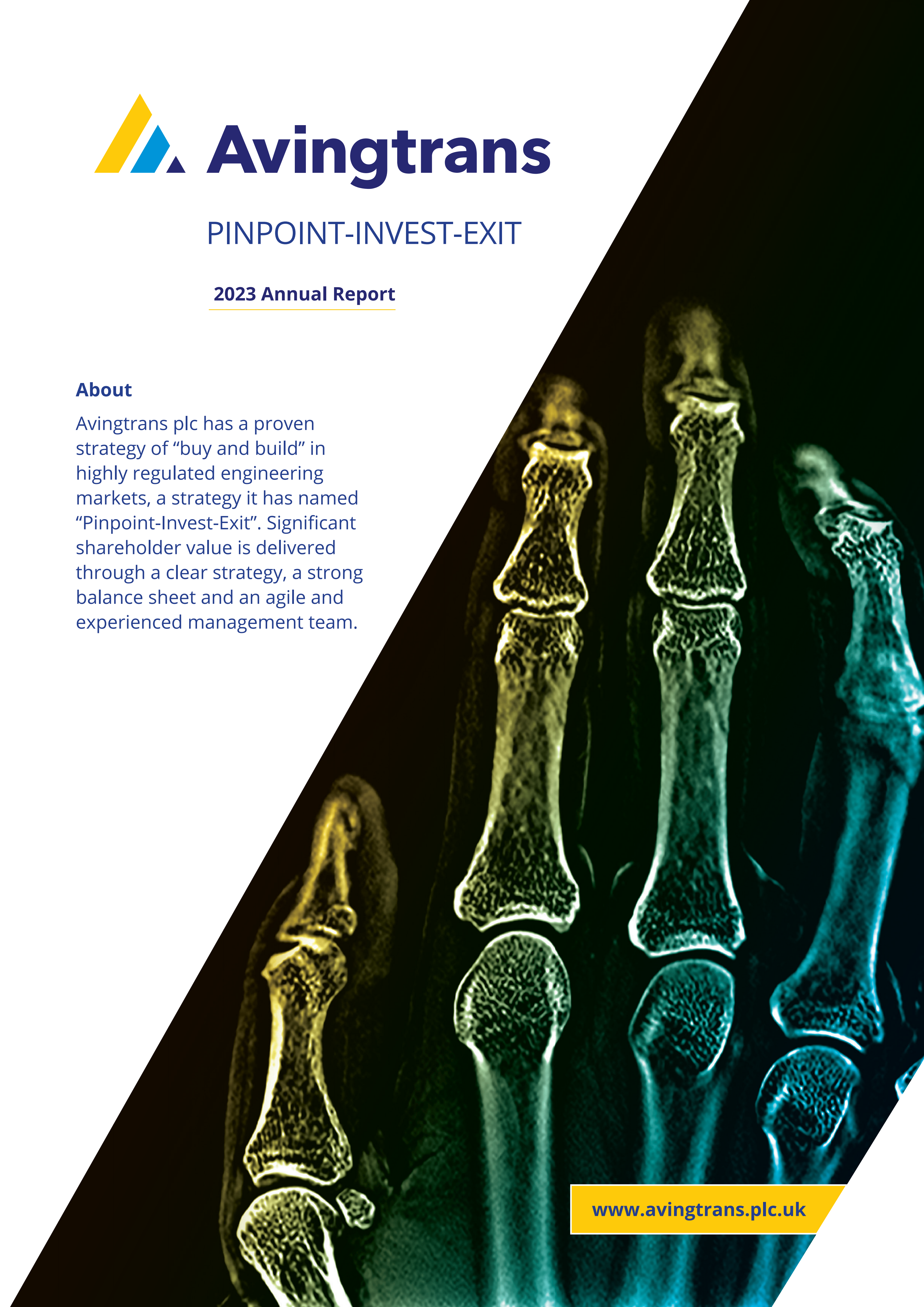
Avingtrans

PINPOINT-INVEST-EXIT

2023 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.

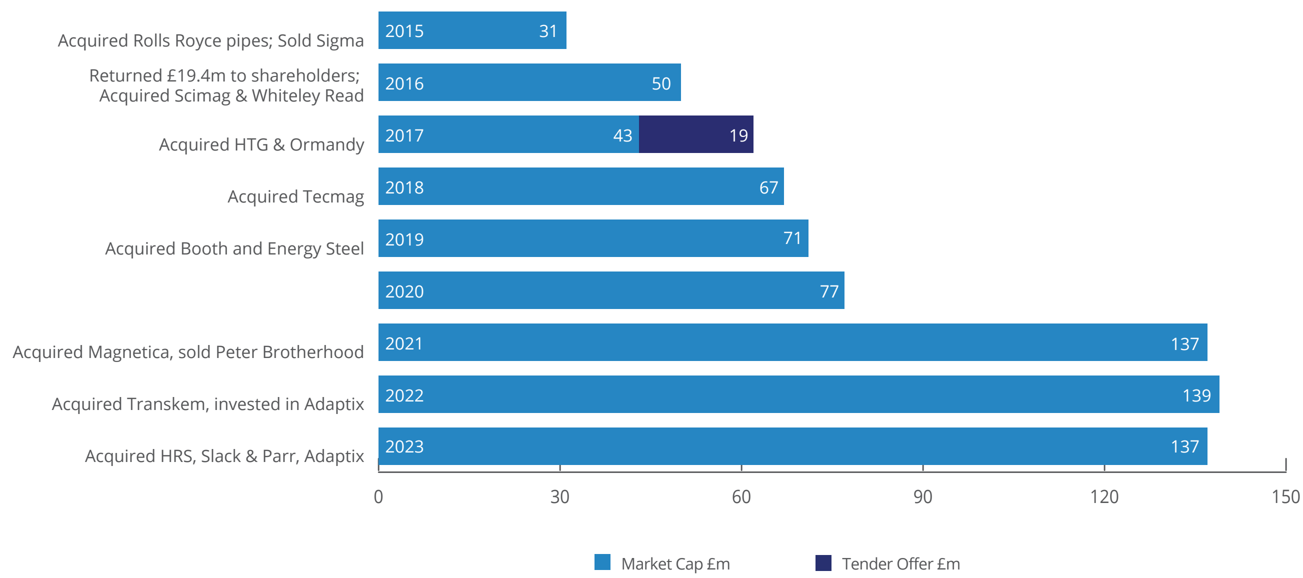
www.avingtrans.plc.uk

About us

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

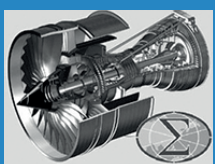
The Group has a proven track record in delivering shareholder value through PIE:

- 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

2016 (180p)

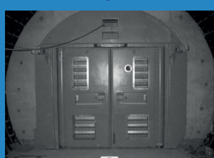


The Aerospace Division, Sigma Components, sold for £65m

2017 (235p)

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

2019 (217p)



Acquisition of Booth Industries for cash consideration of £1.8m

2021 (335p)

Peter Brotherhood sold for an enterprise value of £35.0m, and acquisition of Magnetica

2023 (410p)

Purchased HRS, Slack & Parr, and Adaptix

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 bespoke high-integrity doors, containers and skidded systems.

Medical Division

Innovative solutions
for medical systems
and research

Medical and Industrial Imaging (MII)

Our Medical and Industrial Imaging division (“MII”) is focused on becoming a leading player in the production of compact helium-free Magnetica Resonance Imaging (“MRI”) systems and 3D X-ray systems. This division, which includes Magnetica and Adaptix, has recently received FDA approval for its orthopaedic imaging system and is working on advancing complementary technologies in the field of Nuclear Magnetic Resonance (NMR).

"

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

"We are delighted to report a robust set of results. It has been a challenging year in many ways however Avingtrans has again delivered and met market expectations. We used our strong balance sheet wisely in the year and bought HES/HEVAC, which is already successfully integrated with Ormandy. Post year end, we acquired the assets of Slack and Parr, a specialist pump manufacturer and also completed the acquisition of X-ray specialist Adaptix, as well as further investing in Magnetica's novel MRI systems. We entered FY24 with a healthy order book and we look forward to further progress across the Group this year, with macro developments in the energy, infrastructure and medical markets being tilted in our favour."

Financial highlights

- Revenue from continuing operations increased by 17.5% to £116.4m (2022: £99.1m)
- Gross Margin reduced slightly to 32.9% (2022: 34.1%), driven by changes in the OEM/AM mix
- Adjusted[1] EBITDA from continuing operations increased by 10.6% to £13.7m (2022: £12.4m)
- Adjusted[1] PBT from continuing operations increased by 11.1% to £9.0m (2022: £8.1m)
- Adjusted[1] Diluted earnings per share from continuing operations increased by 8.3% to 23.4p (2022: 21.6p)
- Net Cash (excluding IFRS16) as at 31 May 2023 of £13.0m (31 May 2022: £16.7m) following investments in the Group
- Final Dividend 2.8p per share (2022: 2.6p) resulting in a total dividend for the year of 4.5p (2022: 4.2p)

Operational highlights – Energy

- Revenue increased 16.8% to £112.8m (2022: £96.6m)
- Metalcraft contract to supply the Sellafield 3M3 boxes is on-going in phase two of the programme
- Booth completed the HS2 door designs and will commence manufacture in FY24
- Hayward Tyler and Energy Steel again won multiple nuclear bids, including next generation enabling contracts
- Acquired HES/HEVAC for £0.9m in January 2023 and integrated into the Ormandy Bradford site
- Post period end, completed the acquisition of Slack and Parr, a manufacturer of specialist pumps and supplier of high-precision gear metering pumps, hydraulic flow dividers and industrials pumps for a total consideration of up to £4.9m

Operational highlights – Medical

- Revenue increased 44% to £3.6m (2022: £2.5m)
- Compact helium-free MRI system making good progress – expected to launch in Q4 calendar 2023, with US 510(K) approval to follow in H1 2024
- Post period end acquisition of remaining issued share capital of 3D X-ray leader, Adaptix, in Oxford, UK, for a total consideration of £8.1m including absorbed and repaid debt.
- Adaptix has launched its veterinary product and was awarded its 510(K) to FDA in USA for orthopaedics
- Potentially significant market opportunities in the target imaging markets for both businesses

[1] Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items

Company Information

For the year ended 31 May 2023

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) L J Thomas (Non-executive Director) J S Clarke (Non-executive Director) J S Reedman (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 Group 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL	
Nominated advisor and broker:	Singer Capital Markets Advisory LLP 1 Bartholomew Lane London EC2N 2AX	
Solicitors:	Shakespeare Martineau LLP No1 Colmore Square Birmingham B4 6AA	
Independent Auditor:	Cooper Parry Group Limited Statutory Auditor Sky View Argosy Road East Midlands Airport Castle Donington Derby DE74 2SA	

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Chairman's Statement

The latest financial year has been marked by the Group's commendable performance in the face of well documented ongoing global disruptions. Despite these challenges, the Board is pleased with the Group's achievements, with strong organic revenue growth, robust adjusted EBITDA (note 4) from continuing operations and a stable net cash position at the year-end. Notable investments in Magnetica and HES/HEVAC have contributed to the favourable results, even amidst supply chain disruptions and customer order delays. As we look ahead to FY24, our order book position is very healthy.

