Avingtrans plc

ANNUAL REPORT

For the year ended 31 May 2020

Company no 01968354

Avingtrans plc
ANNUAL REPORT

For the year ended 31 May 2020

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CHAIRMAN'S STATEMENT

Notwithstanding the effects of Covid-19, it has been a year of solid progress at Avingtrans in FY20, with record adjusted EBITDA and revenue boosted by acquisitions. Although the pandemic had some adverse impacts on most of our businesses in the year (notably on order timing - starting in our China units in February 2020), we have been able to make headway, nonetheless. It is also pleasing to note a number of important new order wins, post-period end, which have provided a degree of catch-up for FY21, following delays through the lockdown period.

Under the Pinpoint-Invest-Exit ("PIE") strategy the assets of Booth Industries in Bolton, UK and Energy Steel in Michigan, USA were acquired in June 2019. Both of these turnaround opportunities were purchased following agile due diligence processes. The two businesses augment our capabilities in the nuclear sector and Booth brings Avingtrans into the wider Critical National Infrastructure (CNI) market. The acquisition of Energy Steel broadened Hayward Tyler's product offering - particularly in solutions for "orphan" OEM components for the nuclear aftermarket - and provides cross-selling opportunities. Acquiring Booth Industries has enabled the Process Solutions and Rotating Equipment ("PSRE") division to expand its product and service offering and deepen its relationships with its existing customers. Both businesses have integrated well, delivering modest profits (before transaction costs) in their maiden year with the Group.

The divisional management teams have shown themselves to be adaptable and resilient in the period, continuing to build upon solid business platforms, despite the disruptions due to Covid-19 ('CV19)'. These effects have caused us to make certain targeted changes, such as closing the Crown site and relocating the residual assets into Metalcraft. However, our focus remains on growing formidable and valuable businesses.

Aftermarket growth in EPM and PSRE remains central to developing robust value propositions, in order to support OEM and end-user customers. This improved end-user access model not only provides a more predictable and repeatable pipeline, which in turn drives improved profitability, but also boosts product and service development. We are particularly keen to maximise the revenue opportunities arising from the aftermarket access afforded by recent acquisitions (eg Energy Steel) and though recent partnerships deals (eg with Shinhoo Pumps, China).

The Engineered Pumps and Motors (EPM) division delivered an acceptable result for the year given the backdrop, as it suffered a series of CV19 disruptions, first in China, then in the UK and USA and finally in India. The impacts included delayed orders, supply chain delays and customer delivery issues, so a broadly flat result was no mean feat. Energy Steel helped to boost the revenue for the division and made an underlying modest contribution to profit, which is promising for the future, considering the backdrop of its first year with the Group. The post-period end award of outline planning permission for the HT Luton site was welcome news, providing us with the opportunity to optimise HT's UK operations, whilst potentially producing a net surplus for the Group when the site is exited in due course.

The PSRE division pushed through CV19 effects, in part, thanks to a gratifying performance by Peter Brotherhood, although we have seen order delays in this division also. The division is now refining its offering to the UK nuclear market – especially to Sellafield for nuclear decommissioning - whilst also using this capability to position for longer term new nuclear technologies. Ormandy had a trickier year, due to Covid-19 induced construction market delays, but is now getting back on track. The integration of Booth has gone well so far, with a record order book and a modest initial profit being satisfactory first steps on the journey to recovery.

Meanwhile, the Medical and Industrial Imaging (MII) division continues to progress steadily, with both the UK and Chinese businesses performing acceptably. This is a division in transition, where Scientific Magnetics and Tecmag are working with their partners to produce new product offerings for the MRI and NMR markets. While these developments are still at a relatively early stage, the Board is excited about the long-term potential of the division which, is expected to yield longer term positive returns for the Group, albeit perhaps using a different vehicle to maximise returns than our usual "PIE" process for mature businesses.

Whilst the results for the Group were solid as a whole, the Board considers that it is prudent to continue to preserve cash and will not propose a final dividend this year. In the context of the global pandemic, the resulting need for targeted restructuring and having made some use of government support schemes, we believe that shareholders will consider that this is the right thing to do. All being well, we intend to return to our commitment to long term shareholder returns in FY21. Our resilient view of the prospects for the Group, underpinned by our prudent approach to debt and financial headroom, further support this decision. Given the strength of the order book, we are reinstating guidance.

Finally, since the last annual report, Graham Thornton retired from the Board, having served with distinction for 10 years with the Group. The Board and I wish Graham every success with his future endeavours and thank him for his hard work and dedication whilst he was with us. I warmly welcome all of the staff in recent acquisitions to Avingtrans and congratulate them and all Avingtrans employees for the spirit and hardiness they have displayed in recent, challenging months. On behalf of the shareholders, I thank all Avingtrans employees for their dedication to the Group during the past year, as we look forward with watchful enthusiasm to FY21.

Roger McDowell
Chairman
29 September 2020

Group Performance
Strategy and business summary

Group Strategy

Our core strategy is to buy and build engineering companies in niche markets, particularly where we see turnaround and consolidation prospects; a strategy we call Pinpoint-Invest-Exit ("PIE"). We have had a strong track record in returning significant shareholder value over the past decade and FY20 was another successful year, with the June 2019 acquisitions of Booth Industries (UK) and Energy Steel (USA) being successfully integrated into the group.

With an increased presence in our target markets, a focus on the aftermarket, strength in depth of the management teams and a lean central structure, the Group continues to grow profitably - notwithstanding the recent buffeting by Covid-19 - and the Board has renewed its focus on seeking additions to the Avingtrans value-add proposition.

The majority of the Group's adjusted key financial metrics trended positively in the period, allowing for Covid-19 and the effects of acquiring two underperforming businesses during the year.

The business is focused on the global Energy and Medical markets, both of which play into some of the world's mega-trends, such as: continued urbanisation; an ageing population; and an accelerating transition towards a cleaner and healthier planet.

Divisional Strategies

Engineered Pumps and Motors (Energy - EPM): EPM continues to develop its nuclear installed base (civil, defence and national security) – notably for life extension applications - and its offering to the hydrocarbon market sectors. This strategy was bolstered by the acquisition of Energy Steel in North America, which specialises in nuclear life extension. In addition, the EPM business continues to develop solutions for new nuclear technologies and other low carbon energy sources, such as concentrated solar, to capitalise on the global energy supply transition. During FY20 EPM secured a number of key contracts, including the provision of pumps for the global fusion reactor project ("ITER") in France and pumps for a major new concentrated solar power plant in Dubai.

Process Solutions and Rotating Equipment (Energy - PSRE): Here, the primary strategy is to develop a comprehensive offering to the nuclear decommissioning and reprocessing markets, building on the long-term contracts to build nuclear waste storage containers and the installed base of equipment across the vast Sellafield site. In parallel, to continue to support the nuclear submarine fleet and facilities for the UK MOD and targeted opportunities in the equally highly regulated offshore Oil & Gas markets. During the year, the division's nuclear credentials were boosted by the acquisition of the assets of Booth Industries, which also broadened our market reach into Critical National Infrastructure (CNI) and national security in general. The division completed the exit from the Crown site near Bristol and integrated the residual assets into Metalcraft, following continued order delays in its historic products.

Medical and Industrial Imaging (Medical - MII): The focus for the medical division is to become a niche market leader in the production of high integrity components and systems for medical and scientific equipment manufacturers including MRI medical imaging, proton therapy and Nuclear Magnetic Resonance (NMR).

The common theme which we are seeking to exploit across the energy and medical divisions, is the continued pressure on aftermarket expenditure, where operational efficiency, reliability and safety are paramount and operators are looking to their supply chain partners to provide long term support of infrastructure and legacy installations.

Pinpoint-Invest-Exit

Continuing our Pinpoint-Invest-Exit strategy, Avingtrans added two bolt-on acquisitions in the year, being Booth and Energy Steel.

In June 2019, the Company announced the acquisition of certain of the assets of Bolton-based Booth Industries Limited, a leading UK engineering company, for a consideration of £1.8m, from the administrators of AIM-quoted Redhall Group plc ("Redhall"). The acquisition included a freehold site valued at £1.25m.

Additionally the Group also acquired the brand name and selected assets of Jordan Manufacturing for £40k, a provider of specialist manufacturing and fabrication services and another division of Redhall, in August 2019, which strengthened Metalcraft's position as a key player in the nuclear supply chain.

Pinpoint-Invest-Exit (continued)

Also in June 2019, the Company acquired US-based Energy Steel & Supply Co. (Energy Steel), an established manufacturer of machined products and components to the civil nuclear power industry. US-based Energy Steel was acquired by Avingtrans for a consideration of $0.6m. Hayward Tyler has over 600 pumps in active service in nuclear applications across the world and this acquisition expands the Company's nuclear capabilities and product lines for new and existing customers.

The integrations of Booth and Energy Steel both went well during FY20 and they were each able to deliver modest maiden profits for the group, despite both being in distressed positions when they were acquired. This is all the more pleasing, given the headwinds generated by the global pandemic.

Post period end, we obtained Outline Planning Permission (OPP) for the redevelopment of our HT Luton site, comprising up to 1,000 residential units. Whilst it is too early to say what the value of the site may become, we believe that there should be ample headroom to relocate HT to a new site and deal with any exit costs, whilst still leaving a material net surplus.

Although M&A activity in energy capital goods markets has been somewhat inhibited by Covid-19, businesses like ours continue to command high valuations. Avingtrans remains confident about the current strategic direction and potential future opportunities across its chosen markets.

Markets - Energy

The global demand for energy has temporarily stopped growing, due to Covid-19, but we believe that we will see a return to growth from next year and the effect of the pandemic may be to drive faster towards increased efficiency and decarbonisation. This trend may benefit our businesses in the nuclear and renewables sectors.

End User/Aftermarket

Operators and end-users are demanding a blend of quick response through local support with a requirement to drive improvements through equipment upgrades and modernisation. In the West, where facilities are being operated for longer than their intended design lives – and often in a drive for increased capacity alongside tougher regulations – there is a strong demand for solution providers in the supply chain to partner with end-users for the longer term. The Avingtrans energy divisions are well positioned to grow in this end-user market space.

Nuclear

Nuclear energy as a low carbon, baseload power source remains an asymmetric market with respect to future growth. Almost all of the 1GW+ new build opportunities are currently in Asia, with the exception of the limited UK programme. However, we are still enjoying buoyant market segments, including supporting the operational fleet, continued safe operation and life extensions, decommissioning and reprocessing. We are also working on the long-term development of the next generation of technologies – i.e. Small Modular (SMR), or Advanced Generation IV Reactors. In addition, these segments all have the backdrop of a consolidating supply chain and paucity of expert knowledge.

The USA still operates the biggest civil nuclear fleet in the world, with 95 reactors generating more than 30 percent of the world's nuclear electricity. When coupled with the heritage Westinghouse technology operating in Europe and Asia, the EPM division's long-standing position in this market provides fertile ground for further growth. Obsolescence and life extension are key issues for nuclear operators worldwide and the Avingtrans Energy Divisions are well positioned to support operators in addressing this critical risk. The acquisition of Energy Steel in the USA has bolstered the Group's capabilities in this regard.

The UK remains pre-eminent when it comes to decommissioning and reprocessing, in terms of innovative technology and overall spend. The Group is embedded in the future manufacture of waste containers for Sellafield and will continue to expand its presence in the UK and globally in the longer term. The development of new nuclear technologies is ongoing, with pockets of activity in the UK, South Korea, the USA and China dominating development activity. The Group views these new technologies as an attractive route forwards for nuclear and is well positioned to develop as a global industry partner.

Power Generation

The world continues to electrify, with an increasing amount of primary energy going to the power sector, which remains a key focus across the Group's energy divisions. Aside from nuclear, as discussed in the previous section, the main sub-sectors are as follows:

- **Coal** – the Group continues to see good aftermarket activity from coal fired power stations even though the demand for new power stations is in decline. Opportunities still exist in India, China, South East Asia, Eastern Europe and the Middle East. EPM is optimising its product line, to take market share and to create tomorrow's aftermarket.
- **Gas** – natural gas, primarily in the form of combined cycle gas turbine power plants is a growing market space, primarily in the West. The Group is moving into this market with both existing and new product lines.
- **Renewables** – renewable technologies and their supporting infrastructure are a growing market globally. The Group has a broad range of products that can be applied directly to this market segment and also has expertise that can be used to develop new products for niche parts of this market, such as molten salt for concentrated solar applications.

Hydrocarbons

At the start of FY20, we had begun to see relatively more orders in this sector, although our forecasts were deliberately cautious, given the recent years of weak prices, low capital expenditure, portfolio realignments and productivity efficiencies. However, Covid-19 has had a dramatic effect on oil and gas supply and demand, with Brent crude now trading at in the range of $40 to $45 per barrel, with most informed forecasts suggesting a slow and modest recovery over time. The result is that new capital expenditure in this sector has been materially reduced, meaning that our forecasts must continue to err on the side of caution, with some limited restructuring activity in EPM being necessary, due to the time lag we can expect before any sector recovery. However, aftermarket orders continue to be won, so there is some positive news in this area.

Digitalisation & Condition Monitoring

Companies across the energy market continue to invest in digital technologies to improve productivity, efficiency and predictability in the field. At the equipment level this translates to a series of devices, sensors and algorithms which can predict breakdowns before they occur and ensuring equipment is running at its optimum performance. The Group launched its first monitoring product, DataHawkTM, for Boiler Circulating Pumps two years ago and is building on this success by adding this capability to both a wider set of original equipment and its aftermarket service offering.

Markets – Medical

The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Diagnostic Imaging Market will be worth $33.5bn by 2024, according to Markets and Markets and is expected to continue to grow at over 5% per annum over that period. The largest market is the USA, followed by Europe and Japan. The fastest growing markets are China and India.

The Avingtrans Medical division is primarily targeting the Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) segments of these markets, due to the common thread requirements for superconducting magnets and cryogenics. These two segments account for approximately 85% of our business in the medical division. Market drivers for these segments include an ageing global population and the global pharmaceutical industry's research needs. MRI itself is approximately 18% by value of the total diagnostic Imaging market and is projected to grow at 6% p.a. (Grand View Research). NMR is a smaller market, currently estimated at $861m p.a. by Marketwatch and is projected to grow at over 3% p.a. until 2026, with Bruker enjoying a dominant market share.

End User/Aftermarket

The MRI market segment is dominated by a handful of manufacturers, including GE, Siemens and Philips, who account for circa 80% of revenue globally. These players also dominate the aftermarket, though there are a few independent MRI service businesses in existence. Avingtrans is not present in the MRI aftermarket at this time.

The NMR market is similar, currently dominated by Bruker and Jeol. Avingtrans is aligned with MR Resources Inc, a well-established US business, which services the NMR aftermarket. The Avingtrans Medical division is well positioned in this end-user market space and is winning service contracts with European NMR users, following our partnership agreement with MR Resources.

Markets – Medical (continued)

MRI

As noted above, the MRI market segment is dominated by a handful of global manufacturers. For component and sub-system supply, Avingtrans is most aligned to the market leader, Siemens and also to Canon, which acquired the Toshiba MRI business in recent years. As far as full system supply is concerned, we are currently investigating a number of niche MRI applications (e.g. veterinary imaging) and their associated routes to market, with the intention of pinpointing the most promising of these for future investment, to bring novel products to market.

NMR

We are aligned with recent market entrant Q One Instruments, China and also with MR Resources of the USA, as noted above. Together, we form an alliance to challenge the dominance of the existing players and to provide customers with an additional source for NMR products, service and support. Former NMR customers of Agilent (formerly Varian) are also being given much needed support. Although hampered towards the end of the period by Covid-19, we have been successfully winning support contracts for end users and the prospect list for Q One Instruments is growing slowly. After acquiring Tecmag Inc in Houston in October 2018, to add software and electronics capabilities to our NMR/MRI systems, we then acquired some assets from Acorn NMR in California, to transfer to Tecmag and to broaden our NMR service offering into end-user sample analysis and characterisation. This initiative has had some modest success in its first year of activity.

Operations

Operational Key Performance Indicators (KPI's)

	2020	2019
• Percentage of total continuing revenue deriving from aftermarket (AM) sales (%)	44.7	46.2
• Customer quality – defect free deliveries (%)	98.2	98.0
• Customer on-time in-full deliveries (%)	80.1	87.2
• Annualised staff turnover including restructuring (%)	13.7	13.0
• Health, Safety and Environment incidents per head per annum	0.08	0.10

The AM sales % figure was slightly down year-on-year, as CV19 delays affected AM order timings – especially at EPM, in the nuclear aftermarket. For customer quality, we sustained our usual high level of defect free deliveries, though on time deliveries fell back in the year. This was partly due to the initially poor delivery performances at Booth and ES after acquisition, but also latterly affected by CV19 supply chain delays. Annualised staff turnover was also relatively static, with more stable staff positions in EPM and PSRE overall being challenged by CV19 restructuring – eg the closure of the Crown site. The long-term positive reduction of HSE incidents is welcome, albeit that each new acquisition (Booth & ES) presents us with new HSE challenges.

EPM Division – Energy

For the EPM division, which represents the bulk of the former Hayward Tyler companies, the main priorities remain to strengthen the aftermarket capabilities and to maximise opportunities in the nuclear life extension market.

The division's results were disrupted by CV19 in H2, first in China, then in the UK and the USA and finally in India. Underlying revenues were down year on year, but boosted by ES, although the corresponding ES effect on profit was not material.

At HT Luton, aftermarket activities continue to build, including the servicing of third party equipment, albeit disrupted by the oil and gas market reversal. The £10m contract in Sweden with Vattenfall for the Forsmark plant (for nuclear life extension) is proceeding to plan, whilst further defence orders have been received and are being executed on target. Following the receipt of planning permission to develop the HT Luton site into up to 1,000 dwellings, plans are underway to move the business to a new, optimised location.

HT Inc in Vermont (USA) continues to see solid order intake in the nuclear life extension market in the USA - and again with KHNP, South Korea, post-period end, although delays in order intake due to CV19 did impact the US results. HT Inc's new R&D opportunities - in next generation nuclear power and concentrated solar power - are also making good progress. The business won its first order for the experimental nuclear fusion reactor "ITER" currently under construction in France.

Operations (continued)

HT Kunshan (China) is fully operational following CV19 disruption and won their biggest ever contract in China (worth £2.2m) in the period for specialist pumps to be installed in a major new concentrated solar power plant in Dubai. This marks an important diversification into the renewables market and we expect more to follow in the coming years.

HT India suffered order and delivery delays and disruptions in H2 of the period, but is now coming back to "normal".

Energy Steel ('ES') in Michigan (USA), is integrating and recovering well, with the HT team focusing on customer service excellence under a new general manager and expanding the sales footprint in nuclear aftermarket opportunities in north America and beyond. Cross-fertilisation projects are being successfully won between HT and ES.

PSRE Division – Energy

PSRE steamed ahead in FY20, thanks in large part to a mature performance by Peter Brotherhood. The focus on aftermarket underpinned the PB result for the period, improving the overall PSRE margin mix, as well as successful shipments of floating production platform steam turbines. Elsewhere, the division had a generally positive year, allowing for CV19 disruptions to supply chains and deliveries, except at Crown, where the weight of the disruption proved to be too much for this small business unit. Therefore, we took the decision to close the separate Crown site near Bristol and relocate the residual assets to Metalcraft.

Metalcraft's progress with the Sellafield 3M3 boxes has been steady, despite customer design changes, and we are producing boxes consistently. The next 3M3 box contract tender was expected in this calendar year, but has now been even further delayed due to Covid-19 disruptions to Sellafield's plans. Whilst this is disappointing, we are well organised to pursue this contract later and it does not impact on our forecasts, which allow for unexpected customer delays.

Ormandy's performance was promising in the first half, but it was derailed by CV19 construction market disruptions in H2. However, recent indications are that orders are rebuilding, giving us renewed hope for the HVAC sector in FY21.

