	-	1
Sale of Shares in joint venture	11	142	-
Loss before interest and taxation		(266)	(15)
Finance costs	3	(236)	(178)
Loss before taxation		(502)	(193)
Taxation	7	351	372
(Loss)/Profit for the year attributable to equity holders of the parent		(151)	179
Other comprehensive income		-	-
Total comprehensive (loss)/profit for the year attributable to equity holders of the parent		(151)	179
(Loss)/Profit per share (pence) – basic	8	(0.45)	0.54
(Loss)/Profit per share (pence) – diluted	8	(0.45)	0.47

The notes on pages 21 to 44 form an integral part of these financial statements

Consolidated Statement of Financial Position

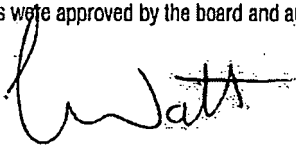
at 30 June 2018

Assets	Note	30 June 2018 £'000	30 June 2017 £'000
Non-current assets			
Property, plant and equipment	9	481	145
Goodwill	10	1,190	1,061
Investment in joint venture	11	-	54
		<u>1,671</u>	<u>1,260</u>
Current assets			
Inventories	13	178	156
Current tax assets		372	253
Trade and other receivables	14	1,175	745
Cash and cash equivalents		19	72
		<u>1,744</u>	<u>1,226</u>
Total assets		<u>3,415</u>	<u>2,486</u>
Equity and liabilities			
Equity			
Share capital	19	340	330
Share premium		5,191	5,151
Retained earnings		(9,208)	(9,057)
		<u>(3,677)</u>	<u>(3,576)</u>
Non-current liabilities			
Borrowings	15	2,966	2,266
Trade and other payables	16	8	-
		<u>2,974</u>	<u>2,266</u>
Current liabilities			
Trade and other payables	16	1,972	1,609
Borrowings	17	2,146	2,187
		<u>4,118</u>	<u>3,796</u>
Total equity and liabilities		<u>3,415</u>	<u>2,486</u>

The notes on pages 21 to 44 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 16 November 2018 and signed on its behalf by:

Gordon G Watt
Director



Company No: 3995041

Parent Company Statement of Financial Position

at 30 June 2018

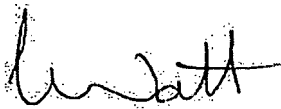
Assets	Note	30 June 2018 £'000	30 June 2017 £'000
Non-current assets			
Investment in subsidiaries	12	1,197	1,197
Investment in joint venture	11	-	198
		<u>1,197</u>	<u>1,395</u>
Current assets			
Inventories	13	92	148
Current tax assets		86	100
Trade and other receivables	14	541	363
Cash and cash equivalents		-	-
		<u>719</u>	<u>611</u>
Total assets		<u>1,916</u>	<u>2,006</u>
Equity and liabilities			
Equity			
Share capital	19	340	330
Share premium		5,191	5,151
Retained earnings		(9,349)	(9,223)
		<u>(3,818)</u>	<u>(3,742)</u>
Non-current liabilities			
Borrowings	15	2,537	2,225
Trade and other payables	16	1,439	1,583
		<u>3,976</u>	<u>3,808</u>
Current liabilities			
Borrowings	15	1,658	1,725
Trade and other payables	16	100	215
		<u>1,758</u>	<u>1,940</u>
Total equity and liabilities		<u>1,916</u>	<u>2,006</u>

Equity includes loss for the year of the parent company of £126,000 (2017: £78,000).

The notes on pages 21 to 44 form an integral part of these financial statements.