Our Pinpoint-Invest-Exit ("PIE") strategy was again successfully deployed, reinforcing our investments in medical imaging at Magnetica and the 3D X-ray business, Adaptix, which we have now acquired 100% (post period end). Both ventures continue to make strides in developing disruptive and complementary medical imaging products, particularly for orthopaedic applications. Furthermore, the acquisition of HES/HEVAC and its integration into Ormandy has bolstered the market standing of that business unit. Post period end, we also completed the significant assets acquisition of Slack and Parr, another specialist pumps and hydraulics manufacturer to capitalise on its global footprint, combined with its well-invested operational capability, powerful brand, highly skilled workforce and large installed base.

Despite the challenging external economic landscape, our divisional management teams have demonstrated agility and resilience, building strong business platforms. Aftermarket growth in Engineered Pumps and Motors (EPM) and Process Solutions and Rotating Equipment (PSRE) has remained steady, supporting our value propositions to OEM and end-user customers. The positive sentiment in the nuclear and oil and gas sectors has resulted in increased orders in those areas. Our focus on end-user access continues to drive improved profitability and underpins our product and service development.

The EPM division's performance improved over the year, despite supply chain disruptions and order placement challenges, to end the year with a strong order book. Energy Steel showed further improvement, with promising aftermarket prospects and new customers placing orders with us.

The PSRE division also made solid progress, notably at Booth, which demonstrated continued operational strength and sustained record orders. Meanwhile, at Metalcraft, the substantial 3M3 box contract with Sellafield continues in the volume production phase. Our apprentice training school at the Chatteris site currently has 18 apprentices in house, with further expansion to come. Combining Ormandy with HES/HEVAC has strengthened both businesses and we expect to see an improvement in performance in FY24, as a result.

The acquisition of Adaptix and further investment in Magnetica has firmly established the Medical and Industrial Imaging (MII) division as a new niche imaging systems supplier, with promising X-ray and MRI products in the pipeline. The Board is enthusiastic about the division's potential, expecting long-term positive returns for the Group, albeit perhaps via a different vehicle, to maximize returns.

In view of the encouraging overall results, the Board is proposing a final year dividend of 2.8 pence per share, resulting in a total dividend of 4.5p. With a robust balance sheet, the Group remains vigilant in seeking shareholder value-enhancing M&A opportunities, while also being cautious and selective in the current manufacturing sector climate.

Lastly, I extend my appreciation to all Avingtrans employees, both existing and new, for their dedication and resilience in navigating these challenging times.

Roger McDowell
Chairman
26 September 2023

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”), through which we have had a strong track record in returning significant shareholder value over the past decade.

With an increased presence in our target markets, a focus on aftermarkets, strength in depth of the management teams and a lean central structure, the Group continues to grow profitably – despite the effects of macroeconomic disruptions – and the Board is focused on seeking additions to the Avingtrans value-add proposition.

The majority of the Group’s adjusted key financial metrics trended positively in the period, despite the ongoing impacts of the Russia-Ukraine conflict and the related global financial stress.

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

Divisional Strategies

Engineered Pumps and Motors (Energy – EPM): EPM continues to strengthen its nuclear installed base, focusing on civil, defence, and national security applications, particularly for life extension purposes. The business also explores opportunities in the hydrocarbon market sectors. Energy Steel, acquired in June 2019 and specialising in nuclear life extension, has shown consistent recovery in North America. Furthermore, EPM is actively developing solutions for new nuclear technologies and other low carbon energy sources, like concentrated solar, to leverage the global energy supply transition. Throughout FY23, EPM secured significant contracts, including additional pumps for the next generation nuclear business, TerraPower, in the USA and further life extension equipment for the Forsmark nuclear power station in Sweden. The EPM strategy is strengthened by crucial partnership agreements with companies like Shinhoo, expanding our product portfolio and creating cross-selling opportunities. The post period end acquisition of Slack and Parr further enhances our global specialist pumps footprint.

Process Solutions and Rotating Equipment (Energy – PSRE): A primary target for PSRE is to establish a comprehensive offering in the nuclear decommissioning and reprocessing markets, building on long-term contracts for nuclear waste storage containers and the existing equipment installed across the vast Sellafield site. During the period, Metalcraft and Sellafield Limited continued with the contract to provide high integrity stainless steel storage boxes for Sellafield. The 3M3 (‘three metre cubed’) box contract is currently valued at up to £70m and is still to complete. The division’s nuclear credentials were again enhanced by Booth Industries’ strong performance, expanding our market reach into Critical National Infrastructure (CNI). Booth’s multi-year contract with HS2, initially worth £36m, is progressing well, with manufacturing expected to commence in FY24. Ormandy’s market position in HVAC has been significantly strengthened by the HES/HEVAC acquisition, with a resulting stronger product proposition. PSRE continues to benefit from a robust prospect pipeline, positioning it well to bid for new opportunities as they arise.

Medical and Industrial Imaging (Medical – MII): Following the Magnetica acquisition in January 2021 and the post-period end acquisition of the remaining shares in Adaptix, the focus for the medical division is to become a niche market leader in the production of compact helium-free MRI systems and 3D X-ray systems, for applications such as orthopaedic and veterinary imaging. This is an exciting opportunity for the Group. In support of the core strategy, the division will continue to work on niche Nuclear Magnetic Resonance (NMR) and scientific magnet products and services, since these are complementary technologies. During the year, Adaptix, based in Oxford, UK, received its 510(k) approval from the FDA, to enable sales of its orthopaedic product in the USA. Adaptix’s 3D X-ray technology is being developed in parallel to Magnetica’s MRI technology and, as envisioned, the two businesses are working in an increasingly complementary manner.

Across the Group’s customers, we see continued pressure on aftermarket expenditure, where operational efficiency, reliability and safety are paramount. Customers are looking for reliable supply chain partners, to provide long term support of both new infrastructure and legacy installations.

Pinpoint-Invest-Exit

Continuing with our successful Pinpoint-Invest-Exit strategy, Avingtrans demonstrated its commitment by raising its stake in Magnetica to 71.7% during the period (at 26 September 2023 74.8%). Additionally, post period end, we successfully completed the 100% acquisition of Adaptix, as mentioned earlier. During the period, we also exited from Metalcraft China, selling the business for £1.0m to a local manufacturer. After our interest in MRI component manufacture ended as planned, there was no viable strategic reason to keep this business unit in China. However, we were pleased to find a good home for it, to ensure that all our employees there continued to enjoy gainful employment.

The focus on other strategic acquisitions remained strong, with the addition of HVAC specialist HES/HEVAC, for a total consideration of £0.9m already contributing positively to Ormandy’s market strength, after a smooth integration process.

Strategic Report (Continued)

Pinpoint-Invest-Exit (continued)

Post period end, the acquisition of the assets of Slack and Parr, in the UK, USA and China, for a consideration of up to £4.9m, added another specialist pumps and hydraulics capability to the Group.

The ongoing progress at previous acquisitions, Booth and Energy Steel, was again pleasing, as both businesses contributed strongly to the results of their respective divisions.

The Group remains confident about the current strategic direction and potential future opportunities across its chosen markets. Some of our market sectors (eg Nuclear) benefitted from the global disruptions seen in the period, which drove higher energy costs and caused governments to review energy security.

Markets – Energy

The global demand for energy remains relentless and we anticipate a sustained period of growth in the coming years. The aftermath of the Covid pandemic spurred a push towards enhanced efficiency and decarbonisation. However, the Russia-Ukraine conflict subsequently raised political awareness regarding the importance of energy security, leading to a recalibration of the rush towards renewable energy in the short to medium term. This situation could potentially benefit our businesses, particularly in the nuclear sector.

End User/Aftermarket

Operators and end-users demand a blend of quick response through local support and a requirement to drive improvements through equipment upgrades and modernisation. Facilities are being operated for much longer than their intended design lives, resulting in a strong demand for solution providers in the supply chain to partner with end-users for the longer term. The Avingtrans energy divisions are well positioned to grow in this end-user market space.

Nuclear

Nuclear energy as a low carbon, baseload power source remains an asymmetric market with respect to future growth. Almost all the 1GW+ new build opportunities are in Asia, with the exception of the limited UK programme. However, we are still experiencing 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, or Advanced Generation IV Reactors – e.g. with TerraPower and GE-Hitachi. In addition, these segments all have the backdrop of a consolidating supply chain and paucity of expert knowledge.

The USA still operates the biggest civil nuclear fleet in the world, with 92 reactors generating around 30 percent of the world's nuclear electricity. Coupled with the heritage Westinghouse technology operating in Europe and Asia, the EPM division's long-standing position in this market provides opportunities for further growth. Obsolescence and life extension are key issues for nuclear operators worldwide and the Avingtrans Energy Divisions are well positioned to support operators in addressing this critical risk.

The UK remains pre-eminent when it comes to decommissioning nuclear facilities and subsequent 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 activity in the UK, South Korea, the USA and China dominating development activity. The Group views these new technologies as an attractive route forward for nuclear and is well positioned to develop as a global industry partner.

Power Generation

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

- **Coal –** the Group continues to see good aftermarket activity from coal fired power stations even though the demand for new power stations is in decline. Opportunities still exist in India, China, Southeast Asia, Eastern Europe and the Middle East. EPM is optimising its product line, to take market share and to create new opportunities – e.g. in products to remove toxins from the exhaust stacks of power stations.
- **Gas –** natural gas, primarily in the form of combined cycle gas turbine power plants has been a growing market space, primarily in the West, albeit disrupted by the Russia-Ukraine conflict. The Group continues to develop 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 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 pumps for concentrated solar applications.