Since its acquisition in June 2019, Booth Industries has been on an express recovery curve and has responded well to the proven Avingtrans PIE methods. A record order book underpins operations for FY21 and beyond. We rationalised the operations to remove unneeded space, as well as planning a new extension to the Nelson Street facility in Bolton, albeit that CV19 has delayed this expenditure for a time. The blast and security high integrity doors niche which Booth occupies is one which we can defend vigorously, to rebuild Booth into a leader in its chosen markets.

The Fluid Handling business in Scotland is a consistently good performer and has fitted well into our ambitions to build a wider nuclear capability. Post-period end, this unit won its biggest ever order (£2.5m) for Sellafield, to repair and upgrade remotely monitored valves. Further life extension and decommissioning opportunities are being pursued.

MII - Medical Division

MII is a division in pro-active transition. We have been pivoting away from the custom business previously targeted by Scientific Magnetics (SM) and working towards new products in Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR), including service and support offerings with our third party partners. The division was less disrupted in the year than other divisions, apart from the Metalcraft China factory, which was forced to shut for several weeks in February and March 2020.

Our potentially exciting new product developments are taking time to bear fruit, but we are slowly making progress. The prior year acquisition of Tecmag in the USA was strategically important. Tecmag produces electronics and software for MRI and NMR systems. It is an important piece in the jigsaw, facilitating our ability to produce complete MRI and NMR systems. Tecmag is operating at close to break-even with legacy product sales, whilst working with Scientific Magnetics on the products of the future. The strategy for SM and Tecmag requires further investment and patience before we see the results (notably in the MRI market) but the potential rewards are great enough for us to embark on this journey with enthusiasm.

Metalcraft's UK business with Siemens for MRI components was positive, but progress in China with other customers such as Alltech and QOne, was quite disrupted by Covid-19 induced delays, so we produced less revenue than anticipated at this unit for the year and made a loss for the year in consequence.

Composite Products was also disrupted by Covid-19 in H2, though here, the effects were not material and the unit is operating normally again, with our key customer Rapiscan increasing deliveries to the package scanning market. Other smaller accounts also supported revenues, with good prospects in the pipeline.

Financial Performance

Adoption of IFRS 16
The Group has adopted IFRS 16 at 1 June 2019. Adoption of IFRS 16 has led to a number of changes in the way the Group recognises right-of-use assets and a related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The Group has applied IFRS 16 using the modified retrospective method, as a result there is no adjustment to the opening retained earnings at 1 June 2019. The comparative information has not been restated and continues to be reported under IAS17. A right-of-use asset of £9.7m mainly for operational premises has been recognised with a matching lease liability increasing net debt in the year.

Key Performance Indicators
The Group uses a number of financial key performance indicators to monitor the business, as set out below.

Revenue: 9.5% increase driven by acquisitions
Overall Group continuing revenue increased to £113.9m (2019: £104.0m), driven by the effect of the additional revenues at Booth and Energy Steel offsetting some delayed contracts due to wider CV19 effects. Underlying revenue excluding acquisitions reduced to £96.4m with CV19 delays impacting most significantly in EPM.

Profit margin: further significant improvement in results, despite CV19
Adjusted EBITDA (note 4) increased by 25.7% to £11.8m (2019: £9.4m) with further progression from the underlying businesses and with the recent acquisitions adding a modest contribution. Adjusted EBITDA benefited from IFRS16 by £1.5m, excluding this Adjusted EBITDA would have increased to £10.3m, a 9.9% increase.

Operating profit was £4.1m (2019: profit £3.6m) with the underlying profit subdued by £1.2m of amortisation of acquired intangibles at Energy Steel principally the acquired Order Book.

Gross margin: solid progress continues
Group gross margin improved to 27.8% (2019: 26.6%) mainly due to the improving gross margin mix from the former HTG business units, as our transformation programme reaches maturity there.

Tax: future profits and cash protected by available losses
The effective rate of taxation at Group level was a 20.9% tax charge. A tax refund (note 9) due in the US kept the charge lower than expected. A charge arising from the reversal in the recognised rate on UK deferred tax from 17 to 19% increased the effective tax rate by 2.2%. The tax position will be aided in the coming years by utilisation of losses in the UK and China. We continue to be cautious, not recognising all of the potential trading tax losses in the UK.

Adjusted diluted Earnings per Share (EPS): a 15.3% improvement
Adjusted diluted earnings per share from continuing operations improved to 16.9p (2019: 14.6p) and Adjusted diluted earnings per share attributable to Shareholders improved to 16.2p (2019: 14.9p).

Basic and diluted earnings per share attributable to Shareholders reduced to 4.4p (2019: 8.0p) and to 4.3p (2019: 8.0p) respectively primarily due to the additional impact of the first year amortisation of ES business intangibles and costs of closing the Crown facility.

Funding and Liquidity: net debt remains well under control
Net debt, (including IFRS16 debt) at 31 May 2020 was £16.3m (31 May 2019: net debt: £2.0m after £9.7m from the adoption of IFRS 16 at 1 June 19, total £11.7m). Excluding IFRS16 debt at 31 May 2020 was £7.4m (31 May 2019: net debt: £2.0m). Cash generation was subdued by a £6.4m working capital outflow, partly due to the envisaged working capital outflow required for acquisitions £3.3m, the timing of contracts and an expected reversal of the skew from advance payments on accounts noted in the prior year (2019 inflow £9m). Additionally the Group invested an initial £1.5m net cash cost for the ES acquisition and the Booth trade and assets. The Directors consider that the Group has more than sufficient financial resources (note 22) to deliver its short to medium term strategic objectives and is maintaining a strong relationship with its banking partners.

Dividend: suspended due to CV19
The Board considers that it is prudent to continue to preserve cash and not to propose a final dividend this year. In the context of the on-going global crisis, the resulting need for targeted restructuring in the Group and having made some use of government support schemes, we believe that shareholders will consider that this is the right thing to do. All being well, we intend to return to our commitment to long term shareholder returns via dividends in FY21.

Principal risks and uncertainties facing the Group

Managing Risk

The Group is exposed to risks and uncertainties that could have a material impact on its performance and financial position. Identifying, assessing and managing risk is the responsibility of the Board. Our approach to risk is intended to protect the interests of our shareholders and other stakeholders whilst allowing the business to develop. Our risk appetite depends on the nature of an individual risk and it is considered in Board discussions and also as part of our risk review process in the Audit Committee. From time to time, we obtain advice from third party experts in a cost effective manner, to complement in-house knowledge.

The long-term success of the Group relies, in part, on managing the risks to our business. Whilst the Group has risk management policies and practices in place, which address and monitor risk, we seek to improve those practices each year. The Chief Financial Officer is responsible for risk management on behalf of the Board and the Audit Committee and he reviews the risk register on a regular basis. Ultimately our aim is to ensure that risk management is embedded within the core processes of our business units.

Risk Management Process

The Group uses a risk register to help coordinate its risk management process. The risk register identifies the key business risks and documents the policies and practices in place to mitigate those risks.

Principal Risks

We classify the risks to the business into three groups, namely, strategic risk, operational risk and financial risk. The principal risks identified by the Directors under these groups are set out in the table below. The risks considered during the Group-wide risk management process cover a wider range of issues than the key risks that are listed in this table.

Risk	Potential Impact	Mitigation
Strategic Risk		
A. CV19 effects across the global economy and businesses	The immediate risks faced by the Group due to the outbreak are possible delays in the ability to ship work when complete, delays in the supply chain, and delays in the ability to visit customer sites to complete work, delays in customer's decision making on projects. A prolonged period of restricted activity could compound and enhance other principal risks, not least general economic conditions, delays in client decision making or additional costs resulting from delay.	As part of its processes the directors conduct a series of sensitivity analyses to a range of scenarios arising from the effects of COVID-19 on the business, its staff, customers and other stakeholders. A number of responses and mitigation actions have been taken by the Group including focussed customer relationship management, continual sales and operational planning, supply chain management, process and capacity mapping, resource and staffing risk review, updated review of health and safety in the working environment and focused cash management. This forms part of the group's routine processes alongside the Going Concern assessment set out in the Directors Reports.

Risk	Potential Impact	Mitigation
Strategic Risk		
B. Growth Strategy	A fundamental part of the Group's strategy is growth from both Original Equipment and Aftermarket sales. The growth is reliant on our markets. These markets demonstrate long-term growth, but remain highly competitive and can be cyclic. Failure to generate sufficient order intake and revenue to cover the fixed cost base could give rise to lower profit and cash generation that constrains the Group. Failure to keep-up with technological change could give rise to the Group's products, services and technologies becoming less competitive.	The Group provides niche engineering solutions for the global energy and medical sectors. It has an excellent market profile (quality, reliability and customer relationships), which results in inclusion on sector bid/quote opportunities. The Group has invested, and is investing, in key aspects to maintain and improve the Group's competitive position including: ▪ employees (see F below); ▪ supply chain (see G below); ▪ developing and maintaining strong relationships with key customers; ▪ capital expenditure on plant and equipment; ▪ research and development of products and processes and ▪ aftermarket initiatives including supporting end-of-life extension programmes.
C. PIE Strategy mergers, acquisitions and disposals	The Group makes regular acquisitions and disposals under its PIE strategy. In June 2019 it acquired Energy Steel in Lapeer, USA and certain of the assets of Booth Industries, Bolton UK. During the period, we exited the Crown site and transferred any residual business to Metalcraft. Failure to re-establish and rebuild these businesses could (1) absorb a disproportionate part of management resource at the expense of other parts of the Group (2) reduce the Group's profitability and (3) delay the cycle of the planned positive outcome of the PIE strategy.	The Group carefully plans acquisition actions to mitigate this risk: ▪ extensive pre-deal due diligence; ▪ achieving a balance between attractive purchase prices and business purchase agreement terms and conditions; ▪ post-acquisition integration planning ▪ rapid business restructuring as required ▪ appropriate funding of the acquisitions and on-going businesses followed by de-leveraging the business; ▪ establishing senior management teams, complemented by experienced executives from Avingtrans and externally, if required; ▪ development of incoming employees; ▪ focusing on marketing and sales including growing aftermarket businesses; and ▪ investing in the businesses as necessary for a successful outcome to the PIE strategy.
D. Execution	The Group designs, manufactures and services highly technical products that are mission critical to the end user. Failure to satisfy contractual obligations could give rise to significant losses (e.g. warranty claims, liquidated damages, etc), cash constraints, lost future orders and adverse impact on the Group's reputation.	The Group continues to invest consistently in its people, processes and products to maintain and improve lead times and product innovation. These steps include: enhanced customer relationship management, sales and operational planning, process flow mapping, research and development, product standardisation and enhancing process capability. The Group also seeks to minimise the impact of execution risk through its terms of trade such as (1) limiting the undertakings it gives to pay liquidated damages and (2) avoiding consequential damages altogether.

Risk	Potential Impact	Mitigation
Strategic Risk		
E. Global Economic Activity and political uncertainties including Brexit	The Group operates in global energy, industrial, defence, infrastructure and medical markets. A slowdown in those markets including the possible impact from on-going economic and political uncertainty may adversely impact order intake, liquidity needs, and terms of trade and the financial performance of the Group. Political uncertainty such as the impact of Brexit and other overseas trade issues - eg US trade tariffs can affect decisions by our customers to invest and therefore impact on our trading.	The Group has a diversified geographical and sector spread that reduces the impact of localised economic trends and activities. In addition, the Group is investing in research and development, to develop new products or adapt existing products for use in other applications in order to broaden its product offering, to reduce the risk. Increasing aftermarket activities also provide the Group with a partial cushion to defend against cyclical downturns in original equipment purchasing. We continue to review and assess the potential impacts of US and Chinese tariffs and Brexit, as more information becomes available and we are engaged with trade associations, which are in contact with government and can thus assist our decision making and action plans. The Group will be able to continue to trade with EU member states and will take guidance on any new trading regulations when the UK exits the EU. As the Group also operates in countries which are outside of the EU this should help lessen any impact of disruption caused by an exit.
F. Employees	Attracting and retaining talented people is a Group priority to ensure our continued success. The Group has numerous skilled and highly trained and qualified employees who demonstrate their commitment to the Group through the continuous improvement of our products, processes and procedures which impacts on the Group's performance. Failure to attract the right talent, could inhibit the rate of product and process development as well as impact on the Group's performance.	Recruitment and retention of employees is a key focus for the Group to ensure its continued success. Group mitigating actions include: ▪ continuing the significant investment in training and development; ▪ personal development reviews; ▪ succession planning; ▪ promotion from within where possible ▪ outreach to Universities, Colleges and Local Schools; ▪ monitoring pay and benchmarking; ▪ maintaining the successful graduate and apprentice programmes; ▪ improving overall employee engagement; and ▪ utilisation of external and Group resource to offset any temporary gaps in key personnel.
Operational Risk		
G. Supply Chain	The Group is reliant on its supply chain as part of its aim to improve throughout and optimise stock-holding. Failure of that supply chain can result in operational disruption and delays to shipments to customers, leading to potential loss of profit and damage to customer relationships.	Each division has its own sourcing policy. Where appropriate and efficient, divisions cooperate on sourcing. Mitigating actions include: ▪ sourcing strategies to avoid single point dependence for any key commodity and standardisation to support possible stock holdings; ▪ identifying in-house capability (intra and inter-divisionally) and focused investment in related capital expenditure; ▪ exception reporting, operational planning and review processes support the early identification of risks; ▪ monitoring of supplier performance; ▪ an optimum number of suppliers with strategic, long-term partnerships on key components; ▪ strengthening of supply chain teams; and ▪ supply chain benchmarking and development.

Risk	Potential Impact	Mitigation
Financial Risk		
H. Funding	The Group is dependent on its ability to service its debts and refinance existing borrowings when they fall due as well as to fund working capital, capital expenditure, and research and development. If the Group fails to generate profits and cash it could face funding constraints that impact the business cycle.	The Group manages its capital to continue as a going concern and maintain its liquidity. The Group continually reforecasts its borrowing requirements, which include: ▪ a 13-week cash flow forecast produced each month; and ▪ a 12-month rolling profit and loss, balance sheet and cash flow forecast each quarter to ensure that funding is available to support its operations and its compliance with borrowing covenants. The Group maintains committed UK and US bank credit facilities, augmented by specific funding to support investment globally and a bonding facility. In addition, the Group maintains an active bank relationship programme and contacts with UK Export Finance, to safeguard its funding ability.
I. Working *Capital*	As a fundamental part of the Group's strategy is growth the Group is exposed to a potential increase in its working capital requirement that absorbs cash. If the Group fails to keep this increase under control it could face cash constraints that impact the business cycle.	The Group is seeking to mitigate this risk through the following means: ▪ standard terms and conditions of manufacturing contracts require customers to make stage payments to fund working capital on the contract. Where stage payments cannot be achieved by the Group, it may be possible to augment borrowing and bonding lines through use of the short-term funding schemes – eg via UK Export Finance; ▪ an on-going initiative to optimise stock; ▪ minimising lead times, to reduce working capital requirements per unit of revenue; ▪ active management of accounts receivable and accounts payable; and ▪ linking employee remuneration to cash.
J. Currency	The Group operates and sells in overseas markets that may utilise currencies other than those in which its principal costs are denominated. The exposure to foreign exchange rate fluctuations may, as a result, affect the Group's cash flow. The principal risk at present is US Dollar income.	The Group's policy is to hedge its transaction exposures (i.e. cash flows) where a significant commitment has been made and a level of cover for non-contracted flows in the 12 to 24 month period. As at date of signing, 52% of estimated USD net inflows into the UK over the following 12 months were hedged. Currency hedging lines are available from two providers.

Risk	Potential Impact	Mitigation
Financial Risk		
K. Pension Scheme	The Group maintains a defined benefit pension scheme related to the Hayward Tyler businesses. The Group could be required to increase its contributions to cover funding shortfalls caused by poor investment performance of scheme assets, a deterioration in the discount rate or inflation rate applied and changes in life expectancy of members of the scheme.	The scheme is closed to new members and to future benefit improvements. The performance of the investment advisers is monitored closely by the Company and pension trustees and action taken where that is not satisfactory. The assumptions used to determine the pension deficit/surplus are based on recommendations of the actuary to the scheme, benchmarked against market norms by an expert 3rd party. The Directors discuss the pension scheme regularly and there is frequent contact with the pension fund trustees. The aim is to strengthen the financial position of the Group, through its underlying performance, which assures stakeholders and helps to maintain or reduce contributions to cover any eventual funding shortfall. The plan trustees have selected a liability driven investment strategy aimed at reducing interest and inflation rate risks and providing a return that matches or exceeds the growth in projected pension plan liabilities.
L. Customer Credit Exposure	The group may offer credit terms to its customers which allow payment of the debt after delivery of the goods or services. The group is at risk to the extent that a customer may be unable to pay the debt on the specified due date.	This risk is mitigated by the strong on-going customer relationships.

People

At Board level, the only change in the period was that Graham Thornton retired from the Group in November 2019. Graham joined the group as a Non-Executive Director in September 2009. Within the Group structure, Colin Elcoate resigned from his position as the Chief Commercial Officer for Avingtrans, to take up a CEO role elsewhere. The Board wish Graham and Colin all the best in their future chosen careers. Top level divisional management teams were largely unchanged.

In a broader sense, the management teams in each of the three divisions continue to be strengthened, with a number of key appointments being made in the year - and with emphasis on the importance of the aftermarket opportunities. Skills availability is always a challenge, but we do not expect to be unduly constrained by shortages, given the current global economic situation. Avingtrans continues to invest significant effort in developing skills in-house, both through structured apprenticeship programmes and graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship and graduate training schemes, including winning a Queen's Award for Enterprise at Metalcraft in the period.

Our global workforce is becoming more integrated and this provides additional capability, capacity and innovative thinking around the clock, to support our global blue-chip customer base.

Health, Safety and Environment (HSE)

The Group takes HSE matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different businesses. Often, a key investment need in smaller acquisitions is to spread HSE best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions (eg like HTG previously) have well developed HSE practices and we seek to learn from these in other business units.

Health and Safety incident reporting has improved across the Group and incident trends have generally been improving over recent years. Near miss reporting and knowledge exchange is also positively encouraged, to facilitate learning and improvement. At Board level, Les Thomas has HSE oversight and he conducts inspections with local management as appropriate.

The Group's environmental policy is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business.

During the period covered by this report, the Group has not incurred any significant fines or penalties, nor been investigated for any significant breach of HSE regulations.

Covid-19 has become the biggest health and safety issue for the Group, along with everyone else. Fortunately, the nature of our products and the topography of our factories have given us a good base to work from, to make our workplaces Covid-19 safe. We have an overall set of guidelines to work to, derived from government policies around the world and local teams in each business adapt these to the specifics of their individual site. These measures include:

- Shielding of vulnerable employees
- Working from home where feasible
- Factory and office re-layouts to facilitate social distancing
- Enhanced cleaning and site hygiene
- Additional use of PPE equipment where necessary
- Minimisation and careful management of third party visitors to our sites

Where our employees have to visit other third party sites, they have protocols from their business unit to follow and must also adhere to the policies and procedures of the site which they are visiting.

Each business has a team responsible for ensuring that the Covid-19 plan is kept up to date and adapted, if required, as the circumstances of the pandemic evolve.

Taken as a whole, these measures have allowed us to operate at a high level of effectiveness throughout the pandemic and ensured that we have minimised any loss of output, whilst keeping employees safe.

Social Responsibility

It is paramount that the Group maintains the highest ethical and professional standards across all of its activities and that social responsibility should be embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business. Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

Employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability. We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We have begun to roll-out a "dignity and respect" training program across the Group. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is, to an extent, beyond our control.

Ethical policy

The Group complies with the Bribery Act 2010. We do not tolerate bribery, corruption or other unethical behaviour on the part of any of our businesses or business partners in any part of the world. Employee training has been completed in all areas of the business to ensure that the Act is complied with.

