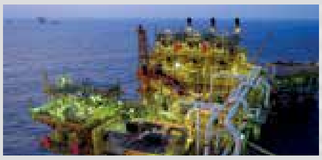
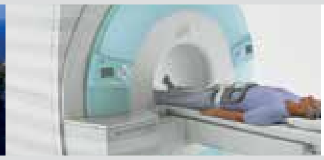
Avingtrans plc

engineering technology group

ANNUAL REPORT 2017

CONTENTS

Metalcraft and Maloney Metalcraft (UK and China)
Design and manufacture of safety-critical equipment for the energy, medical, science and research communities worldwide, specialising in oil and gas extraction and processing equipment, nuclear process plant, nuclear decommissioning containers, precision pressure and vacuum vessels and associated sub-assemblies and systems.

Crown International (UK)
Design and manufacture of pole and enclosure systems, known as the 'Crown Pole' for roadside safety cameras and Smart Motorways, as well as rail track signalling gantries and roadside signage poles for motorways and major trunk roads. The business holds an exclusive licence for the supply of patented technologies in the emerging field of Carbon Sequestration and Reuse.

Composites Products (UK)
Design and manufacture of high strength to weight ratio critical components combining metallic and non-metallic precision structures in the most demanding of applications in defence, industrial, medical, and automotive sectors. A licensed provider of unique and patented braided thermoplastic tubular components.

Scientific Magnetics (UK)
Designs, manufactures, tests and installs bespoke superconducting magnet systems for academic and commercial research. Scientific Magnetics operates at the cutting edge of superconducting technology and is the go-to specialist for blue-chip companies such as Siemens and Rolls-Royce. Scientific Magnetics has developed standardised helium-free magnet systems for pre-clinical and UHV applications and has devleoped many world-firsts including the low helium, whole body MRI magnet and superconducting magnets for space.

Hayward Tyler (UK, US, China and India)
A specialist engineering group who design, manufacture and service performance-critical electric motors and pumps for high pressure, high temperature applications in the harshest environments across the global energy industry. A trusted supplier for the markets served with bases in the UK, the USA, China and India and a preferred supplier for solving complex engineering problems for high-pressure, high-temperature fluid handling across the global energy sector.

Peter Brotherhood (UK)
Designs, manufactures, installs and services specialist turbines and compressors and CHP solutions used in the power generation, marine, sugar, petrochemical and processing, Waste to Energy power plants, Combined Heat and Power (CHP) and oil and gas markets globally. A world leader in turbo generators for FPSO vessels, including the worlds largest of 27 MW and have supplied steam turbines to many of the world's leading FPSO operators including Woodside, Single Buoy Mooring (SBM), BW Gas ASA, Bluewater, Saipem, Aker Floating Production, Fred Olsen Production, and Maersk. Peter Brotherhood is the UK's only producer of steam turbines with an output up to 40 MW, which has applications in waste heat recovery, the FPSO and FLNG markets and the Royal Navy Astute class submarine new build programme. Peter Brotherhood steam turbines provide over 1000 MW of installed power in Waste to Energy Power Plants and have in excess of 500 machines installed in the cane sugar industry.

HAYWARD TYLER Peter Brotherhood Metalcraft Maloney Metalcraft crown INTERNATIONAL Composite Products SCIENTIFIC MAGNETICS

Avingtrans plc
engineering technology group

ANNUAL REPORT
YEAR ENDED 31 MAY 2017

INTRODUCTION

Commenting on the results, Roger McDowell, Chairman said:

“ Avingtrans continues to demonstrate its capacity for reinvention. After the successful sale of the Aerospace division, we returned £19.4m of cash to shareholders via a tender offer. In the second half of the period, we cemented the cornerstone of our Medical strategy through the enabling acquisition of Scientific Magnetics Ltd.
Post year end, this was followed by the substantial acquisition of Hayward Tyler Group (HTG) for £29.4m, excluding debt and costs. This deal will accelerate our plans to split the Energy and Medical divisions, to fully capitalise on the HTG potential. Operationally, we have made pleasing progress with key accounts – especially at Sellafield, where we secured a 3-year, £11m extension to our existing multi-year contract.

“ We are under no illusion that the next phase of our development will be easy. Some heavy lifting will be necessary to restore momentum at HTG. However, we are excited by the potential to develop our offerings in both the Energy and Medical sectors, with blue chip customers and prospects underpinning our sensibly optimistic outlook.”

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations increased by 7% to £22.7m (2016: £21.2m)
- Adjusted[1] EBITDA from continuing operations increased by 104%, to £0.7m (2016: £0.4m)
- Adjusted[1] Profit Before Tax improved to £0.3m (2016: £0.1m)
- Adjusted[1] Diluted earnings per share from continuing operations 1.1p (2016: 1.0p)
- Cash outflow from operating activities £3.3m (2016: generated £7.8m)
- Net Cash £26.4m (31 May 2016: Net cash £51.0m)
- Increased final dividend of 2.2p per share, Full year total 3.4p (2016: Final 2.1p, Total 3.2p)
- Tender offer returned £19.4m to Shareholders

1 –adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items.

OPERATIONAL HIGHLIGHTS

Energy

- Energy revenues increased by 15%, with a modest improvement in profitability
- Post period end, acquisition of Hayward Tyler Group plc for £29.4m, excl. debt & costs
- First Sellafield 3M3 (three-metre-cubed) prototype box delivered and fully approved
- £11m Sellafield 3-year contract extension; facilities redevelopment on time and on budget
- Post year end, Metalcraft gained contract extension with Cummins, worth £3.6m over 3 years

Medical

- Medical revenues were marginally lower, but with a welcome return to modest levels of profit
- Technology enabling acquisition of Scientific Magnetics Ltd for £0.33m
- China facility gearing-up for new contracts with Wuhan (£9m gained in year) and Bruker

Company information

Directors
R S McDowell (Non-executive Chairman)
S McQuillan (Chief Executive Officer)
S M King (Chief Financial Officer)
J J Hamer (Non-executive Director - resigned 8 November 2016)
G K Thornton (Non-executive Director)
L J Thomas (Non-executive Director)
E. Lloyd-Baker (Non-executive Director appointed September 2017)

Secretary
S M King

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Chairman's Statement

In the last year, Avingtrans has been busy reinventing itself once more, as we have striven for early exploitation of the fruitful sale of our Aerospace division in 2016. A successful tender offer in the first half was followed by the modest acquisitions of Scientific Magnetics and the assets of Whiteley Read Engineering during the financial year.

In a major step forward, the Group, post year end, has completed the acquisition of Hayward Tyler Group plc ("HTG"). HTG's subsidiaries, Hayward Tyler and Peter Brotherhood, are venerable brand names in the UK engineering world, between them having a pedigree of over 350 years in the sector. This bold step required a reverse takeover – a rare event on AIM. In itself, that is of little merit, merely serving to underpin the extent of our diligent ambitions for the Group.

An unfortunate combination of ambitious investment programmes, acquisition and market down-cycle led HTG to an overstretched balance sheet position, wherefrom it was finding difficulty in restoring equilibrium and achieving the growth which the Directors believe it is capable of.

Thus, Avingtrans, with its clear objective to continue the now proven strategy of "buy and build" in regulated engineering niche markets, together with its strong balance sheet, was the ideal solution to the problem.

As investors will recall, we have named this strategy PIE – "Pinpoint-Invest-Exit". Previous deals - notably the disposal of Sigma - have clearly demonstrated the success of this approach, producing substantial increases in shareholder value. We have built strong brands and value from smaller constituent parts, we have demonstrated well-developed deal-making skills and we have shown that we do not overpay for assets. The strategy to "buy and build" around smaller deals and consolidate relevant niches has significant potential to generate growth and shareholder value, as demonstrated with Sigma and JenaTec. At the appropriate time in the future, we will again seek to crystallise gains with periodic sales of businesses at advantageous valuations and return the proceeds to shareholders.

Meanwhile, our existing Energy and Medical divisions have made steady progress. The on-going pre-production phase of Sellafield 3M3 Box operations at Metalcraft continues to proceed positively, with Sellafield approving the first 3M3 prototype unit and opening the 3M3 box production facility at Chatteris. This progress was underpinned by the award of a significant contract extension by Sellafield. The Sellafield project is the precursor to a significant expansion of long term business in the nuclear decommissioning sector. We believe that Metalcraft is well-placed to be a key partner for Sellafield in this programme over the next 30 years and to participate in further contracts in the sector, as and when these are tendered.

The Medical division was awarded a £9m, 10-year contract for NMR (Nuclear Magnetic Resonance) - cryostats during the year. The customer, based in Wuhan, China, is now known as CAS Oxford, an intriguing new entrant to the NMR market. We are excited also by the acquisition of Scientific Magnetics Ltd, a manufacturer of superconducting magnet systems and cryogenics for MRI NMR and other markets, for initial consideration of £0.33m. We believe that this small, but strategic acquisition could become the cornerstone of our vertical integration strategy in the medical market.

In addition to the £19.4m of cash returned to shareholders, via the tender offer, the Board has declared an increased final dividend, of 2.2 pence per share, rendering a full year total of 3.4 pence, once again underlining our commitment to consistently improve returns to our shareholders.

Finally, I would like to take this opportunity to thank all our employees, including those newly arrived with recent acquisitions, for all their hard work and dedication to deliver excellent quality engineering products and services to our customers.UK engineering is the richer for their valuable contributions.

Roger McDowell
Chairman
26 September 2017

Strategic Report

Group Performance

Strategy and business summary

We are a precision engineering group, operating in differentiated, specialist niches in the supply chains of many of the world's best known engineering original equipment manufacturers. Our core strategy is to build market-leading niche positions in our chosen market sectors – currently Energy and Medical. Over the longer term, our acquisition strategy has enabled our businesses to develop the critical mass necessary to achieve market leadership.

Our core businesses have the capability to engineer products in the UK and produce those products partly, or wholly in Asia and now, with the addition of HTG, in the USA. This allows us and our customers to access low cost sourcing at minimum risk, as well as positioning us neatly in the development of the Chinese and Asian markets for our products. Hayward Tyler and Metalcraft, for example, are well established in China, providing integrated supply chain options for our customers.

The Group's clear objective is to continue the proven strategy of "buy and build" in regulated engineering niche markets, where we see consolidation opportunities, which can lead to significantly increased shareholder returns over the medium to long term. At the appropriate time we will seek to crystallise these gains with periodic sales of businesses at advantageous valuations and return the proceeds to shareholders. We call this strategy PIE – "Pinpoint-Invest-Exit". Previous deals – eg the disposal of Sigma – have clearly demonstrated the success of this approach, producing substantial increases in shareholder value. We have built strong brands and value from smaller constituent parts; we have demonstrated well-developed deal-making skills and prudence in the acquisition of new assets. The strategy to "buy and build" around smaller deals and consolidate relevant niches has significant potential to generate growth and shareholder value, as demonstrated with Sigma and JenaTec.

Following the acquisition, the Board's focus in the short term will be the full integration of HTG's operations, a process which has already started and is expected to continue throughout our first half. The objective for the Enlarged Group is to become a leading supplier in the energy and medical markets of low volume, operation critical products, with a reputation for high quality and delivery on-time and on-budget. The Enlarged Group has production facilities in its three key geographical markets (the Americas, Asia and Europe) with high volume/lower cost facilities in Asia, and product development and realisation in the UK and the USA. The Enlarged Group intends to invest in breakthrough and disruptive technologies in the energy and medical markets.

Avingtrans' primary focus for its Energy division is the nuclear market; decommissioning, life extension and "new nuclear" markets – in particular, nuclear waste storage containers – as well as a variety of other niches in the renewable energy sector. In addition, the Directors will continue to build on HTG's footprint in the wider power and energy sectors; in particular, the provision of traditional power generation, motor solutions, steam turbines, combined heat and power units and gas to power units, in various sectors, with a principal focus on the power, oil and gas, marine, water and industrial sectors.

