Avingtrans

PINPOINT-INVEST-EXIT

2019 Annual Report

About

Avingtrans plc has a proven strategy of "buy and build" in highly regulated engineering markets, a strategy it has named "Pinpoint-Invest-Exit". Significant shareholder value is delivered through a clear strategy, a strong balance sheet and an agile and experienced management team.

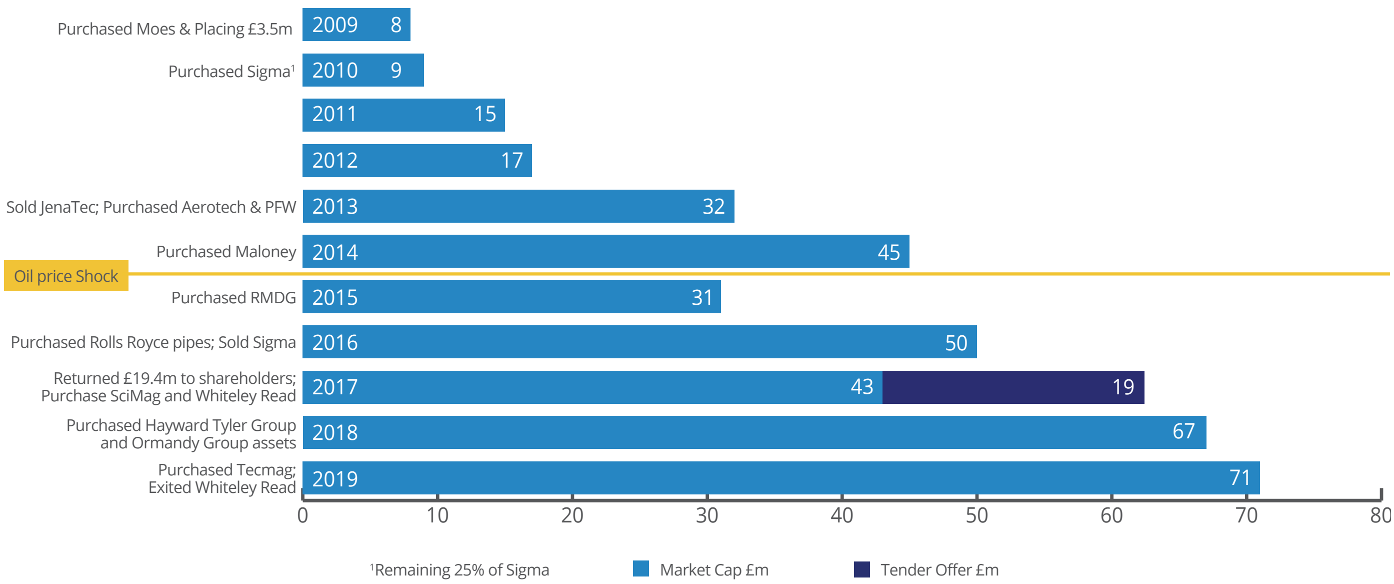
www.avingtrans.plc.uk

About us

Delivering shareholder value through a proven strategy of Pinpoint-Invest-Exit in highly regulated global engineering markets

The Group has a proven track record in delivering shareholder value through PIE:

- Identifying and executing prudent deals with precision and speed
- Building strong brands and value from constituent parts
- Crystallising these gains with periodic sales of businesses at advantageous valuations
- Returning the proceeds to shareholders



Timeline

2010 (38 GBp)

Development of the aerospace and precision components businesses

2012 (98 GBp)

Precision instruments business, JenaTec, sold for £13.5m

2014 (148 GBp)

Mature growth of aerospace and the initial development of energy and medical

2016 (180 GBp)

The Aerospace Division, Sigma Components, sold for £65m

2017 (235 GBp)

Acquisition of the Hayward Tyler Group for £29.4m and creation of Energy and Medical Divisions

Energy Division

Performance
critical solutions for
energy systems

Engineered Pumps and Motors (EPM) Division

The EPM division is built on one brand, Hayward Tyler. Established in 1815, Hayward Tyler designs, manufactures and services performance-critical electric motors and pumps to meet the most demanding of applications for the global energy industry, as both an OEM supplier and a trusted through life support partner.

Process Solutions and Rotating Equipment (PSRE) Division

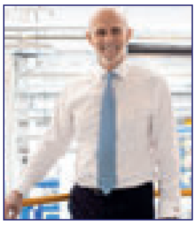
The PSRE division comprises a number of established brands with expertise across the global energy market. The brands specialise in the design, manufacture, integration and servicing of an extensive product and service offering including steam turbines, gas compressors, pressure vessels, bespoke high-integrity doors, containers and skidded systems.

Medical Division

Innovative solutions
for medical systems
and research

Medical (MII)

The medical division has special expertise in the design and manufacture of innovative equipment for the medical, science and research communities. Including cutting-edge products for medical diagnostic equipment; high performance pressure, vacuum vessels and composite materials for research organisations; superconducting magnets and helium-free cryogenic systems.



**Commenting on the results,
Roger McDowell, Chairman, said:**

"It has been a record year for the Group, in terms of orders, revenue and profit, reinforced by the deft execution of our now well-proven Pinpoint-Invest-Exit strategy (PIE). The former Hayward Tyler Group (HTG) businesses performed very well in their first full year with the Group and the Ormandy turnaround produced a solid, if modest profit in its first full year since acquisition in February 2018. The recent, tactical acquisitions of Tecmag, Texas; Booth, Bolton, UK; and Energy Steel, Michigan are all integrating well thus far. The Energy divisions and their management teams have proven themselves to be commercially astute and we continue to focus on profitable growth, to build valuable, enduring businesses. Our budding medical division continues to make slow, but steady progress, as it seeks to develop new technologies, to break through into new sectors.

We continue to concentrate on aftermarket opportunities, servicing end-user customers with comprehensive solutions, resulting in good growth and strong prospects. The nuclear life extension and decommissioning arenas are fertile ground for us, as demonstrated by contract wins in the period worldwide. Other market areas are also proving fruitful – such as renewable energy – and a more stable oil and gas environment has seen us win important contracts in that sector. Brexit and tariff wars are unwelcome distractions for the Group, but they will not cause us to deviate from our well-planned course. Despite the chill in the macroeconomic air, we remain quietly confident about our prospects in both Energy and Medical, with our strong Balance Sheet allowing us to be both agile and resilient. Recent order wins and our pipeline of opportunities underpin that outlook."

Financial highlights

- Revenue from continuing operations increased by 34% to £105.5m (2018[1]: £78.9m)
  - Reflecting the full-year impact of FY18 HTG acquisition and 11% underlying organic growth
- Gross Margin improved to 26.7% (2018[1]: 25.5%)
- Adjusted[2] EBITDA from continuing operations increased by 65% to £9.4m (2018[1]: £5.7m)
- Adjusted[2] PBT £5.3m (2018[1]: £2.4m)
- Adjusted[2] Diluted earnings per share were boosted to 14.9p (2018[1]: 8.4p)
- Cash inflow from operating activities £9.0m (2018: £6.9m outflow)
- Net Debt £2.0m (31 May 2018: £7.1m)
- Increased final dividend of 2.4p per share (2018: 2.3p). Full year 3.8p (2018: 3.6p)

Operational highlights – Energy

- Revenues up 36% to £93.4m (2018: £68.4m) including first full year of HTG results
- Ormandy acquisition made a profit in its first full year
- Acquisitions of Booth and Energy Steel post-period end are proceeding to plan
- Sellafield 3M3 boxes now in serial production
- £10m nuclear life extension contract with Vattenfall for Forsmark
- £10m steam turbine contract for floating production vessel
- Exited Whiteley Read and Maloney sites, to rationalise oil and gas assets
- New Hayward Tyler Chinese factory in Kunshan (China) fully operational
- Aftermarket performance continuing to improve across all business units

Operational highlights – Medical

- Revenues up to £12.1m (2018: £10.4m), transition to new markets continues
- Acquisition of Tecmag Inc, for £0.1m including costs, providing system capability
- Scientific Magnetics MRI system developments progressing broadly to plan
- Siemens shipments remained steady in the UK and China
- Composite Products had another solid year

1 2018 not restated for IFRS15.

2 Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items.

Company Information

For the year ended 31 May 2019

Company registration number:	01968354	
Registered office:	Chatteris Business Park Chatteris Cambridgeshire PE16 6SA	
Directors:	R S McDowell (Non-executive Chairman) S McQuillan (Chief Executive Officer) S M King (Chief Financial Officer) G K Thornton (Non-executive Director) L J Thomas (Non-executive Director) E Lloyd-Baker (Non-executive Director resigned 30 November 2018) J Clarke (Non-executive Director)	
Website:	www.avingtrans.plc.uk	
Secretary:	S M King	
Bankers:	HSBC Bank plc PO Box 68 130 New Street Birmingham B2 4JU	Royal Bank of Scotland 2 St Philips Place Birmingham B3 2RB
Registrars:	Link Asset Services Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA	
Nominated advisor and broker:	Nplus1 Singer Advisory LLP 1 Bartholomew Lane London EC2N 2AX	
Solicitors:	Shakespeare Martineau LLP No1 Colmore Square Birmingham B4 6AA	
Independent Auditor:	Grant Thornton UK LLP Statutory Auditor Chartered Accountants The Colmore Building 20 Colmore Circus Birmingham B4 6AT	

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Chairman's Statement

As the long-standing Chairman of Avingtrans, it is pleasing to be able to report on another record year of results for the Group. Orders, revenue, and profit all reached new highs and we are confident about the embedded value of the Pinpoint-Invest-Exit strategy (PIE), as the Group continues to hit target milestones along the path towards eventual value realisation. The former Hayward Tyler Group (HTG) businesses continued to improve, with further growth and cost savings achieved in HTG's first full year contribution. The combined businesses continue to demonstrate the anticipated synergies. Ormandy has also integrated well, in its first full turnaround year within the Group. It was a year in which we drove shareholder value through Investment, but we also Pinpointed Tecmag Inc in Houston, acquiring it to complement our technology capabilities in MRI and NMR in the Medical division.

Post-period end, we acquired the assets of Booth Industries in Bolton, UK and Energy Steel in Michigan, USA. Each of these turnaround opportunities were acquired following agile due diligence processes. They both augment our capabilities in the nuclear aftermarket and decommissioning sector and Booth brings Avingtrans into the wider Critical National Infrastructure (CNI) market. The acquisition of Energy Steel will broaden Hayward Tyler's product offering - particularly in precision manufacturing and solutions for "orphan" OEM components for the nuclear aftermarket - and provide cross-selling opportunities. Acquiring Booth Industries enables the Process Solutions and Rotating Equipment ("PSRE") division to expand its product and service offering and deepen its relationships with its existing customers.

The Energy divisional structures and management teams have shown themselves to be highly effective in the period, continuing to build upon two solid platforms displaying good global reach, product and service diversity. Their unwavering focus is now on growing into formidable and valuable businesses. The Group continues to carefully build its fledgling medical and industrial imaging division, which promises to produce a unique market offering in the longer-term. This division was reinforced in the period with the Tecmag acquisition, to give us the necessary electronics and software capability for full system production.

Aftermarket growth is a common strategic theme across all three divisions, to develop robust value propositions, in order to support OEM and end-user customers, who are either operating Group products or systems, or who have operational problems that the Group can solve. This improved end-user model not only provides a more predictable and repeatable pipeline, which in turn drives improved profitability, but also boosts product and service development and innovation. We are particularly keen to maximise the revenue opportunities arising from the aftermarket access afforded by recent acquisitions (eg Energy Steel) and partnerships (eg with ABC Compressors, Spain).

The Engineered Pumps and Motors (EPM) division bolstered its capability in India with a new motor rewind centre and officially opened a new 3,250 square metre facility in Kunshan, China. These enhanced units are securing end-user business in the region, including in the valuable aftermarket. Our facilities also act as operational hubs for the sale of original equipment, cost effective sourcing, engineering and tendering. Energy Steel, which manufactures components for the civil nuclear power industry, provides further access to the Nuclear aftermarket and is integrating into EPM well.

The PSRE division is continuing to refine its offering to the UK nuclear market – especially to Sellafield for nuclear decommissioning - whilst also using this capability to position for longer term new nuclear technologies. Ormandy had a profitable first full turnaround year with the group and the integration of Booth has been satisfactory to date.

The Medical and Industrial Imaging (MII) division continues to develop steadily, with both the UK and Chinese businesses consolidating their positions in the supply chain. Scientific Magnetics and Tecmag are working with their partners to produce new product offerings for the NMR and MRI markets. While these developments are still at a relatively early stage, the Board is excited about the long-term potential of the division which, given time to bring these developments to fruition, is expected to yield positive returns for the Group.

For the eighth successive year, the Board has declared an increased final dividend of 2.4 pence per share, producing a full year total of 3.8 pence per share, underlining our commitment to long term shareholder returns and our positive view about the prospects for the Group, underpinned by our prudent approach to debt and financial headroom.

Finally, since the last annual report, Ewan Lloyd-Baker resigned from the Board, having assisted Avingtrans with the transition of HTG and Colin Elcoate resigned from his position as CCO. The Board and I wish Ewan and Colin all the best with their future endeavours and thank them for their hard work whilst they were with us. I warmly welcome all of the staff in recent acquisitions to Avingtrans. Their commitment to reinvigorate their businesses will enrich the Group. On behalf of the shareholders, I thank all Avingtrans employees for their hard work and commitment to the Group during the past 12 months, as we look forward with enthusiasm to FY2020.

Roger McDowell
Chairman
17 September 2019

Strategic Report

Group Performance

Strategy and business summary

Group Strategy

Our core strategy is to buy and build engineering companies in niche markets, particularly where we see turnaround and consolidation prospects; a strategy we call Pinpoint-Invest-Exit (“PIE”). We have had a strong track record in returning significant shareholder value over the past decade and FY2019 was another successful year, cementing our turnaround of Ormandy and concluding the acquisition of Tecmag for the medical division. Post year end, there have been two further acquisitions, both being turnaround opportunities.

With an increased presence in our target markets, a focus on the aftermarket, strength in depth of the management teams and a lean central structure, the Group continues to grow profitably and the Board has renewed its focus on seeking additions to the Avingtrans value-add proposition. Conversely, we are also pragmatic when it comes to disposing of assets which become non-core, such as the exit of Whiteley Read in the period.

All of the Group’s key financial metrics have trended positively, including the percentage of aftermarket penetration, despite a period of restructuring following the successful integration of HTG.

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

Divisional Strategies

Engineered Pumps and Motors (EPM, Energy): EPM continues to develop its nuclear installed base (civil and defence) – notably for life extension applications - and its offering to the fossil fuels market sectors. Post year end, this strategy was bolstered by the acquisition of Energy Steel in North America, which specialises in nuclear life extension. In addition, the EPM business continues to develop solutions for new nuclear technologies and other low carbon energy sources, such as concentrated solar, to capitalise on the global energy supply transition. In FY19 EPM secured a number of key contracts, including to provide high temperature molten salt, nuclear life extension equipment and spare parts to nuclear reactors. As part of the division’s global business strategy and to support continued growth, Avingtrans opened a new state of the art factory in Kunshan, China in January 2019.

Process Solutions and Rotating Equipment (PSRE, Energy): The primary strategy is to develop a comprehensive offering to the nuclear decommissioning and reprocessing markets, building on the long-term contracts to build nuclear waste storage containers and the installed base of equipment across the vast Sellafield site. In parallel, to continue to support the nuclear submarine fleet and facilities for the UK MOD and targeted opportunities in the equally highly regulated offshore Oil & Gas markets. Post year end, the division’s nuclear credentials were boosted by the acquisition of the assets of Booth Industries, which also broadened our market reach into Critical National Infrastructure (CNI).