Outlook

Avingtrans is a niche engineering market leader in the Energy and Medical sectors, with a successful profitable growth record, underpinned by our 'PIE' strategy. Recent acquisitions will provide further opportunities for the Group to build enduring value for investors in resilient engineering market niches. We will continue to be frugal and seek to crystallise value and return capital when the timing is right, as part of the PIE strategy implementation. We believe that our PIE strategy has served us well in the current crisis and could result in further opportunities to grow shareholder value.

The Group continues to invest in its three divisions, with a focus on the global energy and medical markets, to position them for maximum shareholder value via eventual exits in the years to come. The integrations of Booth and Energy Steel are proceeding to plan, as demonstrated by the results in the period. Our value creation targets continue to be accomplished as planned and are underpinned by a conservative approach to debt, which is important during the crisis.

The energy divisions have a strong emphasis on the thermal power, nuclear and hydrocarbon markets and aftermarkets. The medical division continues to focus on high integrity components and systems for leading medical, industrial and scientific equipment manufacturers. To drive profitability and market engagement, each division has a clear strategy to support end-user aftermarket operations, servicing their own equipment and that of pertinent third parties, to capitalise on the continued market demand for efficient, reliable and safe facilities.

The on-going disruption caused by the pandemic is now our biggest uncertainty. However, we have taken rapid and effective cost mitigation actions so far, in order to limit any downside and we will continue to be on our guard. We are also vigilant concerning Brexit, but here we are not overly concerned, since our direct EU exposure is relatively limited and we have taken appropriate evasive actions in our supply chains, with likely further such actions to follow, depending on the exact nature of the eventual Brexit outcome.

Our markets continue to develop, despite Covid-19 and M&A opportunities remain a priority for us. Businesses like ours can command high valuations at the point of exit. The Board remains guarded but confident about the current strategic direction and potential future opportunities across our markets. We will continue to refine our business by pinpointing specific additional acquisitions as the opportunities arise, to build businesses which can create superior shareholder value, whilst maintaining a prudent level of financial headroom, to enable us to endure any subsequent headwinds, whether deriving from Covid-19, or otherwise.

The Strategic Report was approved by the Board on 29 September 2020 and signed on its behalf by:

Roger McDowell
Chairman
29 September 2020

Steve McQuillan
Chief Executive Officer
29 September 2020

Stephen King
Chief Financial Officer
29 September 2020

The Directors present their report and the audited financial statements for the year ended 31 May 2020.

Matters included in the strategic report

The Directors' consideration of likely future developments in the business, risks and KPI's have been included in the Strategic Report.

Going concern

During the year, the Group has managed its working capital and cash flows prudently and significantly within its available funding headroom. The cash flows generated from the strong underlying profits were absorbed by a £6.4m working capital outflow, partly due to the envisaged working capital outflow for acquisitions £3.2m, the timing of various contracts and an expected reversal of the skew from advance payments noted in the prior year, resulting in an operating cash outflow of £0.1m for the year (2019 inflow £9m). Additionally the Group invested an initial £1.5m net cash cost on the ES acquisition and the Booth trade and assets.

At 31 May 2020, the Group had net debt (including IFRS16 debt) of £16.4m (31 May 2019: net debt: £2.0m after £9.7m from the adoption of IFRS 16 at 1 June 19, total £11.7m), as detailed in note 24. Excluding IFRS16, debt at 31 May 2020 was £7.4m (31 May 2019: net debt: £2.0m). Net assets of £69.9m (2019: £69.3m).

The Group's system of controls includes a comprehensive budgeting system, with annual budgets approved by the Directors. Monthly monitoring of actual results against budget is standard and the Board perform a regular review of variances. There is also a Quarterly review of the Group's forecasts against actual results and market opportunities /conditions.

Annual budgets consist of a consolidated profit and loss, balance sheet and a cashflow for the following 2 years. This is based on local managements' understanding of the markets, customer requirements, supply chains, capability and capacity. This is challenged by Divisional Management to ensure it reflects a reasonable representation of all evidence available. Executive Management examine each Division's budgets in detail, alongside an analysis of risks and opportunities to ensure that they are adequately sensitised across markets/ customers/ contracts /opportunities. Divisional Management present the Budgets to the Board, which evaluates them against it's in depth knowledge of market/economic conditions. These Budgets are then refined and presented for final approval by the Board.

Each quarter, local and divisional management update the 2 year forecast with their latest market knowledge and present the updated forecasts to the Executive Management and subsequently to the Board.

Key assumptions are applied at a site level, and include a sensitised view of the order pipeline, its conversion and completion, alongside a risk profile for each division, where further sensitivity is applied, as deemed prudent on consolidation.

As reported in the Strategic Review, the Group has seen some impact of CV19 as H2 was disrupted, first in China, then in the UK and the USA and finally in India. This resulted in some delayed orders, closure/partial closure of sites, supply chain delays, etc. These conditions were fully recognised during the budget process, alongside a cautious view of short-term markets, whilst reflecting a guarded view on the trade-out of the current order book and expected beat rate orders. As a consequence of the prolonged impact of CV19, and in particular for Oil and Gas markets, the Group reluctantly approved some restructuring to be undertaken in H1 of FY21, which was fully costed into the budget models to remove anticipated excess capacity.

As discussed in more detail in the Chairman's statement and Strategic report, looking into 2021/22 and beyond, the Group has a number of exciting opportunities across all of its operations that should deliver growth and shareholder value. Despite CV19, we saw both acquisitions, Booth and Energy Steel deliver better than anticipated performances in their first year with the Group and we cautiously anticipate further improvement in each case during FY21 and FY22 with underlying positive results and cashflow helping to underpin the near term Group performance.

As reported at 31 May 2020, the Group had net debt of (including IFRS16 debt) £16.4m, excluding IFRS16 debt at 31 May 2020 was £7.4m. Additionally the Group had £11.1m of undrawn committed borrowing facilities - further details are set out in note 22.

The Group has met all banking covenants during the year and these are modelled in the budget to ensure forward compliance. The budgets and results are regularly reviewed with the Group's principal bankers to ensure adequate banking facilities remain in place at all times. At the time of writing, the Board expect adequate bank facilities to remain in place throughout the review period.

The Board consider these facilities are sufficient for the Group to meet its approved operational and budget plan. However, the Board also consider that, should unexpected conditions arise that had not been already adequately modelled through sensitivities already built into the underlying budget model, that it has the following sources of additional capital:

- Further bank borrowing against freehold land and buildings - including the Luton site where outline planning permission was recently granted;
- Potential sale and leaseback of freehold sites;
- Extension of current RCF facilities;
- Extension of borrowing against the debtor book; and
- Issue of new shares on AIM

The detailed cash flow forecasts for the Group for the period extending to 31 May 2022, indicate that the Group expects to have adequate financial resources to continue in business and work within its current banking arrangements, to deliver on its near-term strategic objectives. In the quarter since 31 May 20 the Group has generally performed as expected. Coupled with an ongoing supportive relationship with the Group's principal bankers and the fact the Directors have not identified any material uncertainties that may cast significant doubt on the ability of the company to continue to operate as a going concern, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

Results and dividends

The Group's profit for the year before tax from continuing operations amounted to £3,038,000 (2019: £3,149,000). The Board considers that it is prudent continue to preserve cash and not to declare a final dividend this year in the context of the on-going global crisis, the resulting need for targeted restructuring in the Group and having made some use of government support schemes.

Substantial shareholdings

As at 29 September 2020, the following had notified the Company that they held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	Number of shares '000	Percentage of issued share capital owned
Nigel Wray	3,273	10.3%
Funds managed by BlackRock	2,825	8.9%
Funds managed by RBC Trustees Limited	2,208	7.0%
Funds managed by Unicorn Asset Management Limited	1,946	6.1%
Harwood Capital	1,758	5.5%
R S McDowell's Pension Fund	1,406	4.4%
P McDowell's Pension Fund	1,213	3.8%
Funds managed by Threadneedle Investments	1,054	3.3%
Funds managed by LGT Bank	972	3.1%

Directors and their interests

The present Directors of the Company and those that served during the year are set out on page 1. Their interests in the share capital of the Company are set out below.

	Ordinary shares of 5p	
	31 May 2020	31 May 2019
R S McDowell	**1,406,409**	1,406,409
S McQuillan	**296,242**	243,500
S M King	**259,538**	180,248
J Clarke	**-**	-
L J Thomas	**16,000**	16,000

Share options

The Directors' interests with respect to options to acquire ordinary shares are detailed in the Report of the Directors on Remuneration.

Interests in contracts

No Director was materially interested in any contract during the year.

Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, funding, working capital, pension scheme, credit risk and liquidity risk.

The Group's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts and obligations under finance leases together with trade receivables and trade payables that arise directly from its operations. The Group has entered into derivative foreign exchange transactions where it has certainty of the outcome. Information about the use of financial instruments by the Group and the Group's financial risk management objectives and policy disclosures is given in notes 22 and 24 to the financial statements.

Research and development

During the year £608,000 (2019: £822,000) of development costs (per note 13) were capitalised as intangible assets. This was predominately at HT Luton for small submersible prototype, PB for compressor and turbine part upgrades, Metalcraft in relation to waste storage equipment and Sci-Mag for helium free niche application designs.

Disabled persons

The Group gives full and fair consideration to applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and wherever possible will retrain employees who become disabled, so that they can continue their employment in another position. The Group engages, promotes, and trains staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress.

Directors' indemnities

The Company has taken out directors' and officers' liability insurance for the benefit of its Directors during the year which remains in force at the date of this report.

Employee involvement

It is the policy of the Group to communicate with employees by employee representation on works and staff committees and by briefing meetings conducted by senior management. Career development is encouraged through suitable training Statement of Directors' responsibilities for the financial statements.

S172 - promotion of the success of the Company

The members of the Board consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 May 2020.

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law 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 Parent and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company and Group for that period.

In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each of the Directors is aware there is no relevant audit information of which the Company's and Group's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

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

Auditor

Grant Thornton UK LLP ("Grant Thornton") are willing to continue in office in accordance with section 489 of the Companies Act 2006, and a resolution to reappoint them will be proposed at the Annual General Meeting.

The report of the Directors was approved by the Board on 29 September 2020 and signed on its behalf by:

S M King
Director

Chairman's Introduction

The Group is committed to maintaining high standards of corporate governance. The Board recognises the importance of good corporate governance under AIM Rule 50 and is accountable to the Company's shareholders and stakeholders for its adoption throughout the Group. To facilitate this, we have adopted the Quoted Companies Alliance Corporate Governance Code 2018 (QCA Code).

This statement describes how the Group has complied with the ten high level principles set out in the QCA code.

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

The Board has established a core strategy to buy and build engineering companies in niche markets where we see consolidation opportunities; a strategy we call Pinpoint-Invest-Exit ("PIE") which seeks to promote long-term value for shareholders as set out within the Strategic Report page 4.

2. Seek to understand and meet shareholder needs and expectations

The Board attaches a high level of importance to maintaining good relationships with shareholders, whether they are institutions or private investors and all other stakeholders, representing them and promoting their interests, as well as being accountable to them for the performance and activities of the Group. The Board believes it is important to engage with its shareholders and aims to do this through presentations, conference calls, face-to-face meetings and the Annual General Meeting. Following the announcement of the Group's half-year and year-end results, presentations are made to analysts and major shareholders to update them on progress and invite them to ask questions.

The Board is updated on the latest shareholder information by the receipt of shareholder register movements, analyst reports and feedback from the Group's brokers, following investor road shows after half-year and year-end results.

The Board encourages all Directors to attend the Annual General Meeting as an opportunity to communicate directly with investors and actively encourages participative dialogue.

The Company provides contact details on its investor relations page on the Company's corporate website: www.avingtrans.plc.uk.

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

The Board recognise that our customers, suppliers and employees are crucial to the Group's success. The Group's responsibilities, policies and controls on Health, Safety and Environment (HSE) and Social Responsibility are set in the Strategic Report pages 15 to 16.

We have established long-term relationships with key customers and suppliers. We encourage feedback from our employees to improve the culture and working environment of the Company and hold regular meetings to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. There are specific information channels in respect of health & safety matters. The Group has a proactive approach to health, safety and the environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts.

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

The Board's approach to risk is intended to protect the interests of our shareholders and other stakeholders whilst allowing the business to develop. Our risk appetite depends on the nature of an individual risk and it is considered in Board discussions and also as part of our risk review process in the Audit Committee. From time to time, we obtain advice from third party experts, in a cost effective manner, to complement in-house knowledge.

The long-term success of the Group relies, in part, on managing the risks to our business. Whilst the Group has risk management policies and practices in place, which address and monitor risk, we seek to improve those practices each year. The Chief Financial Officer is responsible for risk management on behalf of the Board and the Audit Committee reviews the risk register on a regular basis. Ultimately, our aim is to ensure that risk management is embedded within the core processes of our business units.

The Group uses a risk register to help coordinate its risk management process. The risk register identifies the key business risks and documents the policies and practices in place to mitigate those risks.

We classify the principal risks to the business into three groups, namely, strategic risk, operational risk and financial risk. The principal risks identified by the Directors under these groups are set out in the Strategic Report pages 10 to 14. The risks considered during the Group-wide risk management process cover a wider range of issues than the key risks.

The Board, through the Audit Committee, reviews the operation and effectiveness of the systems of internal control throughout the accounting year and the period to the date of approval of the financial statements, although it should be understood that such systems are designed to provide reasonable, but not absolute assurance against material misstatement or loss. The Group's system of controls includes:

- A comprehensive budgeting system with annual budgets approved by the Directors. Monthly monitoring of actual results against budget and regular review of variances.
- Close involvement of Directors, who approve all significant transactions.
- Internal management rules which include financial and operating control procedures for all management of the Group.
- Identification and appraisal by the Board of the major risks affecting the business and the financial controls.
- Bank facilities and other treasury functions, which are monitored and policy changes approved by the Board.

The Board has considered the need for an internal audit function and concluded that this would not be appropriate at present due to the size of the Group.

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

The Board of Avingtrans plc comprises of a Non-executive Chairman, two Executive Directors and two Non-executive Directors for the majority of the year following the resignation of G K Thornton (14 November 2019). The Board is chaired by R S McDowell and assisted by the Senior Independent Non-executive Director L J Thomas, who have primary responsibility for running the Board.

S McQuillan, has executive responsibilities for the remaining operations, results and strategic development of the Group. S M King is Chief Financial Officer and Company Secretary. The Board structure ensures that no individual or group dominates the decision making process.

The Non-executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Independent Non-executive Director is available to shareholders if they have concerns.

The Board meets regularly with no less than ten such meetings held in each calendar year rotating locations around different business units. There is a formal schedule of matters specifically reserved to the Board for its decision to enable it to manage overall control of the Group's affairs. Management has an obligation to provide the Board with appropriate and timely information to enable it to discharge its duties. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.

The Nominations Committee is responsible for monitoring and reviewing the membership and composition of the Board, including the decision to recommend the appointment, or to re-appoint a director.

The Company's Articles of Association ensure Directors retire at the third Annual General Meeting after the Annual General Meeting at which they were elected and may, if eligible, offer themselves for re-election.

R S McDowell chairs the Nominations Committee, L J Thomas chairs the Audit Committee and J S Clarke chairs the Remuneration Committee. The Non-executive Directors and the Chairman are members of all the above committees.

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

The Board reviews its configuration to ensure it has the skills and oversight capability in key markets on a regular basis, strengthening our ability to leverage shareholder value via the PIE strategy.

All new Directors receive a full, formal and tailored induction on joining the Board, including meetings with senior management and advisers and visits to the Group's operational locations. Training requirements are reviewed periodically and appropriate refreshers scheduled.

The Board calendar is planned to ensure that Directors are briefed on a wide range of topics throughout the year and meetings are rotated around business units, to ensure the Non-Executive Directors have the opportunity to visit sites and discuss aspects of the business with employees.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Group's expense in the furtherance of their duties.

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

The Chairman reviews the Board's annual performance and measures its effectiveness and that of its Committees. Each Board/Committee member completes an assessment, which provides numeric scoring against specific categories. Each Board/Committee member also provides recommendations for improvement of the effectiveness of the Board/Committee.

The criteria for effectiveness include assessing:

- Board/Committee composition (including succession planning);
- Board/external reporting and information flows;
- Board Process, Internal Control & Risk Management
- Board Accountability
- Executive management effectiveness;
- Standards of Conduct

Alongside this review each Director receives an appraisal. The Chairman conducts appraisals in respect of the Group Chief Executive and Non-Executive Directors; the Non-Executive Directors (following discussions with the other Directors) conducts the Chairman's appraisal; and the Group Chief Executive conducts appraisals in respect of the other Executive Directors.

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

Culture

The Company has a strong ethical culture based upon its Code of Ethics and the Company values Integrity, Quality and Agility. The Company's reputation is built on our values, the values of our employees, and our collective commitment to acting at all times with integrity.

Part of the work of the Audit & Risk Committee involves reviewing the Group Whistle-Blowing Policy, by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties.

The Board's corporate governance structures are reviewed as part of the Board and Committee effectiveness process described above.

Compliance with laws

The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

Compliance with the Bribery Act 2010 involves an Anti-Corruption Policy and a Group Whistle-blowing Policy. Training is given to all appropriate employees through the use of online tools, to ensure that there is full understanding of the Bribery Act 2010 and awareness of the consequences of not adhering to Group policies.

The Group has taken the appropriate steps to comply with the provisions of the Market Abuse Regulation and the Modern Slavery Act. The Group has also taken appropriate steps to comply with the General Data Protection Regulation (GDPR) and has appointed a Data Protection Officer, who is responsible for managing information governance and implementing the requirements of GDPR.

Safety, health and environment

The Group has a proactive approach to Safety, Health and the Environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts.

The Board ensures that Health and Safety issues for employees, customers and the public are of foremost concern in all Group activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full-time officers and Health and Safety nominated "champions" at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented. All divisions have formulated safety management systems.

Insider trading

The Board has appropriate policies and procedures in place to guard against insider trading by employees including Directors. Appropriate clearances are required in order that trades can be made and all applicable employees are made aware of relevant close periods prior to financial results being announced.

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

The Board
Please see details above at "5. Maintain the Board as a well-functioning, balanced team led by the chair" and has a schedule of matters which are specifically reserved for its decision.

Board Committees
The Board has three Committees that assist in the discharge of its responsibilities:
- Remuneration;
- Audit & Risk; and
- Nominations.

Remuneration Committee
The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors. The Remuneration Committee comprises the Non-Executive Directors. Further details on the composition and work of the Remuneration Committee are set out in the Remuneration Report on pages 27 to 28.

Audit & Risk Committee
The Audit & Risk Committee comprises the Non-Executive Directors. The Committee meetings are also attended, by invitation, by the Chief Executive and Group Finance Director. The Committee meets no less than two times annually.

The Committee is responsible for reviewing a wide range of financial reporting and related matters including the annual accounts before their submission to the Board. The Committee is required to focus in particular on critical accounting policies and practices adopted by the Group, and any significant areas of judgment that materially impact reported results. It is also responsible for monitoring the internal controls that are operated by management to ensure the integrity of the information reported to the shareholders.

The Committee provides a forum for reporting by the Group's external auditors, and advises the Group Board on the appointment, independence and objectivity of the external auditors and on their remuneration both for statutory audit and non-audit work. It also discusses the nature, scope and timing of the statutory audit with the external auditors.

Nominations Committee
The Nominations Committee is responsible for reviewing the structure, size and composition required of the Board when compared to its current position, and it makes recommendations to the Board with regard to any changes. It considers and reviews succession planning for Board Directors, taking into account the challenges and opportunities facing the Company. It identifies and nominates for Board approval suitable candidates to fill Board vacancies as and when they arise, and it keeps under review both the Executive and Non-Executive leadership needs of the Company to enable the Company to compete effectively in the marketplace and to ensure it has the skills and oversight capability in our key.

The Nominations Committee also has responsibility for overseeing the re-election by shareholders of any director under the 'retirement by rotation' provisions in the Company's articles of association.