The key focus of the Enlarged Group's Medical division is to become a market leader in the production of high integrity components and systems for medical and scientific equipment manufacturers in specific niche markets, including for MRI (Magnetic Resonance Imaging) derivatives, proton therapy and NMR (Nuclear Magnetic Resonance).

Operations

Existing Group

Operational Key Performance Indicators (KPIs)

	2017	2016
• Customer Quality – detect free deliveries (%)	**99.2**	99.3
• Customer on time in-full deliveries (%)	**99.7**	97.0
• Annualised staff turnover (%)	**10.2**	8.9
• Health, Safety and Environment incidents per head per annum	**0.13**	0.05

Our excellent divisional quality performance was sustained in the year and our delivery performance improved slightly. For certain customers, we were again very pleased to be able to record near perfect quality and delivery records across the full year. Staff turnover was up marginally year on year, reflecting ongoing oil and gas market turmoil. Therefore, we believe that this remains at an acceptable level for this type of business. Whilst Health and safety incidents appear to have increased significantly in the year, this simply reflects a change in reporting policy, which now includes even minor incidents and near misses in the statistics, as we seek to build on our positive improvement record of the last few years.

Strategic Report (Continued)

Operations (continued)

Energy Division (Hayward Tyler, Peter Brotherhood, Metalcraft (part), Maloney Metalcraft and Crown)

Following the acquisition of HTG, the Energy division now forms the bulk of group operations.

The ongoing low oil price continued throughout the year, meaning that this sector was a lower priority for the existing businesses. The residual phase of restructuring at Maloney is now complete. We continued to mitigate the negative effects of the oil price by focusing on the growth areas in the energy market, for example: energy storage; carbon capture; and nuclear power life extension and decommissioning. HTG had already been following a risk mitigation path for oil and gas in its business plans and we will continue to follow through with the restructuring of the business which had already begun. In addition, at Peter Brotherhood, we will seek to expand the range of products being manufactured by this business, to further de-risk this operation.

The existing businesses produced healthy revenue growth of almost 16% in the period, with pre-exceptional EBITDA increasing by 113%, as the positive effects of restructuring at Maloney and the improving margin mix of new contracts began to be felt at Metalcraft and Crown.

Despite the recent oil price issues, the US Energy Information Administration forecasts a 48% increase in global energy consumption (between 2012 and 2040) mainly driven by population growth. This is positive for the Energy Division, since we have interests in various parts of the energy cycle, from primary extraction, to generation, alternative energy storage and decommissioning. Decommissioning activities are steadily gathering pace, as this very long term legacy clean-up project is grasped by the UK government and others around the world.

Summarising developments over the year at the Energy sites:

- Metalcraft, (Energy) Chatteris: business with existing key accounts – eg Cummins - was steady. The £47m, 10-year contract with Sellafield Ltd, to produce 3M3 boxes, for the storage of intermediate level nuclear waste, is progressing to plan. We also were favoured with an £11m, 3-year contract extension by Sellafield, extending the scope of the 3M3 box programme. We made excellent progress with facilities refurbishment and pre-production tests. The production set-up and prototyping phase will continue in the current financial year, with series production expected to commence in calendar 2018. Metalcraft is well-placed to be a key partner for Sellafield in this programme. The total number of 3M3 boxes required is now expected to be in excess of 70,000 over the entire programme life, worth an estimated £3bn, according to Sellafield's own estimates.
- Whiteley Read Engineering Ltd, Rotherham: This small acquisition of assets (now a branch of Metalcraft) has already proven its worth, by successfully completing overspill activities from Maloney and Metalcraft, as well as providing an opportunity to widen our customer base in the Energy sector.
- Maloney Metalcraft, Aldridge: as noted elsewhere, the oil price effects continued to affect the business in the period. We completed a limited restructuring process, to stabilise our position in the new $50 a barrel oil reality. The gas project contract with Samsung was successfully completed in the period and the JGC Gulf International Co. Ltd project is nearing completion, following a number of customer induced design changes. Work also commenced on the EDF life extension contract and is proceeding to plan.
- Crown, Portishead: Crown had a stronger second half, driven by the win of an important new £1.7m contract for flame detection masts, whose end customer is Fluor Corporation. Work on this contract continues into the current financial year. The "FET" carbon abatement trial in Wales concluded successfully and we are working to turn this application into a product of the future with FET. This technology promises to make small to medium fossil fuel generators "clean", which is important in a future where the energy grid is more fragmented and localised.

The addition of the HTG Group brings with it several additional sites to the Energy division: the Centre of Excellence at HTG's headquarters in Luton, the associated HTI business in Vermont and Peter Brotherhood's production facility in Peterborough, as well as sales, support and repair facilities in India and China. The multi-million pound investment in the Luton Centre of Excellence has resulted in the world's most advanced facility for specialist motor manufacture and also provides significant additional support for R&D and the training and development of the Group's workforce.

Medical Division (Scientific Magnetics Metalcraft (part) and Composite Products)

During the year, we made the small, but important technology-enabling acquisition of Space Cryomagnetics Limited; trading as Scientific Magnetics. This acquisition enables us to vertically build our capability into superconducting magnets and cryogenics, including "cryogen free" technology – ie avoiding using helium. This is crucial for the future of sectors like MRI and NMR, due to the unstable nature of helium supplies. For example, the recent trade sanctions against Qatar by the gulf states has a significant destabilising impact on helium supply, since helium is a by-product captured from only a few oil and gas fields around the world and Qatar is a significant producer.

Strategic Report (Continued)

Medical Division (Scientific Magnetics Metalcraft (part) and Composite Products) (Continued)

Scientific Magnetics only added a small amount to Q4 revenue and made an initial loss of £0.1m, as anticipated. Overall, the Medical division saw modest revenue decline of 2% in the period, mainly driven by ramp up delays at Composite Products. Nevertheless, the division did see a welcome return to modest pre-exceptional profit in the year, following losses last year. We anticipate growth coming through in the current financial year from recently won contracts – eg Rapiscan and Wuhan (now CAS Oxford), as well as a full year of revenue from Scientific Magnetics.

The demographics of a growing and ageing world population are encouraging for the medical imaging and diagnostics markets, so the business is well placed to benefit from external market drivers. There have been notable changes of ownership in some of the key players in the MRI sector recently – eg with Canon acquiring Toshiba's Medical business unit for $6bn. We continue to see new entrants penetrating the Chinese medical imaging market, which, in general, we view positively, in terms of business opportunity. These developments indicate that the sector will continue to spend money on developing new products and imaging techniques.

Summarising developments over the year at the Medical sites:

- Scientific Magnetics Ltd, Abingdon: acquired in February 2017, this niche supplier of high power superconducting magnets and cryogenics brings considerable engineering capability, at a time when we expect to see new breakthrough technologies impacting the magnet designs of the future and when the need for helium free technology is increasingly important. The business strategy is being realigned around a number of new potential products and customers.
- Metalcraft (Medical) Chatteris and Chengdu: Business with Siemens was steady in the UK in the period and we continued to develop our relationships with other customers – eg for Proton Therapy. In China, results for the unit continued to improve year on year and we made good progress with the existing customers (eg Siemens and Alltech), as well as preparing for the new contracts with Bruker and Wuhan (CAS Oxford) for NMR vessels.
- Composite Products, Buckingham: performance in the second half suffered from ramp-up delays with key customer, Rapiscan. We believe that the issues causing the delays are now resolved and expect to continue the ramp-up in the current financial year.

Financial Performance

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

Revenue: continuing operations saw modest sales improvement
Full year Group revenue of continuing operations increased by 7%, to £22.7m (2016: £21.2m). Energy again saw year-on-year effects of the oil price holding back revenues, though the base position now seems stable.

Profit: margin improvement continues as new contracts build
Adjusted EBITDA increased by 104% (note 4), to £0.7m (2016: £0.4m). Action to optimise the cost base at Maloney, on-going improvements at Metalcraft and further progress in China improved the overall EBITDA.

Gross margins were 17.9% (2016: 14.9%), improving as the margin mix of new contracts rises.

Tax:
The effective rate of taxation was a 3.9% tax charge, whereas 2016 was a 71.4% tax credit. We have continued to benefit from Research and Development tax credits in the UK. In 2016 the non-taxable sale of the property and ongoing release of deferred tax liabilities distorted the overall tax charge. The tax position will "normalise" in the coming years, though we anticipate some on-going benefits – e.g. R&D tax credits and utilisation of China losses.

Earnings per Share (EPS): Improved for continuing operations.
Adjusted diluted earnings per share for continuing operations increased to 1.1p from 1.0p in 2016. Diluted loss per share, attributable to shareholders was 1.3p (adjusted diluted earnings per share 2016: 111.4p reflecting the substantial shareholder benefit from the disposal of Aerospace).

Funding and Liquidity: Balance sheet strong with Net Cash
The net cash outflow from operating activities was £3.3m (2016: £7.8m inflow), following payment of costs from the Sigma disposal.

Net Cash (note 23) at year end stood at £26.4m (2016: Net cash: £51.0m) following the tender buyback £19.4m (before costs) and payment of the costs associated with the Sigma disposal.

Strategic Report (Continued)

Financial Performance (Continued)

Dividend: steady progress
The Board once more proposes to underpin our progressive dividend policy. We are pleased to be able to recommend an improved final dividend of 2.2 pence per share (2016: 2.1 pence per share). We intend to continue on this progressive path, subject to the outcome of acquisition activities in the coming years. The dividend will be paid on 8 December 2017, to shareholders on the register at 27 October 2017.

Principal risks and uncertainties facing the Group

The principal risks and uncertainties facing the Group include:

- the acceptance by end customers of its products – the Group mitigates this risk by developing a number of diverse products across its industry sectors. In addition, the business continues to build strong relationships with longstanding customers and open lines of communication to ensure that any challenges are identified early and are resolved with the customer prior to delivery;
- changes in customer requirements and in levels of demand in the market – the Group is reliant on the relative strength of the global economy as a whole, but the risk is somewhat mitigated via the diversity of the markets the Group operates in. The Group is always conscious of the need to react to demand changes, due to this risk. In addition, the business continues to work with key customers to develop longer term plans concerning delivery and timing of production, to build efficiency into the process;
- competitive pressure on pricing – this risk is mitigated by the high level of technological quality offered by the Group's products, its strong relationships with its key customers, as well as lower operating costs through its fully owned Chinese facilities;
- delays in product design and launch programmes – as the Group's products are technically advanced the timescale of developing new products is uncertain. However, this is mitigated by strong long term relationships with customers and ensuring sufficient working capital to support this investment;
- technological changes – mitigated by continued investment in research and development;
- operational risks associated with operating in overseas markets – the Group mitigates this risk by using a senior management team based both in the UK and China. Senior Management from the UK regularly visit and monitor the financial and operational performance of overseas sites.
- FET – Future Environmental Technologies – this is an early stage technology development relationship with a third party company. There can be no guarantee at this stage that their technology will result in system sales, whether in the domain of carbon abatement or elsewhere.

People

The post year end acquisition of HTG brings a capability treasure chest to Avingtrans and we look forward to working with their talented people over the coming years, to develop a great business together.

We are delighted to retain the services of the HTG CEO, Ewan Lloyd Baker and we expect to formally confirm his appointment to the Board at the AGM. No other Board changes are proposed at this time.

There were no other Board or top team management changes in the period, but the management team in the Energy and Medical divisions continues to strengthen. Skills availability remains challenging, but we do not expect to be unduly constrained by any shortages. Like Avingtrans, HTG has invested significant effort in developing skills, both through structured apprenticeship programmes and also graduate development plans, notably at the HTL site in Luton.

The group undertakes to ensure social, community and human rights issues are considered in its employment of people.

Environment

The Group's policy with regard to the environment 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 or been investigated for any significant breach of environmental regulations.