Strategic Report (Continued)

Markets – Energy (continued)

Hydrocarbons

The ongoing conflict in Ukraine resulted in a surge in European gas prices, leading to unprecedented levels of volatility in the energy market. Our Hayward Tyler businesses have long been associated with providing top-notch subsea and submersible pumps and motors to the oil and gas fields of the Norwegian Shelf. Recently, we have experienced a significant boost in demand for both new equipment and aftermarket services, as the market seeks to maximise supplies from this region. The current situation, coupled with informed forecasts, indicates that the demand for our products and services is likely to remain strong. This presents a promising opportunity for our business to further capitalise on the evolving energy landscape.

Markets – Medical

The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Medical Imaging Market is expected to reach $47.4billion by 2030 according to Grand View Research, a compound annual growth rate of 4.8%. The largest market is the USA, followed by Europe and Japan. The fastest growing markets are China and India. Following the acquisition of a majority stake in Magnetica (AUS) in January 2021, we merged Magnetica with Scientific Magnetics (UK) and Tecmag (US) and we have continued to invest in Magnetica. Post-period end, we acquired 100% of Adaptix, for £8.1m, including debt absorbed and repaid. Adaptix is an emerging medtech leader in the field of 3D X-ray equipment. The objective of this acquisition activity is to create innovative, niche MRI and X-ray systems supplier, which can address specific parts of the market, not well served by dedicated products at present. This includes orthopaedic and veterinary imaging. The development paths of Magnetica and Adaptix are convergent, which enables both businesses to benefit from efficiency and cost gains, as well as optimising the route to market – especially in orthopaedics. Market drivers for these segments include an ageing global population and the rising incidence of chronic diseases.

The growing prevalence of chronic diseases, especially in older populations, is increasing demand for medical imaging in hospitals and other diagnostic settings. Technical innovations, including advances in artificial intelligence, have increased the reliability and accuracy of medical imaging, thus driving further demand in global healthcare. Conversely, the market is somewhat inhibited by the high cost of current medical imaging systems.

In 2023, X-ray systems held approximately 32% of the market share, while MRI systems accounted for around 18%. Our estimates indicate that over 20% of all diagnostic imaging scans are related to limbs. As a result, the combined addressable market for Magnetica and Adaptix in medical imaging is approximately $3 billion, in theory. However, it's important to note that the actual addressable market is smaller, since both businesses have chosen not to target sales to hospitals. Instead, they are focusing on deploying their products in specialised clinics, where the product attributes align closely with the specific needs of these establishments.

Additionally, both Magnetica and Adaptix have plans to expand into other imaging markets, notably the veterinary sector. This is in response to the lack of dedicated products in this area, which has hindered the widespread use of imaging systems in veterinary practices. By targeting these specialised markets and addressing their unique requirements, both companies aim to further grow their market share and create a disruptive impact in the medical and veterinary imaging industries.

End User/Aftermarket

Diagnostic imaging is dominated by a handful of manufacturers, including GE, Siemens, Philips and Canon, 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 imaging aftermarket at this time.

Operations

Operational Key Performance Indicators (KPI's) for continuing operations

	2023	*2022*
• Percentage of total continuing revenue deriving from aftermarket (AM) sales (%)	**40.5**	42.0
• Customer quality – defect free deliveries (%)	**91.3**	93.6
• Customer on-time in-full deliveries (%)	**79.9**	80.5
• Annualised staff turnover including restructuring (%)	**18.5**	17.4
• Health and Safety incidents per head per annum	**0.08**	0.07
• Environmental incidents per annum	**0**	0

Although total AM sales increased strongly in the period, the percentage of total sales was reduced, due to a much larger increase in OEM sales in FY23.

Customer quality and on time in full (OTIF) deliveries both dipped slightly, as supply chain disruptions continued to impact our operations in all countries. These disruptions have led us to carry more stock than ideal, to mitigate delivery delays. There are some early signs of this situation easing in the new FY.

Strategic Report (Continued)

Operations (continued)

Annualised staff turnover went up slightly, driven mainly by a larger than average number of retirements in the year.

H&S incidents per head per annum was up very slightly at 0.08. The increase was due to a number of minor incidents at HES/HEVAC post-acquisition. After we integrated the business into Ormandy's main site, H&S incidents reduced back to normal levels.

As in 2022, there were zero environmental incidents recorded in the Group.

EPM Division – Energy

The EPM division, comprises Hayward Tyler (HT) and Energy Steel (ES), with Slack and Parr being added post period end. The main divisional priorities remain: strengthening the aftermarket sales and capabilities and; maximising opportunities in the nuclear life extension market.

The division's results further improved in the period, though there was a notable increase in OEM sales. Some adverse supply-chain disruption effects continued throughout the year but the impact was less pronounced than in the prior year.

At HT Luton, our aftermarket activities are experiencing significant demand, notably in servicing of third-party equipment. In the hydrocarbons sector, elevated enquiries and orders continued throughout the year. HT Luton received a follow up £3.3m contract from Forsmark nuclear power station in Sweden and other nuclear life extension orders have followed elsewhere. The team also secured further defence related orders from Rolls Royce, for the UK MoD.

Regarding the HT Luton site redevelopment, there has been little recent progress, as the increase in interest rates in the UK has dampened construction interest for the time being.

HT Inc, located in Vermont (USA), has maintained a strong order intake in the nuclear life extension market, both domestically in the USA and with KHNP in South Korea. Despite the challenges, HT Inc is making significant progress in exploring new R&D opportunities, particularly in the field of next-generation nuclear power. These endeavours are advancing steadily, and we have secured further orders from TerraPower after the close of the previous period. This indicates the positive direction our Company is moving towards, reaffirming our commitment to innovation and growth in the nuclear industry.

Our Fluid Handling business in Scotland maintained its consistency, with another good performance in the period. The Transkem mixer business, acquired in the prior year, contributed strongly to the results.

The acquisition of the assets of Slack and Parr, in Kegworth, UK (post period end) adds another significant specialist pumps capability to the divisional armoury. S&P specialise in precision gear pumps, used in a variety of applications – eg – in the production of textile fibres. Initial activities will focus on stabilising S&P's UK operations, which are disordered and inefficient, following the administration process.

HT Kunshan (China) had another good year, with a number of new orders being received and delivered and a strong pipeline, resulting from the Chinese government initiative to reduce emissions from coal fired power stations. This has given HT a new product line to pursue in the short to medium term.

HT India had a better year, having previously suffered from disruptions due to Covid-19. So, the business performance was back to normal in the period.

Energy Steel ('ES') in Michigan (USA), delivered an improved set of results from the previous year. The business has been winning new orders from a broader market footprint, including first orders from TerraPower. ES has also improved its on time delivery performance in the year.

PSRE Division – Energy, safety and security

PSRE had another very solid year, albeit still impacted by supply chain disruptions and order delays, as seen elsewhere in the Group.

Booth performed well and has sustained a record order book, including the HS2 £36m contract, which has now entered the production phase. We have successfully rebuilt Booth into a leader in its high integrity doors market niches, both in the UK and internationally. We continue to make good progress in building an aftermarket business at Booth, where we see strong growth potential.

Metalcraft's progress with the Sellafield 3M3 boxes was good overall, as the production phase two of the contract continues. The contract value was boosted to £70m in phase two (previously £50m) with circa 1,000 boxes to be delivered over the next six years. Metalcraft is the only supplier to transition to phase two of the contract. Frustratingly, the next 3M3 box contract tender remains on the horizon, with uncertain timing but we are very well placed to pursue this contract and it does not impact on our forecasts. Metalcraft China was sold to a local Chines manufacturer for, £1.0m, at the end of the period. Following our exit from MRI third party component manufacture, we did not have a strategic use for this facility but we were pleased to secure this sale and sustain the employment of all of our former colleagues there.

Strategic Report (Continued)

Operations (continued)

PSRE Division – Energy, safety and security (continued)

Ormandy's management team was strengthened during the year and, as a result, its performance measurably improved. During the second half of FY23, we acquired the assets of local competitor HES/HEVAC for £0.9m and transferred its 30 employees mainly into Ormandy's Bradford site. The integration has gone smoothly, and the enhanced market offering of the combined business, reinforces Ormandy's prospects, with a strong order book already evident.

Composite Products had a solid year, with stable deliveries to Rapiscan for package scanning equipment and post period end secured further orders for Rapiscan.

MII – Medical Division

The Group continued to invest in Magnetica in the period and, as at 31 August 2023, currently owns 74.8% of the business. Magnetica is continuing to work towards new niche products in Magnetic Resonance Imaging (MRI) We are making good progress on this exciting project, with the first orthopaedic product expected to be launched during FY 24 and 510(k) market entry approval from the US FDA to follow in the first half of calendar 2024. Magnetica will also continue to work on products for the adjunct Nuclear Magnetic Resonance (NMR) market, via Tecmag Houston and on superconducting magnets for physics applications, via SciMag in the UK.

During the period, we made a further investment in Adaptix (Oxford, UK) worth £4.0m in total. Post period end, we agreed to buy the remaining shares in Adaptix for £2.7m and also took on existing debts of £2.1m, repaid debt of £3.3m.

The plans of Adaptix and Magnetica are convergent. We are seeking to exploit this parallel track, to optimise costs in both businesses and to improve market penetration. In the period, Adaptix began to place first products in the veterinary imaging market and also received its 510(k) approval from the FDA, to allow sales of its product for the orthopaedic market in the USA.

Financial Performance

Key Performance Indicators

The Group uses a number of financial key performance indicators to monitor the business, as set out below (all items are "from continuing operations", after restating for discontinued Metalcraft China in FY23).

Revenue: 17.5% increase – underlying organic growth continues

Overall, Group continuing revenue increased to £116.4m (2022: £99.1m), driven largely by organic growth in the EPM and PSRE divisions. Revenue included £2.9m stemming from HES/HEVAC, acquired in the period.

Gross margin: Stable despite some OEM/AM mix effects in the year.

Group gross margin reduced slightly to 32.9% (2022: 34.1%) partly due to the relatively higher percentage of OEM sales in the year, versus FY22.