Executive Management Committee
The Board is supported by Executives, who meet at least quarterly to review performance and governance for the Group and regularly perform site visits. A well defined delegation of authority matrix enables the divisional management teams to operate with a degree of autonomy at a business unit level.

Evolution of governance framework
The Board continuously monitors its composition and governance framework, taking into account effectiveness and the Company's plans for future growth.

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

The corporate governance principles are set out in this statement governance above and the performance of the Company is set out in the Strategic Report page 4.

The Board maintains an active dialogue with both its institutional and private investors and stakeholders through the Annual Report, full-year and half-year announcements, the Annual General Meeting, General Meetings and one-to-one meetings with larger existing, or potential new shareholders.

The Board encourages all Directors to attend the Annual General Meeting as an opportunity to communicate directly with investors and actively encourages participative dialogue.

The Company provides a full range of corporate information (including all Company announcements, Annual and half year Statements and presentations, contact details) to shareholders, investors and the public on the Company's corporate website: www.avingtrans.plc.uk.

The results of the proxy votes for the Company's previous Annual General Meeting on 12 November 2019 were published through RNS.

Roger McDowell
Chairman
29 September 2020

Composition

The Remuneration Committee during the period comprised J S Clarke (Chairman), R S McDowell and L J Thomas. G K Thornton resigned from the committee 14 November 2019.

Principal function

The remuneration packages, including contract periods of Executive Directors and senior management, are determined by the Remuneration Committee. It ensures that the remuneration packages are appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group. The remuneration of R S McDowell is determined by the Non-executive Directors.

Avingtrans Remuneration Principles

Our remuneration principles are driven by the idea that executive remuneration should be simple and straightforward. Additionally, it should support the delivery of the Pinpoint-Invest-Exit (PIE) strategy and pay only for results when we exit businesses at an enhanced shareholder value. Our remuneration structure has the following attributes:

- The base salary, benefits and annual bonus of the executive Directors are positioned around the average for our peer group on AIM, relative to our scale.
- Long-term incentives are directly aligned to shareholders' interests, by linking remuneration specifically to the creation of shareholder value.

The Group's PIE strategy is well known to our shareholders. The Committee believes that the strategy should be linked to the Directors' Remuneration. This means that the base salaries for the executive Directors are set as above, but with a weighting towards long-term incentives. These incentives reward Directors only for significant outperformance and where shareholders also share in the resulting gains. Specifically:

- The executive Directors and the Chairman are aligned with shareholders, as material investors in Avingtrans.
- Management are incentivised to maximise returns for shareholders in two ways:
  - Via awards of share options, which are again pegged at around the average award level for our peer group on AIM and which can only be exercised on the achievement of substantial share price growth.
  - By means of Exit bonus elements, which only trigger on the disposal of businesses and which are calculated as a percentage of the shareholder value enhancement for that asset – ie taking account of the initial investment on acquisition, any additional investment during the period that the business is owned by Avingtrans and the disposal proceeds, net of costs.

Base salary and benefits

The Committee sets the salary of each Executive Director by reference to the responsibility of the position held, performance of the individual and external market data. Salaries are reviewed annually.

Annual performance related bonus

The Company operates a bonus scheme for its Directors which enables it to attract and retain high calibre senior management personnel who make a major contribution to the financial performance of the Group. Bonuses paid under the scheme are accrued under the annual bonus plan approved by the Remuneration Committee. The plan is based on various financial metrics around cash and financial performance.

Divisional Long-term incentives

The Committee has instigated long-term incentives for divisional senior management which align this cohort with shareholders, since they are based purely on performance and on the increase in value of the Group - ie:

- Via awards of appropriate share options, such as using a standard "CSOP" HMRC-approved scheme.
- By means of Exit bonuses as noted above.

Exit bonus arrangements are intended to incentivise Directors and senior managers to create value for the Group and our shareholders. These bonus elements only pay out if a material exit has occurred and if substantial shareholder added value is the result. The Board has ultimate control of Exit timing, to ensure that optimum value is achieved.

Share options

The Committee is responsible for approving grants of share options to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied, as set out on page 28.

Pensions

The Company is responsible for the contributions to the defined contribution schemes selected by the Executive Directors. Details of contributions provided in the year are set out in note 7 to the financial statements.

Service agreements

R S McDowell, S McQuillan and S M King have service contracts which are terminable on 12 months' notice by either party. The Committee consider that these contracts are in line with the market.

Non-executive Directors

Non-executive Directors' remuneration is reviewed by all members of the Board other than the Non-executive Director under review and takes the form solely of fees. L Thomas and J Clarke have a letter of appointment terminable on three months' notice by either party.

Compensation for loss of office

There are no predetermined special provisions for Executive or Non-executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly with the aim not to reward poor performance.

Directors' emoluments

Details of the remuneration of all Directors are set out in note 7 to the financial statements.

Share options Details of the share options of all Directors are as follows:

	Date of grant	At 1 June 2019 £	Granted	Exercised	At 31 May 2020 £	Weighted average exercise price £
Executive:						
S McQuillan	22/11/2013	95,000	-	-	95,000	1.760
	10/12/2014	100,000	-	100,000	-	1.110
	21/12/2016	450,000	-	-	450,000	1.930
	15/12/2017	140,000	-	-	140,000	1.815
	15/11/2018	115,000		-	115,000	2.200
	17/12/2019	-	175,000	-	175,000	2.670
		900,000	175,000	100,000	975,000	2.062
S M King	25/9/2010	39,733	-	-	39,733	0.395
	22/11/2013	84,000	-	-	84,000	1.760
	10/12/2014	75,000	-	75,000	-	1.110
	21/12/2016	330,000	-	-	330,000	1.930
	15/12/2017	110,000	-	-	110,000	1.815
	15/11/2018	100,000	-	-	100,000	2.200
	17/12/2019	-	155,000	-	155,000	2.670
		738,733	155,000	75,000	818,733	1.996

The share options are exercisable between three and ten years from the date of grant if the growth in adjusted basic earnings per share of Avingtrans plc during the three years between grant date and vesting date is at least equal to the increase in the Retail Price Index during the same period.

J S Clarke
Chairman of the Remuneration Committee
29 September 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVINGTRANS PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Avingtrans Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31st May 2020 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, 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 31st May 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and 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 and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

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

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

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

Grant Thornton

Overview of our audit approach

- Overall group materiality: £1,150,000, which represents approximately 1% of the groups revenue;
- Key audit matters were identified as;
  1. occurrence of long term contract revenue and by association accuracy of accrued income, completeness of deferred income and accuracy of work in progress
  2. Valuation of goodwill
  3. Accuracy of defined benefit pension liabilities
  4. Accuracy, completeness, valuation and presentation of the application of IFRS16
  5. Going concern
- We performed full scope audit procedures on the financial statements of all group entities in the United Kingdom and Hayward Tyler Inc a company registered in the United States. We performed substantive procedures on the key audit matters identified for the Group in Energy Steel and Supply Co, a company incorporated in the United States. We performed analytical procedures over non-significant components in India, China and the United States.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 1 – occurrence of long term contract revenue and by association accuracy of accrued income, completeness of deferred income and accuracy of work in progress Revenue is recognised throughout the group as the fair value of consideration receivable in respect of the performance of contracts. Determining the amount of revenue to be recognised from the performance of contracts requires management to make significant judgements and estimates as to the stage of completion, the costs to complete and the impact of any changes in scope of work. The Directors are also required to make an assessment to determine whether onerous contract provisions are required for loss making contracts. Due to the significant financial statement impact of the revenue derived from performance of contracts, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified contract revenue and associated balance sheet items as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Review and testing of revenue recognition policies to ensure these are reasonable and applied correctly and consistently; • Selection of a sample of contracts where revenue was recognised in the year and agreement of the revenue recorded through consideration of key information including; the total contract value, total expected costs and costs incurred in the year. For the sample selected review of key contract terms to form an understanding of the contract and testing of whether the accounting treatment applied is reasonable.; • Recalculation of the overall contract position, including WIP and accrued income or deferred income, based on the key information of the contracts; and • Performance of walkthroughs to assess the design effectiveness of controls. The group's accounting policy on long term contracts is shown on page 40 to the financial statements and related disclosures are included in note 2. The associated key judgements are shown on page 51. **Key observations** Based on our audit work, we found that the assumptions and judgements used in accounting for contracts were reasonable. We found no significant errors in the underlying calculations.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 2 – Valuation of goodwill The group has recorded goodwill before impairment of £24,464k as a result of previous acquisitions and acquisitions in the year. IAS 36 requires goodwill to be tested annually for impairment at a cash generating unit level. Due to the potential impacts of Brexit and Covid-19 we identified an enhanced risk pertaining to the impairment of goodwill. We therefore identified the valuation of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • consideration of management's assessment of cash generating units including a review of the lowest level of separable assets used to generate cashflows; • challenge of management's forecasts supporting the carrying value of goodwill, including consideration of management's assumptions of the impact of Brexit and Covid-19 on those forecasts. Our challenge included an assessment of – The current and expected trading position of the cash generating unit – The accuracy of management's previous forecasts – The growth rate applied in the forecast from the actual results in the year – The rate applied by management to discount cashflows to their present value • obtaining an understanding of management's controls and assessing the design effectiveness. The group's accounting policy on goodwill impairment is shown on page 42 to the financial statements and related disclosures are included in note 12. **Key observations** Our testing did not identify any material misstatements in the carrying value of goodwill at the year end in accordance with IAS 36.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 3 – Accuracy of defined benefit pension liabilities Hayward Tyler Limited, a subsidiary of the group, operates a defined benefit pension scheme that provides benefits to a number of current and former employees. The valuation of the pension liabilities in accordance with IAS 19 'Employee Benefits' involves significant judgement and is subject to complex actuarial assumptions. There is a significant movement in the pension scheme position between 31 May 2019 and 31 May 2020 as a result of the declining investment market due to, amongst other factors, the uncertainties created by Covid-19. We therefore identified the accuracy of defined benefit liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • checking managements policy for compliance with IAS19; • documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls; • using our internal actuarial specialist to challenge the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension asset / liability; • testing the accuracy of underlying membership data used by the group's actuary for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key member data to source records and by testing a sample of movements in the pension scheme membership and; • confirming management's conclusion that it is appropriate to recognise a pension surplus within the provisions of IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, through a review of the scheme rules. The group's accounting policy on the defined benefit pension scheme is shown on page 49 and related disclosures are included in note 28. **Key observations** Based on our audit work, we found the valuation methodologies including the inherent actuarial assumptions to be balanced and consistent with the expectation of our actuarial specialists. We consider that the group's disclosures in note 28 are appropriate. We found no errors in calculations.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 4 – Accuracy, completeness, valuation and presentation of the application of IFRS16 IFRS 16 'Leases' is required to be adopted in the financial statements for the year ended 31 May 2020. As this is the first year of adoption the Group have made significant judgements and estimates to determine the impact that the new accounting standard has had on the financial statements. The transition requires the Group to make significant judgements in applying the new standard, in particular in determining the incremental borrowing rate used in calculating the present fair value of future cashflows The group consists of a number of subsidiaries and therefore there are a number of leases to be considered across the aggregation of all subsidiaries. The transition to IFRS16 requires specific disclosures outlining the impact of the new standard. Due to all of the above we therefore identified the accuracy, completeness and presentation of amounts recorded in relation to the application of IFRS16 as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Agreement of the accuracy of the underlying lease data for a sample of transactions; • Testing over the completeness of the underlying lease data by reviewing the nominal ledger for payments that may be indicative of unrecorded lease liabilities; • Use of an auditor's expert to challenge the IBR rate applied to the calculation; • Reperformance of management's calculations to test the mathematical accuracy; • Review and challenge of managements forecasts supporting the carrying value of the assets. Including consideration of managements assumptions on the impact of Brexit and Covid-19; • Comparing the disclosures made in the financial statements to those required by IFRS 16; and • Assessment of the design effectiveness of the key controls in place throughout the transition process. The group's accounting policy on the application of IFRS16 is shown on page 38 of the financial statements and related disclosures are included in note 14. **Key observations** Based on our audit work, we found no material omitted leases or issues with the calculations prepared by management. We found the associated disclosures with the transition to be appropriate.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 5 – Going concern As stated in the 'The impact of macro-economic uncertainties on our audit' section of our report, Covid-19 is amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and the parent company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing the reliability of management's forecasting by comparing the accuracy of actual financial performance to the forecast information; • Obtaining management's forecasts to assess the potential impact of Covid-19. We evaluated the assumptions applied, including; the resulting effect on working capital during the estimated period of Covid-19, the forecasted growth in the group and the availability cash facilities of the group, for reasonableness and determined whether they had been applied accurately. We also considered whether the assumptions are consistent with our understanding of the business; • Assessing management's determination of the impact of the mitigating factors available to restrict the cash impact of the pandemic. This assessment included the corroboration of mitigating actions taken by management to relevant documentation and the review of the application in the revised forecasts for accuracy; • Performing sensitivity analysis on management's forecasts to determine the reduction in cashflows that would lead to elimination of the headroom in their original cash flow forecasts; and • Assessing the adequacy of the going concern disclosures included within the Accounting Policies of the Financial Statements. The group's related disclosures on going concern are included on page 17 of the financial statements. **Key observations** We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

We identified no key audit matters, other than going concern, relating to the parent company.

Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£1,150,000, which represents approximately 1% of the group's revenues. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group. Revenue is also a consistent basis for determining materiality compared with the previous periods. Materiality for the current year is higher than the level that we determined for the year ended 31 May 2019 as a result of an increase in group revenue in the current year.	£345,000, which represents approximately 0.5% of the parent company total assets. The benchmark is considered the most appropriate as it most accurately reflects the parent company's status as a non-trading holding company. Materiality for the current year is lower than the level that we determined for the period ended 31 May 2019 to reflect the parent company's decreased total assets in the current year.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for directors' remuneration and related party transactions.	We determined a lower level of materiality for directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£57,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£17,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

A full scope audit approach for all significant components was determined based on their relative materiality to the group and our assessment of the audit risk. We evaluated the processes and controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters such as those related to the key audit matters as identified above. We then undertook substantive testing on significant transactions and material account balances.

In order to respond to the audit risks identified in our risk assessment, we performed a full scope audit of the financial statements of the parent company, Avingtrans plc (in the United Kingdom), and of all other component entities in the United Kingdom as well as Hayward Tyler Inc, a company registered in the United States. We also performed substantive procedures on the key audit matters identified for the group in Energy Steel and Supply Co, a company incorporated in the United States.

The significant components represented 80.4 percent of consolidated revenues and 80.8 percent of total assets. Statutory audits of subsidiaries, where required by local legislation, were performed to a lower materiality where applicable.

The non-significant group components in the United States, India and China were subject to analytical procedures.

Other information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Grant Thornton UK LLP

David Munton Bsc (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date 29 September 2020

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 that are relevant to companies which apply IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with IFRS also, these are presented alongside the Group Disclosures throughout the accounts. As detailed in the Director's Report the Directors continue to adopt the going concern basis on preparing the financial statements and accounts.

The consolidated financial statements are presented in sterling and all values are rounded the nearest thousand (£'000) except where otherwise indicated.

The following Standards and Interpretations, which are relevant to the Group but have not been applied during the year, were in issue but not yet effective, none are expected to have a material impact on the financial results:

Framework	Pronouncement		Effective date
IAS	Definition of material	Amendments to IAS 1 and IAS 8	Financial periods commencing on/after 1 January 2020
IFRS	Interest Rate Benchmark Reform	Amendments to IFRS 9, IAS 39 and IFRS 7	Financial periods commencing on/after 1 January 2020
IAS	Classification of liabilities as current or non-current	Amendments to IAS 1	Not yet EU-adopted
IFRS	Sale or contribution of assets between an investor and its associate or joint venture	Amendments to IFRS 10	Not yet EU-adopted
IFRS	Amendments to References to the Conceptual Framework in IFRS Standards		Financial periods commencing on/after 1 January 2020

New standards adopted

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with no impact upon the opening balance of retained earnings for the current period. Prior periods have not been restated.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 June 2019:

	Carrying amount at 31 May 2019 £'000	Reclassification £'000	Remeasurement £'000	IFRS 16 carrying amount at 1 June 2019 £'000
Property, plant and equipment	26,576	(1,683)	9,731	34,623
Prepayments	3,283	(61)		3,222
Lease liabilities	(2,170)		(9,731)	(11,901)
Accruals	(6,212)	53		(6,159)
Deferred gain on sale and leaseback (current)	(143)	143		-
Deferred gain on sale and leaseback (non-current)	(1,549)	1,549		-
	19,785	-	-	19,785

The deferred gain on sale and leaseback relates to historical gains in disposal of freehold property. Under IAS 17 we were required to recognise these gains evenly over the lease term. Under IFRS 16, any gain is adjusted against the ROU asset value.

The following is a reconciliation of total operating lease commitments at 31 May 2019 (as disclosed in the financial statements to 31 May 2019) to the lease liabilities recognised at 1 June 2019:

	Carrying amount at 31 May 2019 £'000
Operating lease commitments disclosed at 31 May 2019	9,541
Additional operating lease commitment identified	2,262
Restated Operating lease commitments disclosed at 31 May 2019	11,803
Less short-term leases recognised on a straight-line basis as expense	(313)
Less low value leases recognised on a straight-line basis as expense	(14)
Discounted using the incremental borrowing rate at the date of initial application	(1,745)
Impact of adoption of IFRS 16	9,731
Finance leases disclosed at 31 May 2019	2,171
Lease liability recognised as at 1 June 2019	11,902
Of which are:	
Current	1,902
Non-current	10,000
Lease liability recognised as at 1 June 2019	11,902

During the implementation exercise additional lease liabilities were identified which had not been included in the disclosure in the prior year notes to the financial statements. This difference mainly relates to leases for premises.

IFRS 3 Definition of a business

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. This standard has been early adopted by the Group and was not mandatory until our financial year commencing on 1 June 2020.

The amendment to IFRS 3 has allowed management to apply the Concentration Test in regards to the purchase of the assets from Booth Industries. As the Bolton property and associated fixed plant constituted the majority of the assets purchased and therefore represents substantially all of the value under the concentration test and therefore the assets acquired do not constitute a separate business.

Significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 May 2020. Subsidiaries are entities over which the Group has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group obtains and exercises control of its subsidiaries through voting rights. Employee Benefit Trusts ("EBT") are consolidated on the basis that the parent has control as it bears the risks and rewards of having established the trust, thus the assets and liabilities of the EBT are included on the Group balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

All intra-group transactions have been eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Profit or loss from discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post tax gain or loss resulting from the measurement and disposal of assets classified as held for sale, is further analysed in note 36. The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date of the latest period presented.

Business combinations

Business combinations are accounted for by using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired business, at the acquisition date, regardless of whether or not they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies.

Goodwill recognised on business combinations is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) the fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Acquisition costs are expensed through the income statement as incurred.

An intangible asset acquired in a business combination is deemed to have a cost to the Group equal to its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Where an intangible asset might be separable, but only together with a related tangible or intangible asset, and the individual fair values of the assets in the group are not reliably measurable, the group of assets is recognised as a single asset separately from goodwill. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as single assets provided the individual assets have similar useful lives.

Goodwill

Goodwill represents the future economic benefits arising from business combinations that are not individually identified and separately recognised. Goodwill is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

Revenue

Contract Revenue

The Group recognises revenue under IFRS 15. Revenue is recognised when control of the goods or services transfers to the customer. The Group applies the following five step framework when recognising revenue.

Step 1: Identify the contracts with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue

At the inception of the contract, the Group assesses the goods or services that have been promised to the customer, and identifies as a performance obligation:

- a good or service (or bundle of goods or services) that is distinct;

- or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Contracts often contain a bundle of goods and services (i.e. a motor with an installation). We determine if a good or service is distinct where both of the following criteria are met:

- the customer can benefit from the good or service on its own or in conjunction with other readily available resources; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The criteria the Group uses to identify the performance obligations within a contract are:

- the customer must be able to benefit from the goods or services either on its own or in combination with other resources available to the customer; and
- the entity's promise to transfer the good or service to the customer is separable from other promises in the contract.