Strategic Report (Continued)

Outlook

The group is a niche engineering market leader in the Energy and Medical sectors. The past year has demonstrated our skill for invention and reinvention, both technologically and corporately. We expect that the recent acquisitions (particularly that of HTG) will afford investors another opportunity to build enduring value with us in a new set of engineering market niches. We will continue to be frugal and seek to crystallise value and return capital, if the timing is right.

Our strategy continues to produce significant new business wins that support our results and provide good visibility of longer term earnings, such as the contract extension with Sellafield. We have an excellent customer base which we can leverage and differentiated product niches where the group can be world-leading. We are well placed to benefit from further market consolidation, particularly in the Energy sector. Clearly, the short-term focus for Avingtrans will be the successful integration of HTG, where we see a significant body of work being necessary, to steady the ship and re-establish a profitable growth path.

Metalcraft, Hayward Tyler and Peter Brotherhood are clear leaders in their chosen niche markets, providing customers with consistent quality as part of a world class journey. We believe that Scientific Magnetics can be the key to growing a Medical division which develops tangible value for shareholders in the longer term.

Our attractive structural growth markets and durable customer relationships mean that we remain cautiously confident about the future of Avingtrans. As ever in our acquisition activities, we will seek to conduct our efforts rigorously and efficiently, with an underpinning ethos that recent deals should be for the benefit of all stakeholders and should build sustainable long-term value.

The Strategic Report was approved by the Board on 26 September 2017 and signed on its behalf by:

Roger McDowell
Chairman
26 September 2017

Steve McQuillan
Chief Executive Officer
26 September 2017

Stephen King
Chief Financial Officer
26 September 2017

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2017.

Matters included in the strategic report

The Directors' consideration of likely future developments in the business has been included in the Strategic Report.

Going concern

During the year the Group has managed its working capital and cash flows resulting in an operating cash outflow of £3.3m for the year. At 31 May 2017 the Group has net cash of £26.4m as detailed in note 23 (2016: Net cash £51.0m) and net assets of £45.1m (2016: £64.8m). The completion of the acquisition of the Hayward Tyler Group plc on 31 August 2017 resulted in £11.5m of its facilities being repaid, the assumption of a further £10.0m of debt and £5m of associated transaction costs being incurred. As discussed in more detail in the Chairman's statement and Strategic report, looking into 2017/18 and beyond, the Group has a number of exciting opportunities across all of its operations that should deliver growth and shareholder value.

The Directors have prepared detailed cash flow forecasts for the Group for the period extending to 31 December 2018, alongside three year budgets which 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 short term strategic objectives. Coupled with an ongoing supportive relationship with the Group's principal bankers, HSBC, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

Results and dividends

The Group's loss for the year before tax from continuing operations amounted to £285,000 (profit 2016: £245,000) for continuing operations. In 2016 there was profit after tax from discontinued operations of £30,716,000. A final dividend of 2.2 pence is proposed for the year ended 31 May 2017 (2016: 2.1 pence), taking the total dividend for the year to 3.4 pence (2016: total 3.2 pence).

Tender buyback of shares

On 18 November the Group completed the tender buyback of 9,691,361 shares for consideration of £19,383,000 before associated expenses. The nominal value of the share repurchased in the tender buyback £485,000 was transferred to the Capital Redemption Reserve.

Post Balance Sheet Event

On 31 August 2017 the Group completed the acquisition of 100 percent of the issued share capital of the Hayward Tyler Group plc for £29.4m before debt repayment/assumption as above and associated transaction costs.

Substantial shareholdings

As at 26 September 2017, 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	3,020	9.8%
Funds managed by Unicorn Asset Management Limited	1,946	6.3%
Harwood Capital	1,893	6.2%
R S McDowell's Pension Fund	1,406	4.6%
Funds managed by RBC Trustees Limited	1,393	4.5%
P McDowell's Pension Fund	1,213	4.0%
Funds managed by LGT Bank	1,017	3.3%
Funds managed Close Brothers Asset Management	909	3.0%

Report of the Directors (Continued)

Directors and their interests

The present Directors of the Company and those that served during the year are set out on page 2. Their interests in the share capital of the Company are set out below.

	Ordinary shares of 5p each	
	31 May 2017	*31 May 2016*
R S McDowell	**1,406,409**	2,406,409
S McQuillan	**225,000**	330,566
S M King	**180,248**	286,071
G K Thornton	**20,000**	40,000
L J Thomas	**-**	-

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, 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 not entered into derivative transactions. Information about the use of financial instruments by the Group and the Group's financial risk management objectives and policy disclosures is given in note 23 to the financial statements.

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.

Research and development

During the year £625,000 (2016: £713,000) of development costs (per note 13) were capitalised as intangible assets. This was predominately at Metalcraft in relation to new customer's MRI designs and waste storage equipment and Maloney relating to the nuclear life extension development.

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.

Report of the Directors (Continued)

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Strategic Report and 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 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 Group and Parent company 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;
- 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 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 26 September 2017 and signed on its behalf by:

S M King
Director

Corporate Governance

The Group is committed to high standards of corporate governance and the Board is accountable to the Company's shareholders for good corporate governance. Although the Group is not required to comply with the UK Corporate Governance Code and does not voluntarily apply the Corporate Governance Code, this statement describes how the principles of corporate governance are applied to the Group.

Directors

The Board of Avingtrans plc for the majority of the period comprised two Executive Directors and three Non-Executive Directors, after J J Hamer left the Board 8 November 2016. During the year the Board was chaired by R S McDowell and assisted by the Senior Independent Non-executive Director G K Thornton (J J Hamer until 8 November 2016), who together have primary responsibility for running the Board. On 30 August 2017 E Lloyd-Baker joined the Board as a Non-Executive Director, he will serve on the Audit, Remuneration and Nomination Committees.

The Chief Executive, S McQuillan, had executive responsibilities for the operations, results and strategic development of the Group during the year. 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 G K Thornton (J J Hamer until 8 November 2016) and is available to shareholders if they have concerns.

The Board meets regularly with no less than ten such meetings held in each calendar year. There is a formal schedule of matters specifically reserved to the Board for its decision to enable it to take overall control of the Group's affairs. 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. 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 re-appointment of a Director. The Board and Committee regularly review the composition of the Board to identify areas where additional experience is required to balance the Board.

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, with L J Thomas chairing the Audit Committee and G K Thornton chairing the Remuneration Committee. The Non-executive Directors and the Chairman are members of all the above committees.

Directors' remuneration

The responsibilities of the Remuneration Committee, are set out in the Report of the Directors on Remuneration on pages 14 to 15.

Relations with shareholders

The Board attaches a high level of importance to maintaining good relationships with shareholders, whether they are institutions or private investors.

The Board encourages all Directors to attend shareholder meetings and institutional presentations, where they are available for questions from shareholders. This enables the Board to develop an understanding of the views of shareholders.

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

The Company counts all proxy votes and except where a poll is called, it indicates the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands.

A separate resolution on each substantially separate issue is proposed at the Annual General Meeting. The Chairman of the Board and each of the Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions at the Annual General Meeting. All Directors are expected to attend the Annual General Meeting.

In 2009 the Company amended its Articles to include electronic communication with its members. The Annual Report and Financial Statements and Interim Report are automatically uploaded to www.avingtrans.plc.uk. All members are given the option to receive a paper copy or an email copy of the Annual Report. Notice of the Annual General Meeting is sent to shareholders at least 20 days before the meeting.

Corporate Governance (Continued)

Accountability and Audit

The respective responsibilities of Directors and the Auditor are set out on pages 11 and 16. The Board has established an Audit Committee. The Audit Committee's primary responsibilities include the monitoring of internal control, approving accounting policies, agreeing the treatment of major accounting issues, appointment and remuneration of the external auditor and reviewing the interim and annual financial statements before submission to the Board. It meets twice a year with the external auditor to review their findings. At these meetings the Non-executive Directors have the opportunity to discuss findings with the auditor in the absence of the Executive Directors.

To follow best practice and in accordance with Ethical Standard 1 issued by the Auditing Practices Board, the external auditor has held discussions with the audit committee on the subject of auditor independence and has confirmed their independence in writing.

Internal control

The Directors acknowledge that they are responsible for ensuring that the Group has in place a system of internal control which is both effective and appropriate to the nature and size of the business.

The Board, through the Audit Committee, has reviewed the operation and effectiveness of the system 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 control 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
- 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 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.

S M King
Company Secretary
26 September 2017

Report of the Directors on Remuneration

Composition

The Remuneration Committee during the period comprised G K Thornton (Chairman), R S McDowell, and L J Thomas. J J Hamer served on the Committee until he retired from the Board (8 November 2016).

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.

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.

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 15.

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. G Thornton and L Thomas 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.

Report of the Directors on Remuneration (Continued)

Share options

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

	Date of grant	At 31 May 2016	Granted	Exercised	At 31 May 2017	Weighted average exercise price £
Executive:						
S McQuillan	18/12/2012	175,000	-	175,000	-	0.960
	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
		370,000	450,000	175,000	645,000	1.778
S M King	25/9/2010	40,000	-	267	39,733	0.395
	18/12/2012	125,000	-	125,000	-	0.960
	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
		324,000	330,000	125,267	528,733	1.671

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.

G K Thornton
Chairman of the Remuneration Committee
26 September 2017

Independent Auditor’s Report to the Members of Avingtrans plc

We have audited the group financial statements of Avingtrans plc for the year ended 31 May 2017 which comprise the principal accounting policies, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated and company balance sheet, the consolidated statement of cash flows, the company statement of cash flows and the related notes. 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 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors’ responsibilities set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council’s website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 May 2017 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 planned in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provision of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the group financial statements:

- the information given in the Strategic Report and Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors’ Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
26 September 2017

Principal Accounting Policies

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.

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:

Framework	Pronouncement		Effective date
IFRS			**EU**
IFRS	IFRS 9	Financial Instruments	Not yet EU-adopted
IFRS	IFRS 14	Regulatory Deferral Accounts	Not yet EU-adopted
IFRS	IFRS 15	Revenue from Contracts with Customers	Not yet EU-adopted
IFRS	IFRS 16	Leases	Not yet EU-adopted
IFRS	Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	Not yet EU-adopted
IFRS	Amendments to IAS 7	Disclosure initiative	Not yet EU-adopted
IFRS	Annual Improvements 2014-2016	Re IFRS 12 disclosure of interest in other entities	Not yet EU-adopted
IFRS	Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	Financial periods commencing on/after 1 January 2016
IFRS	Annual Improvements 2012-2014		Financial periods commencing on/after 1 January 2016
IFRS	Amendments to IAS 16 and IAS 41	Bearer Plants	Financial periods commencing on/after 1 January 2016
IFRS	Amendments to IAS 27	Equity method in Separate Financial Statements	Financial periods commencing on/after 1 January 2016
IFRS	Amendments to IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception	Financial periods commencing on/after 1 January 2016
IFRS	Disclosure Initiative: Amendments to IAS 1	Presentation of Financial Statements	Financial periods commencing on/after 1 January 2016

Impact of IFRS15/16

There are other standards in issue which are not considered applicable and are not expected to have an impact on the Company and have therefore not been included in the list above. Both IFRS 15 and IFRS 16 are expected to require amendments for operating revenue and operating leases however management are undertaking an exercise to determine the impact on results and have not yet quantified this.

The directors have not yet calculated the impact that the adoption of the other Standards and Interpretations noted in future periods will have.

Principal Accounting Policies (Continued)

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 May 2017. 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 32. 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) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) 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, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. 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.

Principal Accounting Policies (Continued)

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Each of the Group's trading subsidiaries is involved in the supply of goods and follows a consistent accounting policy. This policy is reviewed regularly by the directors to accommodate changes in circumstances. Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally when goods are despatched, or the product is complete and is ready for delivery, based on specific contract terms
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is generally when goods are despatched, or the product is complete and is ready for delivery, based on specific contract terms
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Long term contracts

Long-term contracts are accounted for in accordance with IAS 11. Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by reference to the value of work done to the balance sheet date as a proportion of the total value of the contract.

Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred where it is probable that they will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably
- it is probable that economic benefits associated with the contract will flow to the Group
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a payments on account for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Recognition of losses on all contracts as a result of delays and liquidated damages is made in the year in which the loss is first foreseen and is recognised as a deduction from amounts recoverable from the customer or added to payments on account. This includes recognition of liquidated damages to the extent they expect to be paid in respect of any anticipated delays to the delivery of projects.

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 general meeting prior to the balance sheet date. Interim dividends are recognised when paid.

Principal Accounting Policies (Continued)

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:

Freehold buildings	2%
Leasehold improvements	Period of lease
Plant and machinery	6.7 - 20%
Equipment and motor vehicles	12.5% - 33%

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

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement as a finance cost over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Principal Accounting Policies (Continued)

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 including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

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.

Interest income

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. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates and laws that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

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 credit 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

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

Principal Accounting Policies (Continued)

Intangible assets (continued)

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) Intellectual property
Intellectual property is amortised over a period of 20 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. Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- 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 an 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.

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.

Merger reserve was created on the acquisition of Sigma UK Limited.

Other reserves were created on redemption of preference shares.

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

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.

Principal Accounting Policies (Continued)

Financial assets

The Group's financial assets include:

i) trade and other receivables that are classified as loans and receivables
ii) cash and cash equivalents that are classified as loans and receivables
iii) unlisted investments classified as available for sale.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for any impairment. Any change to their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured at fair value (with movements in fair value recognised through income statement or other comprehensive income as required), unless the fair value cannot be measured reliably and in this case these assets are valued at cost. Gains and losses arising from investments classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available for sale assets, any loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Financial liabilities

The Group's financial liabilities include:

i) trade and other payables that are classified as other financial liabilities
ii) borrowings that are classified as other financial liabilities
iii) deferred consideration that is classified as other financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All other financial liabilities are recorded initially at fair value, net of direct issue costs. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and bank overdrafts, and ring fenced cash obtained from EU grants. 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.

Non-current assets and liabilities classified as held for sale

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Principal Accounting Policies (Continued)

Defined contribution pension scheme

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

Equity settled share-based payments

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit or loss with a corresponding credit to "retained earnings".

If vesting periods or other non-market 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. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate 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 currently are Energy and Medical.

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. Those areas are:

a) United Kingdom
b) Europe
c) North America
d) Rest of World

Principal Accounting Policies (Continued)

Government grants

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.

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.

Critical accounting judgements and key sources of estimation uncertainty

Certain estimates and judgements need to be made by the directors of the Group which affect the results and position of the Group as reported in the financial statements. Estimates and judgements are required, for example, as at the reporting date not all assets/liabilities have been settled. There are inherent areas of judgement and estimation due to the high-technology development work carried out by the Group in all of its operational sectors. There are also areas of judgement within the longer term Energy and Medical contracts that the Group enters into which require a view regarding their ultimate outcome and the recoverability of assets.

The major areas of estimation within the financial statements are as follows:

Revenue and margin recognition long-term contracts and related provisions

The Group recognises revenue and gross margin on long-term contracts using the percentage of completion method based on milestones; in addition, when a project review indicates a negative gross margin, the estimated loss at completion is immediately recognised.

Recognised revenue and margin are based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. 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. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications or delays caused by unexpected conditions or events.

Loss making contracts

From time to time the group enters into contracts which ultimately do not generate the anticipated profits at the time of execution. Where contracts are expected to make losses management prepare their best estimate of the total losses expected on that contract and make a full provision in the period which the loss is first foreseen. When considering the profitability of contracts where management anticipate delays in the delivery of projects, they take into consideration any expected payments in respect of contractual liquidated damages on late delivery. Estimates are used in assessing the total value of losses expected on contracts and amounts released thereafter as obligations passed. In respect of liquidated damages, where the conditions are met for payment management provide for these in full.

Principal Accounting Policies (Continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Exceptional items

Exceptional items are identified as such by virtue of their size, and nature of incidence. These items are disclosed on the face of the Income Statement to aid the understanding of the group's performance. Transaction which may give rise to exceptional items are principally acquisition and restructuring costs.

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.

Recoverability of internally-generated intangible assets

During the year, management reconsidered the recoverability of its internally-generated intangible assets ensuring that the projects continue to progress in a satisfactory manner, and that customer reaction has reconfirmed management's previous estimates of anticipated revenue streams from the projects. Whether capitalised development costs are subsequently impaired requires an estimation of the future discounted cashflows of the associated product. Management have based their estimate of the future cashflows on current year orders extended over the life of the product. Further details are included in note 13.

Recoverability of WIP, trade receivables and accrued income

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 the customers. Management periodically revisit the claim and their assessment of the amount expected to be recovered. WIP, trade receivables and accrued income are detailed in note 17.

Warranties

Warranty accruals are made for specific product issues based on an estimate on the likely cost arising. It has been deemed prudent to provide for an amount based on historical information. As at the year end, there are no significant warranties and the Directors' are not aware of any significant exposure.

The major areas for judgements within the financial statements are as follows:

Recognition of intangible assets

During the year management have capitalised £625,000k of development costs associated with ongoing projects. As defined in the accounting policy, management carefully consider the conditions set out in assessing whether to capitalise certain costs. Assessing the future revenues and the availability of resources to complete the project involves significant judgement by the management team who are experienced in delivering these types of projects.

Deferred tax asset

Judgement is applied in assessing whether a deferred tax asset is recognised on carried forward losses based on anticipated profit streams, as set out in note 24.

Consolidated Income Statement

For the year ended 31 May 2017

	Note	2017 £'000	2016 £'000
Revenue	2	**22,714**	21,177
Cost of sales		**(18,659)**	(18,028)
Gross profit		**4,055**	3,149
Distribution costs		**(713)**	(699)
Share based payment expense		**(34)**	(21)
Acquisition costs		**(101)**	–
Restructuring costs		**(182)**	(272)
Tender share buyback costs		**(226)**	–
Net proceeds from property disposal		**–**	446
Other administrative expenses		**(3,265)**	(2,830)
Total administrative expenses		**(3,808)**	(2,677)
Operating loss	2	**(466)**	(227)
Finance income	5	**219**	554
Finance costs	6	**(38)**	(82)
(Loss)/profit before taxation		**(285)**	245
Taxation	9	**(11)**	175
(Loss)/profit after taxation from continuing operations		**(296)**	420
Profit after taxation from discontinued operations	32	**–**	30,716
(Loss)/profit for the financial year attributable to equity shareholders		**(296)**	31,136
(Loss)/earnings per share:			
From continuing operations			
- Basic	11	**(1.3)p**	1.5p
- Diluted	11	**(1.3)p**	1.5p
From continuing and discontinued operations			
- Basic	10	**(1.3)p**	112.3p
- Diluted	10	**(1.3)p**	111.4p

Consolidated Statement of Comprehensive Income

	Note	2017 £'000	2016 £'000
(Loss)/profit for the year		**(296)**	31,136
Other comprehensive income for the year, net of tax:			
Items that may/will subsequently be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**10**	(283)
Merger reserve recycled on disposal of subsidiary undertakings		**–**	402
Exchange differences recycled on disposal of subsidiary undertakings	32	**–**	477
Total comprehensive income for the year attributable to equity shareholders		**(286)**	31,732

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Consolidated Balance Sheet

For the year ended 31 May 2017	Note	2017 £'000	2016 £'000
Non current assets			
Goodwill	12	**5,198**	4,550
Other intangible assets	13	**1,442**	930
Property, plant and equipment	14	**4,850**	4,668
Deferred tax	24	**–**	6
		11,490	10,154
Current assets			
Inventories	16	**5,618**	3,046
Trade and other receivables : amounts falling due within one year	17	**9,038**	6,141
Trade and other receivables : amounts falling due after one year	17	**580**	1,450
Current tax asset	9	**52**	85
Cash and cash equivalents		**27,703**	56,503
		42,991	67,225
Total assets		**54,481**	77,379
Current liabilities			
Trade and other payables	20	**(7,870)**	(6,908)
Obligations under finance leases	22	**(142)**	(295)
Borrowings	21	**(179)**	(3,911)
Current tax liabilities	9	**–**	(129)
Provisions	19	**–**	–
Total current liabilities		**(8,191)**	(11,243)
Non current liabilities			
Borrowings	21	**(896)**	(1,075)
Obligations under finance leases	22	**(37)**	(176)
Deferred tax	24	**(195)**	(132)
Contingent consideration	32	**(256)**	–
Total non-current liabilities		**(1,384)**	**(1,383)**
Total liabilities		**(9,575)**	**(12,626)**
Net assets		**44,906**	**64,753**
Equity			
Share capital	25	**958**	1,387
Share premium account		**12,771**	10,903
Capital redemption reserve		**1,299**	814
Translation reserve		**2**	(8)
Other reserves		**180**	180
Investment in own shares	32	**(2,250)**	(1,000)
Retained earnings		**31,946**	52,477
Total equity attributable to equity holders of the parent		**44,906**	64,753

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 September 2017 and signed on its behalf by:

S M King
Director
Company number: 1968354

Company Balance Sheet

For the year ended 31 May 2017	Note	2017 £'000	2016 £'000
Non current assets			
Investments	15	**6,419**	5,816
		6,419	5,816
Current assets			
Trade and other receivables: amounts falling due within one year	17	**11,833**	3,598
Trade and other receivables: amounts falling due after one year	17	**–**	1,450
Current tax asset		**123**	–
Cash at bank and in hand		**25,124**	55,498
		37,080	60,546
Total assets		**43,499**	66,362
Current liabilities			
Trade and other payables	20	**(155)**	(3,856)
Borrowings	21	**(179)**	(178)
Total current liabilities		**(334)**	(4,034)
Non-current liabilities			
Borrowings	21	**(896)**	(1,075)
Contingent consideration	32	**(256)**	–
Total non-current liabilities		**(1,152)**	(1,075)
Total liabilities		**(1,486)**	(5,109)
Net assets		**42,013**	61,253
Capital and reserves			
Called up share capital	25	**958**	1,387
Share premium account		**12,771**	10,903
Capital redemption reserve		**1,299**	814
Other reserves		**180**	180
Profit and loss account		**26,805**	47,969
Equity shareholders' funds		**42,013**	61,253

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 £929k loss (2016: profit of £32,077k).