Profit margin: Another improvement in results, despite global disruption

Adjusted EBITDA (note 4) increased to £13.7m (2022: £12.4m). PSRE was boosted by strong results across the division, with robust results at Booth. The profit margins in the EPM division also continued to improve, as market conditions stabilised somewhat. In FY23, the overall increase in revenue resulted in a slight decrease in the split of AM and OE, with a corollary slight reduction in EBITDA margin percentages, along with the initial HES Revenue being just above break even.

Operating profit was £8.0m (2022: £7.2m), in line with the EBITDA improvement seen above, and lower exceptional costs.

Profit was suppressed by £0.4m in the year, by the Board's proactive decision to make an *ex gratia* payment of £500 each to all employees in December 2023, to help with the cost of living in various countries.

Tax: Future profits and cash protected by available losses

The effective rate of taxation at Group level was a 16.7% (2022: 13.9%) tax charge. A US tax rebate in FY23 (note 9) kept the charge lower than expected and the use of brought forward losses in the UK. The tax position will be aided further in the coming years by utilisation of losses in the UK. We continue to be cautious, not recognising all of the potential trading tax losses in the UK.

Adjusted diluted Earnings per Share (EPS) increased

Adjusted diluted earnings per share from continuing operations (note 11) increased to 23.4p (2022: 21.6p) reflecting the underlying growth in results, offset by a higher tax charge due to the increase in the UK tax rate (FY22 had a lower overall tax charge following a US tax rebate). Adjusted diluted earnings per share attributable to shareholders reduced to 19.9p (2022: 21.8p), due to the discontinued losses for the trading and disposal of Metalcraft China.

Basic and diluted earnings per share attributable to shareholders from continuing activities decreased to 15.7p (2022: 18.9p) and to 15.3p (2022: 18.3p), due to the discontinued losses for the trading and disposal of Metalcraft China.

Strategic Report (Continued)

Financial Performance (continued)

Funding and Liquidity: Ongoing strong net cash position

Net cash (including IFRS16 debt) at 31 May 2023 was £9.1m. Excluding IFRS16 debt, Net cash was £13.0m, (31 May 2022: Net cash (including IFRS16 debt) was £13.3m and excluding IFRS16 debt was £16.7m). The cash flows generated from the strong underlying profits were subdued by a £2.3m working capital outflow, mainly due to the delayed timing of various contracts, carrying increased stock due to supply chain disruption and working capital outflow for the HES/HEVAC acquisition, resulting in an operating cash inflow of £9.6m for the year (2022: £3.7m). In addition to £4.0m invested in Adaptix, £5.3m was invested in development costs primarily in relation to: Magnetica's compact helium-free MRI system £3.7m; HTI Bearings £1.1m. A further £3.3m into property plant and equipment, £1.5m lease renewals at Magnetica, HTI and Kunshan, FH Doosan machine £0.2m) and loan repayments of £2.8m, with the Group still in a strong net cash position. The Directors consider that the Group has sufficient financial resources to deliver strategy, so the Group is actively looking for further value enhancing opportunities.

Dividend: Progressive dividend policy continues

A final dividend of 2.8p per share is proposed, making a total dividend of 4.5p per share (2022: 4.2p). The dividend will be paid on 8 December 2023, to shareholders on the register at 27 October 2023.

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, which is considered in Board discussions and also as part of our risk review process in the Audit Committee. From time to time, we obtain advice from third party experts in a cost effective manner, to complement in-house knowledge.

The long-term success of the Group relies, in part, on managing the risks to our business. Whilst the Group has risk management policies and practices in place, which address and monitor risk, we seek to improve those practices each year. The Chief Financial Officer is responsible for risk management on behalf of the Board and the Audit Committee and the CFO review 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. Contagious diseases effects across the global economy and businesses	Contagious diseases, and the measures taken to control them, can have an adverse effect on the Group's business, financial condition and results of operations.	The Group's experience in dealing with the COVID-19 pandemic will assist it in dealing with further outbreaks of contagious diseases. This includes the use of safe working practices and the effective use of home working.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Strategic Risk		
B. Growth Strategy	A fundamental part of the Group's strategy is growth from both Original Equipment and Aftermarket sales. The growth is reliant on our markets. These markets demonstrate long-term growth, but remain highly competitive and can be cyclic. Failure to generate sufficient order intake and revenue to cover the fixed cost base could give rise to lower profit and cash generation that constrains the Group. Failure to keep-up with technological change could give rise to the Group's products, services and technologies becoming less competitive.	The Group provides niche engineering solutions for the global energy and medical sectors. It has an excellent market profile (quality, reliability and customer relationships), which results in inclusion on sector bid/quote opportunities. The Group has invested, and is investing, in key aspects to maintain and improve the Group's competitive position including: ▪ employees (see F below); ▪ supply chain (see G below); ▪ developing and maintaining strong relationships with key customers; ▪ capital expenditure on plant and equipment; ▪ research and development concerning products and processes and ▪ aftermarket initiatives, including supporting end-of-life extension programmes.
C. PIE Strategy mergers, acquisitions and disposals	The Group makes regular acquisitions and disposals under its PIE strategy. In December 2022, it acquired HRS with Maloney Metalcraft. Avingtrans additionally increased its holding to 71.7% of the larger Magnetica sub group and in Adaptix to 18.0%. Stainless Metalcraft disposed of Metalcraft China in May 2023. Failure to re-establish and rebuild these businesses could (1) absorb a disproportionate part of management resource at the expense of other parts of the Group (2) reduce the Group's profitability and (3) delay the cycle of the planned positive outcome of the PIE strategy.	The Group carefully plans acquisition actions to mitigate this risk: ▪ extensive pre-deal due diligence; ▪ achieving a balance between attractive purchase prices and business purchase agreement terms and conditions; ▪ post-acquisition integration planning; ▪ rapid business restructuring as required; ▪ appropriate funding of the acquisitions and on-going businesses followed by de-leveraging the business; ▪ establishing senior management teams, complemented by experienced executives from Avingtrans and externally, if required; ▪ development of incoming employees; ▪ focusing on marketing and sales, including growing aftermarket businesses; and ▪ investing in the businesses as necessary for a successful outcome to the PIE strategy.
D. Execution	The Group designs, manufactures and services highly technical products that are mission critical to the end user. Failure to satisfy contractual obligations could give rise to significant losses (e.g. warranty claims, liquidated damages, etc), cash constraints, lost future orders and adverse impact on the Group's reputation.	The Group continues to invest consistently in its people, processes and products, to maintain and improve lead times and product innovation. These steps include: enhanced customer relationship management, sales and operational planning, process flow mapping, research and development, product standardisation and enhancing process capability. The Group also seeks to minimise the impact of execution risk through its terms of trade, such as: (1) limiting the undertakings it gives to pay liquidated damages and (2) avoiding consequential damages altogether.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

<table>
<tr><th>Risk</th><th>Potential Impact</th><th>Mitigation</th></tr>
<tr><td colspan="3">Strategic Risk</td></tr>
<tr><td>E. Global Economic Activity and political uncertainties including Energy cost</td><td>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.

Global uncertainty, such as the Ukraine conflict, can have significant impact not only on resource pricing but also on decisions by our customers to invest and therefore impact on our trading.</td><td>The Group has a diversified geographical and sector spread, which 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, and 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 the Ukraine conflict and the global geopolitical situation. We are engaged with trade associations, which are in contact with government and can thus assist our decision making and action plans. The overall trend towards Energy security is anticipated to generate more reward than risk. Shorter term validity of quotes, due to rapid changes of energy, materials and parts pricing and pass through contracts, helps to mitigate the long term trend of increased resource prices.</td></tr>
<tr><td>F. Employees</td><td>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.</td><td>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 including finalising the new training school at the Chatteris site;
▪ personal development reviews;
▪ succession planning;
▪ promotion from within where possible;
▪ outreach to Universities, Colleges and Local Schools;
▪ monitoring pay and benchmarking;
▪ maintaining the successful graduate and apprentice programmes;
▪ improving overall employee engagement; and
▪ utilisation of external and Group resource to offset any temporary gaps in key personnel.</td></tr>
<tr><td colspan="3">Operational Risk</td></tr>
<tr><td>G. Supply Chain</td><td>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.</td><td>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.</td></tr>
</table>

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

<table>
<tr><th>Risk</th><th>Potential Impact</th><th>Mitigation</th></tr>
<tr><td colspan="3">Financial Risk</td></tr>
<tr><td>H. Funding</td><td>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.</td><td>The Group manages its capital, to continue as a going concern and maintain its liquidity. The Group continually reforecasts its borrowing requirements, which include:
▪ a 13-week cash flow forecast produced each month; and
▪ a 12-month rolling profit and loss, balance sheet and cash flow forecast each quarter to ensure that funding is available to support its operations and its compliance with borrowing covenants.
The Group reviews its facilities, to ensure it has adequate facilities, but not a significant level of unused facilities, especially due to the recent increases in global interest rates.
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.</td></tr>
<tr><td>I. Working Capital</td><td>As a fundamental part of the Group's strategy is underlying growth, the Group could be exposed to a potential increase in its working capital requirement which absorbs cash. If the Group fails to keep this increase under control it could face cash constraints that impact the business cycle.</td><td>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.</td></tr>
<tr><td>J. Currency</td><td>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.</td><td>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. Currency hedging lines are available from two providers.</td></tr>
</table>

Strategic Report (Continued)

Risk	Potential Impact	Mitigation
Financial Risk		
K. Pension Scheme	The Group maintains a defined benefit pension scheme related to the Hayward Tyler businesses. The Group could be required to increase its contributions, to cover funding shortfalls caused by poor investment performance of scheme assets, a deterioration in the discount rate, or inflation rate applied and changes in life expectancy of members of the scheme.	The scheme is closed to new members and to future benefit improvements. The performance of the investment advisers is monitored closely by the Company and pension trustees and action taken where that is not satisfactory. The assumptions used to determine the pension deficit/surplus are based on recommendations of the actuary to the scheme, benchmarked against market norms by an expert 3rd party. The Directors discuss the pension scheme regularly and there is frequent contact with the pension fund trustees. The aim is to strengthen the financial position of the Group, through its underlying performance, which assures stakeholders and helps to maintain, or reduce contributions, to cover any eventual funding shortfall. The plan trustees have selected a liability driven investment strategy aimed at reducing interest and inflation rate risks and providing a return that matches, or exceeds the growth in projected pension plan liabilities.
L. Customer Credit Exposure	The group may offer credit terms to its customers, which allow payment of the debt after delivery of the goods or services. The group is at risk to the extent that a customer may be unable to pay the debt on the specified due date.	This risk is mitigated by the strong on-going customer relationships. See note 25 for more detail.
Compliance and ethical risk		
M. Climate change	Environmental factors, including those relating to climate change, have the potential to materially impact our business and operations. Many of the countries we operate are shifting towards being low carbon economies. This could result in higher costs of business including rising energy prices, and shift away from hydrocarbons as an energy source.	The Group has been developing cleaner products and services. These include medical technologies which don't require the use of helium, new pumps and motors for next generation nuclear power generation, and repurposing existing boiler circulating pumps to be used to remove harmful flue gases at conventional power stations. Local initiatives have been put in place to reduce energy usage at premises and over the lifecycle of our products. Further information on the Groups approach to climate change can be found in the Sustainability Report on page 15.