The transaction price is the value that the Group expects to be entitled to from the customer and includes discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and liquidated damages, but is not reduced for bad debts. It is net of any Value Added Tax (VAT) and other sales related taxes. Variable consideration that is dependent on certain events is included in the transaction price when it is "highly probable" that the variable consideration will occur.

Revenue is recognised over time as the product is being manufactured or a service being provided if any of the following criteria are met:

- The Group is creating a bespoke item which doesn't have an alternative use to the Group and the entity has a right to payment for work completed to date including a reasonable profit.
- The customer controls the asset that is being created or enhanced during the manufacturing process i.e. the customer has the right to significantly modify and dictate how the product is built during construction.
- Services provided where the customer simultaneously receives and consumes the benefits provided as the Group performs.

Judgement is made when determining if a product is bespoke and the value of revenue to recognise over time as products are being manufactured. To calculate the amount of revenue to be recognised the Group apply a percentage of completion method. This method calculates revenue by multiplying the contract revenue by the percentage of costs incurred relative to total estimated costs.

If the criteria to recognise revenue over time is not met then revenue is recognised at a point in time when the customer obtains control of the asset and the performance obligation is satisfied. The customer obtains control of the asset when the customer can direct the use of the asset and obtain the benefits from the asset. The majority of revenue across all our operating segments is currently recognised at a point of time, however this can vary depending on the nature of the contracts in any year.

Significant original equipment contracts can take up to 12 months to complete from the start of the manufacturing process. As the period of time between customer payment and performance will always be one year or less, the Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for the effects of financing.

In obtaining contracts, the Group may incur a number of incremental costs, such as commissions paid to sales staff. As the amortisation period of these costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in IFRS 15.94 and expenses them as they incur.

Non-contract revenue

Factors the Group considers when determining the point in time when control of the asset has passed to the customer and revenue recognised include:

1. The Group has a right to payment;
2. Legal title is transferred to the customer;
3. Physical possession of the asset has been transferred to the customer;
4. The customer has the significant risks and rewards of ownership; and
5. The customer has accepted the asset.

Control normally passes and revenue recognised when the goods are either despatched or delivered to the customer (in accordance with the terms and conditions of the sale) or the installation and testing is completed.

Dilapidations
When there is reasonable certainty of the cash outflow in respect of dilapidations this is provided for within accruals in the financial statements. Where there is significant uncertainty in respect of the amount or timing of the payment of dilapidations, this is included within provisions.

Dividends
Dividends are recognised when the shareholders right to receive payment is established. Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in a general meeting prior to the balance sheet date. Interim dividends are recognised when paid.

Exceptional items
Operating costs which are material by virtue of their size or incidence and are not expected to be recurring are disclosed as exceptional items. Exceptional costs comprise acquisition and restructuring costs as set out in note 4.

Non-underlying items
Non-underlying costs for the year include amortisation of acquired intangibles, share based payment charge, acquisition related expenses, and restructuring costs as set out in note 4.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Disposal of assets
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale is included in administrative expenses in the income statement.

Depreciation
Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The rates/periods generally applicable are:

Buildings	2.0% – 4.0%
Plant and machinery	6.7% - 20%
Equipment and motor vehicles	12.5% - 33%

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

Material residual value estimates are updated as required, but at least annually.

Impairment testing of goodwill, other intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Discount factors are determined individually for each cash generating unit and reflect current market assessments at the time value of money and asset-specific risk factors.

If the impairment is subsequently reversed, the carrying amount, except for goodwill, is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment been recognised. Impairment losses in respect of goodwill are not reversed.

Leased assets

As described above, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 June 2019

For any new contracts entered into on or after 1 June 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. The incremental borrowing rate has been determined by looking at historical borrowing rates and adjusting these to reflect the term of the lease, economic environment, and type of asset being leased. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. On transition to IFRS 16 Leases, incremental borrowing applied to leases fell in the range of 3.6% - 5.6% depending on the nature and term of the lease.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients: Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment.

Accounting policy applicable before 1 June 2019

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Investments

Investments in subsidiary undertakings and participating interests are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Publicly traded investments are stated at cost less any provision to arrive at market value. Cost is purchase price.

Investment income is recognised on a received basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Finance income/costs

Interest is recognised using the effective interest method, which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and laws that have been enacted or substantially enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if the reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. All unused tax losses and credits have been recognised in the year as management believes that use of the deferred tax asset created is probable.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the consolidated income statement, except where they relate to items that are charged or credited to other comprehensive income or directly to equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity.

The group has accounted for research and development expenditure tax credits above operating profit.

Intangible assets

i) Order book and customer relationships

Customer lists acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values.

The useful lives for these intangible assets are finite.

These intangible assets are amortised on a straight-line basis over the following periods:

- Order book - Period of order cover
- Customer relationships - Up to 10 years

Intangible assets (continued)

The amortisation charge is shown within amortisation of intangibles in the income statement.

ii) Software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

The useful lives for these intangible assets are finite.

Software is amortised over three years and the amortisation charge is shown within administrative expenses in the income statement.

iii) Brand
Brand is amortised on a straight line basis of between 10 and 15 years and the amortisation charge is shown within administrative expenses in the income statement. The useful lives for these intangible assets are finite.

iv) Internally generated development costs
Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Other intangible assets include capitalised development costs incurred in the development of new products and process development. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life. Management assess the useful life of group intangible assets to be in the range of five to ten years.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Group's management also monitors whether the recognition requirements for development costs continue to be met and an assessment made of its recoverability. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Costs that are directly attributable to the development phase of technology are recognised as an intangible asset, provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

For a project meeting these criteria, subsequent costs incurred will be capitalised until the product or process is available for use, at which point amortisation commences on a straight line basis over the product's estimated useful life, generally 3 – 8 years. The useful lives for these intangible assets are finite. Where businesses are in start up or have a specific contract covering the amortisation then a period longer than 8 years could be used. Amortisation costs are shown within administrative expenses.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The cost of internally generated development costs comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on project development along with an appropriate portion of relevant overheads.

Borrowing costs

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. All other borrowing costs are expensed in the period in which they are incurred and reported within "finance costs".

Equity

Share capital represents the nominal value of shares that have been issued.

When the Company purchases its own shares, the consideration is deducted from equity (attributable to the Company's equity holders until the shares are either cancelled or issued) as an investment in own shares reserve. Such shares are held at cost.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Capital redemption reserve represents the nominal value of shares cancelled.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve.

Merger reserve was created on the acquisition of Hayward Tyler Group PLC.

Other reserves were created on redemption of preference shares.

Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.

All transactions with owners of the parent are recorded separately within equity.

Financial assets and liabilities

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
• amortised cost
• fair value through profit or loss (FVTPL)
• fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVOCI. The classification is determined by both:
• the entity's business model for managing the financial asset
• the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within cost of sales.

Subsequent measurement of financial assets

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
• they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
• the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category.

Impairment of financial assets
IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced the 'incurred loss model' in IAS 39. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Financial assets and liabilities (continued)

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and

• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 24 Financial Instruments for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities
The Group's financial liabilities include trade payables, borrowings and lease liabilities. The Group has derivative financial instruments which can be either an asset or liability depending on the value of the underlying asset.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits held on call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Post-employment benefits, short-term employee benefits and share-based employee remuneration

Post employee benefits

Hayward Tyler Group provides post-employment benefits through a defined benefit plan. This plan formed part of the business combination.

The Group provides post-employment benefits through defined benefit plans as well as various defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The contributions are recognised as an employee benefit expense when they are due.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. Under the Group's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The asset recognised in the statement of financial position for defined benefit plans is the present value of the fair value of plan assets less the defined benefit obligation (DBO) at the reporting date. The net surplus at the end of the year is £1.6 million (2019: £1.3 million) which is deemed recoverable due to the fair value nature of the calculation and therefore recognised in full.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on standard rates of inflation, salary growth rate and mortality. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in finance costs. Gains and losses resulting from remeasurements of the net defined benefit liability are included in other comprehensive income.

Short-term benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its key management personnel. None of the Group's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period.

The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

Foreign currencies

The individual Financial Statements of each Group entity are presented in the currency in the primary economic environment of which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position are presented in sterling (£). Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item recognised in other comprehensive income, otherwise such gains and losses are recognised in profit or loss.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at a rate which is considered to be approximate to the rate prevailing at the date of the transaction. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and accumulated in the "translation reserve" in equity. On disposal of a foreign operation the cumulative translation differences are reclassified from equity to profit or loss when the gain or loss is recognised.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the Chief Executive, who is considered to be the chief operating decision maker. The Chief Executive focuses on information by operating division and the Group has therefore identified reportable operating segments comprising Energy-EPM, Energy-PRSE and Medical-MII.

The Chief Executive also reviews information by geographical area and whilst this is considered supplementary to the operating information, it is disclosed in the financial statements to provide additional information.

Government grants

A government grant is recognised only when there is reasonable assurance that (a) the Group will comply with any conditions attached to the grant and (b) the grant will be received.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets. Government grants in respect of assistance of a revenue nature are credited to the income statement in the same period as the related expenditure.

Hayward Tyler Limited ("HTL"), based in Luton, UK, was awarded a £3.5 million grant from the Regional Growth Fund ("RGF") pre-acquisition by AVG. The deferred income liability is reduced by grant income that is recognised in the consolidated income statement. This grant income is included in operating charges as a deduction from related research, development and training expenses.

Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has announced the plan's main features to those affected by it.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

The amount recognised for dilapidations is a management estimate in relation to the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood's Peterborough property.

Critical accounting judgements and key sources of estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Revenue and margin on contracts

For sales of goods where we judge revenue should be recognised over time, the Group applies the percentage of completion method. This method calculates revenue by multiplying the contract revenue by the percentage of costs incurred relative to total estimated costs. Total expected revenue and cost on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis.

Lease liability

Management in the adoption of IFRS 16 has applied a judgement which relates to the assessment of the likelihood that lease contract extension and termination options will be exercised.

Lease liabilities are initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. In most cases the rate implicit in the lease cannot be determined, consequently, we are required to discount at the incremental borrowing rate. Management judgement is required in determining the incremental borrowing rate. In coming to this figure we have considered the weighted average lease term, security, historical borrowing rates, and the economic environment.

Deferred tax assets

Management have recognised a deferred tax asset based on expected losses expected to be utilised over the next 5 year period. The assessment of this utilisation is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Further details relating to deferred tax assets are in note 25.

Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to apply a suitable discount rate in order to calculate present value. The assumptions and sensitivities applied by management in determining whether there is any impairment of goodwill are set out in note 12.

Fair values at acquisition

Management have made judgments regarding the fair value of assets and liabilities acquired in the period. As part of this review we are required to identify and estimate the fair value of intangible assets. Workings to obtain the fair value of these intangible assets are largely based on management's estimates of attributable cash flows discounted to present their present value. Details of acquired intangibles is presented in note 13.

Recoverability of contract assets and trade receivables

Management estimate the recoverable amount of balances relating to ongoing contracts that are incomplete at the date of approval of the financial statements. In particular in relation to claims the Directors prepare a best estimate of the amount expected to be recovered at the balance sheet date by reference to ongoing negotiations with customers. Management periodically revisit the claim and their assessment of the amount expected to be recovered. Contract assets and trade receivables are detailed in note 17. The value of contract assets at 31 May 2020 was £15.6m. Intercompany balances and investments held by the Company have been reviewed by Management by reviewing future cashflows and despite Covid 19 are still considered to be recoverable.

Warranties
The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience, current knowledge and future expectation that defects may arise. The value of warranty provisions at 31 May 2020 was £1.5 million (note 19).

Dilapidations
The amount recognised for the dilapidation provision is managements estimate in relation to the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood's Peterborough property. The estimate has then been discounted to its present value based on a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability (note 19).

Defined benefit pension liability
Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit pension gross liability of £13.5 million (2019: £12.9 million) is based on standard rates of inflation and mortality. The estimate does not include anticipation of future salary increases as there are no members with benefits related to future salary progression. Discount factors are determined close to each period end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit pension obligations. The value of the defined benefit pension asset at 31 May 2020 was £1.6 million (2019: £1.3million). Further details of the pension scheme are in note 28.

Avingtrans plc

CONSOLIDATED INCOME STATEMENT

For the year ended 31 May 2020

	Note	2020 £'000	2019 £'000
Revenue	2	**113,913**	104,044
Cost of sales		**(82,284)**	(76,349)
Gross profit		**31,629**	27,695
Distribution costs		**(4,931)**	(4,599)
Other administrative expenses		**(22,557)**	(19,477)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items		**7,051**	5,796
Amortisation of acquired intangibles	13	**(2,223)**	(1,595)
Share based payment	27	**(112)**	(98)
Acquisition costs	35	**(294)**	(86)
Restructuring costs		**(281)**	(398)
Operating profit	2	**4,141**	3,619
Finance income	5	**38**	132
Finance costs	6	**(1,141)**	(602)
Profit before taxation		**3,038**	3,149
Taxation	9	**(634)**	(714)
Profit after taxation from continuing operations		**2,404**	2,435
(Loss)/profit after taxation from discontinuing operations	36	**(1,018)**	76
Profit for the financial year attributable to equity shareholders		**1,386**	2,511
Earnings per share:			
From continuing operations			
- Basic	11	**7.6p**	7.8p
-Diluted	11	**7.5p**	7.7p
From continuing and discontinuing operations			
-Basic	11	**4.4p**	8.0p
-Diluted	11	**4.3p**	8.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020 £'000	2019 £'000
Profit for the year	**1,386**	2,511
Items that will not be subsequently be reclassified to profit or loss		
Remeasurement of defined benefit liability (note 28)	**58**	(581)
Income tax relating to items not reclassified	**(43)**	99
Items that may/will subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**120**	445
Total comprehensive income for the year attributable to equity shareholders	**1,521**	2,474

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

Avingtrans plc

CONSOLIDATED BALANCE SHEET AT 31 MAY 2020

	Note	2020 £'000	2019 £'000
Non current assets			
Goodwill	12	**23,459**	23,369
Other intangible assets	13	**13,834**	14,483
Property, plant and equipment	14	**34,445**	26,576
Deferred tax	25	**1,241**	1,423
Pension and other employee obligations	28	**1,646**	1,299
		74,625	67,150
Current assets			
Inventories	16	**13,390**	14,441
Trade and other receivables: amounts falling due within one year	17	**36,910**	31,549
Current tax asset	9	**1,221**	234
Cash and cash equivalents	18	**5,088**	8,909
		56,609	55,133
Total assets		**131,234**	122,283
Current liabilities			
Trade and other payables	20	**(30,308)**	(31,405)
Lease liabilities	23	**(2,125)**	(750)
Borrowings	22	**(6,005)**	(4,945)
Current tax liabilities	9	**(70)**	(69)
Provisions	19	**(5,514)**	(5,340)
Derivatives		**(36)**	(44)
Total current liabilities		**(44,058)**	(42,553)
Non-current liabilities			
Borrowings	22	**(3,965)**	(3,817)
Lease liabilities	23	**(9,340)**	(1,420)
Deferred tax	25	**(2,460)**	(2,073)
Contingent consideration		**(256)**	(256)
Other creditors	21	**(1,247)**	(2,870)
Total non-current liabilities		**(17,268)**	(10,436)
Total liabilities		**(61,326)**	(52,989)
Net assets		**69,908**	69,294
Equity			
Share capital	26	**1,588**	1,568
Share premium account		**14,970**	14,018
Capital redemption reserve		**1,299**	1,299
Translation reserve		**430**	310
Merger reserve		**28,949**	28,949
Other reserves		**180**	180
Investment in own shares	34	**(4,235)**	(3,435)
Retained earnings		**26,727**	26,405
Total equity attributable to equity holders of the parent		**69,908**	69,294

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 September 2020 and signed on its behalf by:

S M King
Director
Company number: 01968354

Avingtrans plc

COMPANY BALANCE SHEET AT 31 MAY 2020

	Note	2020 £'000	2019 £'000
Non current assets			
Investments	15	**35,939**	36,029
		35,939	36,029
Current assets			
Trade and other receivables: amounts falling due within one year	17	**31,804**	34,298
Current tax asset		**-**	-
Cash at bank and in hand	18	**1,658**	60
		33,462	34,358
Total assets		**69,401**	70,387
Current liabilities			
Trade and other payables	20	**(477)**	(542)
Borrowings	22	**(181)**	(180)
Total current liabilities		**(658)**	(722)
Non-current liabilities			
Borrowings	22	**(370)**	(536)
Contingent consideration		**(256)**	(256)
Total non-current liabilities		**(626)**	(792)
Total liabilities		**(1,284)**	(1,514)
Net assets		**68,117**	68,873
Capital and reserves			
Called up Share capital	26	**1,588**	1,568
Share premium account		**14,970**	14,018
Capital redemption reserve		**1,299**	1,299
Merger reserve		**28,949**	28,949
Other reserves		**180**	180
Profit and loss account		**21,131**	22,859
Total equity attributable to equity holders of the parent		**68,117**	68,873

The parent company has taken the exemption conferred by S.408 Companies Act 2006 not to publish the profit and loss account of the parent company with these consolidated accounts. The loss dealt with in the parent company's financial statements was £649k (2019: loss of £254k).