Medical and Industrial Imaging (MII, Medical): The focus for the medical division is to become a niche market leader in the production of high integrity components and systems for medical and scientific equipment manufacturers including MRI, proton therapy and Nuclear Magnetic Resonance (NMR). In October 2018, we acquired Tecmag Inc in Texas, to strengthen our NMR/MRI capabilities. This business is able to design and manufacture the electronics and software systems required for these markets.

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

Pinpoint-Invest-Exit

Continuing its Pinpoint-Invest-Exit strategy, Avingtrans added a number of bolt-on acquisitions in the year, including Tecmag, Inc. in October 2018; adding expertise in Magnetic Resonance Imaging and Nuclear Magnetic Resonance systems to the Group’s developing Medical division. Based in Texas, Tecmag designs, manufactures, tests and installs instrumentation such as consoles, spectrometers and solid-state probes for primarily Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems. It has strong technology and a material installed base from over 35 years of supplying custom products to these markets. Tecmag will be integrated into Scientific Magnetics, which has expertise in superconducting magnets and cryogenics and is focused on the same end markets. This will provide a platform for further product development and investment as management advances its buy, build and sell strategy in Medical & Industrial Imaging.

Strategic Report (Continued)

Pinpoint-Invest-Exit (continued)

In June 2019, the Company announced the acquisition of Bolton-based Booth Industries Limited, a leading UK engineering company, for a consideration of £1.8m, from the administrators of AIM-quoted Redhall Group plc ("Redhall"), with significant read-across to the Group's Metalcraft operations.

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

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

The integrations of Booth and Energy Steel are proceeding to plan thus far.

M&A activity in energy capital goods markets remains strong and businesses like ours continue to command high valuations. Avingtrans remains confident about the current strategic direction and potential future opportunities across its chosen markets.

Markets – Energy

The global demand for energy continues to rise, driven primarily by population increase, continued urbanisation and improved prosperity. Although in the longer term, the latest estimates show that overall demand may slow, due to increased efficiency and decarbonisation, but for the time being the global energy compound annual growth rate (CAGR) can be assumed to be of the order of 2%.

End User/Aftermarket

Operators and end-users are demanding a blend of quick response through local support with an overarching requirement to drive improvements through equipment upgrades and modernisation. In the West, where facilities are being operated for longer than their intended design lives – and often in a drive for increased capacity alongside tougher regulations – there is a strong demand for true solution providers in the supply chain to partner with end-users for the longer term. The Avingtrans energy divisions are well positioned to grow in this end-user market space. With increased relevance and global reach, balanced alongside heritage and renowned expertise, they can find niche positions and value propositions alongside the global players and the local independents.

Nuclear

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

The USA still operates the biggest civil nuclear fleet in the world, with 99 reactors generating more than 30 per cent. of the world's nuclear electricity. When coupled with the heritage Westinghouse technology operating in Europe and Asia, the EPM division's long-standing position in this market provides fertile ground for further growth. Obsolescence is a key issue for nuclear operators worldwide and the Avingtrans Energy Divisions are well positioned to support operators in addressing this key operational issue; the recent acquisition of Energy Steel in the USA bolstering the Group's capabilities in this regard.

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

Strategic Report (Continued)

Markets – Energy (continued)

Power Generation

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

- **Coal** – the Group continues to see good aftermarket from coal fired power stations even though the demand for new power stations is in decline. Opportunities still exist in India, China, South East Asia, Eastern Europe and the Middle East. EPM is optimising its product line, to take market share and to create tomorrow's aftermarket.
- **Gas** – natural gas, primarily in the form of combined cycle gas turbine power plants is a growing market space, primarily in the West. Although not yet dominated by Asian EPCs and equipment suppliers, the Group is moving into this market with both existing and new product lines.
- **Renewables** – renewable technologies and their supporting infrastructure are a growing market globally. The Group has a broad range of products that can be applied directly to this market segment and also has expertise that can be used to develop new products for niche parts of this market such as molten salt for concentrated solar applications.

Oil & Gas

After several years of oversupply, the industry has become relatively more stable and the price of Brent crude now trades at over $60 a barrel. The industry is slowly recovering from the recent years of weak prices, low capital expenditure, portfolio realignments and productivity efficiencies, and the effect is starting to be seen across the Oil & Gas sector.

- **Upstream** – operating expenditure is now being released to secure current operations, resulting in additional capex spend for new projects. The Group is seeing increased bidding activity and is optimistic regarding future projects. The ongoing investments in disruptive technologies – such as the subsea recovery-boosting technology from F-Subsea, where EPM is an exclusive partner – are now poised to move through the development phase to full deployment.
- **Midstream** – the longer-term midstream trend of interest to the Group is the evolving liquefied natural gas (LNG) market, for which there is a growing demand and a continual import export transition developing. While market predictions for FLNG and FRSU vessels are bullish, real activity in the supply chain remains relatively sluggish.
- **Downstream** – slower growth in the demand for liquid, combined with continued growth of LNG and biofuels continues to put pressure on global refining. New refinery projects which are already planned or under construction for the next five years are judged to be sufficient to meet new capacity. However, the Group's equipment is installed in critical systems on existing plants where continued operation is key, so aftermarket opportunities are strong.

Digitalisation & Condition Monitoring

Companies across the energy market continue to invest in digital technologies to improve productivity, efficiency and predictability in the field. At the equipment level this translates to a series of devices, sensors and algorithms which can predict breakdowns before they occur and ensuring equipment is running at its optimum performance. The Group successfully launched its first monitoring product, DataHawkTM, for Boiler Circulating Pumps last year and will build on this success by adding this capability to both a wider set of original equipment and its aftermarket service offering. Peter Brotherhood now adds condition monitoring to its steam turbines as a standard part of the overall package.

Markets – Medical

The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Diagnostic Imaging Market will be worth $34bn by 2024, according to Bloomberg and is expected to continue to grow at c5% per annum over the next 10 years. The largest market is the USA (25%), followed by Europe (19%) and Japan (17%). The fastest growing markets are China and India, which currently comprise 12% and 3% of the global market respectively.

The Avingtrans Medical division is primarily targeting the Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) segments of these markets, due to the common thread requirements for superconducting magnets and cryogenics. These two segments account for approximately 85% of our business in the medical division. Market drivers for these segments include an ageing global population and the global pharmaceutical industry's research needs. MRI is approximately 16% by value of the total diagnostic Imaging market and is projected to grow at 5% p.a. NMR is a smaller market, currently estimated at $800m p.a. by industry sources and is also growing at c5% p.a., with Bruker enjoying a current market share of over 80%.

Strategic Report (Continued)

Markets – Medical (continued)

End User/Aftermarket

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

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

MRI

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

NMR

We are aligned with new market entrant Q One Instruments of Wuhan, China and also with MR Resources of the USA, as noted above. Together, we form an alliance to challenge the dominance of the existing players and to provide customers with an additional source for NMR products, service and support. Former NMR customers of Agilent (formerly Varian) are also being given much needed support. Whilst it is still early days for this initiative, we are successfully winning support contracts for end users and the prospect list for Q One Instruments is promising. Having acquired Tecmag Inc in Houston in October 2018, to add software and electronics capabilities to our NMR/MRI systems, we also acquired some assets from Acorn NMR in California, to transfer to Tecmag and to broaden our NMR service offering into end-user sample analysis and characterisation.

Operations

Operational Key Performance Indicators (KPIs)

	2019	2018
• Percentage of total revenue deriving from aftermarket sales (%)	43.3	42.1
• Customer quality – defect free deliveries (%)	98.0	97.3
• Customer on-time in-full deliveries (%)	87.2	84.2
• Annualised staff turnover including restructuring (%)	13.0	17.3
• Health, Safety and Environment incidents per head per annum	0.10	0.14

We have added a new KPI this year, being aftermarket (AM) sales as a percentage of total revenue. This nudged up positively, as our initiatives at HT began to take effect. Note that recent acquisitions like Tecmag and Ormandy have very little AM sales at present, which dampens the overall figure in the mix. Other KPIs also trended positively, with customer quality and deliveries moving in the right direction and staff turnover reducing, as the disruptive effects of the HTG acquisition subsided, albeit that newer acquisitions tend to produce an initial bow wave of staff turnover, until we stabilise these businesses. It is pleasing to note the on-going positive trend in HSE related incidents, since we place a high priority on improving these processes at newly acquired businesses.

EPM Division – Energy

The EPM division, which represents the bulk of the legacy Hayward Tyler companies (excluding East Kilbride) has an enviable installed base across the globe and strong brand recognition. Coupled with its strong domain knowledge across the energy market and its core competencies in wet wound electrical motors, canned motor pumps and nuclear codes and standards, the division continues to expand its end-user offering.

Strategic Report (Continued)

EPM Division – Energy (continued)

The division finds itself in a relatively strong position, being more agile than some of its bigger competitors, having a respected OEM brand unlike the local independents and able to offer a strong solution-based offering for its own installed base, as well as other Original Equipment Manufacturers.

With a fully developed presence in Europe and North America, the division completed the opening of its new China facility in January 2019 and the new motor rewind centre in India. The integration of these regional centres alongside other regional partners in key territories will give the division expanded global reach, capability and the platform to expand its end-user business. This activity was underpinned by winning a £10m order with Vattenfall in Sweden in February 2019, as well as further orders from KHNP in S Korea and US nuclear operators.

In the UK and China, EPM signed an Authorised Channel and Service Partner agreement with Baker Hughes, a GE company (BHGE), which has a significant installed base in the UK, but no effective local facility to service, overhaul and upgrade their equipment.

In addition to the drive for improved end-user business, EPM is addressing the shift towards a low carbon energy future. Its experience and product knowledge allowed it to gain its first order from a Gen IV nuclear developer in the USA for molten salt technology and also funding from the US Department of Energy to develop molten salt pump technology for advanced concentrated solar applications. With its new range of pumps and its optimised seal-less circulating pumps for natural gas and a range of renewable technologies, EPM is slowly but surely reducing its reliance on coal fired power stations.

Post year end, EPM acquired Energy Steel (ES) – a specialist in nuclear aftermarket products – from Graham Corporation. This acquisition allows us to cross-sell between HT and ES into the North American nuclear fleet and bolsters our credentials in that market segment.

PSRE Division – Energy

The acquisition of the trade and assets of Ormandy Ltd last year has integrated well and has made a satisfactory, albeit modest, profit in its first full year with the Group. Ormandy manufactures off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products. Its success has meant that Whiteley Read (WRE) became non-core and this site was sold during the year to Glacier Energy, recovering the Group's investment. Post year end, we also closed the small Maloney site, with the remaining assets and trade from there being transferred to Ormandy and Fluid Handling, along with a few of the employees at Maloney.

The Fluid Handling business in East Kilbride, Scotland had an excellent year, as it expanded its capability to support the nuclear decommissioning and reprocessing market in the UK. This has further strengthened the division's strategic relationship with Sellafield Limited and the Nuclear Decommissioning Authority.

The Energy divisions' footprint was expanded, post year-end, when the Group acquired the assets of Booth Industries, a leading manufacturer of high integrity doors, used in the nuclear, oil and gas and critical national infrastructure markets. The integration of Booth is progressing to plan.

The Group also has a keen interest in both the UK nuclear submarine fleet and associated facilities, as well as developing new nuclear technologies like SMRs (Small Modular Reactors). The division has a good installed base on the UK submarine fleet, is the chosen manufacturing partner for the Astute steam turbines and through this experience has the right capability, nuclear culture and experience to support longer term nuclear technologies.

Aside from nuclear, the divisional brands also have a strong presence in the Oil and Gas market – eg through Peter Brotherhood (PB). This market is now improving, with PB securing an order for c£10m in the period for steam turbines for a floating production vessel.

Aligned with the overall Group strategy to focus on end-user business, the division has seen an increase in end-user sales. In particular, PB saw further increases in aftermarket sales and won a new £5m UK government end-user contract in June 2018. End-user service arrangements have been signed to gain better access to the reciprocating compressor installed base and an expansion of the channel partners and agents has been concluded. Overall, the ratio of aftermarket sales for the division has not improved in the year, but this is due to success in growing OE sales in parallel with the aftermarket.

Finally, the Crown business remains a small but positive performer in the division, although the year was quieter than anticipated, due to delays in the roll-out of smart motorways and also that of 5G telecoms networks.

Strategic Report (Continued)

Operations (continued)

MII - Medical Division

We are making gradual progress at Scientific Magnetics and at Tecmag, as we seek to integrate our various sub-systems to produce a prototype MRI demonstrator unit. We have now been able to take first images of inanimate objects in the system, which show that everything is working at a basic level. We are now into the next phase of image refinement, to bring the system up to the level expected in clinical diagnostic imaging. This next phase will take us a few months to complete and will continue to absorb some cash in the intervening period.

Meanwhile, concerning NMR, our service offering has been strengthened, both in the UK and the USA, so we are optimistic about seeing good progress over the next 12 months. We continue to work with QOne in China and Switzerland on new NMR systems, to challenge the market leader. QOne have been successful in selling initial systems to the market over the last year, albeit that the numbers are still small for this start-up business.

Following its acquisition in October 2018, Tecmag has performed relatively well initially and, with support from other Group resources, managed to achieve a break-even result in its first period with Avingtrans. We were pleased to find that there is a decent pipeline of legacy business to go for, pending our development of new products to provide additional new business opportunities. There is no doubt that Tecmag's IP will become indispensable in our pursuit of the targeted niche MRI and NMR markets.

Metalcraft UK's business with Siemens for MRI components continues to be stable, although progress in China with other vacuum vessel customers – e.g. Alltech – remains rather pedestrian. Composite Products (CP) had a reasonable year, with deliveries to Rapiscan continuing and support from other smaller accounts at this unit.

Financial Performance

Adoption of IFRS 15 and IFRS 9

The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 June 2018. Adoption of IFRS 15 has led to a number of changes in the way the Group recognises revenue including whether to recognise over time or at a point in time, the splitting of contracts into multiple performance conditions which are recognised separately, the aggregation of a series of products into a single performance condition, reassessment of contract losses in the prior period and a change in the methodology for the recognition of long term service agreements.

The Group has applied IFRS 15 and IFRS 9 using the cumulative effect of initially applying these new standards with an adjustment of £1.1m to the opening retained earnings at 1 June 2018. The comparative information has not been restated and continues to be reported under IAS11 and IAS 18.

Key Performance Indicators

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

Revenue: 34% increase with underlying growth 11%

Overall Group revenue increased to £105.5m (2018: £78.9m), primarily driven by the effect of a full year results for the HTG acquisition. Underlying revenue growth, excluding acquisitions was 11.2%.

Profit margin: significant improvement in results, driven by FY18 acquisition of HTG

Adjusted EBITDA (note 4) increased by 65% to £9.4m (2018: £5.7m) with good further progression from the acquisitions made in FY18. Operating profit was £3.6m (2018: loss £3.8m) mainly due to the strong progression in profit and the non-recurrence of significant HTG exceptional costs which were incurred in FY18 and a reduction of the non underlying costs to £1.6m for the amortisation of intangibles from business combinations (2018: £3.3m).

Gross margin: solid progress continues

Group gross margin improved to 26.7% (2018: 25.5%) due to the higher HTG gross margins and an increase in the proportion of revenue derived from aftermarket services when compared to prior year.

Tax: future profits and cash protected by available losses

The effective rate of taxation at Group level was a 20% tax charge primarily due to the US tax charge offset by a deferred tax credit arising from the amortisation of business intangibles. The tax position will be aided in the coming years with the now reduced US rate being supported by utilisation losses in the UK and China. We continue to be cautious, not recognising all of the trading tax losses in the UK.

Strategic Report (Continued)

Financial Performance (continued)

Adjusted Earnings per Share (EPS): a 77% improvement

Adjusted diluted earnings per share and diluted earnings per share for continuing operations improved to 14.9p (2018: 8.4p) and 8.0p (2018: loss 16.0p) respectively as higher margin aftermarket and cost savings work through.