The financial statements were approved by the board and authorised for issue on 16 November 2018 and signed on its behalf by:

Gordon G Watt
Director



Company No: 3995041

Consolidated Statement of Cash Flow

For the year ended 30 June 2018

	30 June 2018 £'000	30 June 2017 £'000
Cash flows from operating activities		
Loss from operations	(408)	(16)
Adjustments for:		
Depreciation	106	100
	(302)	84
Decrease/(increase) in inventories	10	(51)
(Increase)/decrease in receivables	(196)	478
Increase/(decrease) in liabilities	143	(577)
Cash used in operations	(345)	(66)
Interest paid	(87)	(2)
Corporation tax received	232	299
Net cash (used in)/generated from operating activities	(200)	231
Cash flows from investing activities		
Proceeds from sale of joint venture	197	-
Acquisition of subsidiary net of cash acquired	11	-
Purchase of plant and equipment	(17)	(18)
Net cash used in investing activities	191	(18)
Cash flows from financing activities		
Proceeds from borrowings	-	97
Repayment of loan	(10)	(210)
Repayment of finance leases	(34)	(52)
Net cash generated used in financing activities	(44)	(165)
Net (decrease)/increase in cash and cash equivalents	(53)	48
Cash and cash equivalents at beginning of year	72	24
Cash and cash equivalents at end of year	19	72

The notes on pages 21 to 44 form an integral part of these financial statements.

Parent Company Statement of Cash Flow

For the year ended 30 June 2018

	30 June 2018 £'000	30 June 2017 £'000
Cash flows from operating activities		
Loss from operations	(101)	(83)
Decrease/(increase) in inventories	56	(51)
Increase in receivables	(178)	(47)
(Decrease)/increase in liabilities	(88)	62
Cash used in operations	(311)	(119)
Corporation tax received	127	119
Net cash used in operating activities	(184)	-
Proceeds from sale of joint venture	197	-
Cash flow from investing activities	197	-
Proceeds from borrowing	-	25
Repayment of loan	(13)	(25)
Net cash used in financing activities	(13)	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The notes on pages 21 to 44 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2018

Consolidated

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2016	330	5,151	(9,236)	(3,755)
Profit for the year	-	-	179	179
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	179	179
As at 30 June 2017	330	5,151	(9,057)	(3,576)
Loss for the year	-	-	(151)	(151)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(151)	(151)
Issue of shares	10	40	-	50
As at 30 June 2018	340	5,191	(9,208)	(3,677)

Parent

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
As at 1 July 2016	330	5,151	(9,145)	(3,664)
Loss for the year	-	-	(78)	(78)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(78)	(78)
As at 30 June 2017	330	5,151	(9,223)	(3,742)
Loss for the year	-	-	(126)	(126)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	-	(126)	(126)
Issue of shares	10	40	-	50
As at 30 June 2018	340	5,191	(9,349)	(3,818)

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

The notes on pages 21 to 44 form an integral part of these financial statements.

1. Summary of Significant Accounting Policies

General information

PipeHawk plc (the Company) is a limited company incorporated in the United Kingdom under the Companies Act 2006. The principal addresses of its registered office and principal place of business are disclosed in the company information on page 1. The principal activities of the Company and its subsidiaries (the Group) are described on page 36.

The financial statements are presented in pounds sterling, the functional currency of all companies in the Group, in accordance with section 408 of the Companies Act 2006 a separate statement of comprehensive income for the Company has not been presented. For the year to 30 June 2018 the Company recorded a net loss after taxation of £112,000 (2017: £78,000).

Basis of preparation

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

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

The directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact the measurement of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures.

IFRS 15, Revenue from Contracts with Customers, has been adopted from 1 January 2018. Management has undertaken a process of reviewing contracts within each revenue stream, having regard to the requirements of IFRS 15. At this stage management do not consider the impact of IFRS 15 to have a material impact on the financial statements because in general contracts with customers have one performance obligation, the delivery of the system solution or mapping drawings and the company has a right to payment for performance completed to date. On this basis revenue is recognised over time in line with the current revenue recognition policy.

In addition the directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 16 "Leases". This is expected to apply to periods commencing on or after 1 January 2019, management's assessment will be made over the next year and reported in future financial information. Under the new standard the substantial majority of the Groups operating lease commitments would be brought onto the balance sheet and depreciated separately. There will be no impact on cashflows although the presentation of the cash flow statement will change significantly. As set out in note 20 the future aggregate minimum lease payments of the Groups operating leases were £51,000 at 30 June 2018 on an undiscounted basis.