The financial statements were approved by the Board of Directors and authorised for issue on 29 September 2020 signed on its behalf by:

S M King
Director
Company number: 01968354

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

Avingtrans plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Other reserves £'000	Investment in own shares £'000	Retained earnings £'000	Total £'000
At 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	25,396	67,792
Ordinary shares issued	15	633	-	-	-	-	-	-	648
Dividends paid	-	-	-	-	-	-	-	(1,118)	(1,118)
Investment in own shares	-	-	-	-	-	-	(600)	-	(600)
Share-based payments	-	-	-	-	-	-	-	98	98
Total transactions with owners	15	633	-	-	-	-	(600)	(1,020)	(972)
Profit for the year	-	-	-	-	-	-	-	2,511	2,511
Other comprehensive income									
Actuarial loss for the year on pension scheme	-	-	-	-	-	-	-	(581)	(581)
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	99	99
Exchange gain	-	-	-	-	445	-	-	-	445
Total comprehensive income for the year	-	-	-	-	445	-	-	2,029	2,474
Balance at 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**310**	**180**	**(3,435)**	**26,405**	**69,294**
At 1 June 2019	1,568	14,018	1,299	28,949	310	180	(3,435)	26,405	69,294
Ordinary shares issued	20	952	-	-	-	-	-	-	972
Dividends paid	-	-	-	-	-	-	-	(1,192)	(1,192)
Investment in own shares	-	-	-	-	-	-	(800)	-	(800)
Share-based payments	-	-	-	-	-	-	-	112	112
Total transactions with owners	20	952	-	-	-	-	(800)	(1,080)	(908)
Profit for the year	-	-	-	-	-	-	-	1,386	1,386

Avingtrans plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Other reserves £'000	Investment in own shares £'000	Retained earnings £'000	Total £'000
Other comprehensive income									
Actuarial gain for the year on pension scheme	-	-	-	-	-	-	-	58	58
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	(43)	(43)
Exchange gain	-	-	-	-	120	-	-	-	120
Total comprehensive income for the year	-	-	-	-	120	-	-	1,401	1,521
Balance at 31 May 2020	1,588	14,970	1,299	28,949	430	180	(4,235)	26,726	69,907

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

Avingtrans plc
COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 June 2018	1,553	13,385	1,299	28,949	180	24,133	69,499
Ordinary shares issued	15	633	-	-	-	-	648
Dividends paid	-	-	-	-	-	(1,118)	(1,118)
Share-based payments	-	-	-	-	-	98	98
Total transactions with owners	15	633	-	-	-	(1,020)	(372)
Loss for the year	-	-	-	-	-	(254)	(254)
Total comprehensive expense for the year	-	-	-	-	-	(254)	(254)
Balance at 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**180**	**22,859**	**68,873**
At 1 June 2019	1,568	14,018	1,299	28,949	180	22,859	68,873
Ordinary shares issued	20	952	-	-	-	-	972
Dividends paid	-	-	-	-	-	(1,192)	(1,192)
Share-based payments	-	-	-	-	-	112	112
Total transactions with owners	20	952	-	-	-	(1,080)	(108)
Loss for the year	-	-	-	-	-	(648)	(648)
Total comprehensive expense for the year	-	-	-	-	-	(648)	(648)
Balance at 31 May 2020	**1,588**	**14,970**	**1,299**	**28,949**	**180**	**21,131**	**68,117**

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

Avingtrans plc
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Cash flows from operating activities	29	**2,919**	10,468
Finance costs paid		**(1,189)**	(608)
Income tax paid		**(1,527)**	(589)
Contributions to defined benefit plan		**(254)**	(243)
Net cash (outflow) inflow from operating activities		**(51)**	9,028
Investing activities			
Acquisition of subsidiary undertakings, net of cash acquired	35	**720**	(132)
Finance income		**38**	131
Purchase of intangible assets		**(760)**	(848)
Purchase of property, plant and equipment		**(3,984)**	(2,344)
Proceeds from sale of property, plant and equipment		**-**	248
Net cash used in investing activities		**(3,986)**	(2,945)
Financing activities			
Equity dividends paid		**(1,192)**	(1,118)
Repayments of bank loans		**(675)**	(3,278)
Repayment of leases		**(2,200)**	(1,033)
Proceeds from issue of ordinary shares		**972**	48
Proceeds from borrowings		**3,808**	597
Net cash inflow/(outflow) from financing activities		**713**	(4,784)
Net (decrease)/increase in cash and cash equivalents		**(3,324)**	1,299
Cash and cash equivalents at beginning of year		**8,053**	6,565
Effect of foreign exchange rate changes on cash		**(36)**	189
Cash and cash equivalents at end of year	18	**4,693**	8,053

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

Avingtrans plc
COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 May 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Cash flows from operating activities	30	**(3,483)**	(1,216)
Finance costs paid		**(14)**	(18)
Income tax paid		**(112)**	(13)
Net cash outflow from operating activities		**(3,609)**	(1,247)
Investing activities			
Repayment from/(loan to) subsidiary undertakings		**4,920**	(850)
Finance income		**674**	744
Net cash generated from/(utilised by) investing activities		**5,594**	(106)
Financing activities			
Equity dividends paid		**(1,192)**	(1,118)
Repayments of bank loans		**(167)**	(182)
Proceeds from issue of ordinary shares		**972**	648
Net cash outflows from financing activities		**(387)**	(652)
Net increase/(decrease) in cash and cash equivalents		**1,598**	(2,005)
Cash and cash equivalents at beginning of year		**60**	2,065
Cash and cash equivalents at end of year	18	**1,658**	60

The principal accounting policies and notes on pages 38 to 94 form part of these financial statements.

1 Corporate information

The consolidated financial statements of Avingtrans plc and its subsidiaries (collectively the Group) for the year ended 31 May 2020 were authorised for issue in accordance with a resolution of the directors on 29 September 2020. Avingtrans plc (the parent) is a limited company incorporated in England & Wales, whose shares are publicly traded on AIM. The registered office is located at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA. The Group is principally engaged in the provision of highly engineered components, systems and services to the energy, medical and infrastructure industries worldwide.

2 Segmental analysis

For management purposes, the Group is currently organised into three main segments Energy-EPM, Energy-PSRE and Medical-MII. The basis on which the Group reports to the Chief Executive.

The principal activities are as follows:

- Energy - EPM, built around Hayward Tyler which designs, manufactures and services performance-critical electric motors and pumps for the global energy industry, as both an OEM supplier and a trusted through life support partner.
- Energy - PSRE, is the design, manufacture, integration and servicing of an extensive product offering including steam turbines, gas compressors, pressure vessels, blast doors, containers and skidded systems.
- Medical – MII, is the design and manufacture of innovative equipment for the medical, science and research communities. Including cutting-edge products for medical diagnostic equipment; high performance pressure, vacuum vessels and composite materials for research organisations; superconducting magnets and helium-free cryogenic systems in magnetic resonance imaging (MRI), nuclear magnetic resonance (NMR).

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements as presented below:

Year ended 31 May 2020	**Energy EPM**	**Energy PSRE £'000**	**Medical MII £'000**	**Unallocated central items £'000**	**Total £'000**
Original Equipment	**12,780**	**38,366**	**11,879**	-	**63,025**
After Market	**36,530**	**14,358**	-	-	**50,888**
Revenue	**49,310**	**52,724**	**11,879**	-	**113,913**
Operating profit/(loss)	**1,261**	**3,903**	**(326)**	**(697)**	**4,141**
Net finance costs					**(1,103)**
Taxation					**(634)**
Profit after tax from continuing operations					**2,404**
Segment non-current assets	**46,933**	**22,978**	**4,714**	-	**74,625**
Segment current assets	**25,072**	**23,613**	**3,169**	**4,755**	**56,609**
	72,005	46,591	7,883	4,755	131,234
Segment liabilities	(3,845)	(29,875)	(9,627)	(17,979)	(61,326)
Net assets	**68,160**	**16,716**	**(1,744)**	**(13,224)**	**69,908**
Non-current asset additions					
Intangible assets	1,697	336	118	-	2,151
Tangible assets	1,574	2,292	118	-	3,984
	3,271	2,628	236		6,135

Unallocated assets/ (liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities. Energy EPM results include the acquisition of Energy Steel which contributed £7.9m Group revenue and £0.9m loss after tax respectively (note 35). Energy PSRE results include the acquisition of the trade and assets of Booth Industries which contributed £9.6m Group revenue and £63,000 loss after tax (note 35).

2 Segmental analysis (continued)

Year ended 31 May 2019	Energy EPM	Energy PSRE £'000	Medical MII £'000	Unallocated central items £'000	Total £'000
Original Equipment	13,888	30,055	12,048	-	55,991
After Market	35,069	12,884	100	-	48,053
Revenue	48,957	42,939	12,148	-	104,044
Operating profit/(loss)	2,874	1,930	(204)	(981)	3,619
Net finance costs					(470)
Taxation					(714)
Profit after tax from continuing operations					2,435
Segment non-current assets	44,285	17,903	4,962	-	67,150
Segment current assets	20,756	28,051	5,036	1,290	55,133
Segment liabilities	(27,563)	(21,040)	(1,417)	(2,969)	(52,989)
Net assets	37,478	24,914	8,581	(1,679)	69,294
Non-current asset additions					
Intangible assets	171	378	299	-	848
Tangible assets	1,258	826	261	-	2,344
	1,428	1,204	560	-	3,192

Unallocated assets/ (liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities.

The following tables provides an analysis of the Group's revenue by destination and the location of non-current assets by geographical market:

	2020 Revenue £'000	2019 Revenue £'000	**2020 Non-current Assets £'000**	2019 Non-current Assets £'000
United Kingdom	**44,556**	37,441	**42,592**	50,660
Europe (excl. UK)	**14,022**	10,736	**-**	-
United States of America	**21,009**	14,045	**29,587**	14,455
Africa & Middle East	**3,965**	3,867	**-**	-
Americas & Caribbean (excl. USA)	**5,002**	3,228	**-**	-
China	**8,325**	10,240	**2,396**	2,018
Asia Pacific (excl. China)	**17,034**	24,486	**51**	17
	113,913	104,044	**74,626**	67,150

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2020 £'000	2019 £'000
Over time	**54,087**	31,911
Point in time	**59,826**	72,133
	113,913	104,044

The Group had no single external customer which represented more than 10% (2019: EPM Revenue £12,336,000 11.9%) of the Group's revenue.

Prior year figures have been restated throughout the notes due to Crown moving to discontinued operations.

Contract assets and liabilities

	31 May 2020	1 June 2019
	£'000	£'000
Contract assets:		
Energy – EPM	**10,730**	4,965
Energy – PSRE	**4,836**	5,679
	15,566	10,644
Contract liabilities:		
Energy – EPM	**(2,670)**	(4,260)
Energy – PSRE	**(2,573)**	(6,762)
	(5,243)	(11,022)

When payments received from customers exceed revenue recognised to date on a particular contract, any excess is recognised as a contract liability. Conversely, where the amount recognised on a particular contract exceeds the payments received, this amount is recognised as a contract asset.

3 Profit before taxation - continuing

Profit before taxation is stated after charging/(crediting):

	2020	2019
	£'000	£'000
Depreciation of property, plant and equipment	**4,321**	3,218
Profit on disposal of property, plant and equipment	**3**	(13)
Amortisation of internally generated intangible assets	**403**	356
Cost of inventories recognised as an expense	**36,144**	40,503
Loss on foreign exchange transactions	**47**	263
Amounts recognised from government grants	**(75)**	(311)
Staff costs (note 8)	**40,639**	36,026
Charitable donations	**14**	12
Research and development expenditure	**543**	308

Discontinued operations would have charged an additional £764,000 (2019 £1,630,000) had they been included in the above.

Auditor's remuneration

	2020	2019
	£'000	£'000
Fees payable to the Company's auditor for the audit of the financial statements	**54**	58
Fees payable to the Company's auditor and its associates for other services:		
- Audit of the financial statements of the Company's subsidiaries and associates pursuant to legislation	**196**	141

4 Adjusted Earnings before interest, tax, depreciation and amortisation

	2020 £'000	2019 £'000
Profit before tax from continuing operations	**3,038**	3,149
Share based payment expense	**112**	98
Acquisition costs	**294**	89
Restructuring costs	**281**	395
Loss/(gain) on derivatives	**8**	(83)
Unwinding of discounting on dilapidation provision	**88**	85
Amortisation of intangibles from business combinations	**2,223**	1,595
Adjusted profit before tax from continuing operations	**6,044**	5,328
Finance income	**(38)**	(132)
Finance cost	**1,141**	602
Loss on derivatives/unwinding of discounting on dilapidation provision	**(96)**	(2)
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**7,051**	5,796
Depreciation	**4,321**	3,219
Amortisation of other intangible assets	**403**	356
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA') from continuing operations	**11,775**	9,371

The Directors believe that the above adjusted earnings are a more appropriate reflection of the Group performance.

5 Finance income

	Group 2020 £'000	2019 £'000
Bank balances and deposits	**5**	4
Interest from defined benefit pension scheme	**33**	45
Gain arising on the fair value of derivative contracts	**-**	83
	38	132

6 Finance costs

	Group 2020 £'000	2019 £'000
Amortisation of banking facility arrangement fees	**30**	28
Finance charges relating to the unwinding of provisions	**88**	85
Losses arising on the fair value of derivative contracts	**8**	-
Interest on bank loans and overdrafts wholly repayable within five years	**499**	361
Interest on bank loans and overdrafts wholly repayable after five years	**26**	18
Interest on finance lease agreements	**490**	110
	1,141	602

Interest on lease liabilities has increased by £377,000 in the financial year as a result of the adoption of IFRS 16 and the lease interest on the right-of-use assets.

7 Directors' emoluments

Particulars of directors' emoluments are as follows:

	Salary and Fees £'000	**Benefits £'000**	**Long Term Incentive £'000**	**Total 2020 £'000**	Total 2019 £'000	**Pension Total 2020 £'000**	Pension Total 2019 £'000
Non-executive:							
R S McDowell	73	-	-	**73**	72	-	-
J Clarke	34	-	-	**34**	33	-	-
EW Lloyd-Baker*	-	-	-	**-**	24	-	-
LJ Thomas	35	-	-	**35**	35	-	-
GK Thornton*	31	-	-	**31**	44	-	-
Executive:							
S McQuillan	293	2	38	**333**	424	-	-
S M King	239	-	34	**273**	344	-	-
Total emoluments	705	2	72	**779**	976	-	-

The fees of JS Clarke, EW Lloyd-Baker, LJ Thomas and GK Thornton were paid to JS Clarke Consulting Ltd, Lloyd-Baker & Associates LLP. Heriot Resources Ltd and RG Associates respectively.

* EW Lloyd-Baker and GK Thornton resigned from the Board on 30 November 2018 and 14 November 2019 respectively.

The non-cash benefits comprise the provision of private health insurance for S McQuillan. The number of Directors who are accruing benefits under money purchase schemes is nil (2019: nil).

The long term incentive represents the initial interest in the Joint Ownership Scheme (see note 34).

Employers National Insurance Contributions made relating to directors' emoluments were £116,000 (2019: £128,000).

During 2020 S McQuillan and S M King exercised 100,000 and 75,000 share options respectively resulting in capital gains of £60,000 and £45,000 (2019: S McQuillan and S M King exercised nil options) as set out on page 28.

8 Employees

Particulars of employees, including Executive Directors:

	2020 £'000	2019 £'000
Wages and salaries	**35,288**	31,725
Social security costs	**3,501**	2,981
Other pension costs	**1,738**	1,222
Share-based payment expense	**112**	98
	40,639	36,026

Discontinued operations wages and salaries of £391,000 (2019 £508,000) have not been included in the above note.

The average monthly number of employees (including Executive Directors) during the year was:

	2020 Number	2019 Number
Production	**540**	454
Selling and distribution	**144**	128
Administration	**197**	171
	881	753

The remuneration of the Directors and Senior Management, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2020 £'000	2019 £'000
Short term employee benefits (including NIC)	**1,100**	1,379
Post-employment benefits	**10**	10
Share-based payments	**94**	42
	1,204	1,431

9 Taxation

	2020 £'000	2019 £'000
Continuing operations		
Current tax		
Corporation tax – current year	**440**	-
Corporation tax – prior year	**192**	444
Overseas tax	**(170)**	975
Total current tax	**462**	1,419
Deferred tax (note 25)		
Deferred tax – current year	**138**	(624)
Deferred tax – prior year	**(32)**	(81)
Deferred tax – rate	**66**	-
Total deferred tax	**172**	(705)
Tax charge on continuing operations	**634**	714
Tax credit on discontinued operations	**(200)**	(81)
Total tax charge in the year	**434**	633

UK corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit/loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9 Taxation (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2020 £'000	2019 £'000
Profit before taxation:		
Continuing operations	**3,038**	3,149
Discontinued operations	**(1,218)**	(5)
	1,820	3,144
Theoretical tax at UK corporation tax rate of 19% (2019: 19%)	**346**	598
Effects of:		
Expenditure that is not tax deductible	**203**	(69)
Un-provided deferred tax differences	**(60)**	122
Adjustments in respect of prior years	**8**	283
Recognition of previously unrecognised losses	**(68)**	(459)
Rate differential on timing differences	**(12)**	(46)
Change in deferred tax rate	**51**	-
Differential in overseas tax rate	**(34)**	204
Total tax charge	**434**	633

The Group has tax losses carried forward of approximately £32.6 million at 31 May 2020 (2019: £35.4million) that may be relievable against future profits. Further details are detailed in note 25.

The Group's corporation tax assets and liabilities can be summarised as follows:

	2020 £'000	2019 £'000
Current tax assets		
Corporation tax	**1,221**	234
	1,221	234
Current tax liabilities		
Corporation tax	**(70)**	(69)
	1,151	165

Corporation tax assets includes refunds due on US taxes and R&D claims made in the UK.

Factors that may affect future tax charges

The substantively enacted UK corporation tax rate at 31 May 2020 and 2019 was 19%. As per the March 2019 budget the tax rate will remain at 19%. The deferred tax asset at 31 May 2020 has been calculated based on these rates.

10 Dividends

	2020 £'000	2019 £'000
Interim dividend paid of 1.4p per ordinary share (2019: 1.3p)	**439**	404
Final dividend paid of 2.4p per ordinary share (2019: 2.3p)	**753**	714
	1,192	1,118

11 Earnings per ordinary share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 which requires that earnings should be based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the CSOP and ExSOP share options.

	2020 Number	2019 Number
Weighted average number of shares – basic	**31,531,278**	31,225,440
Share option adjustment	**569,687**	340,920
Weighted average number of shares – diluted	**32,100,965**	31,566,360

	2020 £'000	2019 £'000
Profit from continuing operations	**2,404**	2,435
Share based payment expense	**112**	98
Acquisition costs	**294**	89
Restructuring costs	**281**	395
Loss/(gain) on derivatives	**8**	(83)
Unwinding of discounting on dilapidation provision	**88**	85
Amortisation of intangibles from business combinations	**2,223**	1,595
Adjusted earnings from continuing operations	**5,410**	4,614
From continuing operations:		
Basic earnings per share	**7.6p**	7.8p
Adjusted basic earnings per share	**17.2p**	14.8p
Diluted earnings per share	**7.5p**	7.7p
Adjusted diluted earnings per share	**16.9p**	14.6p
(Loss)/earnings from discontinuing operations:	**(1,018)**	76
From discontinuing operations		
Basic (loss)/earnings per share	**(3.2)p**	0.2p
Adjusted basic (loss)/earnings per share	**(0.7)p**	0.2p
Diluted (loss)/earnings per share	**(3.2)p**	0.2p
Adjusted diluted (loss)/earnings per share	**(0.7)p**	0.2p
Earnings attributable to shareholders	**5,199**	4,690
Basic earnings per share	**4.4p**	8.0p
Adjusted basic earnings per share	**16.5p**	15.0p
Diluted earnings per share	**4.3p**	8.0p
Adjusted diluted earnings per share	**16.2p**	14.9p

The Directors believe that the above adjusted earnings per share calculation for continuing operations is a more appropriate reflection of the Group's underlying performance.

There are 585,000 share options at 31 May 2020 (2019: 490,000) that are not included within diluted earnings per share because they are anti-dilutive.

12 Goodwill

	£'000
Cost	
At 1 June 2018 and 1 June 2019	24,219
Acquisition of subsidiary undertaking (note 35)	238
Exchange adjustments	7
At 31 May 2020	**24,464**
Accumulated impairment losses	
At 1 June 2018 and 1 June 2019	850
Impairment charge	155
At 31 May 2020	**1,005**
Net book value	
At 31 May 2020	**23,459**
At 31 May 2019	23,369

The impairment charge in the year is from the Crown business moving to discontinued.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2020 £'000	2019 £'000
Energy-EPM	**15,352**	15,107
Energy-PSRE	**6,598**	6,753
Medical-MII	**1,509**	1,509
	23,459	23,369

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

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the revenue growth rates, expected changes to selling prices and direct costs during the period and discount rates.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and derives cash flows for the following two years based on estimated growth rates for the specific markets in which each CGU operates. The Group uses its past experience in compiling the cashflow forecasts. The estimated growth rate does not exceed the average long-term growth rate for the relevant markets. A rate of between 0% and 3% has been used for Energy-EPM, Energy-PSRE and Medical-MII CGUs respectively. Recent changes to management and improvements to the contract negotiation and costing processes are expected to increase margins whilst Medical is developing into new markets and service.

Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The rate used to discount the forecast cash flows is 10.5% (2019: 11.7%) which is considered appropriate based on the Group's borrowings adjusted for the aggregate risk in the respective markets.

Management have sensitised these key assumptions for each CGU within what is considered a reasonably possible range for the market in which the Group operates. If we were to assume a 0% long term growth rate a £798,000 impairment to goodwill would arise. If the discount rate was increased by 1% a £1,359,000 impairment would arise.

Whilst a five year horizon is shorter than the expected remaining life of the relevant CGUs, the directors consider this a suitable period to apply in performing impairment reviews due to the inherent uncertainty in further extrapolating three year forecasts.