Funding and Liquidity: Net Debt post acquisition remains low

Net debt at 31 May 2019 was £2.0m (31 May 2018: net debt: £7.1m). Underlying strong profits enhanced by a £1.6m positive working capital movement, skewed by advance payments on accounts for contracts drove a cash inflow from operating activities of £9m (2018 outflow £6.9m), which will partly reverse in FY20. The Directors consider that the Group has sufficient financial resources (note 22) to deliver its short term strategic objectives and is maintaining a strong relationship with its banking partners.

Dividend: steadily improving

The Board again proposes to underpin our progressive dividend policy. We are pleased to be able to recommend an improved final dividend of 2.4 pence per share (2018: 2.3 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 6 December 2019, to shareholders on the register at 25 October 2019.

Principal risks and uncertainties facing the Group

Managing Risk

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

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

Risk Management Process

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

Principal Risks

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

Risk	Potential Impact	Mitigation
Strategic Risk		
A. Growth Strategy	A fundamental part of the Group's strategy is growth from both Original Equipment and Aftermarket sales. The growth is reliant on our markets. These markets demonstrate long-term growth, but remain highly competitive and can be cyclic. Failure to generate sufficient order intake and revenue to cover the fixed cost base could give rise to lower profit and cash generation that constrains the Group. Failure to keep-up with technological change could give rise to the Group's products, services and technologies becoming less competitive.	The Group provides niche engineering solutions for the global energy and medical sectors. It has an excellent market profile (quality, reliability and customer relationships), which results in inclusion on sector bid/quote opportunities. The Group has invested, and is investing, in key aspects to maintain and improve the Group's competitive position including: ▪ employees (see E below); ▪ supply chain (see F below);; ▪ developing and maintaining strong relationships with key customers; ▪ capital expenditure on plant and equipment; ▪ research and development of products and processes and ▪ aftermarket initiatives including supporting end-of-life extension programmes.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Strategic Risk		
B. PIE Strategy mergers, acquisitions and disposals	The Group makes regular acquisitions and disposals under its PIE strategy. In October 2018 it acquired Tecmag Inc in Houston, USA. During the period, we disposed of the Whiteley Read site. Post period end, Energy Steel and Booth Industries were acquired and the Maloney site was closed down, with some assets and staff transferring elsewhere in the group. Failure to re-establish and rebuild these businesses could (1) absorb a disproportionate part of management resource at the expense of other parts of the Group (2) reduce the Group's profitability and (3) delay the cycle of the planned positive outcome of the PIE strategy.	The Group carefully plans acquisition actions to mitigate this risk: ▪ extensive pre-deal due diligence; ▪ achieving a balance between attractive purchase prices and business purchase agreement terms and conditions; ▪ post-acquisition integration planning ▪ rapid business restructuring as required ▪ appropriate funding of the acquisitions and on-going businesses followed by de-leveraging the business; ▪ establishing senior management teams, complemented by experienced executives from Avingtrans and externally, if required; ▪ development of incoming employees; ▪ focusing on marketing and sales including growing aftermarket businesses; and ▪ investing in the businesses as necessary for a successful outcome to the PIE strategy.
C. Execution	The Group designs, manufactures and services highly technical products that are mission critical to the end user. Failure to satisfy contractual obligations could give rise to significant losses (e.g. warranty claims, liquidated damages, etc), cash constraints, lost future orders and adverse impact on the Group's reputation.	The Group continues to invest consistently in its people, processes and products to maintain and improve lead times and product innovation. These steps include: enhanced customer relationship management, sales and operational planning, process flow mapping, research and development, product standardisation and enhancing process capability. The Group also seeks to minimise the impact of execution risk through its terms of trade such as (1) limiting the undertakings it gives to pay liquidated damages and (2) avoiding consequential damages altogether.
D. Global Economic Activity and political uncertainties including Brexit	The Group operates in global energy, industrial, defence, infrastructure and medical markets. A slowdown in those markets including the possible impact from on-going economic and political uncertainty may adversely impact order intake, liquidity needs, and terms of trade and the financial performance of the Group. Political uncertainty such as the impact of Brexit and other overseas trade issues - eg US trade tariffs can affect decisions by our customers to invest and therefore impact on our trading.	The Group has a diversified geographical and sector spread that reduces the impact of localised economic trends and activities. In addition, the Group is investing in research and development, to develop new products or adapt existing products for use in other applications in order to broaden its product offering, to reduce the risk. Increasing aftermarket activities also provide the Group with a partial cushion to defend against cyclical downturns in original equipment purchasing. We continue to review and assess the potential impacts of US and Chinese tariffs and Brexit, as more information becomes available and we are engaged with trade associations, which are in contact with government and can thus assist our decision making and action plans. The Group will be able to continue to trade with EU member states and will take guidance on any new trading regulations when the UK exits the EU. As the Group also operates in countries which are outside of the EU this should help lessen any impact of disruption caused by an exit.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Strategic Risk		
E. Employees	Attracting and retaining talented people is a Group priority to ensure our continued success. The Group has numerous skilled and highly trained and qualified employees who demonstrate their commitment to the Group through the continuous improvement of our products, processes and procedures which impacts on the Group's performance. Failure to attract the right talent, could inhibit the rate of product and process development as well as impact on the Group's performance.	Recruitment and retention of employees is a key focus for the Group to ensure its continued success. Group mitigating actions include: ▪ continuing the significant investment in training and development; ▪ personal development reviews; ▪ succession planning; ▪ promotion from within where possible ▪ outreach to Universities, Colleges and Local Schools; ▪ monitoring pay and benchmarking; ▪ maintaining the successful graduate and apprentice programmes; ▪ improving overall employee engagement; ▪ utilisation of external and Group resource to offset any temporary gaps in key personnel.
Operational Risk		
F. Supply Chain	The Group is reliant on its supply chain as part of its aim to improve throughout and optimise stock-holding. Failure of that supply chain can result in operational disruption and delays to shipments to customers, leading to potential loss of profit and damage to customer relationships.	Each division has its own sourcing policy. Where appropriate and efficient, divisions cooperate on sourcing. Mitigating actions include: ▪ sourcing strategies to avoid single point dependence for any key commodity and standardisation to support possible stock holdings; ▪ identifying in-house capability (intra and inter-divisionally) and focused investment in related capital expenditure; ▪ exception reporting, operational planning and review processes support the early identification of risks; ▪ monitoring of supplier performance; ▪ an optimum number of suppliers with strategic, long-term partnerships on key components; ▪ strengthening of supply chain teams; and ▪ supply chain benchmarking and development.
Financial Risk		
G. Funding	The Group is dependent on its ability to service its debts and refinance existing borrowings when they fall due as well as to fund working capital, capital expenditure, and research and development. If the Group fails to generate profits and cash it could face funding constraints that impact the business cycle.	The Group manages its capital to continue as a going concern and maintain its liquidity. The Group continually reforecasts its borrowing requirements, which include: ▪ a 13-week cash flow forecast produced each month; ▪ a 12-month rolling profit and loss, balance sheet and cash flow forecast each quarter to ensure that funding is available to support its operations and its compliance with borrowing covenants. The Group maintains committed UK and US bank credit facilities, augmented by specific funding to support investment globally and a bonding facility. In addition, the Group maintains an active bank relationship programme and contacts with UK Export Finance, to safeguard its funding ability.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Financial Risk		
H. Working Capital	As a fundamental part of the Group's strategy is growth the Group is exposed to a potential increase in its working capital requirement that absorbs cash. If the Group fails to keep this increase under control it could face cash constraints that impact the business cycle.	The Group is seeking to mitigate this risk through the following means: ▪ standard terms and conditions of manufacturing contracts require customers to make stage payments to fund working capital on the contract. Where stage payments cannot be achieved by the Group, it may be possible to augment borrowing and bonding lines through use of the short-term funding schemes – eg via UK Export Finance; ▪ an on-going initiative to optimise stock; ▪ minimising lead times, to reduce working capital requirements per unit of revenue; ▪ active management of accounts receivable and accounts payable; and ▪ linking employee remuneration to cash.
I. Currency	The Group operates and sells in overseas markets that may utilise currencies other than those in which its principal costs are denominated. The exposure to foreign exchange rate fluctuations may, as a result, affect the Group's cash flow. The principal risk at present is US Dollar income.	The Group's policy is to hedge its transaction exposures (i.e. cash flows) where a significant commitment has been made and a level of cover for non-contracted flows in the 12 to 24 month period. As at date of signing, 52% of estimated USD net inflows into the UK over the following 12 months were hedged. Currency hedging lines are available from two providers.
J. Pension Scheme	The Group maintains a defined benefit pension scheme related to the Hayward Tyler businesses. The Group could be required to increase its contributions to cover funding shortfalls caused by poor investment performance of scheme assets, a deterioration in the discount rate or inflation rate applied and changes in life expectancy of members of the scheme.	The scheme is closed to new members and to future benefit improvements. The performance of the investment advisers is monitored closely by the Company and pension trustees and action taken where that is not satisfactory. The assumptions used to determine the pension deficit/surplus are based on recommendations of the actuary to the scheme, benchmarked against market norms by an expert 3rd party. The Directors discuss the pension scheme regularly and there is frequent contact with the pension fund trustees. The aim is to strengthen the financial position of the Group, through its underlying performance, which assures stakeholders and helps to maintain or reduce contributions to cover any eventual funding shortfall. The plan trustees have selected a liability driven investment strategy aimed at reducing interest and inflation rate risks and providing a return that matches or exceeds the growth in projected pension plan liabilities.
K. 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.

Strategic Report (Continued)

People

At Board level, the only change in the period was that Ewan Lloyd Baker left the Group in November 2018. Ewan became a Non-Executive Director following the acquisition of the Hayward Tyler Group by Avingtrans in September 2017. Having overseen the successful handover, Ewan wished to move on and pursue other interests. Graham Thornton has expressed his intention to retire from the Board after the AGM this year. Within the Group structure, post-period end, Colin Elcoate resigned from his position as the Chief Commercial Officer for Avingtrans, to take up a CEO role elsewhere. The Board wish Ewan and Colin all the best in their future chosen careers. Top level divisional management teams were largely unchanged, with the exception of the promotion of Alvin Sim to General Manager of Hayward Tyler China, following the departure of Colin Elcoate.

In a broader sense, the management teams in each of the three divisions continue to be strengthened, with a number of key appointments being made in the year, and with emphasis on the importance of the aftermarket opportunities. Skills availability is always challenging, but we do not expect to be unduly constrained by shortages. Avingtrans continues to invest significant effort in developing skills in-house, both through structured apprenticeship programmes and graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship and graduate training schemes. For example, Metalcraft won the top accolade for 'SME Investment in Skills' at the SEMTA (Scientific, Engineering, Manufacturing & Technology Alliance) 2018 Awards and is consistently rated in the Top 100 apprenticeship schemes in the UK.

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

Health, Safety and Environment (HSE)

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

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

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

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

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

Social Responsibility

It is paramount that the Group maintains the highest ethical and professional standards across all of its activities and that social responsibility should be embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business.

Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

Employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

Strategic Report (Continued)

Social Responsibility (continued)

We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We have begun to roll-out “dignity and respect” training program across the Group. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is largely beyond our control.

Ethical policy

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

Outlook

Avingtrans is a niche engineering market leader in the Energy and Medical sectors, with a successful profitable growth record, underpinned by our ‘PIE’ strategy. Recent acquisitions will provide further opportunities for the Group to build enduring value for investors in resilient engineering market niches. We will continue to be frugal and seek to crystallise value and return capital when the timing is right, as part of the PIE strategy implementation.

The Group continues to invest in its three divisions, with a focus on the global energy and medical markets, to position them for maximum shareholder value via eventual exits in the years to come. The HTG integration is now demonstrably complete and the integrations of Ormandy, Tecmag, Booth and Energy Steel are all proceeding to plan, as demonstrated by the results in the period. Our value creation targets continue to be accomplished as planned.

The energy divisions have a strong emphasis on the thermal power, nuclear and offshore oil & gas markets, all of which are showing positive signs of regeneration. The medical division continues to focus on high integrity components and systems for leading medical, industrial and scientific equipment manufacturers.

To drive profitability and market engagement, each division has a clear strategy to support end-user aftermarket operations, servicing their own equipment and that of pertinent third parties, to capitalise on the continued market demand for efficient, reliable and safe facilities.

We remain vigilant concerning Brexit, but we are not overly concerned, since our direct EU exposure is somewhat limited and we have taken appropriate evasive actions in our supply chains, with likely further such actions to follow, depending on the exact nature of the eventual Brexit outcome. Similarly, US and Chinese government tariff change risks have been largely mitigated by an agile supply chain response and we will continue to monitor this situation closely.

As our markets continue to develop, M&A activity is still strong and businesses like ours can command high valuations at the point of exit, as exemplified by the Sigma sale previously. The Board is confident about the current strategic direction and potential future opportunities across our markets. We will continue to refine our business by pinpointing specific additional acquisitions as the opportunities arise, to build businesses which can create superior shareholder value, whilst maintaining a prudent level of financial headroom, to enable us to endure any macroeconomic headwinds.

The Strategic Report was approved by the Board on 17 September 2019 and signed on its behalf by:

Roger McDowell
Chairman
17 September 2019

Steve McQuillan
Chief Executive Officer
17 September 2019

Stephen King
Chief Financial Officer
17 September 2019

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2019.

Matters included in the strategic report

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

Going concern

During the year the Group has managed its working capital and cash flows resulting in an operating cash inflow of £9.0m for the year (FY18 6.9m). At 31 May 2019 the Group has net debt of £2.0m as detailed in note 22 (2018: Net debt £7.1m) and net assets of £69.3m (2018: £69.1m). As discussed in more detail in the Chairman's statement and Strategic report, looking into 2020/21 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 2020, 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 profit for the year before tax from continuing operations amounted to £3,144,000 (2018: loss of £4,498,000) for continuing operations. A final dividend of 2.4 pence is proposed for the year ended 31 May 2019 (2018: 2.3 pence), taking the total dividend for the year to 3.8p pence (2018: total 3.6 pence).

Substantial shareholdings

As at 17 September 2019, 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	3,227	10.3%
Funds managed by BlackRock	2,172	6.9%
Funds managed by RBC Trustees Limited	2,008	6.4%
Funds managed by Unicorn Asset Management Limited	1,946	6.2%
Harwood Capital	1,760	5.6%
R S McDowell's Pension Fund	1,406	4.5%
P McDowell's Pension Fund	1,213	3.9%
Funds managed by LGT Bank	993	3.2%

Directors and their interests

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

	Ordinary shares of 5p each	
	31 May 2019	*31 May 2018*
R S McDowell	**1,406,409**	1,406,409
S McQuillan	**243,500**	243,500
S M King	**180,248**	180,248
J Clarke	**-**	-
G K Thornton	**-**	-
L J Thomas	**16,000**	16,000

Report of the Directors (Continued)

Share options

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

Interests in contracts

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

Financial instruments

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

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

Research and development

During the year £822,000 (2018: £681,000) of development costs (per note 13) were capitalised as intangible assets. This was predominately at Metalcraft in relation to waste storage equipment, Sci-Mag for helium free niche application designs and HTI condition monitoring.

Disabled persons

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

Directors' indemnities

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

Employee involvement

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

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.

Report of the Directors (Continued)

Statement of Directors' responsibilities for the financial statements (continued)

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 17 September 2019 and signed on its behalf by:

S M King
Director

Corporate Governance

Chairman's Introduction

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

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

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

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

2. Seek to understand and meet shareholder needs and expectations

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

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

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

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

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

The Board recognise that our customers, suppliers and employees are crucial to the Group's success. The Group's responsibilities, policies and controls on Health, Safety and Environment (HSE) and Social Responsibility are set in the Strategic Report pages 14 to 15.

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

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

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

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

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

We classify the principal risks to the business into three groups, namely, strategic risk, operational risk and financial risk. The principal risks identified by the Directors under these groups are set out in the Strategic Report pages 10 to 13. The risks considered during the Group-wide risk management process cover a wider range of issues than the key risks.