Basis of preparation – Going concern

The directors have reviewed the Group's funding requirements for the next twelve months which show positive anticipated cash flow generation, prior to any repayment of loans advanced by the Executive Chairman. The directors have furthermore obtained a renewed pledge from G6 Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements. However a material uncertainty exists regarding the ability of the Group to remain a going concern without the continuing financial support of the Executive Chairman.

Basis of consolidation

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

Business combinations

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

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

Goodwill

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

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

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

Investments in joint ventures

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

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For PipeHawk products this is generally at the point of delivery.

Rendering of services

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The principal annual rates used to depreciate property, plant and equipment are:

Equipment, fixtures and fittings	25%
Motor vehicles	25%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the Statement of Comprehensive Income.

Inventories and work in progress

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

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

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Notes to the Financial Statements

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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

Financial liabilities

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

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

Derecognition of financial liabilities

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

1. Summary of Significant Accounting Policies (continued)**Finance leases**

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

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

Operating leases

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

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

Pension scheme contributions

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

Share based payments

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

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

Foreign currencies

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

Taxation

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

Current tax

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

Deferred tax

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

Notes to the Financial Statements

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

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

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

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

Current and deferred tax for the year

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

Impairment of property, plant and equipment

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

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

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

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

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

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

Impairment of goodwill

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

1. Summary of Significant Accounting Policies (continued)

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

The carrying amount of goodwill at the year-end date was £1,190,000 (2017: £1,061,000). The investment in subsidiaries at the year-end was £nil (2017: £1,197,000).

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

Impairment investment in subsidiaries and inter-company receivables

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

2. Segmental analysis

	2018 £'000	2017 £'000
Turnover by geographical market		
United Kingdom	4,787	5,671
Europe	-	28
Other	2	3
	<u>4,789</u>	<u>5,702</u>

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

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

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

In utility detection and mapping services one customer accounted for 5% of revenue in 2018 and 10% in 2017. In development, assembly and sale of GPR equipment two customers accounted for 54% of revenue in 2018 and one customer for 23% in 2017. In automation and test system solutions one customer accounted for 16% of revenue and 23% in 2017.

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

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For the year ended 30 June 2018

2. Segmental analysis (continued)

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2018				
Total segmental revenue	1,534	173	3,082	4,789
Operating profit/loss	52	(102)	(358)	(408)
Finance costs	(28)	(149)	(59)	(236)
Profit/loss before taxation	24	(109)	(417)	(502)
Segment assets	596	1,375	1,444	3,415
Segment liabilities	615	4,308	2,169	7,092
Non-current asset additions	91	-	457	548
Depreciation and amortisation	63	-	43	106
Year ended 30 June 2017				
Total segmental revenue	1,364	288	4,050	5,702
Operating profit	25	(83)	42	(16)
Finance costs	(9)	(132)	(37)	(178)
Loss before taxation	16	(215)	5	(193)
Segment assets	498	1,381	607	2,486
Segment liabilities	418	5,404	240	6,062
Non-current asset additions	12	0	6	18
Depreciation and amortisation	66	0	34	100

The majority of the Group's revenue is earned via the rendering of services.

Notes to the Financial Statements

For the year ended 30 June 2018

3. Finance costs

	2018 £'000	2017 £'000
Interest payable	224	178
	<u>224</u>	<u>178</u>
Interest payable comprises interest on:		
Finance leases	8	9
Directors' loans	138	132
Other	90	37
	<u>236</u>	<u>178</u>

4. Operating loss for the year

This is arrived at after charging for the Group:

	2018 £'000	2017 £'000
Research and development costs not capitalised	1,049	1,232
Depreciation of wholly owned property, plant and equipment	51	62
Depreciation of property, plant and equipment held under finance leases	55	38
Auditor's remuneration		
- Fees payable to the company's auditor for the audit of the group's financial statements	28	22
- Fees payable to the company's auditor and its subsidiaries for the provision of tax services	4	4
Operating lease rentals:		
- other including land and buildings	118	125

The company audit fee is £8,500 (2017: £8,500).