People

There were no changes at Board, or divisional management level in the period.

The next tier management teams in each of the three divisions continue to be strengthened, with a number of key appointments being made in the year, notably in Medical, which is growing quite quickly. Skills availability remains a challenge. However, we do not expect to be unduly constrained by shortages, although the global economic situation caused wage inflation across the Group and made recruitment more difficult. We continue to invest significant effort in developing skills in-house, through structured apprenticeship programmes and graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship training schemes.

Strategic Report (Continued)

Section 172 statement

Background

The Board of Avingtrans has put in place appropriate measures to enable it to understand and comply with its shared and individual responsibilities under Section 172 of the Companies Act 2016. Each director understands their obligation to act in a way they consider is in good faith and would be most likely to promote the success of the Company for the benefit of its members as a whole. In making decisions on behalf of the Company, Board members carefully consider:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to proactively foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on local communities and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members and stakeholders of the Company.

Appropriate decision making

The Board is given regular information concerning the Company's and Group's performance ahead of each Board meeting, along with projections for the future – to assist in the overall planning process – and presentations from business units. Decisions regarding the business (including strategy, market position, investment opportunities, M&A activity, senior management appointments etc.) are fully considered and discussed openly between board members, taking account of each of the considerations listed above.

The Board seeks to understand the views and needs of the Group's key stakeholders, to ensure that consideration for all our stakeholder groups is taken account of when decisions are made and to address their long-term needs and concerns. Where there may be competing priorities, the Board considers the commercial, human and broader business impacts against the longer-term sustainability of the business.

The balance and experience of the Board to make appropriate decisions is regularly reviewed, as set out in the Corporate Governance Report, specifically principles five and six.

Stakeholders

Avingtrans has identified its main Stakeholders as being its:

- shareholders;
- customers and suppliers;
- employees; and
- the wider communities we operate within

Engaging with our stakeholders strengthens our relationships and helps us to make better business decisions and deliver on our commitments. The Board is regularly updated on feedback from wider stakeholder engagement, to stay abreast of the issues that matter most to them and our business, and to enable the board to understand and consider these issues in any decisions made. Details can be found in the Corporate Governance Report, specifically principles two and three regarding stakeholder engagement.

Key decisions made during the period

During FY23, several decisions were made about the strategy, structure and future of the business. Examples of these key decisions relate to:

- Further investment in Magnetica
- Further investment in Adaptix
- Acquisition of HES/HEVAC

Further investment in Magnetica

In order to continue the development of the Medical division and its compact helium-free MRI technology, the Board considered further investment in Australian based Magnetica, to develop and manufacture lower cost, helium-free MRI scanners, ensuring clinical interoperability for imaging extremities.

Helium-free technology should facilitate an expansion in potential to locate systems in more local facilities, by eliminating infrastructure costs. This could allow repurposing of whole-body scanners to more appropriate imaging tasks and through targeted use of AI, free-up radiologists' time and capacity.

Strategic Report (Continued)

Section 172 statement (continued)

Further investment in Adaptix

During the period, we made a further £4m investment in the emerging "medtech" business, Adaptix, which is seeking to disrupt the X-ray imaging market with a novel product and business model. It recently launched compact 3D x-ray systems for orthopaedic and veterinary applications, to address an ageing global population and the rising incidence of chronic diseases, at lower cost, with improved clinical data.

Further, the strategies and development paths of Magnetica and Adaptix are convergent, and we see potentially large benefits in combining their approaches to market in technology, software and distribution channels, amongst others – to optimise costs in both businesses and to improve market penetration.

Acquisition of HES/HEVAC

The Board reviewed the expansion of the product offering at Ormandy, via the acquisition of local competitor HES/HEVAC. The merger allowed use of the quality standards, expanded customer base, engineering excellence and the Group covenant support, enabling enhancement in Employee opportunities and a higher quality, more rounded customer proposition.

During the acquisition process, representatives from both companies worked closely together to look at stakeholder management across both businesses – putting in place internal and external day one and ongoing communications plans, considering integration scope and timing, and working together to ensure a shared approach to the transition. Key customers, employee factors, and service delivery were managed carefully, to ensure impacts were minimised.

Section 172 Summary

Overall, the Board consider that the Company's approach to compliance with Section 172 is appropriate for an organisation of our size and the breadth and nature of stakeholders we have.

Where significant decisions are made, a key element of the decision-making process is how each of the key stakeholders may be impacted. The Board ensures that the needs of shareholders are balanced with those of our customers and suppliers, and those of our employees, by carefully considering the impact (positive and negative) of such decisions.

Alongside a healthy approach to risk management, our policies and ways of working are intended to drive an appropriate balance of risk and reward across the business. Combining our Core Values and Code of Conduct into our decision-making, we can drive a Company/Group culture, which aligns to the key requirements of S172, delivering benefit to all Stakeholders.

Sustainability report

Avingtrans believe that operating in a safe, ethical and responsible manner is at the heart of creating sustainable value for all our stakeholders.

Environment

As the Group is listed on the LSE AIM market, we fall within the newly introduced Climate-Related Financial Disclosures ("CRFDs") regime. The 4 pillars of this regime are governance, strategy, metrics and targets, and risk management.

Governance

Our Board oversees our approach to sustainability, including climate change. Under the board sits a Sustainability Committee represented by employees from across the Group. The Committee is responsible for promoting and implementing environmental programmes and collecting and monitoring environmental data. The Sustainability Committee provides regular updates and briefings to the Board.

Strategy

In 2021, we reassessed our approach to sustainability, with a view of integrating a sustainability strategy into our core business activities, aligning ourselves with the UN's Sustainable Development Goals (SDGs). From our sustainability assessment we identified 2 principal areas of environmental focus, these are:

- Operational eco-efficiency
- Development of new technologies

Operational eco-efficiency looks at improvements we can make at a site level, including reducing the manufacturing footprint of our sites, investment in improvements, and establishing a culture which promotes carbon reduction.

Strategic Report (Continued)

Environment (continued)

Strategy (continued)

Development of new technologies allows us to benefit from opportunities designed to mitigate issues associated with climate change. The Group can benefit from its advanced engineering capabilities and world-class technologies to develop new products and services that support low carbon or reduced emissions requirements.

Risk management

Our approach to identifying, assessing and managing environmental risks, including climate related risk, is embedded within our approach to risk management. Environmental risks may present as financial or non-financial risks depending on the extent to which their impacts can be quantified, and how they have been classified.

Climate change and environment is a principal risk for the Group (see page 13).

Climate-related risks and opportunities

A summary of the climate-related risks and opportunities identified as having a potentially material impact on the Group, and our associated controls, includes:

Shift to renewables

Most countries we sell into are moving away from fossil fuels towards renewables.

Demand for our hydrocarbon range of products could be adversely impacted. Conversely, we could see greater opportunities for our nuclear products.

The Group has been investing in products for next generation nuclear, including fusion, molten-salt fast reactors, and small modular reactors.

Extreme weather events

Disruption could be caused by a range of events, for example, flooding, extreme temperatures, and drought.

Extreme temperatures will increase the energy required to heat or cool our facilities and in extreme cases may cause site closures and a range of logistical issues.

We have seen such issues rising across the Group in recent years, for example record levels of smog in Delhi, India, because of drought and industrial emissions.

Levels of regulation

The Group operates in a highly regulated environment across many jurisdictions and is subject to regulations relating to environmental factors including, but not limited to, climate change, therefore consideration of current and emerging regulation within our environmental management system is key to mitigating risk. Identified regulatory risks include energy-related taxes and the increased costs of compliance with energy-related schemes.

Scenario analysis

We have conducted peer analysis to understand the number of different scenarios businesses are modelling. We have found that most peers are modelling 2 scenarios, which are:

- 1.5°C by 2100: Orderly transition to the Paris-aligned goal occurring by 2100, with temperature rising 1.5°C above pre-industrial levels.
- 4.0°C by 2100: Failure of countries to meet their Paris-aligned goals, resulting in higher emissions and temperatures rising to an average of 4 degrees Celsius above industrial levels.

Some of our peers have gone further, by analysing higher temperature rises or no rise at all. Presently we think the 2 scenarios above are sufficient for giving readers an opportunity to understand the possible transformational effects of climate change. We will continue to assess the appropriateness of our scenarios and will likely alter them over time to reflect a changing environmental landscape and to ensure comparability with our peer group.

Our analysis of physical climate risks are aligned with recognised climate scenarios, specifically the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway (RCP) scenarios which provide a uniform framework for exploring potential climate changes and related impacts. RCPs are used globally for climate modelling and give access to a wide range of peer-reviewed and accepted climate datasets, as well as allowing consistency across territories.

Strategic Report (Continued)

Environment (continued)

1.5°C Scenario

In this scenario, governments around the world would need to meet and exceed their current pledges under the Paris Agreement. They would do this through a combination of energy-demand reductions, decarbonization of electricity and other fuels, electrification of energy end use, deep reductions in agricultural emissions, and some form of carbon dioxide removal.

Nuclear energy is the Group's largest market. We provide reactor cooling pumps for the global market, and nuclear waste containment vessels for the US and UK markets. We are also working on a number of next generation nuclear energy projects including the ITER nuclear Fusion reactor in France, and TerraPower' s molten chloride fast reactor project in the US.

Given the strong push for decarbonisation we would expect strong increase in demand for our nuclear products over the short to medium term horizon, with longer term aftermarket opportunities.