Corporate Governance (Continued)

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

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

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

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

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

The Board of Avingtrans plc comprises of a Non-executive Chairman, two Executive Directors and three Non-executive Directors for the majority of the year following the resignation of E Lloyd-Baker (30 November 2018). The Board is chaired by R S McDowell and assisted by the Senior Independent Non-executive Director G K Thornton, who have primary responsibility for running the Board.

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

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

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

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

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

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

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

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

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

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

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

Corporate Governance (Continued)

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

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

The criteria for effectiveness include assessing:

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

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

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

Culture

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

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

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

Compliance with laws

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

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

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

Safety, health and environment

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

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

Insider trading

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

Corporate Governance (Continued)

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

The Board

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

Board Committees

The Board has three Committees that assist in the discharge of its responsibilities:

- Remuneration;
- Audit & Risk; and
- Nominations.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors. The Remuneration Committee comprises the Non-Executive Directors. Further details on the composition and work of the Remuneration Committee are set out in the Remuneration Report on pages 24 to 25.

Audit & Risk Committee

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

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

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

Nominations Committee

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

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

Executive Management Committee

The Board is supported by Executives, who meet at least quarterly to review performance and governance for the Group and regularly perform site visits.

Evolution of governance framework

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

Corporate Governance (Continued)

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

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

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

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

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

The results of the proxy votes for the Company's previous Annual General Meeting on 16 November 2018 were published through RNS.

Roger McDowell
Chairman
17 September 2019

Report of the Directors on Remuneration

Composition

The Remuneration Committee during the period comprised G K Thornton (Chairman), R S McDowell, L J Thomas and JS Clarke, EW Lloyd-Baker resigned from the committee 30 November 2018.

Principal function

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

Avingtrans Remuneration Principles

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

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

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

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

Base salary and benefits

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

Annual performance related bonus

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

Divisional Long-term incentives

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

- Via awards of appropriate share options, such as using a standard "CSOP" HMRC-approved scheme.
- By means of Exit bonuses, which trigger on the disposal of businesses and, are calculated as a percentage of the shareholder value enhancement – ie taking account of the initial investment on acquisition, any additional investment during the period that the business is owned by Avingtrans and the disposal proceeds, net of costs.

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

Share options

The Committee is responsible for approving grants of share options to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied, as set out on page 25.

Report of the Directors on Remuneration (continued)

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, L Thomas and J Clarke have a letter of appointment terminable on three months' notice by either party.

Compensation for loss of office

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

Directors' emoluments

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

Share options

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

	Date of grant	*At 31 May 2018*	*Granted*	*Exercised*	*At 31 May 2019*	*Weighted average exercise price £*
Executive:						
S McQuillan	22/11/2013	95,000	–	–	95,000	1.760
	10/12/2014	100,000	–	–	100,000	1.110
	21/12/2016	450,000	–	–	450,000	1.930
	15/12/2017	140,000	–	–	140,000	1.815
	15/11/2018	–	115,000	–	115,000	2.200
		785,000	115,000	–	900,000	1.838
S M King	25/09/2010	39,733	–	–	39,733	0.395
	22/11/2013	84,000	–	–	84,000	1.760
	10/12/2014	75,000	–	–	75,000	1.110
	21/12/2016	330,000	–	–	330,000	1.930
	15/12/2017	110,000	–	–	110,000	1.815
	15/11/2018	–	100,000	–	100,000	2.200
		638,733	100,000	–	738,733	1.764

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
17 September 2019

Independent Auditor’s Report to the Members of Avingtrans plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Avingtrans Plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 May 2019 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows, a summary of significant accounting policies and notes to the financial statements. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 May 2019 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

GrantThornton

Overview of our audit approach

- Overall materiality: £1,000,000, which represents approximately 1% of the group’s revenues;
- Key audit matters were identified as contract accounting, the revenue cycle includes fraudulent transactions and valuation of defined benefit pension scheme;
- We performed full scope audit procedures on the financial statements of all group entities in the United Kingdom and Hayward Tyler Inc a company registered in the United States. We performed analytical procedures over the non-significant components in India and China.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key audit matters

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

Key Audit Matter – Group

Risk 1 – Contract accounting

Revenue is recognised throughout the group as the fair value of consideration receivable in respect of the performance of contracts and the sale of goods.

Determining the amount of revenue to be recognised from the performance of contracts requires management to make significant judgements and estimates as to the stage of completion, the costs to complete and the impact of any changes in scope of work.

The Directors are also required to make an assessment to determine whether onerous contract provisions are required for loss making contracts.

Due to the significant financial statement impact of the revenue derived from performance of contracts, as well as the high level of estimation required in determining the appropriate accounting treatment, we identified contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls;
- judgmentally selecting contracts by reference to materiality and other risk factors including loss making contracts and contracts with significant aged work in progress and receivables balances;
- for the selected items and samples, assessing whether the revenue and profit recognised are in accordance with the group's accounting policies and IFRS 15 by verifying revenue is recognised in line with the 5-step model;
- agreeing inputs to contract terms, re-performing management's calculations and challenging management's assumptions and assertions underpinning their forecast for contracts' future performance by reference to supporting documentation, such as contracts KPIs, historical performance against forecasts and discussions with key contract accounting personnel; and
- examining those contracts identified as being at risk of incurring future losses during the remaining life of the contract, and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence, such as forecast models and post balance sheet contract performance

The group's accounting policy on long term contracts is shown on page 34 of the financial statements and related disclosures are included in note 2. The associated key judgements are shown on page 43.

Key observations

Based on our audit work, we found that the assumptions and judgements used in accounting for contracts were reasonable. We found no significant errors in the underlying calculations.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 2 – The revenue cycle includes fraudulent transactions Revenue is recognised throughout the group as the fair value of consideration receivable in respect of the performance of contracts and the sale of goods. Revenue is a key driver of the business and is also a significant amount in the financial statements. We therefore identified revenue recognition (focusing on occurrence) as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • reviewing and testing revenue recognition policies to ensure these are reasonable and applied correctly and consistently; • performing analytical procedures comparing revenue on a month by month basis to prior years to ensure that revenue is in line with expectations; • discussing any significant fluctuations with management to ensure explanations regarding specific projects and the related revenue are reasonable and corroborating these explanations to supporting documentation where necessary; • For certain entities, Testing the operating effectiveness of key controls in the revenue recognition process, verifying a sample of revenue transactions from each material revenue stream to supporting documentation including proof of delivery; and • Where the operating effectiveness of key controls is not relied upon, performing testing on a sample of material revenue streams, verifying sales transactions throughout the year to supporting documentation including proof of delivery. The group's accounting policy on revenue recognition is shown on page 34. **Key observations** Our testing did not identify any material misstatements in the revenue recognised during the year in accordance with stated accounting policies.
Risk 3 – Valuation of defined benefit pension scheme At 31 May 2019 the defined benefit pension scheme's net surplus was £1.3million. The gross value of pension scheme assets and liabilities which form the net asset amount to £14.2 million and £12.9 million respectively. The valuation of the pension liabilities and assets in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the group financial statements. We therefore identified valuation of defined benefit scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Checking managements policy for compliance with IAS19; • documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls; • using our internal actuarial specialist to challenge the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability; • testing the accuracy of underlying membership data used by the group's actuary for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key member data to source records and by testing a sample of movements in the pension scheme membership; • directly confirming the existence of pension scheme assets with the entity pension scheme's external asset managers; and • confirming management's conclusion that it is appropriate to recognise a pension surplus within the provisions of IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The group's accounting policy on the defined benefit pension scheme is shown on page 41 and related disclosures are included in note 28. **Key observations** Based on our audit work, we found the valuation methodologies including the inherent actuarial assumptions to be balanced and consistent with the expectation of our actuarial specialists. We consider that the group's disclosures in note 28 are appropriate. We found no errors in calculations.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Our application of materiality

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

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£1,000,000, which represents approximately 1% of the group's revenues. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group. Revenue is also a consistent basis for determining materiality compared with the previous periods. Materiality for the current year is lower than the level that we determined for the year ended 31 May 2018 as a result of a reduction in the bench mark percentage applied in the current year.	£360,000, which represents approximately 0.5% of the parent company total assets. The benchmark is considered the most appropriate as it most accurately reflects the parent company's status as a non-trading holding company. Total assets is also a consistent basis for determining materiality compared with the previous periods. Materiality for the current year is higher than the level that we determined for the period ended 31 May 2018 to reflect the parent company's increased total assets in the current year.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for directors' remuneration and related party transactions.	We determined a lower level of materiality for directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£50,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£18,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

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

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

In order to respond to the audit risks identified in our risk assessment, we performed a full scope audit of the financial statements of the parent company, Avingtrans plc (in the United Kingdom), and of all other component entities in the United Kingdom as well as Hayward Tyler Inc, a company registered in the United States. The significant components represented 92.6 percent of consolidated revenues and 97.2 percent of total assets. Statutory audits of subsidiaries, where required by local legislation, were performed to a lower materiality where applicable.

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

Independent Auditor’s Report to the Members of Avingtrans plc (Continued)

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors’ responsibilities statement set out on pages 17 to 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s responsibilities for the audit of the financial statements

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

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

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Use of our report

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

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
17 September 2019

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 17	Insurance contracts	Not yet EU-adopted
IFRS	IFRS 16	Leases	Financial periods commencing on/ after 1 January 2019
IFRS	IFRIC Interpretation 22	Foreign currency transactions and advance considerations	Not yet EU-adopted
IFRS	IFRS 14	Regulatory Deferral Accounts	Deferred until final standard released
IFRS	IFRIC Interpretation 23	Uncertainty over Income Tax Treatments	Not yet EU-adopted
IFRS	Annual Improvements to IFRS Standards 2015-2017 Cycle		Not yet EU-adopted
IFRS	Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	Not yet EU-adopted
IFRS	Amendments to IFRS 9	Prepayment features with negative compensation (issued 12 October 2017)	Financial periods commencing on/ after 1 January 2019
IFRS	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued 12 October 2017)	Financial periods commencing on/ after 1 January 2019
IFRS	Amendments to References to the Conceptual Framework in IFRS Standards		Financial periods commencing on/ after 1 January 2020

Changes in accounting policies

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was adopted on 1 June 2018, replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

The application of IFRS 9 has led to an increase of £9,000 in the levels of bad debt provision across the group as we move from an "incurred loss" model under IAS 39 to an "expected credit loss".

Comparative financial information has not been restated under IFRS 9, and the impact on the income statement for the 12 months ended 31 May 2019 is a credit of £10,000.

Further information on the adoption of IFRS 9 is provided on note 22 financial instruments.

Principal Accounting Policies (Continued)

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 Revenue from Contracts with Customers using the modified retrospective approach on 1 June 2019. Comparative information has not been restated.

IFRS 15 establishes a single five-step model for recognising revenue from contracts with customers and supersedes IAS 18 (Revenue) and IAS 11 (Construction Contracts).

IFRS 15 introduces principles to allocate the transaction price to performance obligations and recognise revenue as those performance obligations are satisfied and control of the goods or services are transferred to the customer.

The impact of adoption of IFRS 15 on these Financial Statements is:

- At 1 June 2018 a reduction in opening retained earnings of £1.1million;
- For the 12 months ending 31 May 2019 an increase in revenue of £3.1 million and an increase in profit before tax of £0.4 million.
- At 31 May 2019 an increase in contract assets of £0.9 million and a reduction in inventories of £0.3 million.

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019 and replaces IAS 17 Leases and related interpretations. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use asset and a financial liability for future lease payments are recognised.

The Group expect to adopt the exceptions not to recognise low value leases (less than £5,000) and short term leases (less than 1 year).

The Group will apply the Standard from 1 June 2018. The Group expects to apply the modified retrospective transition approach and will not restate comparative amounts for the year ended 31 May 2019. In the majority of cases the Group has elected to measure right-of-use assets at the amount of the lease liability on adoption.

The Group expects to adopt the following practical expedients on transition:

- not to capitalise a right-of-use lease asset or related lease liability where the lease expires before 31 May 2019;
- not to reassess contracts to determine if the contract contains a lease and not to separate lease and non-lease elements;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

The adoption of IFRS 16 is expected to have a material impact on the Group’s financial statements. At 31 May 2019 the Group had operating lease commitments of £9.1 million. On adoption of IFRS 16, the Group expects to recognise a lease liability and right of use asset of between £7.0 million and £9.0 million.

Significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 May 2019. 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.

Principal Accounting Policies (Continued)

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.

Revenue

The Group adopted IFRS 15 (Revenue from Contracts with Customers) using the modified retrospective approach on 1 June 2018. Revenue is recognised when control of the goods or services transfers to the customer. The Group applies the following five step framework when recognising revenue.

Step 1: Identify the contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue

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

- a good or service (or bundle of goods or services) that is distinct;
- or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

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

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

Principal Accounting Policies (Continued)

Revenue (continued)

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

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

The transaction price is the value that the Group expects to be entitled to from the customer and includes discounts, rebates, credits, price concessions, incentives, performance bonuses, penalties and liquidated damages, but is not reduced for bad debts. It is net of any Value Added Tax (VAT) and other sales related taxes. Variable consideration that is dependent on certain events is included in the transaction price when it is "highly probable" that the variable consideration will occur. Revenue is recognised over time as the product is being manufactured or a service being provided if any of the following criteria are met:

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

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

If the criteria to recognise revenue over time is not met then revenue is recognised at a point in time when the customer obtains control of the asset and the performance obligation is satisfied. The customer obtains control of the asset when the customer can direct the use of the asset and obtain the benefits from the asset. The majority of revenue across all our operating segments is recognised over time as costs are incurred.

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

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

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

Dilapidations

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

Dividends

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

Exceptional items

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

Non-underlying items

Non-underlying costs for the year include amortisation of acquired intangibles, share based payment charge and finance charges as set out in note 4.

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

In applying the classification of leases in IAS 17, management considers its leases of equipment as finance lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Property leases are spilt between land and the building to assess whether they are operating or finance leases. Land is almost always an operating lease due to its long life but judgment is required to assess the classification between operating and finance lease for buildings which are assessed individually against the criteria in IAS 17.10.

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. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Principal Accounting Policies (Continued)

Leased assets (continued)

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.

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. The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

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

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

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

Principal Accounting Policies (Continued)

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.

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.

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

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

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

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

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

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

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

The cost of 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.

Principal Accounting Policies (Continued)

Borrowing costs

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

Equity

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

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

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

Capital redemption reserve represents the nominal value of shares cancelled.

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

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

Other reserves were created on redemption of preference shares.

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

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

Financial assets and liabilities

Recognition and derecognition

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

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

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

Classification and initial measurement of financial assets

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

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVOCI. The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

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

Principal Accounting Policies (Continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

Financial assets at fair value through profit or loss (FVTPL)

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

Impairment of financial assets

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

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

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

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

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

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

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

Trade and other receivables and contract assets

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

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 22 Financial Instruments for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

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

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

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

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

Principal Accounting Policies (Continued)

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.

Defined contribution pension scheme

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

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

Post employment benefits

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

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

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

The asset recognised in the statement of financial position for defined benefit plans is the present value of the fair value of plan assets less the defined benefit obligation (DBO) at the reporting date. The net surplus at the end of the year is £1.3 million (2018: £1.6 million).

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

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

Short-term benefits

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

Share-based employee remuneration

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

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

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

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

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

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

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

Principal Accounting Policies (Continued)

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-EPM, Energy-PRSE and Medical-MII.

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

Government grants

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

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

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

Provisions and contingent liabilities

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

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

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

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

Principal Accounting Policies (Continued)

Critical accounting judgements and key sources of estimation uncertainty

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

Significant management judgements

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

Revenue and margin on contracts

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

Deferred tax assets

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

Estimation uncertainty

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

Impairment of goodwill

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

Recoverability of contract assets and trade receivables

Management estimate the recoverable amount of balances relating to ongoing contracts that are incomplete at the date of approval of the financial statements. In particular in relation to claims the Directors prepare a best estimate of the amount expected to be recovered at the balance sheet date by reference to ongoing negotiations the customers. Management periodically revisit the claim and their assessment of the amount expected to be recovered. Contract assets and trade receivables and are detailed in note 17.The value of contract assets at 31 May 2019 was £10.6m.