The financial statements were approved by the Board of Directors on and authorised for issue 26 September 2017 and signed on its behalf by:

S M King
Director

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2017

	Share capital £'000	*Share premium account £'000*	*Capital redemp -tion reserve £'000*	*Merger reserve £'000*	*Trans -lation reserve £'000*	*Other reserves £'000*	*Investment in own shares £'000*	*Retained earnings £'000*	*Total £'000*
At 1 June 2015	1,385	10,873	814	402	(202)	180	(1,000)	21,733	34,185
Ordinary shares issued	2	30	–	–	–	–	–	–	32
Dividends paid	–	–	–	–	–	–	–	(830)	(830)
Transfer on disposal	–	–	–	(402)	–	–	–	402	–
Share-based payments	–	–	–	–	–	–	–	36	36
Transactions with owners	2	30	–	(402)	–	–	–	(392)	(762)
Profit for the year	–	–	–	–	–	–	–	31,136	31,136
Other comprehensive income									
Exchange gain	–	–	–	–	(283)	–	–	–	(283)
Recycled on disposal of subsidiary undertakings	–	–	–	–	477	–	–	–	477
Total comprehensive income for the year	–	–	–	–	194	–	–	31,136	31,330
Balance at 31 May 2016	**1,387**	**10,903**	**814**	**–**	**(8)**	**180**	**(1,000)**	**52,477**	**64,753**
At 1 June 2016	1,387	10,903	814	–	(8)	180	(1,000)	52,477	64,753
Ordinary shares issued	56	1,868	–	–	–	–	–	–	1,924
Dividends paid	–	–	–	–	–	–	–	(886)	(886)
Investment in own shares	–	–	–	–	–	–	(1,250)	–	(1,250)
Tender share buyback	(485)	–	485	–	–	–	–	(19,383)	(19,383)
Share-based payments	–	–	–	–	–	–	–	34	34
Transactions with owners	(429)	1,868	485	–	–	–	(1,250)	(20,235)	(19,561)
Loss for the year	–	–	–	–	–	–	–	(296)	(296)
Other comprehensive income									
Exchange gain	–	–	–	–	10	–	–	–	10
Total comprehensive income for the year	–	–	–	–	10	–	–	(296)	(286)
Balance at 31 May 2017	**958**	**12,771**	**1,299**	**–**	**2**	**180**	**(2,250)**	**31,946**	**44,906**

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 May 2017

	Share capital £'000	*Share premium account £'000*	*Capital redemp -tion reserve £'000*	*Merger reserve £'000*	*Other reserves £'000*	*Retained earnings £'000*	*Total £'000*
At 1 June 2015	1,385	10,873	814	402	180	16,284	29,938
Ordinary shares issued	2	30	–	–	–	–	32
Dividends paid	–	–	–	–	–	(830)	(830)
Transfer on disposal	–	–	–	(402)	–	402	–
Share-based payments	–	–	–	–	–	36	36
Transactions with owners	2	30	–	(402)	–	(392)	(762)
Profit for the year	–	–	–	–	–	32,077	32,077
Total comprehensive income for the year	–	–	–	–	–	32,077	32,077
Balance at 31 May 2016	**1,387**	**10,903**	**814**	**–**	**180**	**47,969**	**61,253**
At 1 June 2016	1,387	10,903	814	–	180	47,969	61,253
Ordinary shares issued	56	1,868	–	–	–	–	1,924
Dividends paid	–	–	–	–	–	(886)	(886)
Tender share buyback	(485)	–	485	–	–	(19,383)	(19,383)
Share-based payments	–	–	–	–	–	34	34
Transactions with owners	(429)	1,868	485	–	–	(20,235)	(18,311)
Loss for the year	–	–	–	–	–	(929)	(929)
Total comprehensive income for the year	–	–	–	–	–	(929)	(929)
Balance at 31 May 2017	**958**	**12,771**	**1,299**	**–**	**180**	**26,805**	**42,013**

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 May 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Cash flows from operating activities	**27**	**(3,221)**	7,885
Finance costs paid		**(38)**	(146)
Income tax (paid) repaid		**(1)**	52
Net cash (outflow)/inflow from operating activities		**(3,260)**	7,791
Investing activities			
Acquisition of subsidiary undertakings, net of cash acquired	**32**	**(585)**	(3,500)
Disposal of subsidiary undertakings, net of cash		**–**	53,677
Finance income		**219**	554
Purchase of intangible assets		**(626)**	(766)
Purchase of property, plant and equipment		**(484)**	(1,062)
Proceeds from sale of intangible assets		**–**	9
Proceeds from sale of property, plant and equipment		**13**	1,319
Net cash (used)/generated by in investing activities		**(1,463)**	**50,231**
Financing activities			
Equity dividends paid		**(886)**	(830)
Repayments of bank loans		**(334)**	(4,156)
Repayments of obligations under finance leases		**(292)**	(1,176)
Proceeds from issue of ordinary shares		**612**	32
Purchase of shares - tender buyback		**(19,383)**	–
Proceeds from borrowings		**–**	1,651
Net cash outflow from financing activities		**(20,283)**	(145)
Net (decrease)/increase in cash and cash equivalents		**(25,006)**	53,543
Cash and cash equivalents at beginning of year		**52,923**	(361)
Effect of foreign exchange rate changes on cash		**(214)**	(259)
Cash and cash equivalents at end of year	**27**	**27,703**	52,923

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Company Statement of Cash Flow

For the year ended 31 May 2017

	Note	*Company*	
		2017	*2016*
		£'000	*£'000*
Operating activities			
Cash flows from operating activities	**28**	**(11,300)**	(1,415)
Finance costs paid		**(21)**	(55)
Income tax repaid		**–**	4
Net cash inflow from operating activities		**(11,321)**	(1,466)
Investing activities			
Disposal of subsidiary undertakings, net of cash		**–**	54,260
Acquisition of subsidiary undertakings		**(738)**	–
Finance income		**274**	581
Net cash (utilised)/generated by investing activities		**(464)**	54,841
Financing activities			
Equity dividends paid		**(886)**	(830)
Repayments of bank loans		**(182)**	(2,659)
Proceeds from issue of ordinary shares		**1,862**	32
Purchase of shares - tender buyback		**(19,383)**	–
Proceeds from borrowings		**–**	1,464
Net cash outflow from financing activities		**(18,589)**	(1,993)
Net (decrease)/ increase in cash and cash equivalents		**(30,374)**	51,382
Cash and cash equivalents at beginning of year		**55,498**	4,116
Cash and cash equivalents at end of year		**25,124**	55,498

The principal accounting policies and notes on pages 17 to 56 form part of these financial statements.

Notes to the Annual Report

For the year ended 31 May 2017

1 Corporate information

The consolidated financial statements of Avingtrans plc and its subsidiaries (collectively the Group) for the year ended 31 May 2017 were authorised for issue in accordance with a resolution of the directors on 26 September 2017. 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 traffic management industries worldwide.

2 Segmental analysis

For management purposes, the Group is currently organised into two (2016: two) main segments Energy and Medical following the disposal of Aerospace. The basis on which the Group reports to the Chief Executive.

Principal activities are as follows:

- Energy – in the design and manufacture of machined and fabricated pressure and vacuum vessels and process plant and equipment for the power, oil and gas. Plus, design and manufacture of fabricated poles and cabinets for roadside safety cameras and rail track signalling.
- Medical – in the design and manufacture of machined and fabricated pressure and vacuum vessels for the medical markets. Plus Design and manufacture of superconducting magnet systems and associated cryogenic systems for a variety of markets, including 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 2017	*Energy* *£'000*	*Medical* *£'000*	*Unallocated Central items* *£'000*	*Total* *£'000*
Revenue	**12,610**	**10,104**	**–**	**22,714**
Operating profit/(loss)	**456**	**428**	**(1,350)**	**(466)**
Net finance costs				**181**
Taxation				**(11)**
Loss after tax from continuing operations				**(296)**
Segment non-current assets	**7,482**	**4,008**	**–**	**11,490**
Segment assets	**17,796**	**10,110**	**26,575**	**54,481**
Segment liabilities	**(4,158)**	**(2,241)**	**(3,176)**	**(9,575)**
Net assets	**13,638**	**7,869**	**23,399**	**44,906**
Non-current asset additions				
Intangible assets	**587**	**39**	**–**	**626**
Tangible assets	**316**	**168**	**–**	**484**
	903	**207**	**–**	**1,110**

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

Medical results includes the acquisition of the Space Cryomagnetics Limited which contributed £227,000 and £115,000 to Group revenue and loss after tax respectively (note 32).

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

2 Segmental analysis (continued)

Year ended 31 May 2016 (restated)	***Energy £'000***	***Medical £'000***	***Unallocated Central items £'000***	***Total £'000***
Revenue	10,912	10,265	–	21,177
Operating profit/(loss)	247	(188)	(286)	(227)
Net finance costs				472
Taxation				175
Profit after tax from continuing operations				420
Segment non-current assets	6,862	3,292	–	10,154
Segment assets	13,638	6,789	56,952	77,379
Segment liabilities	(4,151)	(3,801)	(4,674)	(12,626)
Net assets	9,487	2,988	52,278	64,753
Non-current asset additions				
Intangible assets	294	36	–	330
Tangible assets	333	97	–	430
	627	133	–	760

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

Geographical

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

	2017 Revenue £'000	*2016 Revenue £'000*	***2017 Non-current Assets £'000***	*2016 Non-current Assets £'000*
United Kingdom	**18,635**	16,027	**10,111**	8,626
Europe	**785**	511	**–**	–
North America	**5**	1	**–**	–
Rest of World	**3,863**	5,387	**1,379**	1,528
Eliminations	**(574)**	(749)	**–**	–
	22,714	21,177	**11,490**	10,154

The Group had Medical revenue of £7,229,000 (2016: £6,997,000) and Energy £nil (2016: £2,284,000) with single external customers under common control, which each represent more than 10% of the Group's revenue.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

3 Profit before taxation - continuing

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

	2017	*2016*
	£'000	*£'000*
Depreciation of property, plant and equipment	**525**	505
Profit on disposal of property, plant and equipment	**(13)**	(548)
Amortisation of internally generated intangible assets	**120**	229
Cost of inventories recognised as an expense	**18,719**	17,101
Gain on foreign exchange transactions	**(34)**	(11)
Staff costs (note 8)	**7,885**	8,295
Operating lease rentals:		
- Land and buildings	**354**	260
- Machinery	**10**	24

Auditor's remuneration	***2017***	*2016*
	£'000	*£'000*
Fees payable to the Company's auditor for the audit of the financial statements	**13**	13
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	**65**	68
- Tax compliance services	**20**	20
- All other services	**27**	23

4 Adjusted Earnings before interest, tax, depreciation and amortisation

	2017	*2016*
	£'000	*£'000*
(Loss)/profit before tax from continuing operations	**(285)**	245
Share based payment expense	**34**	21
Acquisition costs	**101**	–
Restructuring costs	**182**	272
Tender share buyback costs	**226**	–
Profit on disposal of property	**–**	(446)
Adjusted profit before tax	**258**	92
Finance income	**(219)**	(554)
Finance cost	**38**	82
Adjusted profit/(loss) before interest, tax and amortisation from business combinations ('EBITA')	**77**	(380)
Depreciation	**525**	505
Amortisation of other intangible assets	**120**	229
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**722**	354

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

5 Finance income

	Group	
	2017	*2016*
	£'000	*£'000*
Interest from other	**219**	552
Interest on finance lease agreements	**–**	2
	219	554

6 Finance costs

	Group	
	2017	*2016*
	£'000	*£'000*
Interest on bank loans and overdrafts wholly repayable within five years	**–**	7
Interest on bank loans and overdrafts wholly repayable after five years	**21**	54
Interest on finance lease agreements	**17**	21
	38	82

7 Directors' emoluments

Particulars of directors' emoluments are as follows:

	Salary and Fees £'000	***Benefits £'000***	***Long Term Incentive £'000***	***Total 2017 £'000***	*Total 2016 £'000*	***Pension Total 2017 £'000***	*Pension Total 2016 £'000*
Non-executive:							
R S McDowell	69	–	–	**69**	63	–	–
J J Hamer	25	–	–	**25**	30	–	–
LJ Thomas	33	–	–	**33**	25	–	–
GK Thornton	39	–	–	**39**	35	–	–
Executive:							
S McQuillan	279	–	57	**336**	268	–	22
S M King	226	–	41	**267**	222	–	26
Total emoluments	671	–	98	**769**	643	–	48

During June 2016 S McQuillan and S King were each paid £600,000 respectively in connection with the successful completion of the disposal of the Aerospace division, which was accrued in the financial statements for the year ended 31 May 2016. Thus total remuneration and remuneration for the highest paid director in 2016 would be £1,843,000 and £868,000 respectively.

The fees of JJ Hamer, LJ Thomas and GK Thornton were paid to Fin Dec Limited, Heriot Resources Ltd and RG Associates respectively.

The non-cash benefits comprise the provision of private health insurance for S McQuillan and S M King. The number of Directors who are accruing benefits under money purchase schemes is nil (2016: two).

The long term incentive represents the initial interest in the Joint Ownership Scheme (see note 31).

Employers National Insurance Contributions made relating to directors' emoluments were £94,000 (2016: £70,000).

During 2017 S McQuillan and S M King exercised 175,000 and 125,267 share options respectively as set out on page 15 resulting in unrealised gains of £171,000 and £122,000 (2016: S McQuillan and S M King exercised nil options).