Demand for oil & gas should steadily reduce. New capital projects are less likely to be approved, instead we will see older rigs being kept online. We provide the industry with a range of subsea and submersible motors and pumps. Demand for new equipment is likely to shrink dramatically, with aftermarket products services tailing off more steadily.

Existing MRI systems rely on liquid helium to cool the super conducting magnets. Helium is a scarce, non-renewable resource, mostly obtained as a by-product of oil extraction. Our new compact MRI uses helium-free magnets, and require significantly less energy to operate compared to existing systems. Therefore, we would hope to see improved demand for our product in this scenario.

The switch towards renewables is likely to increase energy costs across our businesses and drive up supplier and logistical costs. Some operations are more insulated from this than others, for example our Hayward Tyler Inc location is located in Vermont, USA, as State which currently generates nearly 100% of its electricity from renewables.

In subsequent years, we will look to expand our modelling to get a greater understanding on how rising energy costs may impact our business. Given the recent price shocks to oil & gas prices, it is no stretch to believe that a shift to renewables may reduce energy costs.

4.0°C Scenario

Under this scenario, governments fail to meet their pledges under the Paris Agreement. Action is taken to reduce emissions, however, at a slower rate compared to the 1.5 Celsius scenario. Consequently, we would see a much slower reduction in energy consumption and a slower shift towards renewables. The higher temperature increases would lead to a range of physical risks, including heat waves, colder winters, droughts, flooding, and smog to name just a few.

Product and services

All the product and services related impacts outlined in the 1.5°C scenario would be lessened.

Flood risk

The Group operates from 14 locations globally. 3 of our facilities are owned, with the remainder being leased, typically for lease terms of less than 5 years. All the facilities which we own are based in the UK and have a range of bespoke infrastructure including cranes, electrical capacity and test pits.

Flood risk represents a particularly high risk to our Chatteris facility, which is located in the fens, Cambridgeshire. The facility sits 3m above sea level and is surrounded on all sides by land which sit below sea level.

Energy consumption

To ensure our sites remain functional. Additional cooling systems are likely to be required, and the existing systems are likely to be utilised much more often. As a result, we would expect to see rising energy costs.

Metrics and targets

The Group has adopted the following targets:

- Establish carbon reduction plans at all sites across the Group
- Report energy consumption and carbon emissions annually
- Integrate environmental considerations into our Pinpoint-Investments-Exit strategy

Carbon reduction plans

Carbon and energy reduction targets have been established at a site level. Most sites have established targets and strategies as part of their ISO 14001 Environmental Management System accreditation. Our Booth subsidiary is leading the way, achieving net zero scope 1 and scope 2 emissions in the year, and pursuing net zero including scope 3 by FY2025. This will be achieved through choosing low emission electricity providers, investment to improve operational efficiency, and a carbon offsetting programme.

Strategic Report (Continued)

Environment (continued)

Reporting energy consumption and carbon emissions

We report greenhouse gas Scope 1, 2 emissions in line with the Streamlined Energy and Carbon Reporting (SECR) regulations.

Given the Group makes regular disposals and acquisitions we do not consider absolute carbon emissions to be an appropriate method for tracking emissions, instead we focus on carbon intensity ratios.

We have adopted a portfolio approach to tracking carbon emissions. For the division's operating in the energy sector (EPM and PSRE) we monitor carbon emissions per £m of revenue. The Medical division has a greater focus on product development, so instead we focus on emissions per employee.

Sites track their energy usage from a number of sources, including meter readings, mileage reports, and invoices, then converts these inputs to energy (kWh) and carbon emissions (tCO2e) using relevant conversion factors. Conversion factors are published by the UK Department for Environment, Food and Rural Affairs and the US Environmental Protection Agency (EPA).

Our energy usage and carbon emissions are:

		2023			**2022**	
	EPM & PSRE	**MII**	**Group**	**EPM & PSRE**	**MII**	**Group**
Scope 1:						
Gas	623	21	644	863	26	889
Oil	386	–	386	605	–	605
Distribution	13	2	15	30	–	30
Company vehicle travel	14	–	14	13	6	19
	1,036	23	1,058	1,511	32	1,543
Scope 2 – Purchased electricity	843	203	1,046	901	204	1,105
Total emissions tCO2e	**1,879**	**226**	**2,104**	**2,412**	**236**	**2,648**
Total energy consumption mWh	**9,441**	**544**	**9,986**	**11,204**	**560**	**11,764**
Intensity metrics:						
Average employees	673	59	732	634	44	678
Emissions tCO2e per employee	**2.8**	**3.8**	**2.9**	**3.8**	**5.4**	**3.9**
Revenue (£m)	112.8	3.6	116.4	96.6	2.5	99.1
Emissions tCO2e per £m of revenue	**16.6**	**62.7**	**18.1**	**25.0**	**94.4**	**26.7**
UK proportion of:						
Total emissions tCO2e	79%	21%	73%	81%	25%	76%
Total energy consumption mWh	77%	46%	75%	80%	50%	79%

In compliance with the SECR guidance, electricity emissions are based on grid averages from the regions we operate. As entities within the Group have transitioned to obtaining their power through renewable energy providers our actual electrical emissions will be lower.

The PSRE and EPM division's intensity target is to reduce its tCO2e per £m of revenue. In the year tCO2e £m of revenue improved by 33% to 16.6 (2022: 25.0). We expect to reduce revenue intensity further in the next financial year.

The MII division's intensity target is to reduce its tCO2e per employee. In the year tCO2e per employee has reduced 29% to 3.8 (2022: 5.4).

Integration of environmental considerations into our Pinpoint-Invest-Exit strategy

The Group has expanded upon its environmental due diligence procedures, which historically used to focus on potential environmental liabilities. The focus has now shifted towards identifying opportunities to improve business performance through energy reduction initiatives.

We strongly believe that investing in next generation manufacturing facilities and development of new technologies is key to generating a sustainable business for the long term. Demonstrating to potential buyers our environmental credentials and technological capabilities is a key component of our Exit strategy.

Strategic Report (Continued)

Environment (continued)

Progress in the year

Operational eco-efficiency

A significant proportion of the Group's energy consumption is spent heating premises over the winter months. At some of the older facilities energy in the winter months (December, January and February) can be as much as 4 times higher than over summer (June, July and August). A focused effort has been made to reduce winter energy consumption. This includes the installation of new boilers, additional insulation, automatic timers on heating, as well as reducing the manufacturing footprint.

We carried out a Carbon whole life cycle impact assessment also known as the LCA to measure embedded carbon in some of our key products. This process was guided by the ISO 14067 Lifecycle Carbon Assessment ("LCA") to measure and investigate improvement opportunities that can cut carbon emissions. On the back of this research, we have implemented a number to our products and processes including:

- Selection of higher quality materials designed to increase the useful life of products and reduce maintenance.
- Introduction of reusable packaging and packaging which can be fully recycled,
- Negotiating with customers to make fewer, larger shipments of products in order to reduce delivery emissions.

Development of new technologies

Next generation nuclear: Molten Chloride Fast Reactor

Our US Hayward Tyler business has been developing high-temperature molten salt pumps, destined for a state-of-the-art Integrated Effects Test (IET) facility, under development by Southern Company and TerraPower, to advance development of the Molten Chloride Fast Reactor (MCFR). This is a transformational, fourth-generation, molten salt nuclear technology, designed to enable low-cost, economywide decarbonization. Located at TerraPower's Everett, Washington facility, the IET is a non-nuclear, externally heated multi-loop system, intended to test and validate integrated operation of MCFR systems, as well as demonstrate multiple auxiliary MCFR functions.

During the year, the Group secured an extension to for the continued development of next generation molten salt pumps, under the Advanced Reactor Demonstration Program.

Nuclear energy and decommissioning represent 27% of the Group's revenues in the year. The Group believe that working on next generation nuclear projects including MCFR in the US, ITER in France, and Small Modular Reactors ("SMRs") in the UK, will strengthen the Group's long-term position in the nuclear industry.

Helium-free magnets

Existing MRI systems rely on liquid helium, to cool the superconducting magnets at the heart of each system. Helium is a scarce, non-renewable resource, mostly obtained as a by-product of oil extraction. Therefore, in our new compact MRI designs, we are seeking to take advantage of the smaller system footprint, to enable us to rely on mechanical cooling only, thus virtually eliminating use of helium in these systems.

An update on the status of the progress on the MRI development can be found in Medical Division review on page 8.

Social

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 gender, nationality, ethnicity, language, age, status, sexual orientation, religion or disability. We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We have been rolling-out a "dignity and respect" training program across the Group. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is, to an extent, beyond our control.

Strategic Report (Continued)

Social (continued)

Apprenticeships and training

All larger group locations are running apprenticeship schemes for young people, both to act as socially responsible employers and to optimise the demographics of our workforce over the mid to long term.

The apprentice training school, based at Metalcraft, Chatteris is now fully operational. We are partnered with West Suffolk College (WSC) as the operator and training provider at the centre, which plans to take on between 80 and 130 students each year. Construction of the centre was funded through a £3.16 million grant from Cambridgeshire and Peterborough Combined Authority.

The Group continues to be recognised nationally for the strength of its apprenticeship training schemes. At 31 May 2023, the Group had 29 apprentices.

Health, safety, and wellbeing

The Group takes H&S matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different situations. A frequent investment need in smaller acquisitions is to spread H&S best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions usually have well developed H&S processes and we seek to learn from these in other business units.

Employee equality, welfare and engagement are critical for developing our key asset. We focus on pro-active actions, including, internal training, certifications, and employee engagement through listening, survey and involvement.

Our Health and Safety KPIs can be found in the key performance indices section of the strategic report (page 6). Health and Safety incidents per head per annum rose to 0.08 in the year (2022: 0.07) driven by the acquisition of the HES/HEVAC businesses. Excluding the new acquisition incidents per head per annum would have remained flat at 0.07. At Board level, Les Thomas has H&S oversight and he conducts inspections with local management, as appropriate.

During the year, there have been no fatalities or serious injuries at any of our sites.

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

The Group continues to invest in its three divisions, with a focus on the global energy and medical markets, to position them for maximum shareholder value, via eventual exits in the years to come. Magnetica's MRI product development is proceeding to plan, with an expected launch of the orthopaedic product later in 2023, subject to FDA approval in the USA, expected during FY24. This activity is fully complemented by the post-period end acquisition of Adaptix and its disruptive 3D X-ray technology. The earlier acquisitions of Booth and Energy Steel continued to recover well, as demonstrated by the results in the period. The Group is in a strong net cash position, so we are proactively pursuing potential PIE prospects, with the ability to capitalise on any suitable strategic opportunities. Our value creation targets continue to be accomplished as planned and are underpinned by a conservative approach to debt.