Warranties

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience, current knowledge and future expectation that defects may arise. The value of warranty provisions at 31 May 2019 was £1.5 million (note 19).

Dilapidations

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

Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit pension gross liability of £12.9 million (2018: £12.6 million) is based on standard rates of inflation and mortality. The estimate does not include anticipation of future salary increases as there are no members with benefits related to future salary progression. Discount factors are determined close to each period end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit pension obligations. The value of the defined benefit pension asset at 31 May 2019 was £1.3 million (2018: £1.6million). Further details of the pension scheme are in note 28.

Consolidated Income Statement

For the year ended 31 May 2019

	Note	*2019* *£'000*	*2018* *£'000*
Revenue	2	**105,516**	78,864
Cost of sales		**(77,314)**	(58,787)
Gross profit		**28,202**	20,077
Distribution costs		**(4,722)**	(4,050)
Other administrative expenses		**(19,852)**	(19,869)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items		**5,805**	2,796
Amortisation of acquired intangibles	4	**(1,595)**	(3,303)
Other non-underlying items	4	**(98)**	(69)
Exceptional items	4	**(484)**	(3,266)
Operating profit/(loss)	2	**3,628**	(3,842)
Finance income	5	**132**	36
Finance costs	6	**(616)**	(692)
Profit/(loss) before taxation		**3,144**	(4,498)
Taxation	9	**(633)**	12
Profit/(loss) for the financial year attributable to equity shareholders		**2,511**	(4,486)
Earnings/(loss) per share:			
From continuing operations			
- Basic	11	**8.0p**	(16.0)p
- Diluted	11	**8.0p**	(16.0)p

Consolidated Statement of Comprehensive Income

	2019 *£'000*	*2018* *£'000*
Profit/(loss) for the year	**2,511**	(4,486)
Items that will not be subsequently be reclassified to profit or loss		
Remeasurement of net defined benefit liability	**(581)**	71
Income tax relating to items not reclassified	**99**	(14)
Items that may/will subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**445**	(137)
Total comprehensive income for the year attributable to equity shareholders	**2,474**	(4,566)

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Consolidated Balance Sheet at 31 May 2019

	Note	2019 £'000	2018 £'000
Non current assets			
Goodwill	**12**	**23,369**	23,369
Other intangible assets	**13**	**14,483**	15,612
Property, plant and equipment	**14**	**26,576**	27,595
Deferred tax	**25**	**1,423**	1,454
Pension and other employee obligations	**28**	**1,299**	1,590
		67,150	69,620
Current assets			
Inventories	**16**	**14,441**	10,341
Trade and other receivables : amounts falling due within one year	**17**	**31,549**	34,606
Current tax asset	**9**	**234**	608
Cash and cash equivalents	**18**	**8,909**	6,574
		55,133	52,129
Total assets		**122,283**	121,749
Current liabilities			
Trade and other payables	**20**	**(31,405)**	(26,179)
Obligations under finance leases	**23**	**(750)**	(1,179)
Borrowings	**22**	**(4,945)**	(6,719)
Current tax liabilities	**9**	**(69)**	(15)
Provisions	**19**	**(5,340)**	(6,135)
Derivatives		**(44)**	(127)
Total current liabilities		**(42,553)**	(40,354)
Non-current liabilities			
Borrowings	**22**	**(3,817)**	(4,435)
Obligations under finance leases	**23**	**(1,420)**	(1,375)
Deferred tax	**25**	**(2,073)**	(2,914)
Contingent consideration		**(256)**	(256)
Other creditors	**21**	**(2,870)**	(3,339)
Total non-current liabilities		**(10,436)**	(12,319)
Total liabilities		**(52,989)**	(52,673)
Net assets		**69,294**	69,076
Equity			
Share capital	**26**	**1,568**	1,553
Share premium account		**14,018**	13,385
Capital redemption reserve		**1,299**	1,299
Translation reserve		**310**	(135)
Merger reserve		**28,949**	28,949
Other reserves		**180**	180
Investment in own shares	**34**	**(3,435)**	(2,835)
Retained earnings		**26,405**	26,680
Total equity attributable to equity holders of the parent		**69,294**	69,076

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 September 2019 and signed on its behalf by:

S M King
Director
Company number: 1968354

Company Balance Sheet at 31 May 2019

	Note	2019 £'000	2018 £'000
Non current assets			
Investments	**15**	**36,029**	35,977
		36,029	35,977
Current assets			
Trade and other receivables : amounts falling due within one year	**17**	**34,298**	32,814
Current tax asset		–	123
Cash at bank and in hand	**18**	**60**	2,065
		34,358	35,002
Total assets		**70,387**	70,979
Current liabilities			
Trade and other payables	**20**	**(542)**	(328)
Borrowings	**22**	**(180)**	(180)
Total current liabilities		**(722)**	(508)
Non-current liabilities			
Borrowings	**22**	**(536)**	(716)
Contingent consideration		**(256)**	(256)
Total non-current liabilities		**(792)**	(972)
Total liabilities		**(1,514)**	(1,480)
Net assets		**68,873**	69,499
Capital and reserves			
Called up share capital	**26**	**1,568**	1,553
Share premium account		**14,018**	13,385
Capital redemption reserve		**1,299**	1,299
Merger reserve		**28,949**	28,949
Other reserves		**180**	180
Profit and loss account		**22,859**	24,133
Equity shareholders' funds		**68,873**	69,499

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 £254k loss (2018: loss of £1,835k).

The financial statements were approved by the Board of Directors and authorised for issue on 17 September 2019 and signed on its behalf by:

S M King
Director
Company number: 1968354

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2019

	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 2017	958	12,771	1,299	-	2	180	(2,250)	31,946	44,906
Ordinary shares issued	595	614	-	28,949	-	-	-	-	30,158
Dividends paid	-	-	-	-	-	-	-	(906)	(906)
Investment in own shares	-	-	-	-	-	-	(585)	-	(585)
Share-based payments	-	-	-	-	-	-	-	69	69
Transactions with owners	595	614	-	28,949	-	-	(585)	(837)	28,736
Loss for the year	-	-	-	-	-	-	-	(4,486)	(4,486)
Other comprehensive income									
Actuarial gain for the year on pension scheme	-	-	-	-	-	-	-	71	71
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	(14)	(14)
Exchange loss	-	-	-	-	(137)	-	-	-	(137)
Total comprehensive income for the year	-	-	-	-	(137)	-	-	(4,429)	(4,566)
Balance at 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**(135)**	**180**	**(2,835)**	**26,680**	**69,076**
At 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	26,680	69,076
Adjustment of transitioning to IFRS 15 and 9	-	-	-	-	-	-	-	(1,284)	(1,284)
Adjusted equity as at 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	25,396	67,792
Ordinary shares issued	15	633	-	-	-	-	-	-	648
Dividends paid	-	-	-	-	-	-	-	(1,118)	(1,118)
Investment in own shares	-	-	-	-	-	-	(600)	-	(600)
Share-based payments	-	-	-	-	-	-	-	98	98
Transactions with owners	15	633	-	-	-	-	(600)	(1,020)	(972)
Profit for the year	-	-	-	-	-	-	-	2,511	2,511
Other comprehensive income									
Actuarial loss for the year on pension scheme	-	-	-	-	-	-	-	(581)	(581)
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	99	99
Exchange profit	-	-	-	-	445	-	-	-	445
Total comprehensive income for the year	-	-	-	-	445	-	-	2,029	2,474
Balance at 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**310**	**180**	**(3,435)**	**26,405**	**69,294**

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 May 2019

	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 2017	958	12,771	1,299	-	180	26,805	42,013
Ordinary shares issued	595	614	-	28,949	-	-	30,158
Dividends paid	-	-	-	-	-	(906)	(906)
Transfer on disposal	(485)	-	485	-	-	(19,383)	(19,383)
Share-based payments	-	-	-	-	-	69	69
Transactions with owners	595	614	-	28,949	-	(837)	29,321
Loss for the year	-	-	-	-	-	(1,835)	(1,835)
Total comprehensive income for the year	-	-	-	-	-	(1,835)	(1,835)
Balance at 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**180**	**24,133**	**69,499**
At 1 June 2018	1,553	13,385	1,299	28,949	180	24,133	69,499
Ordinary shares issued	15	633	-	-	-	-	648
Dividends paid	-	-	-	-	-	(1,118)	(1,118)
Share-based payments	-	-	-	-	-	98	98
Transactions with owners	15	633	-	-	-	(1,020)	(372)
Loss for the year	-	-	-	-	-	(254)	(254)
Total comprehensive income for the year	-	-	-	-	-	(254)	(254)
Balance at 31 May 2019	**1,568**	**14,018**	**1,299**	**28,949**	**180**	**22,859**	**68,873**

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 May 2019

	Note	*2019* *£'000*	*2018* *£'000*
Operating activities			
Cash flows from operating activities	**29**	**10,468**	(6,142)
Finance costs paid		**(608)**	(363)
Income tax repaid		**(569)**	(212)
Contributions to defined benefit plan		**(243)**	(175)
Net cash outflow from operating activities		**9,028**	(6,892)
Investing activities			
Acquisition of subsidiary undertakings, net of cash acquired	**35**	**(132)**	(11,896)
Finance income		**131**	13
Purchase of intangible assets		**(848)**	(712)
Purchase of property, plant and equipment		**(2,344)**	(2,654)
Proceeds from issue of ordinary shares		**248**	-
Net cash used in investing activities		**(2,945)**	(15,249)
Financing activities			
Equity dividends paid		**(1,118)**	(906)
Repayments of bank loans		**(3,278)**	(3,483)
Repayments of obligations under finance leases		**(1,033)**	(1,025)
Proceeds from issue of ordinary shares		**48**	47
Proceeds from borrowings		**597**	6,289
Net cash (outflow)/inflow from financing activities		**(4,784)**	922
Net increase/(decrease) in cash and cash equivalents		**1,299**	(21,219)
Cash and cash equivalents at beginning of year		**6,565**	27,703
Effect of foreign exchange rate changes on cash		**189**	81
Cash and cash equivalents at end of year	**18**	**8,053**	6,565

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Company Statement of Cash Flows

For the year ended 31 May 2019

	Note	*2019* *£'000*	*2018* *£'000*
Operating activities			
Cash flows from operating activities	**30**	**(1,216)**	(10,649)
Finance costs paid		**(18)**	(19)
Income tax repaid		**(13)**	-
Net cash outflow from operating activities		**(1,247)**	(10,668)
Investing activities			
Loan to subsidiary undertakings		**(850)**	(12,500)
Finance income		**744**	565
Net cash used in investing activities		**(106)**	(11,935)
Financing activities			
Equity dividends paid		**(1,118)**	(906)
Repayments of bank loans		**(182)**	(182)
Proceeds from issue of ordinary shares		**648**	632
Net cash outflows from financing activities		**(652)**	(456)
Net decrease in cash and cash equivalents		**(2,005)**	(23,059)
Cash and cash equivalents at beginning of year		**2,065**	25,124
Cash and cash equivalents at end of year		**60**	2,065

The principal accounting policies and notes on pages 32 to 80 form part of these financial statements.

Notes To The Annual Report

For the year ended 31 May 2019

1 Corporate information

The consolidated financial statements of Avingtrans plc and its subsidiaries (collectively the Group) for the year ended 31 May 2019 were authorised for issue in accordance with a resolution of the directors on 17 September 2019. Avingtrans plc (the parent) is a limited company incorporated in England & Wales, whose shares are publicly traded on AIM. The registered office is located at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA. The Group is principally engaged in the provision of highly engineered components, systems and services to the energy, medical and infrastructure industries worldwide.

2 Segmental analysis

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

The principal activities are as follows:

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

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

Year ended 31 May 2019	*Energy EPM £'000*	*Energy PSRE £'000*	*Medical MII £'000*	*Unallocated central items £'000*	*Total £'000*
Original Equipment	**13,888**	**31,527**	**12,048**	**-**	**57,463**
After Market	**35,069**	**12,884**	**100**	**-**	**48,053**
Revenue	**48,957**	**44,411**	**12,148**	**-**	**105,516**
Operating profit/(loss)	**2,874**	**1,939**	**(204)**	**(981)**	**3,628**
Net finance costs					**(484)**
Taxation					**(633)**
Profit after tax from continuing operations					**2,511**
Segment non-current assets	**44,285**	**17,903**	**4,962**	**-**	**67,150**
Segment current assets	**20,756**	**28,051**	**5,036**	**1,290**	**55,133**
Segment liabilities	**(27,563)**	**(21,040)**	**(1,417)**	**(2,969)**	**(52,989)**
Net assets	**37,478**	**24,914**	**8,581**	**(1,679)**	**69,294**
Non-current asset additions					
Intangible assets	**171**	**378**	**299**	**-**	**848**
Tangible assets	**1,258**	**826**	**261**	**-**	**2,344**
	1,428	**1,204**	**560**	**-**	**3,192**

Unallocated assets/ (liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities. Medical MII results include the acquisition of Tecmag which contributed £772,000 Group revenue and £13,000 profit after tax respectively (note 35).

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

2 Segmental analysis (continued)

Year ended 31 May 2018	***Energy EPM £'000***	***Energy PSRE £'000***	***Medical MII £'000***	***Unallocated central items £'000***	***Total £'000***
Original Equipment	15,194	20,096	10,410	-	45,700
After Market	21,581	11,583	-	-	33,164
Revenue	36,775	31,679	10,410	-	78,864
Operating profit/(loss)	(1,532)	425	(109)	(2,626)	(3,842)
Net finance costs					(656)
Taxation					12
Loss after tax from continuing operations					(4,486)
Segment non-current assets	37,636	27,174	4,810	-	69,620
Segment current assets	23,484	22,322	3,645	2,678	52,129
Segment liabilities	(28,632)	(15,933)	(2,572)	(5,536)	(52,673)
Net assets	32,488	33,563	5,883	(2,858)	69,076
Non-current asset additions					
Intangible assets	10	255	447	-	712
Tangible assets	1,438	854	362	-	2,654
	1,448	1,109	809	-	3,366

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:

	2019 Revenue £'000	*2018 Revenue £'000*	***2019 Non-current Assets £'000***	*2018 Non-current Assets £'000*
United Kingdom	**38,592**	31,970	**50,660**	49,981
Europe (excl. UK)	**11,057**	7,197	-	-
United States of America	**14,045**	14,210	**14,455**	17,792
Africa & Middle East	**3,867**	2,766	-	-
Americas & Caribbean (excl. USA)	**3,228**	1,190	-	-
China	**10,240**	5,286	**2,018**	1,841
Asia Pacific (excl. China)	**24,487**	16,117	**17**	6
Rest of World	-	128	-	-
	105,516	78,864	**67,150**	**69,620**

The Group had Energy - EPM revenue of £12,336,000 (2018: £6,987,000) with a single external customer which represented more than 10% of the Group's revenue.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

2 Segmental analysis (continued)

Contract assets and contract liabilities	***31 May 2019***	*1 June 2018*
	£'000	*£'000*
Contract assets:		
Energy – EPM	4,965	4,397
Energy – PSRE	5,679	4,986
	10,644	9,383
Contract liabilities:		
Energy – EPM	(4,260)	(3,068)
Energy – PSRE	(6,762)	(2,121)
	(11,022)	(5,189)

Contract assets and contract liabilities in the current and prior period have been presented on an IFRS 15 basis.