13 Other intangible assets – group

	Customer Relationships £'000	Order book £'000	Brand £'000	Development costs £'000	Software £'000	Total £'000
Cost						
At 1 June 2018	**10,532**	**3,096**	**2,504**	**4,412**	**553**	**21,097**
Additions	-	-	-	822	26	848
Disposals	-	-	-	-	(1)	(1)
Exchange adjustments	-	-	-	13	(1)	12
At 1 June 2019	**10,532**	**3,096**	**2,504**	**5,247**	**577**	**21,956**
Additions	-	-	61	608	91	760
Acquisition of subsidiary undertakings (note 35)	-	1,387	-	-	-	1,387
Disposals	-	-	-	(625)	-	(625)
Exchange adjustments	-	43	-	-	-	43
At 31 May 2020	**10,532**	**4,526**	**2,565**	**5,230**	**668**	**23,521**
Accumulated amortisation						
At 1 June 2018	**633**	**2,529**	**141**	**1,844**	**338**	**5,485**
Charge for the year	845	567	194	318	65	3,677
At 1 June 2019	**1,478**	**3,096**	**335**	**2,162**	**403**	**7,473**
Charge for the year	845	1,194	194	419	36	2,688
Reclassification from PPE	-	-	-	-	84	84
Exchange adjustments	-	31	-	6	-	37
Disposals	-	-	-	(595)	-	(595)
At 31 May 2020	**2,323**	**4,321**	**529**	**1,992**	**523**	**9,687**
Net book value at 31 May 2020	**8,209**	**205**	**2,036**	**3,238**	**145**	**13,834**
Net book value at 31 May 2019	9,054	-	2,169	3,085	174	14,483

14 Property, plant and equipment - group

	Land and buildings	Plant and Machinery	Equipment and motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 June 2018	**16,395**	**13,770**	**2,174**	**32,339**
Additions	229	1,282	833	2,344
Transfer	136	7	(143)	-
Assets written off	(2)	(514)	(119)	(635)
Exchange adjustments	33	55	59	147
At 1 June 2019	**16,791**	**14,600**	**2,804**	**34,195**
Adjustment on transition to IFRS 16	6,850	670	526	8,046
Restated brought forward at 1 June 2019	**23,641**	**15,270**	**3,330**	**42,241**
Acquisitions	4	107	11	122
Additions	1,604	1,878	502	3,984
Disposals	(106)	(116)	(312)	(534)
Transfers	-	161	(161)	-
Exchange adjustments	18	66	27	111
At 31 May 2020	**25,161**	**17,366**	**3,397**	**45,924**
Depreciation				
At 1 June 2018	**1,003**	**2,806**	**935**	**4,744**
Charge in the year	874	1,805	561	3,240
Assets written off	-	(293)	(107)	(400)
Exchange adjustments	12	7	16	35
At 1 June 2019	**1,889**	**4,325**	**1,405**	**7,619**
Charge in the year	1,770	1,962	610	4,343
Disposals	(59)	(106)	(279)	(444)
Reclassification to intangibles	-	49	(133)	(84)
Exchange adjustments	17	15	13	45
At 31 May 2020	**3,617**	**6,245**	**1,616**	**11,479**
Net book value at 31 May 2020	**21,544**	**11,121**	**1,781**	**34,445**
Net book value at 31 May 2019	14,902	10,275	1,399	26,576

Right-of-use assets

Included in property, plant and equipment are right-of-use assets as follows:

	Carrying amount	Additions	Depreciation expense
	£'000	£'000	£'000
Land and buildings	7,783	52	1,216
Plant and machinery	2,293	1,432	558
Equipment and motor vehicles	257	60	100
	10,333	1,545	1,873

15 Investments

	Group undertakings £'000	Capital contributions £'000	Total £'000
Cost			
At 1 June 2018	40,284	117	40,401
Acquisition of subsidiary undertakings	-	52	52
At 1 June 2019	40,284	169	40,543
Investment in subsidiary undertaking	1,650	65	1,715
At 31 May 2020	**41,934**	**234**	**42,168**
Provision			
At 1 June 18 and 1 June 2019	4,424	-	4,424
Provision against subsidiary undertaking	1,805	-	1,805
At 31 May 2020	**6,229**	**-**	**6,229**
Net book value at 31 May 2020	**35,705**	**234**	**35,939**
Net book value at 31 May 2019	35,860	169	36,029

During the year a further investment was made in Composite Products Limited of £1.65m. Due to economic uncertainty there was an impairment in the year of the same amount. Additionally £155,000 was impaired for Crown.

The Company has the following investments in Ordinary shares in subsidiaries:

Name	Country of incorporation	Principal activity
Crown UK Limited	England and Wales	Trading
Stainless Metalcraft (Chatteris) Limited	England and Wales	Trading
Metalcraft (Chengdu) Limited *	China	Trading
Metalcraft (Sichuan) Limited *	China	Trading
Maloney Metalcraft Limited	England and Wales	Trading
Composite Products Limited	England and Wales	Trading
Space Cryomagnetics Limited	England and Wales	Trading
Scientific Magnetics Limited	England and Wales	Trading
Hayward Tyler Limited *	England & Wales	Trading
Hayward Tyler Inc *	USA	Trading
Energy Steel & Supply Co. *	USA	Trading
Hayward Tyler Pumps (Kunshan) Co Limited *	China	Trading
Hayward Tyler India PTE Limited *	India	Trading
Hayward Tyler Fluid Handling Limited *	England & Wales	Trading
Peter Brotherhood Limited *	England & Wales	Trading
Tecmag Inc *	USA	Trading
Hayward Tyler Group plc	Isle of Man	Holding company
Southbank UK Limited *	England & Wales	Holding company
Hayward Tyler Group Limited *	England & Wales	Holding company
Hayward Tyler Holdings Limited *	England & Wales	Holding company
Hayward Tyler Holding Inc *	USA	Holding company
Nviro Cleantech Limited *	England & Wales	Holding company
Nviro Cleantech Inc *	USA	Holding company
Vertus Technologies Limited *	Cayman Islands	Holding company
Nviro Cleantech Limited *	Cayman Islands	Holding company
Redglade Associates Limited *	England & Wales	Property
Redglade Investments Limited *	England & Wales	Property

15 Investments (continued)

Name	Country of incorporation	Principal activity
Hayward Tyler Pension Plan Trustees Limited*	England & Wales	Manages pension scheme
Hayward Tyler (UK) Limited *	England & Wales	Dormant
Appleton & Howard Limited *	England & Wales	Dormant
Credit Montague Limited *	England & Wales	Dormant
Mullins Limited *	England & Wales	Dormant

* Indirectly owned subsidiary.

All subsidiaries are 100% owned.

16 Inventories

	Group 2020 £'000	Group 2019 £'000
Raw materials and consumables	**7,276**	6,646
Work in progress	**2,730**	5,220
Finished goods	**3,384**	2,575
	13,390	14,441

The replacement cost of the above stocks would not be significantly different from the values stated. During the period there was an impairment charge included in cost of sales of £46,000 (2019: £384,000). The stock provision included within raw materials is £2,191,000 (2019: £1,794,000).

17 Trade and other receivables

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Amounts falling due within one year				
Trade receivables	**16,388**	17,058	**-**	-
Allowance for doubtful debts	**(219)**	(497)	**-**	-
	16,169	16,561	**-**	-
Other receivables	**362**	1,061	**4,235**	3,435
Amounts owed by group undertakings	**-**	-	**27,559**	30,829
Prepayments	**4,813**	3,283	**10**	34
Contract assets	**15,566**	10,644	**-**	-
	36,910	31,549	**31,804**	34,298

The Group has impaired all trade receivables to the present value of estimated future cash receipts where it considers the collection of the receivable is doubtful.

The Group's maximum exposure to credit risk is limited to trade receivables net of allowance for doubtful debts.

An explanation of credit risk relating to trade receivables is provided on note 24 financial instruments.

18 Cash and cash equivalents

Cash and cash equivalents included the following components:

	Group		Company	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Cash at bank and in hand:				
GBP	**3,053**	1,852	**1,658**	60
USD	**474**	4,834	**-**	-
EUR	**471**	1,078	**-**	-
Other	**1,090**	1,145	**-**	-
Total cash at bank and in hand	**5,088**	8,909	**-**	
Overdraft:	**(395)**	(856)	**-**	-
Total cash and cash equivalents	**4,693**	8,053	**1,658**	60

19 Provisions

The carrying amounts and the movements in the provision account are as follows:

	Group				
	Warranty £'000	**Loss making contracts £'000**	**Other £'000**	**Dilapidations £'000**	**Total £'000**
Carrying amount					
1 June 2018	1,856	1,775	242	2,262	**6,135**
Acquisition of subsidiary undertakings	8	-	-	24	**32**
IFRS 15 adjustments	(75)	600	-	-	**525**
Additional provisions	816	1,058	334	83	**2,291**
Amounts utilised	(679)	(1,753)	(449)	-	**(2,881)**
Reversals	(462)	(355)	-	-	**(817)**
Exchange Adjustments	55	-	-	-	**55**
1 June 2019	**1,519**	**1,325**	**127**	**2,369**	**5,340**
Acquisition of subsidiary undertakings	236	793	-	-	**1,029**
Additional provisions	699	341	57	154	**1,251**
Amounts utilised	(444)	(970)	(186)	-	**(1,600)**
Reversals	(537)	-	-	-	**(537)**
Exchange Adjustments	16	13	2	-	**31**
31 May 2020	**1,489**	**1,502**	**-**	**2,523**	**5,514**

Warranty provision: Provisions for warranty work represent the estimated cost of work provided under the terms of the contracts with customers with reference to the length and unexpired portion of the terms provided. Warranty periods vary by product and typically have a range of 12 to 24 months.

Loss making contracts: Provisions for loss making contracts are the estimated total costs that exceed the total revenues from contracts that are in progress at the reporting date. These contracts are expected to complete in the next 12 months and the losses utilised.

Other provisions: The balance to carry forward in other provisions relates to liquidated damages. Provisions for liquidated damages are the liabilities estimated to arise on the expected delay in shipment of contracts that have been shipped prior to 31 May 2020. There were minor expected delays in the year.

Dilapidations: Provision for dilapidation mainly represents the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood Limited's Peterborough property, which resulted from the sale and leaseback of the property. The lease ends in 2031. The majority of the movement in the year is from the unwinding of discounted cashflows on this.

20 Trade and other payables

	Group		Company	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Trade payables	**12,483**	11,694	**303**	65
Other tax and social security	**1,553**	1,334	**26**	28
Other payables	**1,714**	1,143	**119**	143
Contract liabilities	**5,243**	11,022	**-**	-
Accruals	**9,315**	6,212	**29**	306
	30,308	31,405	**477**	542

The prior year amount of £11m recognised as a contract liability was utilised within the current reporting period.

The other payables balance includes deferred grant income arising from the US Paycheck Protection Program of £749,000 (2019: £nil). This balance is expected to be recognised in the Income Statement in the next reporting period.

21 Other creditors

	Group		Company	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Non-current				
Other creditors	**1,247**	2,870	**-**	-

22 Financial assets and liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Group		Company	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Financial assets at amortised cost:				
Trade and other receivables	**16,169**	16,561	**27,559**	30,829
Contract assets	**15,566**	10,644	**-**	-
Cash and cash equivalents	**5,088**	8,909	**1,658**	60
Total financial assets	**36,823**	36,114	**29,217**	30,797
Financial liabilities at amortised cost:				
Trade payables	**12,483**	11,694	**303**	65
Borrowings	**9,970**	8,762	**551**	716
Lease obligations	**11,465**	2,170	**-**	-
	33,918	22,626	**854**	781
Financial liabilities measured at FVTPL:				
Derivative financial instruments	**36**	44	**-**	-
Contingent consideration	**256**	256	**256**	256
Total financial liabilities	**34,210**	22,926	**1,110**	1,037

A description of the Group's financial instrument risks is included in note 24.

22 Financial assets and liabilities (continued)

All of the Group's derivative financial instruments in the current and prior year relate to USD forward contracts. All derivative financial instruments in the current and prior period have a maturity within 12 months of their respective balance sheet date.

Borrowings comprise of:

	Group		Company	
Secured borrowings	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Bank overdrafts and short term borrowings	**1,367**	856	**-**	-
Bank loans	**8,603**	7,906	**551**	716
Total borrowings	**9,970**	8,762	**551**	716
Amount due for settlement within 12 months	**6,005**	4,945	**181**	180
Amount due for settlement after 12 months	**3,965**	3,817	**370**	536

	Group		Company	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Bank loans due within one to two years	**686**	612	**181**	180
Bank loans due within two to five years	**2,902**	3,205	**189**	356
Bank loans due after five years	**377**	-	**-**	-
	3,965	3,817	**370**	536

Bank loans, overdrafts and short term borrowings of £9,970,000 (2019: £8,762,000) are secured on certain assets of the Group.

At 31 May 2020 the Group had £11,094,061 (2019: £10,255,000) of undrawn committed borrowing facilities expiring within one year which the Directors expect to be renewed. All borrowings were at variable rates relative to local base rates.

Short term borrowings and Bank loans were based on variable LIBOR rates at margins of between 2.75% - 3.0% and 1.5% - 2.5% respectively.

The Group have £11,750,000 (2019:£11,250,000) of bond and guarantee facilities to support ongoing contract trading activity. As at the 31 May, £8,862,415 is utilised (2019: £6,825,036).

23 Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	At 31 May 2020 £'000	At 31 May 2019 £'000
Current	**2,125**	750
Non-current	**9,340**	1,420
	11,465	2,170

With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 14).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments were as follows:

	Within 1 year £'000	1 – 5 years £'000	Over 5 years £'000	Total £'000
31 May 2020				
Lease payments	2,654	6,700	5,029	14,384
Finance charges	(529)	(1,417)	(973)	(2,919)
Net present value	2,125	5,283	4,056	11,465
31 May 2019				
Lease payments	1,092	1,325	1,338	3,755
Finance charges	(342)	(463)	(780)	(1,585)
Net present value of lease obligations	750	862	558	2,170

Present value of lease obligations at 31 May 2019 presents the obligations relating to finance leases under IAS 17.

The group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	£'000
Short-term leases	494
Leases of low value assets	29
	523

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £2.3m at 31 May 2020.

23 Lease liabilities (continued)

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. 5% of the Group's lease liabilities are subject to inflation-linked rentals and a further 45% are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.

The Group has not signed any leases in the year which have not yet commenced.

24 Financial instruments

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 22. The main types of risks are capital risk, market risk, foreign currency risk, interest risk, price risk, credit risk, and liquidity risk.

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 22 and 23 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Board closely monitor current and forecast cash balances at monthly Board meetings to allow the Group to maximise return to shareholders by way of dividends, whilst maintaining suitable amounts of liquid funds and facilities to allow acquisitions to be funded as opportunities arise and continued investment in property, plant and equipment and research and development. The level of dividends are set by the Board to meet the expectations of the shareholders based on cash generated by the Group.

	Group		Company	
The gearing ratio at the year-end is as follows:	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Debt	**(21,435)**	(10,932)	**(551)**	(716)
Cash and cash equivalents	**5,088**	8,909	**1,658**	60
Net (debt)/cash	**(16,347)**	(2,023)	**1,107**	(656)
Equity	**69,907**	69,294	**68,117**	68,873
Net (debt)/cash to equity ratio	**(23.4)%**	(2.9)%	**1.6%**	(1.0)%

Removing the impact of IFRS 16, at 31 May 2020 net debt would have been £7,385,000 and equity would have been £70,101,000. Consequently, on the same accounting basis as prior year the Group's net debt to equity ratio would have been (10.5) %.

Debt is defined as short and long term borrowings and lease liabilities, as detailed in note 22. Equity includes all capital and reserves of the Group attributable to equity holders of the parent. The Group is not subject to externally imposed capital requirements.

Market risk
The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates particularly in US dollars and the Euro.

Foreign currency risk management
The Group enters into forward foreign currency contracts to eliminate exposures on certain material sales or purchases denominated in foreign currency once a significant commitment has been made.

Derivative contracts are measured at fair value in the statement of financial position with movements in that fair value being recognised in profit or loss.

The Group presently has £0.6 million (2019: £0.8 million) to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2020.

24 Financial instruments (continued)

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies on overseas assets. These changes are considered to be reasonably possible based on observation of current market conditions.

	Euro currency impact		US $ currency impact		RmB currency impact	
	2020	2019	**2020**	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Impact (+/-) on						
Profit for the financial year/equity	**28**	(38)	**581**	332	(366)	-

Interest rate risk management
The Group finances its operations where necessary through bank loans, overdrafts and finance lease facilities. The bank loans and overdrafts are at floating rates principally at negotiated margins using pooling of the Group's requirements to achieve this. The finance lease facilities are held at both fixed and floating rates.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank overdrafts attracting interest at floating rates) were to change by + or – 0.5% the impact on the results in the income statement and equity would be an increase/decrease of £8,000. These charges are considered to be reasonably possible based on observation of current market conditions.

Price risk management
Where possible the Group enters into long term contracts with suppliers to mitigate any significant exposure to materials and utilities price risk.

Credit risk management
The Group's principal financial assets are bank balances, cash, and trade receivables. The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures.

The Group's principal credit risk is attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no major customer representing more than 10% (2019: no major customer which representing more than 10%) of trade receivables, the Group has no other significant concentration of receivables.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics, for example, the Group have a significant number of government contracts which we consider to be lower credit risk than corporate entities.

The expected loss rates are based on a review of historical customer payment profiles as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

Trade receivables are written off (ie derecognised) when there is no reasonable expectation of recovery. Usually this occurs when the customer goes into administration or ceases trading.

24 Financial instruments (continued)

Ageing of trade receivables and expected credit loss provision:

	Trade receivables aged from invoice date					
	0-30	**31-60**	**61-120**	**121-360**	**>360**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
31 May 2020						
Trade receivables, gross	10,236	3,098	1,500	1,039	515	16,388
Expected credit loss provision	(21)	(5)	(11)	(91)	(91)	(219)
	10,215	3,093	1,489	948	424	16,169
31 May 2019						
Trade receivables, gross	12,005	3,174	652	855	371	17,058
Expected credit loss provision	(171)	(8)	(4)	(203)	(110)	(496)
	11,834	3,166	648	652	261	16,561

The Directors consider that the carrying amount of trade and other receivables approximates to fair value.

The average credit period taken on sales of goods is 31 days (2019: 41 days) in respect of the Group. No interest is generally charged on the receivables until legal action is taken. Thereafter, interest is charged at 8% above bank base rate on the outstanding balance.

Liquidity risk management

The Group funds acquisitions through a mixture of cash, equity and long term debt. Short term financing needs are met by working capital facilities.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a monthly 13 week projection. Long-term liquidity needs for up to a two year period are projected monthly and reviewed quarterly. The Group maintains cash and working capital facilities to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

Details about the maturity of financial liabilities can be found in note 22 Financial assets and liabilities.

All facilities are secured on the assets of the Group.

25 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Intangibles £'000	Other temporary differences £'000	Tax losses £'000	Total £'000
At 1 June 2018	**142**	**2,223**	**549**	**(1,454)**	**1,460**
Credit to income – continuing operations	(468)	(306)	35	33	(705)
Credit to income – discontinued operations	(6)	3	-	(2)	(6)
Charge/credit to other comprehensive income	-	-	(99)	-	(99)
At 1 June 2019	**(332)**	**1,920**	**485**	**(1,423)**	**650**
Arising on fair value adjustments on business combinations	-	386	-	-	386
On acquisition of Energy Steel	-	-	(16)	-	(16)
Reclassification	810	-	(810)	-	-
Credit to income – continuing operations	57	(317)	254	178	172
Credit to income – discontinued operations	(14)	(6)	-	4	(16)
Charge/credit to other comprehensive income	-	-	43	-	43
At 31 May 2020	**521**	**1,983**	**(44)**	**(1,241)**	**1,219**

Certain deferred tax assets and liabilities have been offset where the relevant criteria are met. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 £'000	2019 £'000
Deferred tax assets	**1,241**	2,073
Deferred tax liabilities	**(2,460)**	(1,423)
	1,219	650

At the balance sheet date the Group has unused tax losses of £32.6 million (2019: £35.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £6.5 million (2019: £8.4 million) of such losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results and the future projected profitability of entities within the Group. In addition the Group has an unrecognised deferred tax asset of £30k (2019: £28k) in respect of share based payments.