The energy divisions have a strong emphasis on the thermal power, nuclear and hydrocarbon markets and aftermarkets. The medical division is focused on compact, helium-free MRI systems and compact point of care 3D X-ray systems, which the Board believes could create significant future shareholder value. To drive profitability and market engagement, each division has a clear strategy to support end-user aftermarket operations, servicing its own equipment and (where pertinent) that of third parties, to capitalise on the continued market demand for efficient, reliable and safe facilities.

The Russia-Ukraine conflict and resulting inflationary effects on the global economy is still a significant risk factor. However, we have taken effective cost and impact mitigation actions so far, to limit any potential downside and we will continue to be vigilant.

Strategic Report (Continued)

Outlook (continued)

Despite the current global macroeconomic environments, our markets continue to develop and M&A opportunities remain a priority for us. Businesses like ours can command high valuations at the point of exit. The Board remains cautiously 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 create superior shareholder value, whilst maintaining a prudent level of financial headroom, to enable us to endure any subsequent headwinds.

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

Roger McDowell
Chairman
26 September 2023

Steve McQuillan
Chief Executive Officer
26 September 2023

Stephen King
Chief Financial Officer
26 September 2023

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2023.

Matters included in the Strategic report

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

Going concern

During the year, the Group has managed its working capital and cash flows prudently and significantly within its available funding headroom. The cash flows generated from the strong underlying profits were subdued by a £2.4m working capital outflow, mainly due to the delayed timing of various contracts but also the envisaged working capital outflow for the HES acquisitions, resulting in an operating cash inflow of £9.6m for the year (2022: £3.7m). In addition to £4.0m invested in Adaptix, £5.3m was invested in development costs primarily in relation to Magnetica's compact helium-free MRI system £1.1m HTI bearing, £3.3m into property plant and equipment, including £1.5m lease renewals at Magnetica, HTI and Kunshan, FH Doosan machine £0.2m) and loan repayments of £2.8m with the Group still in a strong net cash position.

At 31 May 2023, the Group had net cash (including IFRS16 debt) of £9.1m (31 May 2022: net cash: £13.3m incl IFRS 16 as detailed in note 24. Excluding IFRS16, debt at 31 May 2023 was net cash £13.0m (31 May 2022: net cash: £16.7m). Net assets of £108.5m (2022: £105.8m).

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

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

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

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

As reported in the Strategic Review, the Group continue to experience some impacts from supply chain during the year, resulting in some delayed orders. These conditions were fully recognised during the budget process, alongside a cautious view of short-term markets, whilst reflecting a restrained view on the trade-out of the current order book and expected beat rate orders.

As discussed in more detail in the Chairman's statement and Strategic report, looking into 2024/25 and beyond, the Group has a number of exciting opportunities across all of its operations that should deliver growth and shareholder value. The more recent acquisitions, Booth, Transkem and Energy Steel continue to deliver improved performances and we anticipate further improvement alongside HES during FY23 and FY24 with underlying positive results and cashflow helping to underpin the near term Group performance.

As reported at 31 May 2023, the Group had net cash of (including IFRS16 debt) £9.1m, excluding IFRS16 debt at 31 May 2022 net cash was £13.3m. Additionally the Group had £19.4m of undrawn committed borrowing facilities – further details are set out in note 23.

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

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

- Further bank borrowing against freehold land and buildings – including the Luton site which has outline planning permission;
- Potential sale and leaseback of freehold sites;
- Extension of current and re-instatement of previous RCF facilities;
- Extension of borrowing against the debtor book; and
- Issue of new shares on AIM

Report of the Directors (Continued)

Going concern (continued)

The detailed cash flow forecasts for the Group for the period extending to 31 May 2025, indicate that the Group expects to have adequate financial resources to continue in business and work within its current banking arrangements, to deliver on its near-term strategic objectives. In the quarter since 31 May 23 the Group has generally performed as expected. Coupled with an ongoing supportive relationship with the Group's principal bankers and the fact the Directors have not identified any material uncertainties that may cast significant doubt on the ability of the company to continue to operate as a going concern, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

Results and dividends

The Group's profit for the year before tax from continuing operations amounted to £7,476,000 (2022: £6,975,000). This excludes loss after tax from discontinued operations of £1,168,000 (2022: profit £57,000). The Board considers that it is appropriate to declare a final dividend this year in the context of the overall Group result, reflecting no interim dividend was declared, therefore a final dividend of 2.8p is proposed for the year ended 31 May 2023 (2022: 2.6p), taking the total dividend for the year to 4.5 pence (2022: total 4.2 p).

Substantial shareholdings

As at 25 September 2023, 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*
Harwood Capital	4,034	12.3%
Business Growth Fund	2,363	7.2%
Funds managed by Unicorn Asset Management Limited	1,946	5.9%
Funds managed by JTC Employer Solutions Trustee Limited	1,703	5.2%
R S McDowell's Pension Fund	1,406	4.3%
Funds managed by Close Brothers Management	1,155	3.5%

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 2023	*31 May 2022*
R S McDowell	**1,406,409**	1,406,409
S McQuillan	**468,987**	416,749
S M King	**406,938**	361,435
L J Thomas	**16,000**	16,000

Share options

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

Interests in contracts

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

Report of the Directors (Continued)

Financial instruments

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

The Group's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts and obligations under finance leases together with trade receivables and trade payables that arise directly from its operations. The Group has entered into derivative foreign exchange transactions where it has certainty of the outcome. Information about the use of financial instruments by the Group and the Group's financial risk management objectives and policy disclosures is given in notes 23 and 25 to the financial statements.

Research and development

During the year £5,315,000 (2022: £1,962,000) of development costs (per note 13) were capitalised as intangible assets. This was predominately at the Magnetica sub-group for helium free niche MRI application designs. Also, our HT Inc business has developed innovative bearing and thrust pad technologies designed to increase the life of our nuclear pumps and motors and improve thrust capacity.

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.

S172 – promotion of the success of the Company

The members of the Board consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 May 2023. The Company's section 172 statement can be found in the Strategic Report on pages 14 to 15.

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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 Company’s and Group’s auditor is aware of that information.

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

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

Auditor

Cooper Parry Group Limited (“Cooper Parry”) are willing to continue in office in accordance with section 489 of the Companies Act 2006. A resolution to reappoint them will be proposed at the Annual General Meeting.

The report of the Directors was approved by the Board on 26 September 2023 and signed on its behalf by:

Stephen 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 pages 4–5.

2. Seek to understand and meet shareholder needs and expectations

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

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

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

The Company provides contact details on its investor relations page on the Company's corporate website.

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 including SECR are set in the Strategic Report pages 15 to 20.

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

During the period we expanded the SECR reporting on carbon emissions to include our non UK sites (pages 17–18).

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 9 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. The Board is chaired by R S McDowell and assisted by the Senior Independent Non-executive Director L J Thomas, who have primary responsibility for running the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

The criteria for effectiveness include assessing:

- Board/Committee composition (including succession planning);
- Board/external reporting and information flows;

Corporate Governance (Continued)

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

- Board Process, Internal Control & Risk Management;
- Board Accountability;
- Executive management effectiveness;
- Standards of Conduct.

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

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

Culture

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

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

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

Compliance with laws

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

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

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

Safety, health and environment

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

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

Insider trading

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

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

The Board

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

Board Committees

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

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

Corporate Governance (Continued)

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

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 30 to 31.

Audit & Risk Committee

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

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

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

Nominations Committee

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

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

Executive Management Committee

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

Evolution of governance framework

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

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

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

The Board maintains an active dialogue with both its institutional and private investors and stakeholders through the Annual Report, full-year and half-year announcements, the Annual General Meeting, General Meetings and one-to-one meetings with larger existing, or potential new shareholders. In addition, we are now seeking to keep smaller shareholders better informed by reaching out through appropriate communications channels (eg Vox Markets).

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.

The results of the proxy votes for the Company's previous Annual General Meeting on 17 November 2022 were published through RNS.

Roger McDowell
Chairman
26 September 2023

Report of the Directors on Remuneration

Composition

The Remuneration Committee during the period comprised J S Clarke (Chairman), R S McDowell, L J Thomas and J S Reedman.

Principal function

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

Avingtrans Remuneration Principles

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

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

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

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

Base salary and benefits

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

Annual performance related bonus

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

Divisional Long-term incentives

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

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

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

Share options

The Committee is responsible for approving grants of share options to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied, as set out on page 31.

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

Compensation for loss of office

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

Directors' emoluments

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

Share options

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

	Date of grant	*At 1 June 2022 £*	*Granted*	*Exercised*	*At 31 May 2023 £*	*Weighted average exercise price £*
Executive:						
S McQuillan	21/12/2016	434,750	–	–	434,750	1.930
	15/11/2018	115,000	–	(115,000)	–	2.200
	17/12/2019	175,000	–	–	175,000	2.670
	24/11/2020	180,000	–	–	180,000	2.880
	29/11/2021	180,000	–	–	180,000	4.025
	26/01/2023	–	180,000	–	180,000	4.100
		1,084,750	180,000	(115,000)	1,149,750	2.859
S M King	21/12/2016	314,750	–	–	314,750	1.930
	15/11/2018	100,000	–	(100,000)	–	2.200
	17/12/2019	155,000	–	–	155,000	2.670
	24/11/2020	160,000	–	–	160,000	2.880
	29/11/2021	160,000	–	–	160,000	4.025
	26/01/2023	–	160,000	–	160,000	4.100
		889,750	160,000	(100,000)	949,750	2.929

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.

John Clarke
Chairman of the Remuneration Committee
26 September 2023

Independent Auditor’s Report to the Members of Avingtrans plc

Opinion

We have audited the financial statements of Avingtrans plc (“the parent company”) and its subsidiaries (“the Group”) for the year ended 31 May 2023 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 Statement of Cash Flows, and the Notes to the Annual Report, including a summary of accounting policies. The financial reporting framework that has been applied in the preparation of the Group and parent company financial statements is applicable law and UK-adopted international accounting standards.