3 Profit before taxation - continuing

Profit before taxation is stated after charging/(crediting):	***2019***	*2018*
	£'000	*£'000*
Depreciation of property, plant and equipment	**3,240**	2,532
Profit on disposal of property, plant and equipment	**(13)**	-
Amortisation of internally generated intangible assets	**393**	374
Cost of inventories recognised as an expense	**61,378**	32,358
Loss on foreign exchange transactions	**263**	136
Staff costs (note 8)	**36,503**	27,331
Operating lease rentals:		
- Land and buildings	**1,008**	841
- Machinery	**388**	392
Charitable donations	**13**	5
Research and development expenditure	**308**	204

Auditor's remuneration	***2019***	*2018*
	£'000	*£'000*
Fees payable to the Company's auditor for the audit of the financial statements	**58**	61
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	**141**	156
- Tax compliance services	-	20
- Corporate finance transaction services	-	188
- Tax advisory fee	-	6

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

4 Adjusted Earnings before interest, tax, depreciation and amortisation

	2019	*2018*
	£'000	*£'000*
Profit/(loss) before tax from continuing operations	**3,144**	(4,498)
Share based payment expense	**98**	69
Acquisition costs	**89**	1,567
Restructuring costs	**395**	1,699
(Gain)/loss on derivatives	**(83)**	172
Unwinding of discounting on dilapidation provision	**85**	62
Amortisation of intangibles from business combinations	**1,595**	3,303
Adjusted profit before tax	**5,323**	2,374
Finance income	**(132)**	(36)
Finance cost	**616**	692
Loss on derivatives/unwinding of discounting on dilapidation provision	**(2)**	(234)
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**5,805**	2,796
Depreciation	**3,240**	2,532
Amortisation of other intangible assets	**393**	375
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**9,438**	5,703

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

5 Finance income

	Group	
	2019	*2018*
	£'000	*£'000*
Bank balances and deposits	**4**	5
Other interest	-	7
Interest from defined benefit pension scheme	**45**	24
Gain arising on the fair value of derivative contracts	**83**	-
	132	36

6 Finance costs

	Group	
	2019	*2018*
	£'000	*£'000*
Re-banking related finance charges	**28**	19
Finance charges related to the unwinding of provisions	**85**	62
Losses arising on the fair value of derivative contracts	-	172
Interest on bank loans and overdrafts wholly repayable within five years	**375**	302
Interest on bank loans and overdrafts wholly repayable after five years	**18**	19
Interest on finance lease agreements	**110**	118
	616	692

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

7 Directors’ emoluments

Particulars of directors’ emoluments are as follows:

	Salary and Fees £’000	***Benefits £’000***	***Long Term Incentive £’000***	***Total 2019 £’000***	*Total 2018 £’000*	***Pension Total 2019 £’000***	*Pension Total 2018 £’000*
Non-executive:							
R S McDowell	72	-	-	**72**	71	-	-
J Clarke	33	-	-	**33**	11	-	-
EW Lloyd-Baker*	24	-	-	**24**	18	-	-
LJ Thomas	35	-	-	**35**	34	-	-
GK Thornton	44	-	-	**44**	34	-	-
Executive:							
S McQuillan	406	1	17	**424**	357	-	-
S M King	329	-	15	**344**	288	-	-
Total emoluments	943	1	32	**976**	813	-	-

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

* EW Lloyd-Baker resigned from the Board on 30 November 2018.

The non-cash benefits comprise the provision of private health insurance for S McQuillan. The number of Directors who are accruing benefits under money purchase schemes is nil (2018: nil).

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

Employers National Insurance Contributions made relating to directors’ emoluments were £128,000 (2018: £99,000).

During 2019 and 2018 S McQuillan and S M King exercised nil options as set out on page 25.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

8 Employees

Particulars of employees, including Executive Directors:

	2019	*2018*
	£'000	*£'000*
Wages and salaries	**32,139**	24,176
Social security costs	**3,034**	2,179
Other pension costs	**1,232**	907
Share-based payment expense	**98**	69
	36,503	27,331

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

	2019	*2018*
	Number	*Number*
Production	**462**	437
Selling and distribution	**130**	43
Administration	**174**	176
	766	656

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'.

	2019	*2018*
	£'000	*£'000*
Short term employee benefits (including NIC)	**1,379**	1,191
Post-employment benefits	**10**	4
Share-based payments	**42**	43
	1,431	1,238

9 Taxation

	2019	*2018*
	£'000	*£'000*
Current tax		
Corporation tax – current year	-	-
Corporation tax – prior year	**369**	3
Overseas tax	**975**	1,153
Total current tax	**1,344**	1,156
Deferred tax (note 25)		
Deferred tax – current year	**(625)**	(815)
Deferred tax – prior year	**(86)**	(209)
Deferred tax - rate	-	(144)
Total deferred tax	**(711)**	(1,168)
Total tax charge/(credit)	**633**	(12)

UK corporation tax is calculated at 19% (2018: 19.00%) 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 2019

9 Taxation (continued)

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

	2019	*2018*
	£'000	*£'000*
Profit/(loss) before taxation	**3,144**	(4,498)
Theoretical tax at UK corporation tax rate of 19% (2018: 19.00%)	**598**	(855)
Effects of:		
Expenditure that is/is not tax deductible	**(69)**	553
Un-provided deferred tax differences	**122**	218
Adjustments in respect of prior years	**283**	(207)
Recognition of previously unrecognised losses	**(459)**	-
Rate differential on timing differences	**(46)**	2
Change in deferred tax rate	**-**	(144)
Differential in overseas tax rate	**204**	421
Total tax charge/(credit)	**633**	(12)

The Group has tax losses carried forward of approximately £35.4 million at 31 May 2019 (2018: £34.8million) that may be relievable against future profits. Further details are detailed in note 25.

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

	2019	*2018*
	£'000	*£'000*
Current tax assets		
Corporation tax	**234**	608
	234	608
Current tax liabilities		
Corporation tax	**(69)**	(15)
	165	(593)

Factors that may affect future tax charges

The substantively enacted UK corporation tax rate at 31 May 2019 and 2018 was 19%. A reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 May 2019 has been calculated based on these rates.

10 Dividends

	2019	*2018*
	£'000	*£'000*
Interim dividend paid of 1.3p per ordinary share (2018: 1.2p)	**404**	230
Final dividend paid of 2.3p per ordinary share (2018: 2.2p)	**714**	676
	1,118	906

The interim dividend declared in the half year statement of 1.4p per ordinary share was paid on 14 June 2019.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

11 Earnings per ordinary share

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

For diluted earnings/(loss) 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.

	2019 Number	*2018 Number*
Weighted average number of shares – basic	**31,225,440**	27,952,066
Share option adjustment	**340,920**	360,448
Weighted average number of shares – diluted	**31,566,360**	28,312,514

	2019 £'000	*2018 £'000*
Profit/(loss) from continuing operations	**2,511**	(4,486)
Share based payment expense	**98**	69
Acquisition costs	**89**	1,567
Restructuring costs	**395**	1,699
(Gain)/loss on derivatives	**(83)**	172
Unwinding of discounting on dilapidation provision	**85**	62
Amortisation of intangibles from business combinations	**1,595**	3,303
Adjusted earnings from continuing operations	**4,690**	2,386

From continuing operations:		
Basic earnings/(loss) per share	**8.0p**	(16.0)p
Adjusted basic earnings per share	**15.0p**	8.5p
Diluted earnings/(loss) per share	**8.0p**	(16.0)p
Adjusted diluted earnings per share	**14.9p**	8.4p

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 490,000 share options at 31 May 2019 (2018: nil) 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 2019

12 Goodwill

	Total £'000
Cost	
At 1 June 2017	6,048
Acquisition of subsidiary undertakings	18,171
1 June 2018	**24,219**
Acquisition of subsidiary undertaking	-
At 31 May 2019	**24,219**
Accumulated impairment losses	
At 1 June 2017 and 1 June 2018	850
Impairment charge	-
At 31 May 2019	**850**
Net book value	
At 31 May 2019	**23,369**
At 31 May 2018	23,369

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:

	2019 £'000	*2018 £'000*
Energy-EPM	**15,107**	15,107
Energy-PSRE	**6,753**	6,753
Medical-MII	**1,509**	1,509
	23,369	23,369

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and derives cash flows for the following two years based on estimated growth rates for the specific markets in which each CGU operates. The Group uses its past experience in compiling the cashflow forecasts. The estimated growth rate does not exceed the average long-term growth rate for the relevant markets. A rate of between 0% and 5% has been used for Energy-EPM, Energy-PSRE and Medical-MII CGUs respectively. Recent changes to management and improvements to the contract negotiation and costing processes are expected to increase margins whilst Medical is developing into new markets and service.

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

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

Management have sensitised these key assumptions for each CGU within what is considered a reasonably possible range for the market in which the Group operates and have concluded that a 0% growth in revenue and discount rate of 13% 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 2019

13 Other intangible assets – group

	Customer Relationships £'000	*Order book £'000*	*Brand £'000*	*Development costs £'000*	*Software £'000*	*Total £'000*
Cost						
At 1 June 2017	-	-	-	2,953	297	3,250
Additions	-	-	-	681	31	712
Acquisition of subsidiary undertakings	10,532	3,096	2,504	783	54	16,969
Reclassification from PPE	-	-	-	-	171	171
Exchange adjustments	-	-	-	(5)	-	(5)
At 1 June 2018	**10,532**	**3,096**	**2,504**	**4,412**	**553**	**21,097**
Additions	-	-	-	822	26	848
Acquisition of subsidiary undertakings (note 35)	-	-	-	-	-	-
Disposals	-	-	-	-	(1)	(1)
Exchange adjustments	-	-	-	13	(1)	12
At 31 May 2019	**10,532**	**3,096**	**2,504**	**5,247**	**577**	**21,956**
Accumulated amortisation						
At 1 June 2017	-	-	-	1,539	269	1,808
Charge for the year	633	2,529	141	305	69	3,677
At 1 June 2018	**633**	**2,529**	**141**	**1,844**	**338**	**5,485**
Charge for the year	845	567	194	318	65	1,988
At 31 May 2019	**1,478**	**3,096**	**335**	**2,162**	**403**	**7,473**
Net book value at 31 May 2019	**9,054**	**-**	**2,169**	**3,085**	**174**	**14,483**
Net book value at 31 May 2018	9,899	567	2,363	2,568	215	15,612

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

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 2017	2,167	115	4,645	1,006	7,933
Additions	1,028	-	1,328	298	2,654
Acquisition of subsidiary undertakings	11,211	1,892	8,662	1,091	22,856
Transfer to other intangible assets	-	-	-	(171)	(171)
Assets written off	-	-	(858)	(34)	(892)
Exchange adjustments	(18)	-	(7)	(16)	(41)
At 1 June 2018	**14,388**	**2,007**	**13,770**	**2,174**	**32,339**
Additions	229	-	1,282	833	2,344
Transfers	136	-	7	(143)	-
Assets written off	(2)	-	(514)	(119)	(635)
Exchange adjustments	33	-	55	59	147
At 31 May 2019	**14,784**	**2,007**	**14,600**	**2,804**	**34,195**
Depreciation					
At 1 June 2017	295	51	2,253	484	3,083
Charge in the year	534	121	1,398	479	2,532
Assets written off	-	-	(858)	(34)	(892)
Exchange adjustments	2	-	13	6	21
At 1 June 2018	**831**	**172**	**2,806**	**935**	**4,744**
Charge in the year	725	149	1,805	561	3,240
Assets written off	-	-	(293)	(107)	(400)
Exchange adjustments	12	-	7	16	35
At 31 May 2019	**1,568**	**321**	**4,325**	**1,405**	**7,619**
Net book value at 31 May 2019	**13,216**	**1,686**	**10,275**	**1,399**	**26,576**
Net book value at 31 May 2018	13,557	1,835	10,964	1,239	27,595

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 2019	**1,496**	**256**	**1,755**
At 31 May 2018	440	48	488

Depreciation charged on assets held under finance leases was £726,000 (2018: £489,000).

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

15 Investments

	Unlisted investments £'000	*Group Undertakings £'000*	*Capital Contributions £'000*	*Total £'000*
Cost				
At 1 June 2017	-	10,758	85	10,843
Acquisition of subsidiary undertakings	-	29,526	32	29,558
At 1 June 2018	**-**	**40,284**	**117**	**40,401**
Acquisition of subsidiary undertakings	-	-	52	52
At 31 May 2019	**-**	**40,284**	**169**	**40,453**
Provision				
At 1 June 17, 1 June 2018 and 31 May 2019	**-**	**4,424**	**-**	**4,424**
Net book value at 31 May 2019	**-**	**35,860**	**169**	**36,029**
Net book value at 31 May 2018	-	35,860	117	35,977

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

Name	**Country of incorporation**	**Principal activity**
Crown UK Limited	England and Wales	Trading
Stainless Metalcraft (Chatteris) Limited	England and Wales	Trading
Metalcraft (Chengdu) Limited *	China	Trading
Metalcraft (Sichuan) Limited *	China	Trading
Maloney Metalcraft Limited	England and Wales	Trading
Composite Products Limited	England and Wales	Trading
Space Cryomagnetics Limited (trading as Scientific Magnetics Limited)	England and Wales	Trading
Hayward Tyler Limited *	England & Wales	Trading
Hayward Tyler Inc *	USA	Trading
Hayward Tyler Pumps (Kunshan) Co Limited *	China	Trading
Hayward Tyler India PTE Limited *	India	Trading
Hayward Tyler Fluid Handling Limited *	England & Wales	Trading
Peter Brotherhood Limited *	England & Wales	Trading
Tecmag Inc *	USA	Trading
Hayward Tyler Group plc	Isle of Man	Holding company
Southbank UK Limited *	England & Wales	Holding company
Hayward Tyler Group Limited *	England & Wales	Holding company
Hayward Tyler Holdings Limited *	England & Wales	Holding company
Hayward Tyler Holding Inc *	USA	Holding company
Nviro Cleantech Limited *	England & Wales	Holding company
Nviro Cleantech Inc *	USA	Holding company
Vertus Technologies Limited *	Cayman Islands	Holding company
Nviro Cleantech Limited *	Cayman Islands	Holding company
Redglade Associates Limited *	England & Wales	Property
Redglade Investments Limited *	England & Wales	Property
Hayward Tyler Pension Plan Trustees Limited *	England & Wales	Manages pension scheme
Hayward Tyler (UK) Limited *	England & Wales	Dormant
Appleton & Howard Limited *	England & Wales	Dormant
Credit Montague Limited *	England & Wales	Dormant
Mullins Limited *	England & Wales	Dormant

* -Indirectly owned subsidiary.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

16 Inventories

	Group	
	2019	*2018*
	£'000	*£'000*
Raw materials and consumables	**6,646**	4,406
Work in progress	**5,220**	3,727
Finished goods	**2,575**	2,208
	14,441	10,341

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 £384,000 (2018: £132,000).

17 Trade and other receivables

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Amounts falling due within one year				
Trade receivables	**17,058**	16,718	-	-
Allowance for doubtful debts	**(497)**	(529)	-	-
	16,561	16,189	-	-
Other receivables	**1,061**	743	**3,435**	2,835
Amounts owed by group undertakings	-	-	**30,829**	29,933
Prepayments	**3,283**	4,606	**34**	46
Contract assets	**10,644**	13,068	-	-
	31,549	34,606	**34,298**	32,814

The average credit period taken on sales of goods is 41 days (2018: 58 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.