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

8 Employees

Particulars of employees, including Executive Directors:

	2017	*2016*
	£'000	*£'000*
Wages and salaries	**6,815**	7,163
Social security costs	**778**	725
Other pension costs	**257**	386
Share-based payment expense	**35**	21
	7,885	8,295

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

	2017	*2016*
	Number	*Number*
Production	**192**	190
Selling and distribution	**13**	13
Administration	**37**	35
	242	238

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'.

	2017	*2016*
	£'000	*£'000*
Short term employee benefits (including NIC)	**944**	720
Post-employment benefits	**–**	69
Share-based payments	**25**	15
	969	804

9 Taxation

	2017	*2016*
	£'000	*£'000*
Current tax	**(57)**	(63)
Deferred tax (note 24)	**69**	(112)
	11	(175)

UK corporation tax is calculated at 19.83% (2016: 20.0%) of the estimated assessable profit/loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

9 Taxation (continued)

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

	2017 ***£'000***	*2016* *£'000*
(Loss)/profit before taxation	**(285)**	245
Theoretical tax at UK corporation tax rate of 19.83% (2016: 20.0%)	**(56)**	49
Effects of:		
Other expenditure that is/is not tax deductible	**94**	(104)
Un-provided deferred tax differences	**(4)**	(61)
Adjustments in respect of prior years	**(8)**	(43)
Rate differential on timing differences	**(4)**	-
Change in deferred tax rate	**(11)**	(16)
Total tax charge	**11**	(175)

The Group has tax losses carried forward of approximately £6.7million at 31 May 2017 (2016: £4.7million) that may be relievable against future profits.

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

	2017 ***£'000***	*2016* *£'000*
Current tax assets		
UK Corporation tax	**52**	85
	52	85
Current tax liabilities		
UK Corporation tax	–	129
	–	129

Factors that may affect future tax charges

Reductions to the UK corporation tax rate were announced in the Chancellor's Budget on 8 July 2015 and were substantively enacted on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016 and will reduce the company's future current tax charge accordingly. The closing deferred tax liability at 31 May 2017 has therefore been calculated using these rates.

10 Dividends

	2017 ***£'000***	*2016* *£'000*
IInterim dividend paid of 1.1p per ordinary share (2016: 1.0p)	**305**	277
Final dividend paid of 2.1p per ordinary share (2016: 2.0p)	**581**	553
	866	830

The interim dividend declared in the half year statement of 1.2p per ordinary share was paid on 16 June 2017.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

11 Earnings per ordinary share

Basic and diluted (loss)/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 (loss)/earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the EMI, CSOP and ExSOP share options.

	2017 Number	*2016 Number*
Weighted average number of shares – basic	**22,295,083**	27,725,452
Share option adjustment	**288,451**	230,934
Weighted average number of shares – diluted	**22,583,534**	27,956,386

	2017 £'000	*2016 £'000*
(Loss)/earnings from continuing operations	**(296)**	420
Share based payment expense	**34**	21
Acquisition costs	**101**	–
Restructuring costs	**182**	272
Tender share buyback costs	**226**	–
Profit on disposal of property	–	(446)
Adjusted earnings from continuing operations	**247**	267
From continuing operations:		
Basic (loss)/earnings per share	**(1.3)p**	1.5p
Adjusted basic earnings per share	**1.1p**	1.0p
Diluted (loss)/earnings per share	**(1.3)p**	1.5p
Adjusted diluted earnings per share	**1.1p**	1.0p
Earnings from discontinued operations	–	30,716
From discontinued operations:		
Basic earnings per share	–	110.8p
Diluted earnings per share	–	109.9p
Earnings attributable to shareholders	**247**	31,136
Basic (loss)/earnings per share	**(1.3)p**	112.3p
Diluted (loss)/earnings per share	**(1.3)p**	111.4p

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 nil share options at 31 May 2017 (2016: 321,502) that are not included within diluted earnings per share because they are anti-dilutive.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

12 Goodwill

	Total £'000
Cost	
At 1 June 2015	10,407
Disposal of subsidiary undertakings	(5,007)
1 June 2016	5,400
Acquisition of subsidiary undertaking (note 32)	648
At 31 May 2017	**6,048**
Accumulated impairment losses	
At 1 June 2015 and 1 June 2016	850
At 31 May 2017	**850**
Net book value	
At 31 May 2017	**5,198**
At 31 May 2016	4,550

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:

	2017 £'000	*2016 £'000*
Energy	**3,689**	3,689
Medical	**1,509**	861
	5,198	4,550

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 4% has been used for Energy and Medical. Recent changes to management and improvements to the contract negotiation and costing processes are expected to increase margins in the Energy and Medical division.

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% 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 and have concluded that a 2% growth in revenue and discount rate of 12% would not result in the carrying amount of goodwill exceeding the recoverable amount.

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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

13 Other intangible assets – group

	Customer relationships £'000	*Order book £'000*	*Development costs £'000*	*Software £'000*	*Total £'000*
Cost					
At 1 June 2015	4,026	364	5,476	969	10,835
Additions	–	–	713	53	766
Disposals	–	–	-	(13)	(13)
Disposal of subsidiary undertakings	(4,026)	(364)	(3,865)	(715)	(8,970)
At 1 June 2016	–	–	2,324	294	2,618
Additions	–	–	625	1	626
Acquisition of subsidiary undertakings (note 32)	–	–	4	–	4
Exchange adjustments	–	–	–	2	2
At 31 May 2017	**–**	**–**	**2,953**	**297**	**3,250**
Accumulated amortisation					
At 1 June 2015	3,854	364	2,744	431	7,393
Charge for the year	137	–	623	223	983
Disposals	–	–	–	(4)	(4)
Disposal of subsidiary undertakings	(3,991)	(364)	(1,904)	(425)	(6,684)
At 1 June 2016	–	–	1,463	225	1,688
Charge for the year	–	–	76	44	120
At 31 May 2017	**–**	**–**	**1,539**	**269**	**1,808**
Net book value at 31 May 2017	**–**	**–**	**1,414**	**28**	**1,442**
Net book value at 31 May 2016	–	–	861	69	930

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

14 Property, plant and equipment - group

	Freehold land and buildings £'000	*Leasehold improve-ments £'000*	*Plant and Machinery £'000*	*Equipment and motor vehicles £'000*	*Total £'000*
Cost					
At 1 June 2015	5,292	377	11,093	2,152	18,914
Additions	28	65	786	183	1,062
Acquisition of subsidiary undertakings	–	–	1,060	121	1,181
Disposals	–	(3)	(267)	(19)	(289)
Disposal of subsidiary undertakings	(3,194)	(336)	(6,936)	(1,430)	(11,896)
Exchange adjustments	–	-	(13)	(2)	(15)
At 1 June 2016	2,126	103	5,723	1,005	8,957
Additions	41	12	311	120	484
Acquisition of subsidiary undertakings (note 32)	–	–	99	5	104
Assets written off	–	–	(1,605)	(148)	(1,753)
Exchange adjustments	–	–	117	24	141
At 31 May 2017	**2,167**	**115**	**4,645**	**1,006**	**7,933**
Depreciation					
At 1 June 2015	573	160	5,297	1,023	7,053
Charge in the year	66	22	1,109	323	1,520
Disposals	(1)	(2)	(87)	–	(90)
Disposal of subsidiary undertakings	(373)	(148)	(2,839)	(832)	(4,192)
Exchange adjustments	–	–	(2)	–	(2)
At 1 June 2016	265	32	3,478	514	4,289
Charge in the year	30	19	362	114	525
Assets written off	–	–	(1,605)	(148)	(1,753)
Exchange adjustments	–	–	18	4	22
At 31 May 2017	**295**	**51**	**2,253**	**484**	**3,083**
Net book value at 31 May 2017	**1,872**	**64**	**2,392**	**522**	**4,850**
Net book value at 31 May 2016	1,861	71	2,245	491	4,668

Leased assets
The net book value of assets held under finance leases are as follows:

	Plant and machinery £'000	*Equipment and motor vehicles £'000*	*Total £'000*
Net book value			
At 31 May 2017	**478**	**2**	**480**
At 31 May 2016	674	6	680

Depreciation charged on assets held under finance leases was £200,000 (2016: £202,000).

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

15 Investments

	Unlisted investments £'000	*Group Undertakings £'000*	*Capital Contributions £'000*	*Total £'000*
Cost				
At 1 June 2015	219	21,031	131	21,381
Additions	–	–	24	24
Disposal of subsidiary undertakings	–	(10,861)	(85)	(10,946)
At 1 June 2016	219	10,170	70	10,459
Acquisition of subsidiary undertakings (note 32)	–	588	15	603
Unlisted investment written off	(219)	–	–	(219)
At 31 May 2017	**–**	**10,758**	**85**	**10,843**
Provision				
At 1 June 15 and 1 June 2016	219	4,424	–	4,643
Unlisted investment written off	(219)	–	–	(219)
At 31 May 2017	**–**	**4,424**	**–**	**4,424**
Net book value at 31 May 2017	**–**	**6,334**	**85**	**6,419**
Net book value at 31 May 2016	–	5,746	70	5,816

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

Name	**Country of incorporation**	**Principal activity**
Crown UK Limited	England and Wales	Precision engineering
Stainless Metalcraft (Chatteris) Limited	England and Wales	Precision engineering
Metalcraft (Chengdu) Limited	China	Precision engineering
Metalcraft (Sichuan) Limited	China	Precision engineering
Maloney Metalcraft Limited	England and Wales	Precision engineering
Composite Products Limited	England and Wales	Precision engineering
Space Cryomagnetics Limited (trading as Scientific Magnetics Limited)	England and Wales	Precision engineering

All the above are 100% owned apart from Space Cryomagnetics Limited (note 32) which is 82% owned with are call and put options enabling or requiring the Company to purchase the remaining 18%.

Metalcraft (Chengdu) Limited and Metalcraft (Sichuan) Limited are 100% subsidiaries of Stainless Metalcraft (Chatteris) Limited.

16 Inventories

	Group	
	2017 £'000	*2016 £'000*
Raw materials and consumables	**951**	750
Work in progress	**4,083**	1,926
Finished goods	**584**	370
	5,618	3,046

The replacement cost of the above stocks would not be significantly different from the values stated. During the period there was an impairment charge of £158,000.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

17 Trade and other receivables

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Amounts falling due within one year				
Trade receivables	**4,301**	3,498	–	–
Allowance for doubtful debts	**(181)**	(52)	–	–
	4,120	3,446	–	–
Other receivables	**1,491**	40	**3,700**	1,066
Amounts owed by group undertakings	–	–	**8,127**	2,529
Prepayments and accrued income	**2,302**	1,276	**6**	3
Amounts receivable under long term contracts	**1,125**	1,379	–	–
	9,038	6,141	**11,833**	3,598
Amounts falling after one year				
Other receivables	–	1,450	–	1,450
Prepayments and accrued income	**580**	–	–	–
	580	1,450	–	1,450

The average credit period taken on sales of goods is 44 days (2016: 46 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.

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.

Ageing of past due but not impaired trade receivables

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
60 - 90 days	**370**	373	–	–
90 - 120 days	**28**	284	–	–
120+ days	**343**	188	–	–
Total	**741**	845	–	–

Movement in the allowance for doubtful debts

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Balance brought forward	**52**	128	–	–
Impairment losses recognised	**94**	42	–	–
Amounts written off as uncollectible	**(58)**	(36)	–	–
On acquisition of subsidiaries	**93**	-	–	–
On disposal of subsidiaries	–	(82)	–	–
Balance carried forward	**181**	52	–	–

Included in the allowance for doubtful debts are individually impaired receivables.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

17 Trade and other receivables (continued)

Ageing of impaired receivables:

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
60 - 90 days	–	–	–	–
90 - 120 days	–	–	–	–
120+ days	**181**	55	–	–
Total	**181**	55	–	–

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

18 Long term contracts

	2017	*2016*
	£'000	*£'000*
Gross amounts due from customers for contract work (included in current assets)	**1,451**	1,379
Gross amounts due to customers for contract work (included in current liabilities)	**(39)**	(89)
	1,412	1,290
Contract costs incurred plus recognised profits less recognised losses to date	**6,318**	6,022
Less: progress billings	**(4,906)**	(4,732)
	1,412	1,290

Revenue arising from long term contracts was £2,719,000 (2016: £4,697,000).