Notes to the Financial Statements

For the year ended 30 June 2018

5. Staff costs

Group	2018 No.	2017 No.
Average monthly number of employees, including directors:		
Production and research	64	62
Selling and research	11	10
Administration	6	7
	<u>81</u>	<u>79</u>
Group	2018 £'000	2017 £'000
Staff costs, including directors:		
Wages and salaries	2,408	2,589
Social security costs	253	257
Other pension costs	42	30
	<u>2,703</u>	<u>2,876</u>
Company	2018 No.	2017 No.
Average monthly number of employees, including directors:		
Production and research	1	2
Selling and research	2	2
Administration	2	2
	<u>5</u>	<u>6</u>
Company	2018 £'000	2017 £'000
Staff costs, including directors:		
Wages and salaries	178	246
Social security costs	22	12
Other pension costs	5	-
	<u>205</u>	<u>258</u>

Notes to the Financial Statements

For the year ended 30 June 2018

6. Directors' Remuneration

	Salary and fees £'000	Benefits in kind £'000	2018 Total £'000	2017 Total £'000
G G Watt	71	-	71	71
S P Padmanathan	25	-	25	25
R MacDonnell	2	-	2	2
Aggregate emoluments	<u>98</u>	<u>-</u>	<u>98</u>	<u>98</u>

Directors' pensions	2018 No.	2017 No.
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The number of directors who are accruing retirement benefits under:
- defined contributions policies

-	-
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The directors represent key management personnel.

Directors' share options

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

The Company's share price at 30 June 2018 was 3.55p. The high and low during the period under review were 5.83p and 2.80p respectively.

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

Notes to the Financial Statements

For the year ended 30 June 2018

7. Taxation

	2018 £'000	2017 £'000
United Kingdom Corporation Tax		
Current taxation	(329)	(253)
Adjustments in respect of prior years	(22)	(119)
	<u>(351)</u>	<u>(372)</u>
Deferred taxation	-	-
Tax on loss	<u>(351)</u>	<u>(372)</u>
Current tax reconciliation		
	2018 £'000	2017 £'000
Taxable (loss) for the year	<u>(502)</u>	<u>(193)</u>
Theoretical tax at UK corporation tax rate 19% (2017: 20%)	(95)	(39)
Effects of:		
- R&D tax credit adjustments	(186)	(215)
- Income not taxable	(27)	-
- other expenditure that is not tax deductible	8	5
- adjustments in respect of prior years	(22)	(118)
- short term timing differences	(29)	(5)
Total income tax credit	<u>(351)</u>	<u>(372)</u>

The Group has tax losses amounting to approximately £2,460,000 (2017: £2,470,000), available for carry forward to set off against future trading profits. No deferred tax assets have been recognised in these financial statements due to the uncertainty regarding future taxable profits.

Potential deferred tax assets not recognised are approximately £418,000 (2017: £490,000)

8. (Loss)/profit per share

Group

Basic (pence per share) 2018 – 0.45 loss per share; 2017 – 0.54 profit per share

This has been calculated on a loss of £151,000 (2017: profit of £179,000) and the number of shares used was 33,543,803 (2017: 33,020,515) being the weighted average number of shares in issue during the year.

Diluted (pence per share) 2018 – 0.45 loss per share; 2017 – 0.47 profit per share

In the current year the potential ordinary shares included in the weighted average number of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share. The prior year calculation used earnings of £259,000 being the profit for the year plus the interest paid on the convertible loan note (net of 20% tax) of £80,000 and the number of shares used was 55,247,667 being the weighted average number of shares outstanding during the year of 33,020,515 adjusted for shares deemed to be issued for no consideration relating to options and warrants of 2,227,152 and convertible instrument of 20,000,000.

Notes to the Financial Statements

For the year ended 30 June 2018

9. Property, plant and equipment

Group	Freehold £'000	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2017	-	1,397	223	321	1,941
Acquisitions of subsidiary	265	183	-	-	448
Additions	-	100	-	-	100
Disposals	-	-	-	(30)	(30)
At 30 June 2018	265	1,680	223	291	2,459
Depreciation					
At 1 July 2017	-	1,293	205	298	1,796
Acquisitions of subsidiary	12	94	-	-	106
Charged in year	1	76	18	11	106
Disposals	-	-	-	(30)	(30)
At 30 June 2018	13	1,463	223	279	1,978
Net book value					
At 30 June 2018	252	217	-	12	481
At 30 June 2017	-	104	18	23	145

The net book value of the property, plant and equipment includes £195,322 (2017: £78,789) in respect of assets held under finance lease agreements. These assets have been offered as security in respect of these finance lease agreements. Depreciation charged in the period on those assets amounted to £55,183 (2017: £38,226).