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

18 Cash and cash equivalents

Cash and cash equivalents included in the following components:

	Group		Company	
	At 31 May 2019 £'000	*At 31 May 2018 £'000*	***At 31 May 2019 £'000***	*At 31 May 2018 £'000*
Cash at bank and in hand:				
GBP	**1,852**	5,129	**60**	2,065
USD	**4,834**	1,060	-	-
EUR	**1,078**	136	-	-
Other	**1,145**	249	-	-
Total cash at bank and in hand	**8,909**	6,574	**60**	2,065
Overdraft (GBP):	**(856)**	(9)	-	-
Total cash and cash equivalents	**8,053**	6,565	**60**	2,065

19 Provisions

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

	Warranty £'000	*Loss Making £'000*	*Group Other £'000*	*Dilapidations £'000*	*Total £'000*
Carrying amount					
1 June 2017	-	-	-	-	-
Acquisition of subsidiary undertakings	1,616	2,985	374	2,200	**7,175**
Additional provisions	1,014	821	294	62	**2,191**
Amounts utilised	(479)	(1,618)	(402)	-	**(2,499)**
Reversals	(259)	(413)	(24)	-	**(696)**
Exchange Adjustments	(36)	-	-	-	**(36)**
1 June 2018	**1,856**	**1,775**	**242**	**2,262**	**6,135**
Acquisition of subsidiary undertakings	8	-	-	24	**32**
IFRS 15 adjustments	(75)	600	-	-	**525**
Additional provisions	816	1,058	334	83	**2,291**
Amounts utilised	(679)	(1,753)	(449)	-	**(2,881)**
Reversals	(462)	(355)	-	-	**(817)**
Exchange Adjustments	55	-	-	-	**55**
31 May 2019	**1,519**	**1,325**	**127**	**2,369**	**5,340**

Warranty provision: Provisions for warranty work represent the estimated cost of work provided under the terms of the contracts with customers with reference to the length and unexpired portion of the terms provided.

Loss making contracts: Provisions for loss making contracts are the estimated total costs that exceed the total revenues from contracts that are in progress at the reporting date.

Other provisions: The balance to carry forward in other provisions relates to liquidated damages. Provisions for liquidated damages are the liabilities estimated to arise on the expected delay in shipment of contracts that have been shipped prior to 31 May 2019. There were minor expected delays in the year.

Dilapidations: Provision for dilapidation mainly represents the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood Limited's Peterborough property, which resulted from the sale and leaseback of the property.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

20 Trade and other payables

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Trade payables	**11,694**	12,459	**65**	97
Other tax and social security	**1,334**	1,138	**28**	51
Other payables	**1,143**	734	**143**	29
Contract liabilities	**11,022**	5,041	-	-
Accruals	**6,212**	6,807	**306**	151
	31,405	26,179	**542**	328

21 Other creditors

	Group		Company	
	At 31 May 2019	*At 31 May 2018*	***At 31 May 2019***	*At 31 May 2018*
	£'000	*£'000*	***£'000***	*£'000*
Non-current				
Deferred income	**2,870**	3,339	**-**	**-**

22 Financial assets and liabilities

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

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Financial assets at amortised cost:				
Trade and other receivables	**16,561**	16,189	**30,737**	29,933
Contract assets	**10,644**	13,068	-	-
Cash and cash equivalents	**8,909**	6,574	**60**	2,065
	36,114	35,831	**30,797**	31,998
Financial assets measured at FVTPL:				
Derivative financial instruments	-	127	-	-
Total financial assets	**36,114**	35,958	**30,797**	31,998
Financial liabilities at amortised cost:				
Trade payables	**11,694**	12,459	**65**	97
Borrowings	**8,762**	11,154	**716**	896
Lease obligations	**2,170**	2,554	-	-
	22,626	26,167	**781**	993
Financial liabilities measured at FVTPL:				
Contingent consideration	**256**	256	**256**	256
Total financial liabilities	**22,882**	26,423	**1,037**	1,249

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

22 Financial assets and liabilities (continued)

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

Borrowings comprise of:

Secured borrowings

	Group		***Company***	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Bank overdrafts and short term borrowings	**856**	6,099	**-**	-
Bank loans	**7,906**	5,055	**716**	896
Total borrowings	**8,762**	11,154	**716**	896
Amount due for settlement within 12 months	**4,945**	6,719	**180**	180
Amount due for settlement after 12 months	**3,817**	4,435	**536**	716

	Group		***Company***	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Bank loans due within one to two years	**612**	619	**180**	180
Bank loans due within two to five years	**3,205**	3,816	**356**	536
Bank loans due after five years	**-**	-	**-**	-
	3,817	4,435	**536**	716

Bank loans, overdrafts and short term borrowings of £8,762,000 (2018: £11,154,000) are secured on certain assets of the Group.

At 31 May 2019 the Group had £10,255,000 (2018: £7,068,000) of undrawn committed borrowing facilities expiring within one year which the Directors expect to be renewed. All borrowings were at variable rates relative to local base rates.

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

23 Obligations under finance leases

	Minimum lease payments		***Present value of minimum lease payments***	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Amounts due within one year	**1,092**	1,282	**750**	1,179
Amounts due in two to five years	**1,325**	1,385	**862**	1,290
Amounts due after five years	**1,338**	86	**558**	85
Total obligations under finance leases	**3,755**	2,753	**2,170**	2,554
Less future finance charges	**(1,585)**	(199)	**-**	-
Present value of lease obligations	**2,170**	2,554	**2,170**	2,554

Finance lease liabilities are secured on the related assets. All finance lease liabilities were at variable rates relative to local base rates.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

24 Financial instruments

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

Capital risk management

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

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

The gearing ratio at the year-end is as follows:

	Group		***Company***	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Debt	**(10,932)**	(13,708)	**(716)**	(896)
Cash and cash equivalents	**8,909**	6,565	**60**	2,065
Net (debt)/cash	**(2,023)**	(7,143)	**(656)**	1,169
Equity	**69,294**	69,076	**68,873**	69,416
Net debt to equity ratio	**2.9%**	10.3%	**1.0%**	1.68%

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

Market risk

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

Foreign currency risk management

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

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

The Group presently has £0.8 million (2018: £5.0 million) to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2019.

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

	Euro currency impact		***US $ currency impact***		***RmB currency impact***	
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
Impact (+/-) on						
Profit for the financial year/equity	**(38)**	31	**332**	65	**-**	-

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

24 Financial instruments (continued)

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 £23,000. These charges are considered to be reasonably possible based on observation of current market conditions.

Price risk management

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

Credit risk management

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

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

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

The Group has no major customer which representing more than 10% (2018: one major customer's which represents 11.4%) of trade receivables, the Group has no other significant concentration of receivables. The bad debt provision and ageing has increased during the year predominately due to the impact of one particular customer at an acquired subsidiary undertaking and rebuilding their relationships with key customers at acquisitions.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days from invoice date.

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

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

24 Financial instruments (continued)

The closing balance of the of the trade receivables loss allowance as at 31 May 2019 reconciles with the trade receivables loss allowance opening balance as follows:

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
Provision for doubtful debts at brought forward under IAS 39	**529**	181	**-**	-
Additional loss allowance under IFRS 9 on 1 June 2018	**159**	-	**-**	-
Reduction in loss allowance due to IFRS 15 on 1 June 2018	**(150)**	-	**-**	-
	538	181	**-**	-
Impairment losses recognised	**284**	249	**-**	-
Amounts written off as uncollectible	**(213)**	(74)	**-**	-
Amounts recovered during the year	**(112)**	(34)	**-**	-
On acquisition of subsidiaries	**-**	207	**-**	-
Balance carried forward	**497**	529	**-**	-

Ageing of past due but not impaired trade debtors is as follows:

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
60 - 90 days	**342**	1,195	**-**	-
90 - 120 days	**220**	346	**-**	-
120+ days	**835**	1,099	**-**	-
Total	**1,397**	2,640	**-**	**-**

Ageing of trade debtors provided for:

	Group		Company	
	2019	*2018*	***2019***	*2018*
	£'000	*£'000*	***£'000***	*£'000*
60 - 30 days	**68**	-	**-**	-
30 - 60 days	**44**	-	**-**	-
60 - 90 days	**19**	13	**-**	-
90 - 120 days	**19**	-	**-**	-
120+ days	**347**	516	**-**	-
Total	**497**	529	**-**	**-**

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

The average credit period taken on sales of goods is 41 days (2018: 58 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.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

24 Financial instruments (continued)

Liquidity risk management

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

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

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

All facilities are secured on the assets of the Group.

25 Deferred tax

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

	Accelerated tax depreciation £'000	*Intangibles £'000*	*Other temporary differences £'000*	*Tax losses £'000*	*Total £'000*
At 1 June 2017	195	-	-	-	195
On business combination	(67)	-	1,010	(1,335)	(392)
Arising on the fair value adjustments on business Combinations	-	2,850	-	-	2,850
Credit to income – continuing operations	16	(627)	(438)	(119)	(1,168)
Charge/credit to other comprehensive income	(2)	-	(23)	-	(25)
At 1 June 2018	**142**	**2,223**	**549**	**(1,454)**	**1,460**
Credit to income – continuing operations	(474)	(303)	35	31	(711)
Charge/credit to other comprehensive income	-	-	(99)	-	(99)
At 31 May 2019	**(332)**	**1,920**	**485**	**(1,423)**	**650**

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:

	2019 £'000	*2018 £'000*
Deferred tax liabilities	**2,073**	2,914
Deferred tax assets	**(1,423)**	(1,454)
	650	1,460

At the balance sheet date the Group has unused tax losses of £35.4 million (2018: £28.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £8.4 million (2018: £8.6 million) of such losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results and the future projected profitability of the Group. In addition the Group has an unrecognised deferred tax asset of £28k (2018: £21k) in respect of share based payments.

For the year ended 31 May 2019

25 Deferred tax (continued)

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 (2018: £nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26 Called up share capital

	2019		*2018*	
	No.	***£'000***	*No.*	*£'000*
Allotted, issued and fully paid				
Ordinary shares of 5p each	**31,362,053**	**1,568**	31,061,636	1,553

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

	No.	***£'000***
At 1 June 2018 and 31 May 18	31,061,636	1,553
Shares issued in period to ExSOP (note 34)	285,000	14
Shares issued on exercise of share options (note 27)	15,417	1
At 31 May 2019	**31,362,053**	**1,568**

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 15,417 options were exercised, 10,000 and 5,417 at 109.0p and 193.0p respectively. The market price on the day of exercise was 216.0p and 218.5p. Further details of the scheme are given in note 27.

The market price of the Company's shares at the end of the year was 215p (2018: 209.5p). The highest and lowest market prices during the year were 235.0p and 172.5p (2018: 256.5p and 173p respectively).

27 Share-based payments

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

	2019		*2018*	
	Options (No. '000)	***Weighted Average Exercise price (p)***	*Options (No. '000)*	*Weighted Average Exercise price (p)*
Outstanding at the start of the year	**2,147.7**	**175.74**	231.7	152.6
Lapsed during the year	**44.6**	**191.26**	-	-
Issued during the year	**490.0**	**219.37**	477.0	182.07
Exercised during the year	**15.4**	**138.51**	27.0	121.41
Outstanding at the end of the year	**2,577.7**	**183.99**	2,147.7	175.74
Exercisable at the end of the year	**480.7**	**130.27**	490.7	129.84

The options outstanding at 31 May 2019 had exercise prices in the range 39.5p to 220.0p and a weighted average remaining contractual life of 7.6 years (2018: 8.1 years). The average market share price of options at date of exercise was 217p (2018: 221p).

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

27 **Share-based payments (continued)**

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*
23/09/2010	39,733	3 years	39.50	39.50	24/9/2013 to 23/9/2020
22/11/2013	187,000	3 years	176.00	176.00	23/12/2016 to 22/12/2023
09/12/2014	24,000	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	1,135,500	3 years	193.00	193.00	22/12/2019 to 21/12/2026
15/12/2017	142,000	3 years	177.50	177.50	16/12/2020 to 15/12/2027
15/12/2017	330,000	3 years	181.50	181.50	16/12/2020 to 15/11/2027
15/11/2018	205,000	3 years	218,50	218.50	16/11/2021 to 15/11/2028
15/11/2018	285,000	3 years	220.00	220.00	16/11/2021 to 15/11/2028

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

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

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

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

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

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

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

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

	2019	*2018*
	£'000	*£'000*
In respect of:		
Equity settled share options	**98**	69

There are no share based payment transactions that were expensed immediately. A deferred tax credit of £nil (2018: £nil) was recognised during the year in respect of share based payments.

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

28 Pensions and other employee obligations

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

The defined benefit pension arrangement, called the Hayward Tyler Pension Plan (the "Plan"), and provides benefits based on final salary and length of service on retirement, leaving service or death. With effect from 1 June 2003 the Plan was closed to new UK employees and to future service accrued for existing members who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements. The method used in assessing the Plan liabilities is the projected unit method. A full valuation of the Plan is produced every three years (the last one being as at 1 January 2017) and updated annually to 31 May 2019 by independent qualified actuaries.

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

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

The Plan exposes the Company to a number of risks:

- **Investment risk**
  The Plan holds investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- **Interest rate risk**
  The Plan's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Plan holds assets such as equities the value of the assets and liabilities may not move in the same way;
- **Inflation risk**
  A significant proportion of the benefits under the Plan are linked to inflation. Although the Plan's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging;
- **Mortality risk**
  In the event that members live longer than assumed a deficit will emerge in the Plan; and
- **Concentration risk**
  A significant proportion of the Plan's liabilities are in respect of a single pensioner member. The development of the liabilities over time will therefore depend heavily on the actual experience in respect of this member.

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

Group	***At 31 May 2019 £'000***	*At 31 May 2018 £'000*
Defined benefit obligation	(12,930)	(12,559)
Fair value of plan assets	14,229	14,149
Net defined benefit asset	**1,299**	1,590

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

28 Pensions and other employee obligations (continued)

Scheme liabilities

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

Group	***At 31 May 2019 £'000***	*At 31 May 2018 £'000*
Defined benefit obligation at start of period	**12,559**	13,515
Interest cost	**323**	250
Changes to demographic assumptions	-	(99)
Changes to financial assumptions	**833**	(492)
Experience (gain)/loss on defined benefit obligation	-	26
Benefits paid	**(785)**	(641)
Defined benefits obligation at end of year	**12,930**	12,559

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

Group	***At 31 May 2019 £'000***	*At 31 May 2018 £'000*
Discount rate	2.25%	2.65%
Expected rate of pension increases	2.35%	2.20%
Inflation assumption	3.35%	3.20%
Mortality assumption	S2PXA CMI	S2PXA CMI

S2PXA CMI – for males and females projected on a year of birth basis using CMI (2016) projections with a long-term rate of improvement of 1.25% per annum with a plus 2 year age rating. The mortality assumptions imply the following life expectancies:

- Life expectancy at age 65 of male aged 45 21.9
- Life expectancy at age 65 of male aged 65 20.5
- Life expectancy at age 65 of female aged 45 23.8
- Life expectancy at age 65 of female aged 65 22.3

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

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

28 Pensions and other employee obligations (continued)

Scheme assets

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

	Group	
	At 31 May 2019 £'000	*At 31 May 2018 £'000*
Fair value of plan assets at start of period	**14,149**	14,835
Interest income	**367**	274
Return on plan assets (excluding amounts included in net interest)	**252**	(494)
Contributions by the Group	**245**	175
Benefits paid	**(785)**	(641)
Fair value of plan assets at end of period	**14,229**	14,149
Actual return on plan assets	**620**	(45)

The remeasurement recorded in other comprehensive income is as follows:

Group	***At 31 May 2019 £'000***	*At 31 May 2018 £'000*
(Gain)/loss on scheme assets in excess of interest	**(252)**	494
Experience losses	-	26
Gain from changes to demographic assumptions	-	(99)
Loss/(gain) from changes to financial assumptions	**833**	(492)
Total (gain) recognised in other comprehensive income	**581**	(71)

Sensitivity of the value placed on the liabilities

	Approximate effect on liabilities
Reduce discount rate by 0.1% p.a.	£177,000
Increase inflation and related assumption by 0.1% p.a.	£119,000
Increase a long-term rate of longevity improvement by 0.25% p.a.	£108,000
Apply a 90% loading to the mortality base table (reduces probability of death by 10% at each age)	£596,000

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

Risk mitigation strategies

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

28 Pensions and other employee obligations (continued)

Effect of the Plan on Group's future cashflows

The Group is required to agree a Schedule of Contributions with the Trustees of the Plan following a valuation which must be carried out at least once every three years. The next valuation of the Plan is due at 1 January 2020. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing schedule of contributions. Conversely, if the position is better than expected contributions may be reduced.