19 Provisions

All provisions are considered current. The carrying amounts and the movements in the provision account are as follows:

		Group	
	Dilapidations	***Other***	***Total***
	£'000	£'000	£'000
Carrying amount			
1 June 2015	–	–	–
Acquisition of subsidiary undertakings	265	–	–
Amounts utilised	–	–	–
Disposal of subsidiary undertakings	(265)	–	–
At 1 June 2016 and 31 May 2017	–	–	–

The sites where provision had been made for dilapidation were exited at 31 May 2015.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

20 Trade and other payables

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Trade payables	**4,657**	3,499	**71**	56
Amounts owed to group undertakings	**–**	–	**–**	465
Other tax and social security	**433**	564	**43**	113
Other payables	**509**	205	**27**	–
Payments on account	**334**	527	**–**	–
Accruals and deferred income	**1,937**	2,113	**14**	3,222
	7,870	6,908	**155**	3,856

21 Borrowings

Secured borrowings

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Bank overdrafts	**–**	3,580	**–**	–
Bank loans	**1,075**	1,406	**1,075**	1,253
Total borrowings	**1,075**	4,986	**1,075**	1,253
Amount due for settlement within 12 months	**179**	3,911	**179**	178
Amount due for settlement after 12 months	**896**	1,075	**896**	1,075

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Bank loans due within one to two years	**180**	179	**180**	179
Bank loans due within two to five years	**542**	541	**542**	541
Bank loans due after five years	**174**	355	**174**	355
	896	1,075	**896**	1,075

Bank loans of £1,075,000 (2016: £1,253,000) are secured on certain assets of the Group.

At 31 May 2017 the Group had £2,950,000 (2016: £2,519,000) 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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

22 Obligations under finance leases

	Minimum lease payments		*Present value of minimum lease payments*	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Amounts due within one year	**146**	303	**142**	295
Amounts due in two to five years	**41**	195	**37**	176
Total obligations under finance leases	**187**	498	**179**	471
Less future finance charges	**(8)**	(27)	–	–
Present value of lease obligations	**179**	471	**179**	471

Finance lease liabilities are secured on the related assets.

At 31 May 2017 the Group had £nil fixed hire purchase and finance lease liabilities (2016: £nil), the weighted average interest rate is 0% (2016: 0%) and the weighted average period until maturity is nil months (2016: nil months). All finance lease liabilities were at variable rates relative to local base rates.

23 Financial instruments

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 21 and 22 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.

The gearing ratio at the year-end is as follows

	Group		*Company*	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Debt	**(1,254)**	(5,457)	**(1,075)**	(1,253)
Cash and cash equivalents	**27,703**	56,503	**25,123**	55,498
Net cash	**26,449**	51,046	**24,048**	54,245
Equity	**44,906**	64,753	**42,013**	61,253
Net cash to equity ratio	**58.9%**	78.8%	**57.2%**	88.6%

Debt is defined as long and short-term borrowings, as detailed in note 21. 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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

23 Financial instruments (continued)

Analysis of financial instruments by IAS 39 category

	Group		Company	
	2017	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*
Financial assets				
Loans and receivables comprising:				
Trade receivables	**4,120**	3,446	**–**	–
Amounts receivable under long term contracts	**1,125**	1,379	**–**	–
Cash and cash equivalents	**27,703**	56,503	**25,124**	55,498
	32,948	61,328	**25,124**	55,498
Financial liabilities				
Other financial liabilities at amortised cost				
Trade payables	**4,657**	3,499	**71**	56
Payments on account	**334**	527	**–**	–
Accruals	**1,937**	2,113	**14**	3,222
	6,928	6,139	**85**	3,278
Borrowings	**1,075**	4,986	**1,075**	1,253
Lease obligations	**179**	472	**–**	–
	1,254	5,458	**1,075**	1,253
Financial liabilities at amortised cost	**8,182**	11,597	**1,160**	4,531
Undiscounted contractual maturity of financial liabilities:				
Amounts due within one year	**7,274**	10,377	**284**	3,480
Amounts due in two to five years	**806**	973	**766**	778
Amounts due after five years	**175**	362	**175**	362
	8,255	11,712	**1,225**	4,620
Less future finance charges	**(73)**	(115)	**(65)**	(89)
Financial liabilities at carrying value	**8,182**	11,597	**1,160**	4,531

The fair value of the financial instruments set out above is not materially different to the book value.

Financial risk management objectives
Management monitor and manage the financial risks relating to the operations of the Group. These risks include currency risk, interest rate risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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.

The Group presently has no forward sale contracts (2016: none) to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2017.

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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

23 Financial instruments (continued)

	Euro currency impact		*US $ currency impact*		*RmB currency impact*	
	2017	*2016*	***2017***	*2016*	***2017***	*2016*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
Impact (+/-) on						
Profit for the financial year/equity	**13**	1	**13**	3	**–**	–

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 £194,000. 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 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 three major customer's which represent 24.2%, 11.5% and 11.2% respectively (2016: two major customer's which represent 32.9% and 10.8% respectively) of trade receivables, the Group has no other significant concentration of receivables. The bad debt provision and ageing has reduced during the year predominately due to the impact of disposal of subsidiary undertaking's improvements in credit control of the subsidiaries and building their relationships with key customers.

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.

All facilities are secured on the assets of the Group.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

24 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	*Other temporary differences £'000*	*Tax losses £'000*	*Total £'000*
At 1 June 2015	789	(29)	–	760
Credit to income – continuing operations	(106)	(6)	–	(112)
Credit to income – discontinued operations	(115)	(81)	–	(196)
Disposal of subsidiary undertakings	(436)	110	–	(326)
At 1 June 2016	132	(6)	–	126
Credit to income – continuing operations	63	6	–	69
At 31 May 2017	**195**	**–**	**–**	**195**

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:

	2017 £'000	*2016 £'000*
Deferred tax liabilities	**195**	132
Deferred tax assets	**–**	(6)
	195	126

At the balance sheet date the Group has unused tax losses of £6.7million (2016: £4.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2016: £nil) of such losses. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely. In addition the Group has an unrecognised deferred tax asset of £29k (2016: £24k) 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 (2016: £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.

25 Called up share capital

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

	2017		***2016***	
	No.	***£'000***	***No.***	***£'000***
Allotted, issued and fully paid				
Ordinary shares of 5p each	**19,171,123**	**959**	27,754,564	1,387

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

	No.	***£'000***
At 1 June 2016 and 31 May 16	27,754,564	1,387
Tender buyback	(9,691,361)	(485)
Shares issued in period	1,107,920	56
At 31 May 2017	**19,171,123**	**958**

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

25 Called up share capital (continued)

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 659,900 options were exercised, 267, 15,000, 450,000, 107,835, 59,251 and 27,500 at 39.5, 49.5p, 96.0p, 176.0p, 109.0p and 111.0p respectively. The market price on the day of exercise was 186.0p, 193.0p, 190.5p, and 187.0p. Further details of the scheme are given in note 26.

The market price of the Company's shares at the end of the year was 236.5p (2016: 179.0p). The highest and lowest market prices during the year were 258.5p and 164.6 p (2016: 185.5p and 100.5p respectively).

26 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.

	2017		*2016*	
	Options (No. '000)	***Weighted Average Exercise price p***	*Options (No. '000)*	*Weighted Average Exercise price p*
Outstanding at the start of the year	**1,213.3**	**110.11**	1,425.5	47.57
Lapsed during the year	**(35.7)**	**149.70**	(94.2)	124.87
Issued during the year	**1,180.0**	**193.00**	–	–
Exercised during the year	**(659.9)**	**109.79**	(118.0)	59.91
Outstanding at the end of the year	**1,697.7**	**173.61**	1,213.3	119.33
Exercisable at the end of the year	**231.7**	**152.60**	685.3	110.11

The options outstanding at 31 May 2017 had exercise prices in the range 39.5p to 193p and a weighted average remaining contractual life of 8.7 years (2016: 7.3 years). The average market share price of options at date of exercise was 1.90p (2016: 1.44p).

The terms of these options are as follows:

Date of grant	***Options outstanding at 31 May 2017***	***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	192,000	3 years	176.00	176.00	23/12/2016 to 22/12/2023
9/12/2014	56,000	3 years	109.00	109.00	10/12/2017 to 9/12/2024
10/12/2014	230,000	3 years	111.00	111.00	11/12/2017 to 10/12/2024
21/12/2016	1,180,000	3 years	193.00	193.00	22/12/2019 to 21/12/2026

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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

26 Share-based payments (continued)

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

	2017	*2016*
	£'000	*£'000*
In respect of:		
Equity settled share options	**34**	36

There are no share based payment transactions that were expensed immediately. A deferred tax credit of £nil (2016: £nil) was recognised during the year in respect of share based payments.

27 Notes to the consolidated cash flow statement

Cash flows from operating activities:

	2017	*2016*
	£'000	*£'000*
Continuing operations		
(Loss)/profit before income tax from continuing operations	**(285)**	245
Profit before income tax from discontinued operations	**–**	3,878
Adjustments for:		
Depreciation	**525**	1,520
Amortisation of intangible assets	**120**	983
Gain on disposal of property, plant and equipment	**(13)**	(489)
Finance income	**(219)**	(554)
Finance expenses	**38**	146
Research and Development Expenditure Credit	**–**	(168)
Share based payment charge	**34**	36
Bargain purchase on acquisition	**–**	(172)
Changes in working capital		
Increase in inventories	**(2,482)**	(2,327)
Increase in trade and other receivables	**(1,654)**	(556)
Increase in trade and other payables	**711**	5,339
Other non cash changes	**4**	4
Cashflows from operating activities	**(3,221)**	7,885

	2017	*2016*
	£'000	*£'000*
Cash and cash equivalents		
Cash	**27,703**	56,503
Overdrafts	**–**	(3,580)
	27,703	52,923

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

28 Notes to the company cash flow statement

	Company	
	2017	*2016*
	£'000	*£'000*
Continuing operations		
Loss before income tax from continuing operations	**(1,057)**	(161)
Adjustments for:		
Finance income	**(274)**	(581)
Finance expenses	**21**	55
Share based payment charge	**19**	12
Changes in working capital		
(Increase) in trade and other receivables	**(6,313)**	(1,705)
(Decrease)/increase in trade and other payables	**(3,700)**	961
Other non cash changes	**4**	4
Cashflows from operating activities	**(11,300)**	(1,415)

29 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 10.

30 Financial commitments

a) Capital commitments
Commitments for capital expenditure were as follows:

	2017	*2016*
	£'000	*£'000*
Contracted for, but not provided in the accounts	**333**	–

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

	2017	*2016*
	£'000	*£'000*
Land and buildings lease obligations falling due:		
Within one year	**345**	274
In the second to fifth years inclusive	**339**	168
	684	442
Other asset lease obligations falling due:		
Within one year	**4**	12
In the second to fifth years inclusive	–	4
	4	16

Operating lease payments represent rentals payable by the Group for certain of its office properties, motor vehicles and items of plant and equipment. Property leases are negotiated for an average term of 10 years and rentals are fixed for an average of five years with an option to extend for a further five years at the then prevailing market rate.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

31 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 26 is achieved the option can be exercised by the beneficiaries

During the year 795,001 (2016: nil) shares were purchased at a cost of £1,534,352 (2016: £nil) by the Trust and beneficiaries, an interest in which was allocated to the Executive Directors as beneficiaries (as shown in note 26). 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 £2,250,000 (2016: £1,000,000) and shown as a deduction from equity in the statement of changes in shareholders' equity.