At the balance sheet date the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2019: £nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26 Called up share capital

	2020 No.	£'000	2019 No.	£'000
Allotted, issued and fully paid				
Ordinary shares of 5p each	**31,752,861**	**1,588**	31,362,053	1,568

Reconciliation of movement in allotted, issued and fully paid share capital

	No.	£'000
At 1 June 2019 and 31 May 2019	31,362,053	1,568
Shares issued in period to ExSOP (note 34)	303,308	15
Shares issued on exercise of share options (note 27)	87,500	5
At 31 May 2020	**31,752,861**	**1,588**

The Company has a share option scheme under which options to subscribe for the Company's shares have been awarded to certain directors and employees. During the year 87,500 options were exercised, 6,000, 5,000, 11,500 and 65,000 at 109.0p, 176.0p, 177.5p and 193.0p respectively. The market price on the day of exercise was 280.0p, 250.0p, 251.0p and 312.5p. Further details of the scheme are given in note 27.

The market price of the Company's shares at the end of the year was 233.0p (2019: 215.0p). The highest and lowest market prices during the year were 185.0p and 330.0p (2019: 235.0p and 172.5p respectively).

27 Share-based payments

The Group has recognised a portion of the fair value of these options in calculating the profit for the current and prior year.

	2020 Options (No. '000)	2020 Weighted Average Exercise price p	2019 Options (No. '000)	2019 Weighted Average Exercise price p
Outstanding at the start of the year	**2,577.7**	**183.99**	2,147.7	175.74
Lapsed during the year	**126.5**	**198.23**	44.6	191.26
Issued during the year	**585.0**	**267.00**	490.0	219.37
Exercised during the year	**317.5**	**131.18**	15.4	138.51
Outstanding at the end of the year	**2,718.7**	**207.36**	2,577.7	183.99
Exercisable at the end of the year	**1,284.7**	**185.32**	480.7	130.27

The options outstanding at 31 May 2020 had exercise prices in the range 39.5p to 267.0p and a weighted average remaining contractual life of 7.3 years (2019: 7.6 years). The average market share price of options at date of exercise was 267.74p (2019: 217p).

27 Share-based payments (continued)

The terms of these options are as follows:

Date of grant	Options outstanding at 31 May 2020	Vesting period	Market value at date of grant (p)	Exercise price (p)	Exercise period
23/9/2010	39,733	3 years	39.50	39.50	24/9/2013 to 23/9/2020
22/11/2013	182,000	3 years	176.00	176.00	23/12/2016 to 22/12/2023
9/12/2014	8,000	3 years	109.00	109.00	10/12/2017 to 9/12/2024
21/12/2016	1,055,000	3 years	193.00	193.00	22/12/2019 to 21/12/2026
15/12/2017	104,000	3 years	177.50	177.50	16/12/2020 to 15/12/2027
15/12/2017	330,000	3 years	181.50	181.50	16/12/2020 to 15/11/2027
15/11/2018	130,000	3 years	218.50	218.50	16/11/2021 to 15/11/2028
15/11/2018	285,000	3 years	220.00	220.00	16/11/2021 to 15/11/2028
17/12/2019	585,000	3 years	267.00	267.00	17/12/2022 to 16/12/2029

The performance condition for each of these options is that the increase in adjusted EPS must be at least equal to the increase in RPI over the vesting period.

All share options are equity settled. The adjusted EPS is the basic earnings per share published in the Preliminary Announcement of Results with adjustments made for amortisation of acquisition related intangibles costs of share based payments, and exceptional items agreed by the Remuneration Committee. Further adjustments to the above performance conditions may be approved by the Remuneration Committee to reflect future changes in accounting standards.

The fair value of the options was calculated by external consultants, Pegg, Franklin & Co and Pinsent Masons.

Options granted with performance conditions are valued using the Black-Scholes model.

For all awards, recipients are required to remain in employment with the Group over the vesting period.

Future volatility at the date of grant has been estimated by reference to the historical volatility at that time.

The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Total charge to the income statement in respect of share-based payments

	2020	2019
	£'000	£'000
In respect of:		
Equity settled share options	**112**	99

There are no share based payment transactions that were expensed immediately. A deferred tax credit of £nil (2019: £nil) was recognised during the year in respect of share based payments.

28 Pensions and other employee obligations

Within the UK the Group operates a defined benefit plan with benefits linked to final salary and a defined contribution plan.

The defined benefit pension arrangement, called the Hayward Tyler Pension Plan (the "Plan"), and provides benefits based on final salary and length of service on retirement, leaving service or death. With effect from 1 June 2003 the Plan was closed to new UK employees and to future service accrued for existing members who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements. The method used in assessing the Plan liabilities is the projected unit method. A full valuation of the Plan is produced every three years (the last one being as at 1 January 2017) and updated annually to 31 May 2020 by independent qualified actuaries.

The Plan is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Plan is carried out at least once every three years to determine whether the Statutory Funding Objective is being met. As part of the process the Company must agree with the trustees of the Plan the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Plan in these accounts.

The Plan is managed by a board of trustees appointed in part by the Company and in part from elections by members of the Plan. The board of trustees includes a professional trustee (Independent Trustee Services Limited). The trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Plan's assets. The trustees delegate some of these functions to their professional advisers where appropriate.

The Plan exposes the Company to a number of risks:

- **Investment risk**
  The Plan holds investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;

- **Interest rate risk**
  The Plan's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Plan holds assets such as equities the value of the assets and liabilities may not move in the same way;

- **Inflation risk**
  A significant proportion of the benefits under the Plan are linked to inflation. Although the Plan's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging;

- **Mortality risk**
  In the event that members live longer than assumed a deficit will emerge in the Plan; and

- **Concentration risk**
  A significant proportion of the Plan's liabilities are in respect of a single pensioner member. The development of the liabilities over time will therefore depend heavily on the actual experience in respect of this member.

There were no plan amendments, curtailments or settlements during the year (2019: nil) The Group's defined benefit obligations and plan assets may be reconciled to the amounts presented on the face of the statement of financial position for each of the reporting periods under review as follows:

Group	**At 31 May 2020 £'000**	At 31 May 2019 £'000
Defined benefit obligation	**(13,531)**	(12,930)
Fair value of plan assets	**15,177**	14,229
Net defined benefit asset	**1,646**	1,299

28 Pensions and other employee obligations (continued)

Scheme liabilities
The defined benefit obligations for the reporting periods under review are as follows:

	Group	
	At 31 May 2020 £'000	At 31 May 2019 £'000
Defined benefit obligation at start of period	**12,930**	12,559
Interest cost	**282**	323
Changes to demographic assumptions	**(352)**	-
Changes to financial assumptions	**1,429**	833
Benefits paid	**(758)**	(785)
Defined benefits obligation at end of year	**13,531**	12,930

For determination of the pension obligation, the following actuarial assumptions were used:

Group

	At 31 May 2020 £'000	At 31 May 2019 £'000
Discount rate	**1.50%**	2.25%
Expected rate of pension increases	**2.40%**	2.35%
Inflation assumption	**3.05%**	3.35%
Mortality assumption	**S2PXA CMI**	S2PXA CMI

S2PXA CMI – for males and females projected on a year of birth basis using CMI (2019) projections with a long-term rate of improvement of 1.25% per annum with a plus 2 year age rating. The mortality assumptions imply the following life expectancies:

- Life expectancy at age 65 of male aged 45 — 22.9
- Life expectancy at age 65 of male aged 65 — 21.6
- Life expectancy at age 65 of female aged 45 — 25.1
- Life expectancy at age 65 of female aged 65 — 23.6

These assumptions were developed by management under consideration of expert advice provided by Barnett Waddingham, independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

No assumption is made with regard to the expected rate of salary increases as there are no members with benefits related to future salary progression.

28 Pensions and other employee obligations (continued)

Scheme assets

The assets held by the pension fund can be reconciled from the opening balance to the reporting date as follows:

	Group At 31 May 2020 £'000	At 31 May 2019 £'000
Fair value of plan assets at start of period	**14,229**	14,149
Interest income	**315**	367
Return on plan assets (excluding amounts included in nèt interest)	**1,135**	252
Contributions by the Group	**256**	245
Benefits paid	**(758)**	(785)
Fair value of plan assets at end of period	**15,177**	14,229
Actual return on plan assets	**1,450**	620

The current asset spilt is as follows:

	At 31 May 2020 £'000	At 31 May 2019 £'000
Multi-asset growth portfolio	6,813	9,151
Gilts and LDI	7,647	4,965
Cash	717	113
Total assets	**15,177**	14,229

The remeasurement recorded in other comprehensive income is as follows:

	At 31 May 2020 £'000	At 31 May 2019 £'000
Gain on scheme assets in excess of interest	(1,135)	(252)
Gain from changes to demographic assumptions	(352)	-
Loss from changes to financial assumptions	1,429	833
Total (gain)/loss recognised in other comprehensive income	**(58)**	581

Sensitivity of the value placed on the liabilities

	Approximate effect on liabilities
Reduce discount rate by 0.1% p.a.	£192,000
Increase inflation and related assumption by 0.1% p.a.	£140,000
Increase a long-term rate of longevity improvement by 0.25% p.a.	£118,000
Apply a 90% loading to the mortality base table (reduces probability of death by 10% at each age)	£702,000

28 Pensions and other employee obligations (continued)

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

Risk mitigation strategies
The trustees invest the Plan's assets in combination of Liability-Sensitive assets and Return-Generating assets. The Liability-Sensitive assets are invested in a variety of LDI (Liability-Driven Investment) Funds. These funds invest in a combination of interest rate and inflation rate swaps in order to mimic the movement in expected cashflows of the Plan caused by changes in interest and inflation rates.

Effect of the Plan on Group's future cashflows
The Group is required to agree a Schedule of Contributions with the Trustees of the Plan following a valuation which must be carried out at least once every three years. The next valuation of the Plan is due by 1 April 2021. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing schedule of contributions. Conversely, if the position is better than expected contributions may be reduced.

The Group expects to pay contributions of £273,000 in the year to 31 May 2021.

The weighted average duration of the defined benefit obligation is around 14 years.

29 Notes to the consolidated cash flow statement

Cash flows from operating activities:

	2020 £'000	2019 £'000
Continuing operations		
Profit before income tax from continuing operations	**3,038**	3,149
Loss before income tax from discontinuing operations	**(1,218)**	(5)
Adjustments for:		
Depreciation	**4,343**	3,240
Amortisation of intangible assets	**466**	393
Amortisation of intangibles from business combinations	**2,222**	1,595
Loss/(gain) on disposal of property, plant and equipment	**119**	(13)
Finance income	**(38)**	(132)
Finance expenses	**1,141**	616
Share based payment charge	**112**	98
Changes in working capital		
Decrease/(increase) in inventories	**2,157**	(2,213)
(Increase)/decrease in trade and other receivables	**(5,010)**	1,158
(Decrease)/increase in trade and other payables	**(3,565)**	4,150
Decrease in provisions	**(824)**	(1,458)
Other non cash changes	**(24)**	(110)
Cashflows from operating activities	**2,919**	10,468

	2020 £'000	2019 £'000
Cash and cash equivalents		
Cash	**5,088**	8,909
Overdrafts	**(395)**	(856)
	4,693	8,053

30 Notes to the company cash flow statement

	2020 £'000	2019 £'000
Continuing operations		
Loss before income tax from continuing operations	**(535)**	(241)
Adjustments for:		
Finance income	**(674)**	(744)
Finance expenses	**14**	18
Share based payment charge	**46**	46
Investment provision	**155**	-
Changes in working capital		
Increase in trade and other receivables	**(776)**	(511)
(Decrease)/increase in trade and other payables	**(1,715)**	214
Other non cash changes	**2**	2
Cash flow from operating activities	**(3,483)**	(1,216)

31 Reconciliation of liabilities arising from finance activities

Group	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Overdraft £'000	Total £'000
At 1 June 2018	**4,435**	**6,710**	**2,554**	**9**	**13,708**
Cash flows:					
Repayments	(6)	(3,780)	(1,033)	(9)	(4,828)
Proceeds	-	500	597	681	1,778
Non-cash:					
Acquisition of subsidiary undertakings	-	-	-	175	175
Amortisation of finance fees	9	19	-	-	28
Exchange adjustments	-	19	52	-	71
Reclassification	(621)	621	-	-	-
At 31 May 2019	**3,817**	**4,089**	**2,170**	**856**	**10,932**
Adoption of IFRS 16	-	-	9,731	-	9,731
At 1 June 2019	**3,816**	**4,089**	**11,901**	**856**	**20,662**
Cash flows:					
Repayments	-	(675)	(2,200)	(679)	(3,554)
Proceeds	820	1,466	1,313	209	3,808
Non-cash:					
Acquisition of subsidiary undertakings (note 35)	-	-	391	-	391
Amortisation of finance fees	10	20	-	-	30
Exchange adjustments	-	29	59	9	98
Reclassification	(681)	681	-	-	-
At 31 May 2020	**3,965**	**5,610**	**11,465**	**395**	**21,435**

Company	Long-term borrowings £'000	Short-term borrowings £'000	Lease liabilities £'000	Overdraft £'000	Total £'000
At 1 June 2018	**716**	**180**	**-**	**-**	**896**
Cash flows:					
Repayments	-	(182)	-	-	(182)
Non-cash:					
Amortisation of finance fees	-	2	-	-	2
Reclassification	(180)	180	-	-	-
At 1 June 2019	**536**	**180**	**-**	**-**	**716**
Cash flows:					
Repayments	-	(167)	-	-	(167)
Non-cash:					
Amortisation of finance fees	-	2	-	-	2
Reclassification	(166)	166	-	-	
At 31 May 2020	**370**	**181**	**-**	**-**	**551**

32 Related party transactions

Company
The Directors benefited from dividends paid in the year (note 10) on their shareholdings as set out in the Directors report page 18.

33 Financial commitments

Capital commitments
Commitments for capital expenditure were as follows:

	2020	2019
	£'000	£'000
Contracted for, but not provided in the accounts	-	511

34 Investment in own shares

On 22 June 2011 the Company approved, adopted and established the Avingtrans Employees' Share Trust ('the ExSOP Trust). A summary of the Trust Deed is as follows:

- It has been established that the original trustee is RBC CEES Trustee Limited
- The primary objective of the ExSOP Trust is to hold the capital and income of the Trust for the beneficiaries
- The beneficiaries and the Trustee jointly subscribe for an initial interest in the shares purchased by the Trust
- If the performance condition as set out in note 27 is achieved the option can be exercised by the beneficiaries

During the year 303,308 (2019: 285,000) shares were purchased at a cost of £809,832 (2019: £627,000) by the Trust and beneficiaries, an interest in which was allocated to the Executive Directors as beneficiaries (as shown in note 27). All shares held by the trust are under option to Directors. Costs are charged to profit and loss as incurred.

The above holdings are held at a cost of £4,235,000 (2019: £3,435,000) and shown as a deduction from equity in the statement of changes in shareholders' equity.

35 Acquisitions

Business combination – Energy Steel & Supply Co

On 24 June 2019 the Group acquired 100 percent of the issued share capital of Energy Steel & Supply Co. based in the USA for $0.6m. This acquisition expands the Company's nuclear capabilities and product lines for new and existing customers. Energy Steel forms part of the Group's Energy-EPM division. The fair value of net assets acquired at the date of acquisition were as follows:

Fair value of assets and liabilities acquired:	
	£'000
Property, plant and equipment	**121**
Deferred tax assets	**16**
Inventories	**1,308**
Trade and other receivables	**1,265**
Current tax assets	**8**
Cash	**1,186**
Finance lease liabilities	**(391)**
Trade and other payables	**(3,268)**
Provisions	**(1,029)**
Net liabilities	**(784)**
Intangible assets identified – order book	**1,387**
Deferred tax liability on intangible assets identified	**(375)**
Goodwill	**238**
	466
Fair value of consideration transferred:	
Cash paid	**(466)**
Consideration	**(466)**
Cash acquired	**1,186**
Cash received relating to the acquisition	**(720)**
Acquisition costs charged to Administrative Expenses	**(144)**
Net cash received relating to the acquisition	**576**

Management did not identify any further intangible assets on acquisition of this business due to its distressed state.

Trade and other receivables are shown above after a fair value adjustment of £8,689 decrease from their original book value.

35 Acquisitions (continued)

Business combination – Energy Steel & Supply Co (continued)

The impact of the Energy Steel acquisition on the Consolidated income statement is as follows:

	£'000
Revenue	7,936
Cost of sales	(5,880)
Gross profit	2,056
Distribution costs	(582)
Other administrative expenses	(1,320)
Operating profit before amortisation of acquired intangibles, other non-underlying items and other exceptional items	154
Redundancy expenses	(51)
Acquisition related expenses	(168)
Amortisation of acquired intangibles	(1,194)
Operating loss	(1,259)
Finance expenses	(12)
Loss before tax	(1,271)
Tax income	328
Overall effect on the Consolidated Income Statement	(943)

Since acquisition Energy Steel contributed the following to the Group's cashflows:

	£'000
Net cash outflow from operating activities	(2,134)
Net cash used by investing activities	(242)
Net cash inflow from financing activities	7

If Energy Steel had been acquired on 1 June 2019, revenue of the Group for 2019 would have been £277,000 higher, and profit for the year would have reduced by £41,000.

35 Acquisitions (continued)

Asset purchase – Booth Industries

On 11 June 2019 the Group acquired the trade and certain of the assets of Booth Industries ('Booth') from Administration. Booth design and manufacture bespoke high-integrity doors. Booth has been purchased by the Group's subsidiary, Stainless Metalcraft (Chatteris) Limited and its results will be included within the results of the Energy-PSRE division.

The Group has judged this transaction should be treated as an asset purchase rather than a business combination. This is primarily based on the value of the land & buildings representing the majority of the total consideration paid for the business. A valuation exercise has been performed on the land & buildings by third party experts.

Assets purchased comprise of:

	£'000
Property, plant and equipment	1,602
Inventories	280
Total consideration paid	**1,882**

The impact of the Booth acquisition on the Consolidated income statement since acquisition is as follows:

	£'000
Revenue	9,575
Cost of sales	(6,105)
Gross profit	3,470
Distribution costs	(153)
Administrative expenses	(3,228)
Operating profit before amortisation of acquired intangibles, other non-underlying items and other exceptional items	89
Acquisition related expenses	(128)
Operating loss	(39)
Finance expenses	(24)
Loss before tax	(63)
Tax expense	-
Overall effect on the Consolidated Income Statement	**(63)**

Since acquisition Booth contributed the following to the Group's cashflows:

	£'000
Net cash outflow from operating activities	(1,419)
Net cash used by investing activities	(254)
Net cash inflow from financing activities	819

36 Loss after taxation from discontinuing operations

Due to the weight of the disruption from Covid 19, management took the decision to close the Crown site near Bristol and relocate the residual road and rail infrastructure assets to Stainless Metalcraft. The assets of the business that remain on the balance sheet as at 31 May 2020 will be moved during FY21 to the Chatteris site. The lease on the Bristol site ends in November 2020 when we will have fully exited the site.

Discontinued activities relate to the discontinuation of the Crown facility and associated trade and costs.

The impact of the discontinued activities on the Consolidated income statement is as follows:	**2020** **£'000**	2019 £'000
Revenue	**745**	1,472
Gross profit	**102**	507
Distribution costs	**(102)**	(123)
Other administrative expenses	**(401)**	(375)
Restructuring costs	**(149)**	-
Other exceptional costs	**(503)**	-
Goodwill impairment	**(155)**	-
Operating (loss)/profit	**(1,208)**	9
Finance expenses	**(10)**	(14)
Loss before taxation	**(1,219)**	(5)
Taxation	**200**	81
Loss after taxation from discontinuing operations	**(1,018)**	(76)