The Group expects to pay contributions of £258,000 in the year to 31 May 2020.

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

29 Notes to the consolidated cash flow statement

Cash flows from operating activities:

	2019	*2018*
	£'000	*£'000*
Continuing operations		
Profit/(loss) before income tax from continuing operations	**3,144**	(4,498)
Adjustments for:		
Depreciation	**3,240**	2,532
Amortisation of intangible assets	**393**	374
Amortisation of intangibles from business combinations	**1,595**	3,303
Gain on disposal of property, plant and equipment	**(13)**	-
Finance income	**(132)**	(36)
Finance expenses	**616**	692
Share based payment charge	**98**	69
Changes in working capital		
(Increase)/decrease in inventories	**(2,213)**	4,144
Decrease/(increase) in trade and other receivables	**1,158**	(8,618)
Increase/(decrease) in trade and other payables	**4,150**	(3,088)
Decrease in provisions	**(1,458)**	(1,039)
Other non cash changes	**(110)**	23
Cashflows from operating activities	**10,468**	(6,142)

	2019	*2018*
	£'000	*£'000*
Cash and cash equivalents		
Cash	**8,909**	6,574
Overdrafts	**(856)**	(9)
	8,053	6,565

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

30 Notes to the company cash flow statement

	2019 £'000	*2018 £'000*
Continuing operations		
Loss before income tax from continuing operations	**(241)**	(1,919)
Adjustments for:		
Finance income	**(744)**	(565)
Finance expenses	**18**	19
Share based payment charge	**46**	37
Changes in working capital		
Increase in trade and other receivables	**(511)**	(8,397)
Increase in trade and other payables	**214**	173
Other non cash changes	**2**	3
Cash flow from operating activities	**(1,216)**	(10,649)

31 Reconciliation of liabilities arising from finance activities

Group	***Long-term borrowings £'000***	***Short-term borrowings £'000***	***Lease liabilities £'000***	***Overdraft £'000***	***Total £'000***
At 1 June 2017	896	179	179	-	1,254
Cash flows:					
Repayments	-	(3,484)	(1,025)	-	(4,509)
Proceeds	7	6,156	127	9	6,299
Non-cash:					
Acquisition of subsidiary undertakings	4,145	3,212	3,307	-	10,664
Amortisation of finance fees	-	23	-	-	23
Exchange adjustments	-	11	(34)	-	(23)
Reclassification	(613)	613	-	-	-
At 1 June 2018	**4,435**	**6,710**	**2,554**	**9**	**13,708**
Cash flows:					
Repayments	(6)	(3,780)	(1,033)	(9)	(4,828)
Proceeds	-	500	597	681	1,778
Non-cash:					
Acquisition of subsidiary undertakings (note 35)	-	-	-	175	175
Amortisation of finance fees	9	19	-	-	28
Exchange adjustments	-	19	52	-	71
Reclassification	(621)	621	-	-	-
At 31 May 2019	**3,817**	**4,089**	**2,170**	**856**	**10,932**

Company	***Long-term borrowings £'000***	***Short-term borrowings £'000***	***Lease liabilities £'000***	***Overdraft £'000***	***Total £'000***
At 1 June 2017	896	179	-	-	1,075
Cash flows:					
Repayments	-	(182)	-	-	(182)
Non-cash:					
Amortisation of finance fees	-	3	-	-	3
Reclassification	(180)	180	-	-	-
At 1 June 2018	**716**	**180**	**-**	**-**	**896**
Cash flows:					
Repayments	-	(182)	-	-	(182)
Non-cash:					
Amortisation of finance fees	-	2	-	-	2
Reclassification	(180)	180	-	-	-
At 31 May 2019	**536**	**180**	**-**	**-**	**716**

Notes to the Annual Report (Continued)

For the year ended 31 May 2019

32 Related party transactions

Company
The Directors benefited from dividends paid in the year (note 10) on their shareholdings as set out in the Directors report page 16.

Group
The Group have an agreement with Sustinere Solutions Ltd ("Sustinere") to maintain a Combined Heat & Power unit on the Group's premises but not owned by the Group. Sustinere is 21.54% owned by Tristan Lloyd-Baker (brother of Ewan Lloyd-Baker) and 1.76% owned by Ewan Lloyd-Baker and his wife. During the year the Group invoiced Sustinere £16,000 and received £3,000.

At one site in the Group generators were leased from Powr Capital Ltd, a company 50% owned by Tristan Lloyd-Baker (brother of Ewan Lloyd Baker) under an ongoing lease. The lease on the generators runs to November 2025 and the Group recognised an expense of £29,700 in the accounts (2018: £23,000) and paid Powr Capital Ltd £35,640 (2018: £26,000). At the balance sheet date future minimum lease payments total £193,050 (2018: £230,000).

33 Financial commitments

a) Capital commitments

Commitments for capital expenditure were as follows:

	2019	*2018*
	£'000	*£'000*
Contracted for, but not provided in the accounts	**511**	1,346

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:

	2019	*2018*
	£'000	*£'000*
Land and buildings lease obligations falling due:		
Within one year	**1,279**	1,293
In the second to fifth years inclusive	**3,939**	2,559
Over 5 years	**3,881**	4,722
	9,099	8,574
Other asset lease obligations falling due:		
Within one year	**212**	272
In the second to fifth years inclusive	**232**	288
	444	560

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 2019

34 Investment in own shares

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

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

During the year 285,000 (2018: 330,000) shares were purchased at a cost of £627,000 (2018: £598,950) by the Trust and beneficiaries, an interest in which was allocated to the Executive Directors as beneficiaries (as shown in note 27). All shares held by the trust are under option to Directors. Costs are charged to profit and loss as incurred.

The above holdings are held at a cost of £3,435,000 (2018: £2,835,000) and shown as a deduction from equity in the statement of changes in shareholders' equity.

35 Acquisitions

Business combination – Tecmag Inc.

On 22 October 2018 the Group acquired 100 percent of the issued share capital of Tecmag Inc. for $1. The acquisition was made to enhance the Group's position in the Medical division. The net assets at the date of acquisition were as follows:

Fair value of assets and liabilities acquired	***£'000***
Property, plant and equipment	**-**
Inventories	**151**
Trade and other receivables	**105**
Cash and cash equivalents	**40**
Trade and other payables	**(95)**
Borrowings	**(170)**
Provisions	**(31)**
Net Assets	-
Intangibles assets identified	-
Goodwill & IP	-
	-
Fair value of consideration transferred:	
Cash	**132**
Consideration	**132**
Acquisition costs charged to expenses	**89**
Net cash paid relating to the acquisition	**221**

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

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 2019

35 Acquisitions (continued)

Business combination – Tecmag Inc. (continued)

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

	£'000
Revenue	**772**
Gross profit	**423**
Overheads	**(403)**
Operating profit	**20**
Finance income & costs	**(7)**
Loss before taxation	**13**
Taxation	**-**
Overall effect on the Consolidated income statement	**13**

Since acquisition Tecmag contributed the following to the Group's cashflows:	***2019*** ***£'000***
Operating cashflows	**(95)**
Investing activities	**(72)**
Financing activities	**77**

36 Events after the balance sheet date

Booth Industries

On 10 June 2019 the Group acquired the trade and certain assets of Booth Industries Limited for total consideration of £1.8 million. In the 7 months to April 2019 Booth Industries had turnover of £4,537,000 and a trading loss before tax of £752,000 before exceptional costs of £358,000.

Business combination - Energy Steel

On 24 June 2019 the Group acquired 100 percent of the issued share capital of Energy Steel & Supply Co. for $0.6m with no debt assumed and $70k of associated transaction costs incurred. In its previous financial year Energy Steel & Supply Co. had turnover of $8.3m and a trading loss before tax of $1.6m.

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 14 November 2019 at 11:00am for the following purposes:

To consider, and if thought fit, to pass the following resolutions numbered 1 to 5 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 2019.
2. To declare a final dividend of 2.4p per ordinary share payable on 6 December 2019 payable to shareholders on the register of members on 25 October 2019.
3. To re-elect Roger McDowell as a Director.
4. To re-elect Les Thomas as a Director.
5. 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 6 and 7 being proposed as Ordinary Resolutions and Resolution 8 as a Special Resolutions.

6. 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 £517,474 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.
7. 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 3,136,205;

   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.

8. 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

   b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £156,810 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.

By order of the Board

S M King	**Registered office** **Chatteris Business Park** **Chatteris** **Cambridgeshire** **PE16 6SA**
Dated:	**17 September 2019**

Notice of Annual General Meeting (Continued)

Notes:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business on 12 November 2019; 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 Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and received by Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11:00am on 12 November 2019.

   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 Link 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.

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 Link 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 Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 12 November 2019 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 17 September 2019, the Company's issued share capital comprised 31,362,053 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 17 September 2019 is 31,362,053.

Documents on display

13 The following documents will be available for inspection at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA from 25 October 2019 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.

The Strategy in action

Pinpoint-Invest-Exit

Pinpoint

Strengthening the energy market portfolio

Booth Industries

Avingtrans successfully acquires Booth Industries on 11 June 2019 for £1.8 million.

Booth designs and manufacturers blast doors, prefabricated fire and blast wall systems, fire doors (integrity and insulated), radiation shielding doors, acoustic doors, security doors, multi-performance and large bespoke doors. Their products are sold into a range of markets, including offshore oil and gas, marine, rail and infrastructure, security and nuclear. The acquisition of Booth Industries enables the Process Solutions and Rotating Equipment ("PSRE") division to expand its product and service offering as well as deepen its relationships with its existing customers.

Energy Steel

Avingtrans successfully acquires Energy Steel on 24 June 2019 for $0.6 million.

Energy Steel & Supply Co. (Energy Steel) are an established manufacturer of machined products and components to the US civil nuclear power industry. Energy Steel will be integrated with Avingtrans' Hayward Tyler businesses, expanding its product offering, particularly in precision manufacturing and solutions for "orphan" OEM components for nuclear aftermarket.

Invest

Establishing world class capability

Energy

Production ramp-up on the Sellafield 3M3 intermediate level waste boxes contract at Metalcraft.

Continued investment has been made in the Chatteris site ready to go to full production in FY20. Metalcraft's approach to this project won them the Best Supply Chain Collaboration Award at the Nuclear Decommissioning Authority's annual awards.

Energy

In January 2019, Hayward Tyler formally opened its new, state of the art, 3,250m2 factory in Kunshan, Peoples Republic of China.

The new factory will provide existing Chinese customers with an enhanced local service capability as well as manufacturing a wider range of Hayward Tyler's highly engineered products for the power generation, oil and gas and chemical industries, both in China and for the rest of the world.

Exit

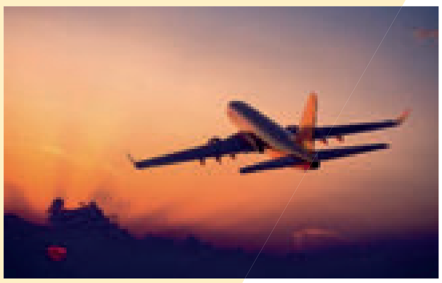
Returning share-holder value

Avingtrans is now fully into the Pinpoint-Invest phases of its two energy divisions and its medical division since the successful Exit of the aerospace group, Sigma Components, at an enterprise value of £65m back in 2016.

Avingtrans is committed to medium and longer term development plans, with the focus on exiting businesses at advantageous valuations, at which point proceeds can be considered for return to shareholders, or redeployed for continued growth in shareholder value.

As the energy markets continue to recover, M&A activity remains strong and flow control businesses command high valuations. Avingtrans is quietly confident about the current strategic direction and potential future Exit opportunities.

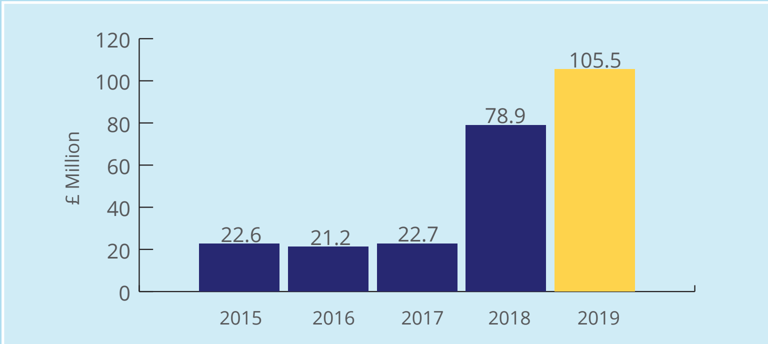
> "Avingtrans is quietly confident about the current strategic direction and potential future Exit opportunities



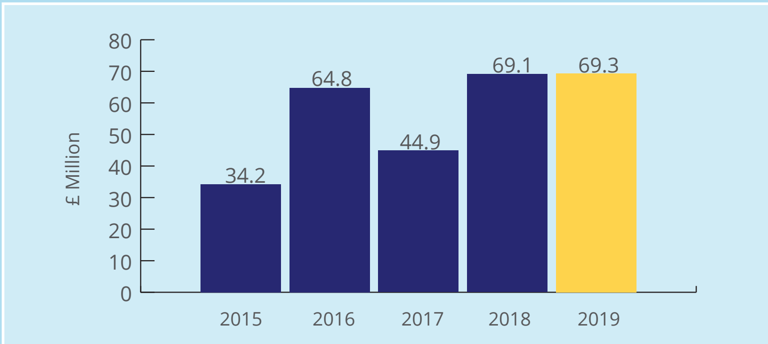
Performance

5 YEAR PERFORMANCE

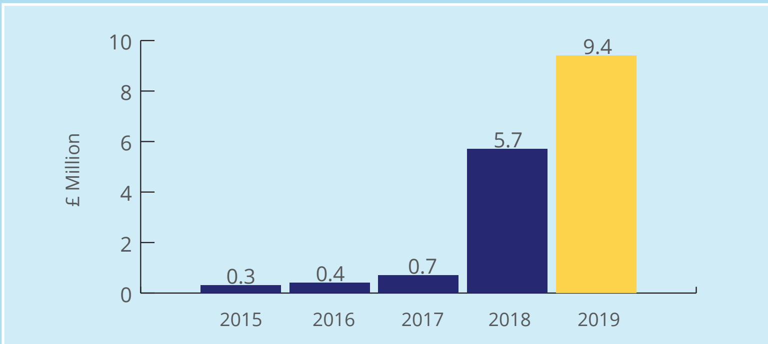
Revenue



Net Assets

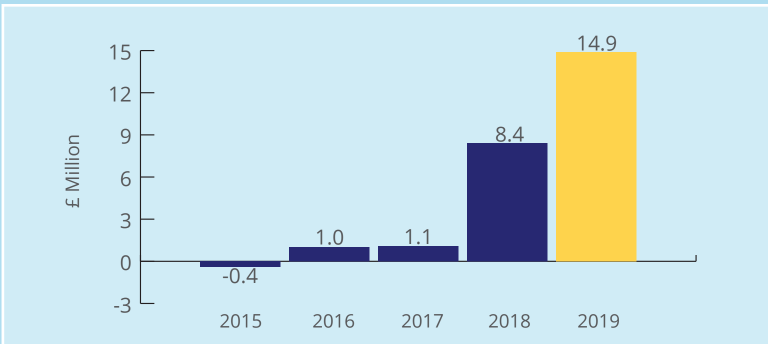


EBITDA (adjusted)



EPS – Diluted (adjusted)

2014 – 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 good will, amortisation/ impairment of intangibles and exceptionals. Historical results have not been restated for IFRS 15.



HAYWARD TYLER

Peter Brotherhood

150 years of engineering innovation

energy steel

Metalcraft

Ormandy Rycroft Engineering

Booth industries

Composite Products Ltd

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