Company	Equipment, fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 July 2017 and 30 June 2018	196	45	241
Depreciation			
At 1 July 2017 and 30 June 2018	196	45	241
Net book value			
At 30 June 2018	-	-	-
At 30 June 2017	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2018

10. Goodwill

Group	Goodwill £'000	Total £'000
Cost:		
At 1 July 2017	1,121	1,121
Acquisitions of subsidiary	129	129
At 30 June 2018	1,250	1,250
Impairment		
At 1 July 2017 and 30 June 2018	60	60
Net book value		
At 30 June 2018	1,190	1,190
At 30 June 2017	1,061	1,061

The goodwill carried in the statement of financial position of £1,190,000 arose on the acquisition of Adien Limited in 2002 (£212,000) and the acquisition of QM Systems Limited in 2006 (£849,000), and the acquisition of TED during the year (£129,000), see note 22.

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

QM Systems Limited is involved in projects surrounding:

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

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

Management assessed the goodwill arising on the TED acquisition for impairment at the year end. Management reviewed the forecasts and assumptions made at the acquisition date and confirmed that they remain appropriate. Management assessed that there were no significant changes in the assumptions and the carrying value of the goodwill at 30 June 2018 was supported. On this basis no impairment in goodwill is required.

The recoverable amounts are determined from value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a five year period. The key assumptions are those regarding the discount rates, growth rates and expected changes to sales and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. This has been estimated at 10% per annum reflecting the prevailing pre-tax cost of capital in the company. The growth rates are based on forecasts and historic margins achieved in both Adien Limited and QM Systems Limited. For Adien these have been assessed as 7.5% growth for revenue in years 1 and 2 and 2.5% for years 3 to 5 and 2.5% for overhead growth. For QM Systems these have been assessed as 45% growth for revenue in year 1 and 10% in year 2 and 3 and 5% for years 3 to 5 and 5% for overhead growth. No terminal growth rate was applied. The reason for the significant Year 1 revenue growth is an expectation based on current trading and the pipeline and that no difficult trading period is expected this year.

10. Goodwill (continued)

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

If the QM Systems starting revenue was the same as the 2018 level the goodwill would be fully impaired. The directors have regard to the sales pipeline and are satisfied that the forecast revenues and growth rates used can be achieved.

If the QM Systems discount rate was increased to 35% an impairment charge of £134k would be recognised.

11. Investment in Joint Venture

Group	Investment in shares £'000
Cost:	
At 1 July 2017	196
Disposal	(196)
Share of losses	
At 1 July 2017	142
Disposal	(142)
At 30 June 2018	
Net investment	
At 30 June 2018	
At 30 June 2017	54

The investment in joint venture relates to a 28.4% shareholding in the ordinary share capital of SUMO Limited. SUMO Limited was sold on 13 October 2017 see note 23 for details.

Summarised financial information in respect of the Group's joint venture is set out below:

	30 June 2018 £'000	30 June 2017 £'000
Cash	-	30
Current assets	-	1,947
Non-current assets	-	950
Total assets	-	2,927
Total liabilities (all current)	-	2,736
Net assets	-	192
Group's share of net assets of joint venture	-	54

Notes to the Financial Statements

For the year ended 30 June 2018

11. Investment in Joint Venture (continued)

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Total revenue	-	4,608
Interest expense	-	80
Depreciation/amortisation	-	168
Total profit/(loss) for the period	-	24
Group's share of profit of joint venture	-	1
		30 June 2018 £'000
Disposal of Joint Venture		196
Cash Consideration		(54)
Investment in Joint venture		142
Profit on sale of joint venture		

12. Non-current investments

Company	Investments in joint ventures £'000 (note 11)	Investments in subsidiaries £'000	Total £'000
Cost			
1 July 2017	198	1,197	1,395
Disposal	(198)	-	(198)
At 30 June 2018	-	1,197	1,197
Impairment			
At 1 July 2017 and 30 June 2018	-	-	-
Net book value			
At 30 June 2018	-	1,197	1,197
At 30 June 2017	198	1,197	1,395

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

An impairment assessment was performed in line with the assessment of goodwill, see note 10 for further details. On the basis of this assessment no impairment of the investment was required at 30 June 2018.