32 Acquisitions and disposals

Business combination – Space Cryomagnetics Limited (trading as Scientific Magnetics Limited)

On 27 February 2017 the Group acquired 82% of the issued share capital of Space Cryomagnetics Limited. The acquisition was made to enhance the Group's position in the energy and medical division. The provisional net assets at the date of acquisition were as follows:

Fair value of assets and liabilities acquired	***£'000***
Other intangible assets	**4**
Property, plant and equipment	**104**
Inventories	**57**
Trade and other receivables	**335**
Cash and cash equivalents	**153**
Trade and other payables	**(245)**
Loan	**(468)**
Net liabilities	**(60)**
Intangibles assets identified	**–**
Goodwill	**648**
	588
Fair value of consideration transferred:	
Cash	**270**
Shares issued	**62**
Contingent consideration	**256**
Consideration	**588**
Cash acquired	**(153)**
Loan	**468**
Acquisition costs charged to expenses	**89**
Net cash paid relating to the acquisition	**674**

Management did not identify any intangible assets on acquisition of this business.

Acquisition costs arising from this transaction of £89,000 have been included in administration expenses included in overheads before operating profit.

Notes to the Annual Report (Continued)

For the year ended 31 May 2017

32 Acquisitions and disposals (continued)

There are call and put options enabling or requiring the Company to purchase the remaining 18% of the issued share capital of Space Cryomagnetics Limited ("Sci Mag"). The options have an exercise date of October 2019 and October 2022. The Company expects to acquire the remaining 18% of Sci Mag through the future exercise of one of these options and consequently, for the purposes of the Group's consolidation, Sci Mag has been accounted for as if it were 100% owned. The exercise price of the option is contingent upon the future trading performance of Sci Mag during the period to October 2019 and October 2022. At 31 May 2017, the Group has recognised contingent consideration of £256,000, being the best estimate of the Directors at that point in time.

Since acquisition Sci Mag contributed the following to the Group's cashflows:

	2017 ***£'000***
Operating cashflows	**(43)**
Investing activities	**(41)**

Disposals – Aerospace Division

On 27 May 2016 the Group disposed of its Aerospace division (comprising Sigma Precision Components UK Limited, Sigma Precision Components Limited, C & H Precision Finishers Limited, Sigma Components (Derby) Limited, Sigma Components (Farnborough) Limited and Hartshill Ventures Limited for £65,000,000 (£53,677,000 net of cash).

The Consolidated Income Statement for the comparative period ended 31 May 2016 reports the results of the Aerospace Division, together with the profit arising on disposal, as a single item "Profit after taxation from discontinued operations". Earnings per share disclosures and the Consolidated Statement of Cash Flows also present information in respect of the year ending 31 May 2016 relating to the Aerospace Division separately. Further details in respect of the disposal of Aerospace Division are available in the Annual Report and Accounts of the year ending 31 May 2016.

33 Events after the balance sheet date

On 31 August 2017 the Group acquired 100 percent of the issued share capital of the Hayward Tyler Group plc for £29.4m through a share placing. On the same date £11.5m of its facilities were repaid, a further £10.0m of debt assumed and £5m of associated transaction costs incurred. In its previous financial year Hayward Tyler Group plc had turnover of £62,719,000 and a trading loss before tax of £3,705,000 before an exceptional gain of £376,000.

Management are assessing assets and liabilities purchased and are unable to confirm the value, given that they are currently in the process of reviewing the records of the business.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Avingtrans Plc will be held at Shakespeare Martineau LLP, No1 Colmore Square, Birmingham, B4 6AA on 16 November 2017 at 11:00am for the following purposes:

To consider, and if thought fit, to pass the following resolutions numbered 1 to 6 as ordinary resolutions

1. To receive and adopt the reports of the Directors and the auditor and the financial statements for the year ended 31 May 2017.

2. To declare a final dividend of 2.2p per ordinary share payable on 8 December 2017 payable to shareholders on the register of members on 27 October 2017.

3. To re-elect Steve McQuillan as a Director.

4. To re-elect Les Thomas as a Director.

5. To elect Ewan Lloyd-Baker as a Director

6. To reappoint Grant Thornton UK LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration to be fixed by the Directors.

   To transact any other ordinary business of an Annual General Meeting and as special business to consider the following Resolutions, Resolutions 7 and 8 being proposed as Ordinary Resolutions and Resolutions 9 and 10 as Special Resolutions.

7. That the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities as defined in Section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal value of £506,626 provided that this authority shall expire in whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities in pursuance of any such offer or agreement as if the authority conferred by this Resolution had not expired, and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to section 551 of the Act.

8. That the Company be generally and unconditionally authorised, in accordance with Article 9 of its Articles of Association and Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 5p each of the Company on such terms and in such manner as the Directors may from time to time determine provided that:

   a. the maximum number of ordinary shares authorised to be purchased is 3,070,464;

   b. the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses and advance corporation tax, if any, payable by the Company);

   c. the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased (exclusive of expenses and advance corporation tax, if any, payable by the Company); and

   d. the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may, prior to such expiry, make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

9. That the Directors be empowered pursuant to Section 571 of the Act to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority conferred upon them by Resolution 7 as if Section 561 of the Act did not apply to any such allotment provided that such power shall be limited:

   a. to the allotment of equity securities in connection with a rights issue or other offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of a regulatory body; and

Notice of Annual General Meeting

b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £153,523 and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.

10. That the Articles of Association of the Company be amended by the substitution of "£225,000" for "£150,000" in Article 92 Directors Fees.

By order of the Board

S M King

Registered office
Chatteris Business Park
Chatteris
Cambridgeshire
PE16 6SA

Dated 26 September 2016

Notice of Annual General Meeting

Notes:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business on 14 November 2017; or if this Meeting is adjourned, at close of business on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Meeting.

Attending in person

2. If you wish to attend the Meeting in person, please bring photographic identification with you to the meeting.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section.

5. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed and sent or delivered to Capita Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and received by Capita Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11:00am on 14 November 2017.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Notice of Annual General Meeting (Continued)

Termination of proxy appointments

11. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

    - By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

    - In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    In either case, the revocation notice must be received by the Capita Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 14 November 2017 at 11.00am.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

12. As at 11:00 am on 26 September 2017, the Company's issued share capital comprised 30,704,636 ordinary shares of 5p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 11.00am on 26 September 2017 is 30,704,636.

Documents on display

13 The following documents will be available for inspection at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA from 27 October 2017 until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:

- Copies of the letters of appointment of the directors of the Company.

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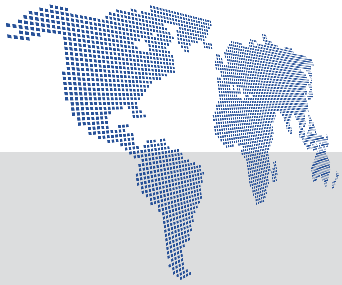
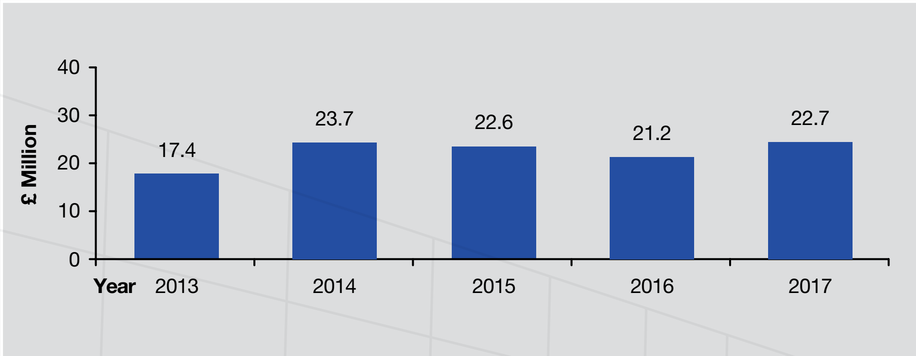
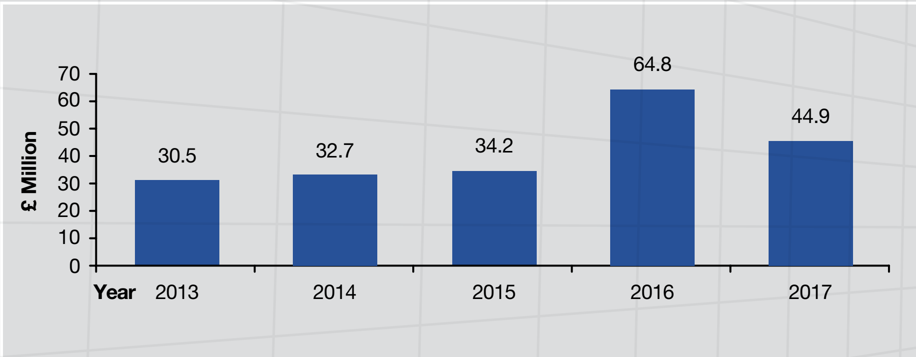


5 YEAR PERFORMANCE

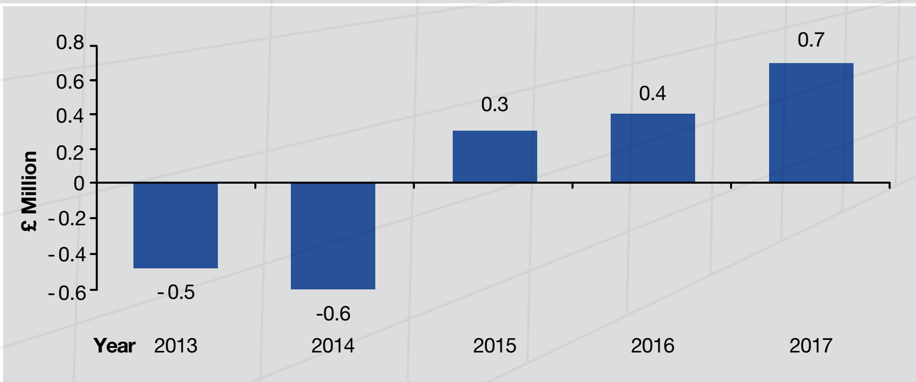
Revenue



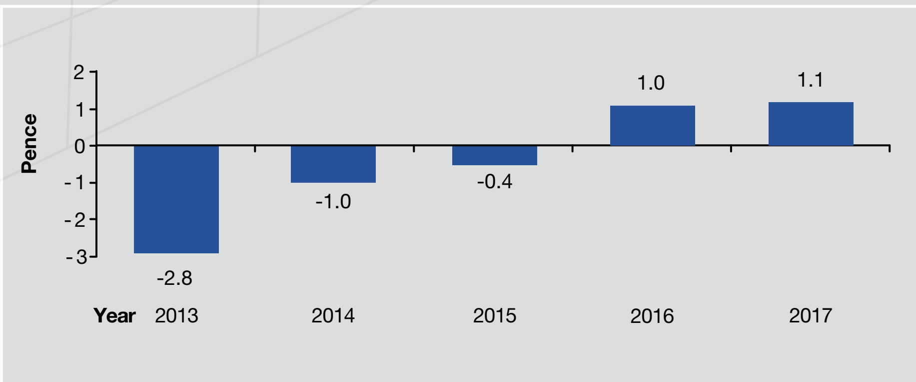
Net Assets



EBITDA
(adjusted)



EPS - Diluted
(adjusted)



2013 - 2015 adjusted to exclude results for Aerospace division sold May 16. The results above are under IAS (International Accounting Standards). Adjusted for share based payments, impairment of goodwill, amortisation/ impairment of intangibles and exceptionals.

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HAYWARD TYLER | Peter Brotherhood | Metalcraft | Maloney Metalcraft | crown INTERNATIONAL | Composite Products | SCIENTIFIC MAGNETICS

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