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

Notes to the Financial Statements

For the year ended 30 June 2018

13. Inventories

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Raw materials	87	150	86	142
Finished goods	91	6	6	6
	<u>178</u>	<u>156</u>	<u>92</u>	<u>148</u>

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

The cost of inventories recognised as an expense during the year amounted to £1,157,000 (2017: £1,591,000). For the parent company this was £37,000 (2017: £163,000).

14. Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current				
Trade receivables	720	666	5	16
Amounts owed by group undertakings	-	-	533	345
Other receivables	-	48	-	-
Prepayments and accrued income	455	31	3	2
	<u>1,175</u>	<u>745</u>	<u>541</u>	<u>363</u>

15. Non-current liabilities: Borrowings

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Borrowings (note 17)	<u>2,966</u>	<u>2,266</u>	<u>2,537</u>	<u>2,225</u>

Notes to the Financial Statements

For the year ended 30 June 2018

16. Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current				
Bank overdraft	13	12	13	12
Trade payables	743	544	40	120
Other taxation and social security	329	527	6	3
Payments received on account	437	164	-	-
Accruals and other creditors	450	362	41	80
	<u>1,972</u>	<u>1,609</u>	<u>100</u>	<u>215</u>
Non-current				
Trade payables	-	-	-	-
Amounts owed to group undertakings	-	-	1,439	1,583
Other loans	-	-	-	-
Other creditors	8	-	-	-
	<u>8</u>	<u>-</u>	<u>1,439</u>	<u>1,583</u>

17. Borrowing Analysis

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Due within one year				
Bank and other loans	426	306	-	-
Directors' loan	1,658	1,858	1,658	1,725
Obligations under finance lease agreements	62	23	-	-
	<u>2,146</u>	<u>2,187</u>	<u>1,658</u>	<u>1,725</u>
Due after more than one year				
Obligations under finance lease agreements	118	41	-	-
Bank and other loans	311	-	-	-
Directors' loan	2,537	2,225	2,537	2,225
	<u>2,966</u>	<u>2,266</u>	<u>2,537</u>	<u>2,225</u>
Repayable				
Due within 1 year	2,146	2,187	1,658	1,725
Over 1 year but less than 2 years	2,774	2,240	2,537	2,225
Over 2 years but less than 5 years	192	26	-	-
	<u>5,112</u>	<u>4,453</u>	<u>4,195</u>	<u>3,950</u>

17. Borrowing Analysis (continued)

Directors' loan

Included with Directors' loans and borrowings due within one year are accrued fees and interest owing to G G Watt of £1,658,000 (2017: £1,858,000). The accrued fees and interest is repayable on demand and no interest accrues on the balance.

The director's loan due in more than one year is a loan of £1,537,000 from G G Watt. Directors' loans attract interest at 2.15% over Bank of England base rate. During the year to 30 June 2018 £nil (2017: £nil) was repaid. The Company has the right to defer repayment for a period of 366 days.

On 13 August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock ("CULS") to G G Watt, the Chairman of the Company. The CULS were issued to replace loans made by G G Watt to the Company amounting to £1 million and has been recognised in non-current liabilities of £2,537,000.

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

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

No equity element of the convertible loan stock has been recognised in these financial statements as this is not considered to be material.

Finance leases

Finance lease agreements with Close Motor Finance are at a rate of 4.5% and 5.19% over base rate. The future minimum lease payments under finance lease agreements at the year end date was £116,844 (2017: £63,775) and £62,167 (2017: £nil). The difference between the minimum lease payments and the present value is wholly attributable to future finance charges.

Bank and other loans

A working capital loan balance of £227,000 was given by Mirrasand Partnership from a trust settled by Mr G Watt. The loan attracts interest at 10% per annum. The remainder is repayable on 30 September 2019. The loan was guaranteed personally by Mr G Watt.

Included in bank and other loans is an invoice discounting facility of £133,000 (2017 £97,000).

Included in bank and other loans is a balance of £200,000 being amounts owed to the vendors of the business. The balances are interest free and repayable in quarterly instalments over 4 years.

Included in bank and other loans are two secured mortgages of £173,000 which incurs interest of 4.42% until March 2019 followed by a rate of 2.44% over base rate for 10 years, and an interest rate of 2.64% over base rate until March 2029. The mortgage is secured over the freehold property.

2018	Brought forward	Cash flows	Non-cash: Acquisition	Non-cash: New leases	Non-cash: Accrued fees/ interest	Carried forward
Director loan	4,083	(10)	-	-	122	4,195
Finance leases	64	(34)	76	74	-	180
Other	306	-	408	-	23	737
	<u>4,453</u>	<u>(44)</u>	<u>484</u>	<u>74</u>	<u>145</u>	<u>5,112</u>

Notes to the Financial Statements

For the year ended 30 June 2018

17. Borrowing Analysis (continued)

2017	Brought forward	Cash flows	Cash: advance	Cash: Discounting facility*	Non-cash: Accrued costs	Carried forward
Director loan	4,093	(175)	97	-	68	4,083
Finance leases	106	(52)	-	-	10	64
Other	404	(35)	-	(63)	306	
Loans and borrowings	4,603	(262)	97	(63)	78	4,453

*Included in working capital adjustments in cashflow statement

18. Financial Instruments and derivatives

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

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

Credit risk

The credit risk exposure is the carrying amount of the financial assets as shown in note 14 (with the exception of prepayments which are not financial assets) and the exposure to the cash balances. Of the amounts owed to the Group at 30 June 2018, the top 3 customers comprised 19.38% (2017: 33.5%) of total trade receivables.

The Group has adopted a policy of only dealing with creditworthy counterparties and the Group uses its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The directors believe that the Group does not have any significant credit risk exposure to any single counterparty. At year end, the Group did not have any customer with a concentration of credit in excess of 6% of gross assets.

An analysis of trade and other receivables:

2018	Carrying amount	Neither impaired nor past due	61-90 days	91-120 days	More than 121 days
Trade and other receivables	720	532	102	12	74
2017	Carrying amount	Neither impaired nor past due	61-90 days	91-120 days	More than 121 days
Trade and other receivables	714	603	30	17	64

18. Financial Instruments and derivatives (continued)

The Group allows an average receivables payment period of 60 days after invoice date. It is the group's policy to assess receivables for recoverability on an individual basis and to make provision where it is considered necessary. No debtors' balances have been renegotiated during the year or in the prior year. As at 30 June 2018, trade receivables of £nil (2017: £nil) were impaired and provided for.

Liquidity risk

As stated in note 1 the Executive Chairman, G G Watt, has pledged to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. It is on this basis that the directors consider that neither the Group nor the company is exposed to a significant liquidity risk. Notes 17 and 18 disclose the maturity of financial liabilities.

Contractual maturity analysis for financial liabilities, (see note 17 for maturity analysis of borrowings):

2018	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
Trade and other payables	1,206	-	-	8	1,214
2017	Due or due in less than 1 month	Due between 1-3 months	Due between 3 months-1 year	Due between 1-5 years	Total
Trade and other payables	918	-	-	-	918

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

Interest rate risk

The Group finances its operations through a mixture of shareholders' funds and borrowings. The group borrows exclusively in Sterling and principally at fixed and floating rates of interest and are disclosed at note 17.

Fair value of financial instruments

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

Capital risk management

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

19. Share Capital

	2018 No	2018 £'000	2017 No	2017 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
Allotted and fully paid				
Brought forward	33,020,515	330	33,020,515	330
Issued during the year	1,000,000	10	-	-
Carried forward	34,020,515	340	33,020,515	330

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

11,403,703 (2017:11,403,703) share options were outstanding at the year end, comprising the 1m employee options and the 10,403,703 share options and warrants held by directors disclosed below.

No options or warrants were exercised.

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

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

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

Employee options

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

Directors' share options

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

The Company's share price at 30 June 2018 was 3.55p. The high and low during the period under review were 5.83p and 2.80p respectively.

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

The weighted average contractual life of options and warrants outstanding at the year-end is 1.2 years (2017: 2.5 years).

Notes to the Financial Statements

For the year ended 30 June 2018

20. Financial Commitments

Group	2018 £'000	2017 £'000
Capital commitments		
Capital expenditure commitments contracted for, but not provided in the financial statements were as follows:	-	-
Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Motor vehicles	16	25
Land and buildings		
- within one year	35	42
- one to five years	-	35
	<u>51</u>	<u>102</u>

21. Related Party Transactions

Directors' loan disclosures are given in notes 17 and 18. The interest payable to directors in respect of their loans during the year was:

G G Wat £137,174

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

As at 30 June 2018, there was an amount of £3,444 (2017: £4,794) due from Online Engineering Limited, a company that G G Watt is also a Director. The only transaction was that this balance was partly repaid during the year.

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

	2018 £	2017 £
Balance due from:		
Adien Limited	-	53,770
QM Systems Limited	459,375	291,375
TED Limited	73,643	-
Balance due to:		
Adien Limited	32,141	-
QM Systems Limited	1,405,866	1,582,729

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

There is no ultimate controlling party of PipeHawk plc.

Notes to the Financial Statements

For the year ended 30 June 2018

22. Acquisition

On 29 November 2017 the Group acquired 100% of the issued share capital of Thomson Engineering Design Limited ('TED'). The acquisition was made due to synergy of business opportunity with QM Systems including significant fabrication needs which QM currently outsources. The Group obtained control by offer and acceptance of £1 for the entire issued share capital of TED.

The goodwill arising from the acquisition of TED of £129k is attributable to the acquired workforce and the anticipated future profit from international expansion opportunities and synergy of the business opportunities mentioned above.

Following the acquisition, TED made a turnover of £188k with and operating loss of £103k. Details of the future focus of this company is stated in the Chairman's statement

	30 June 2018 £'000
Consideration	-
Fixed Assets	342
Stock	32
Debtors	234
Cash	11
Finance lease	(76)
Director loans	(238)
Trade and other creditors	(264)
Borrowing	(170)
Net Liabilities	(129)
Consideration	-
Goodwill	(129)

23. Subsequent events

On 13 October 2017 the Company sold its 28.4 per cent. joint venture interest in the ordinary share capital of SUMO Limited ("SUMO") to Gordon Watt, the Executive Chairman of the Company, for a consideration of £197,499, being the original cost of the investment, subject to shareholder approval, which was obtained on 14 December 2017 ("the SUMO Share Sale"). The consideration was satisfied in cash. Gordon Watt agreed to pay the consideration immediately and therefore the payment of £197,499 was treated as a loan, on identical terms to the existing loans due to Gordon Watt, until such amount becomes payable under the agreement for the SUMO Share Sale.

Gordon Watt agreed that in the event that SUMO effects a fundraising at a pre-money valuation in excess of £700,000 (equivalent to £2 per SUMO share, the price being paid by Gordon Watt) before 30 June 2018 or SUMO effects a sale of the company or an IPO at a price greater than £2 per SUMO share before 13 October 2020, then further consideration of 50 per cent. of the value of such excess will be payable in cash to the Company by Gordon Watt.

In September 2018, at the request of the directors of SUMO, Gordon Watt sold 34,214 shares in SUMO at a price of £3 per share to encourage greater employee participation. In accordance with the agreement with Gordon Watt, 50 per cent. of the profit, equating to £17,107, was remitted to the Company.

On 9 November 2018, the Company entered into a letter of amendment with Gordon Watt to extend the repayment date of the CULS to 13 August 2022. All the other terms of the CULS remained the same as before.