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 2023 and of the Group’s profit for the 52 weeks then ended;
- the Group and parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards; 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 statutory financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the statutory 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.

An overview of the scope of our audit

We adopted a risk-based audit approach. We gained a detailed understanding of the Group’s business, the environment it operates in and the risks it faces. The key elements of our audit approach were as follows:

The audit team evaluated each component of the Group by assessing its materiality to the Group as a whole. This was done by considering the percentage of total Group assets, liabilities, revenues and profit before taxes which each component represented. From this, we determined the significance of the component to the Group as a whole and devised our planned audit response. In order to address the audit risks described in the key audit Matters section and our wider risk assessment, we performed a full scope audit of the financial statements of the parent company, Avingtrans plc, and all other trading component entities in the UK and Hayward Tyler Inc.

We also performed substantive procedures on the key audit matters identified at the Group level in Energy Steel Inc, Hayward Tyler Pumps (Kunshan) Co Limited and Magnetica Limited.

Of the Group’s subsidiaries, we subjected all material UK subsidiaries to audit. For any significant components which exceeded 15% turnover, profit before tax and net assets, we sought Group reporting from component auditors and reviewed their audit files. There were three companies that had one or more individual items that were significant to the Group and specific audit procedures were conducted. All remaining subsidiaries, which individually contributed to less than 15% turnover, profit before tax and net assets were subject to analytical procedures and we investigated any material or unusual variances.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors’ assessment of the entity’s ability to continue to adopt the going concern basis of accounting included:

- reviewing management’s cash flow forecasts for a period of 12 months from the date of approval of these financial statements; and
- reviewing results post year end to the date of approval of these financial statements and assessment against original budgets.

From our work we noted that forecasts support the Directors’ view that the Group will continue to be able to meet its liabilities as they fall due.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Conclusions relating to going concern (continued)

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the statutory financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Matter

The Group has material revenue from contracts with customers which are required to be tested for accuracy and completeness in accordance with International Financial Reporting Standard 15 'Revenue from Contracts with Customers' (IFRS 15). Revenue from contracts with customers has been tested by reference to their completion percentage of the contract. Revenue on contracts is recognised based on progress towards satisfaction of performance obligations included in the contracts undertaken, by reference to costs incurred as a percentage of total expected costs. There is judgement involved in determining the percentage completion as well as in estimating the expected outcome of the contract, both in terms of costs to complete and consideration to be received, resulting in a greater risk of error. The risk is more pronounced for contracts which are incomplete at the year end as changes to these estimates and judgements could give rise to material variances in the amount of revenue recognised at the year end. Given the above, there is a risk that revenue is not accounted for appropriately.

Response

Using a variety of quantitative and qualitative criteria we selected a sample of contracts across the Group to assess and challenge the most significant contract assumptions. These criteria included total project value and percentage completion. Our procedures included:

- Assessing and testing historical accuracy of cost and revenue budgeting to gain comfort regarding those contracts in progress at the year end to assess the reasonableness of revenue recognised in the current year.
- Testing allocation of costs to contracts and completeness of costs with reference to third party confirmations.
- Vouching details to signed contracts and meeting with contract managers responsible for assessing the level of completion of contracted work to gain an understanding and obtaining further evidence to support judgements.
- Reviewing post year end contract performance and cash receipts in relation to that contract together with performance updates from the prior year to assess accuracy of budgeting.
- Recalculating the expected accrued or deferred income balance where appropriate.
- Testing reconciliations between data provided by project teams and journals posted to the nominal ledger.

Based on our audit procedures we concluded that revenue and profit had been recognised appropriately and in accordance with IFRS 15 in the sample of contracts we assessed.

Valuation of Goodwill and Intangible Fixed Assets

Matter

The Group has material goodwill and other intangible fixed assets balances which are required to be tested for impairment on an annual basis in accordance with International Accounting Standard 36 'Impairment of Assets' (IAS 36). Both goodwill and intangible fixed assets have been tested by reference to their value in use. Valuations of this nature are inherently subjective and involve a high degree of estimation, for example over future cash flows of the Group, discount rates applied to those cash flows and terminal growth rates. This gives rise to an increased risk of error in the calculation of value in use and therefore in the overall impairment assessment. For the additional goodwill created in the year as a result of the two acquisitions, there is a risk that the goodwill value has been calculated incorrectly.

Management have prepared a detailed impairment review of the intangible assets held by each cash generating unit ("CGU") within the Group, which identified a nil impairment charge and showed significant headroom when comparing the carrying amount to the recoverable amount.

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

Valuation of Goodwill and Intangible Fixed Assets (continued)

Response

We have performed audit procedures on management’s impairment assessment, including the following procedures:

- Testing of the integrity of the cash flow model and the methodology applied.
- Assessing key assumptions including future cash flows, discount rates and growth rates, including sensitivity of these assumptions and assessing the discount rate against supporting documentation and evidence.
- Agreeing future cash flows to Board approved budgets and considering the appropriateness of these budgets by reference to historical performance of the Group, including comparing budgeted results to forecast results.
- For additions to goodwill and intangible fixed assets during the year, agreed these through to supporting evidence (including share/asset purchase agreements and internal labour costs capitalised) and assessed the assumptions used within the model.

Based on our audit procedures we concluded that the model itself, the methodology, the forecasts and the assumptions used in the calculation were appropriate and we further concluded that management’s impairment review model was reasonable. We also found that the additional balances created upon the acquisition of Hevac Limited and HES, had been calculated correctly.

Materiality

The materiality for the Group statutory financial statements as a whole was set at £1,200,0000. This has been determined with reference to a benchmark of the Group’s revenue, which we consider to be an appropriate measure for a Group of companies such as these. Materiality represents approximately 1% of Group revenue. In determining the level of testing to be performed during our audit work, we used performance materiality of £900,000.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £60,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The materiality for the parent company financial statements as a whole was set at £960,000 and performance materiality was £768,000. This has been determined with reference to the parent company’s net assets, which we consider to be an appropriate measure for a holding company with investments in trading subsidiaries.

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 as explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identity such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions on other matters prescribed by the Companies Act 2006

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 by exception

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.

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:

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

Matters on which we are required to report by exception (continued)

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

As explained more fully in the Directors’ Responsibilities Statement set out on pages 24–25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they 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 and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our assessment focused on key laws and regulations the Group has to comply with and areas of the financial statements we assessed as being more susceptible to misstatement. These key laws and regulations included but were not limited to compliance with the Companies Act 2006, UK-adopted international accounting standards, and relevant tax legislation.

We are not responsible for preventing irregularities. Our approach to detecting irregularities included, but was not limited to, the following:

- obtaining an understanding of the legal and regulatory framework applicable to the Group and the parent company and determined that the most significant which are directly relevant to specific assertions in financial statements are those related to the financial reporting framework, being UK adopted international accounting standards in conformity with the Companies Act 2006;
- obtaining an understanding of the entity’s policies and procedures and how the entity has complied with these, through discussions and sample testing of controls;
- obtaining an understanding of the entity’s risk assessment process, including the risk of fraud;
- designing our audit procedures to respond to our risk assessment; and
- performing audit testing over the risk of management override of controls. Our audit procedures involved:
    - testing of journal entries with a focus on manual journals and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias, specifically in relation to revenue, warranty provision and the defined benefit pension scheme asset;
    - evaluating the business rationale of significant transactions outside the normal course of business;
    - challenging assumptions and judgements made by management in its significant accounting estimates, specifically those in relation to the costs of completion for contracts, warranty provision and the defined benefit pension scheme asset.
- The engagement partner assessed whether the engagement team collectively had the appropriate competence and capabilities to identify and recognise non-compliance with laws and regulations through the following:
    - Understanding of, and practical experience with, audit engagements of a similar nature and complexity, though appropriate training and participation; and
    - Knowledge of the industry in which the client operates.

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

Auditor's responsibilities for the audit of the statutory financial statements (continued)

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statement, the less likely we could become aware of it.

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

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Katharine Warrington
(Senior Statutory Auditor)
For and on behalf of

Cooper Parry Group Limited
Statutory Auditor
Sky View
Argosy Road
East Midlands Airport
Castle Donington,
Derby
DE74 2SA
26 September 2023

Principal Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards and those parts of the Companies Act 2006 that are relevant to companies which apply UK-adopted international accounting standards. The Company has elected to prepare its Parent Company financial statements in accordance with UK-adopted international accounting standards also, these are presented alongside the Group Disclosures throughout the accounts. As detailed in the Report of the Directors, the Directors continue to adopt the going concern basis on preparing the financial statements and accounts.

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

The Group's financial statements have been prepared on a going concern basis, as discussed in the Director's Report on page 22.

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

Framework	**Pronouncement**		**Effective date**
IFRS	Insurance Contracts	Amendments to IFRS 17	Financial period commencing on/after 1 January 2023
IAS	Disclosure of Accounting Policies	Amendments to IAS 1	Financial periods commencing on/after 1 January 2023
IAS	Definition of Accounting Estimates	Amendments to IAS 8	Financial periods commencing on/after 1 January 2023
IFRS	Deferred tax related to assets and liabilities from a single transaction	Amendments to IAS 12	Financial periods commencing on/after 1 January 2023

New standards adopted

There are no adjustments required to be made to the Company's financial statements as a result of any new standards, amendments and IFRIC interpretations.

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 2023. A subsidiary is an entity controlled by the Group. Control exists when the Group has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over an entity so as to affect the Group's returns. Subsidiaries are consolidated in accordance UK-adopted international reporting standards and IFRS 10 Consolidated Financial Statements. Where a subsidiary has a non-controlling interest, the share of net assets or liabilities of subsidiaries held by third parties is presented separately within equity in the statement of financial position. The Group typically obtains and exercises control of its subsidiaries through voting rights. Employee Benefit Trusts ("EBT") are consolidated on the basis that the parent has control as it bears the risks and rewards of having established the trust, thus the assets and liabilities of the EBT are included on the Group balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

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

Profit or loss from discontinued operations

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

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

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post tax gain or loss resulting from the measurement and disposal of assets classified as held for sale, is further analysed in note 36. The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date of the latest period presented. Prior year FY22 has therefore been restated as a result.

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

Acquisition costs are expensed through the income statement as incurred.

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

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

Goodwill

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

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

Revenue

Contract Revenue

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

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

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

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

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

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

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

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

Principal Accounting Policies (Continued)

Contract Revenue (continued)

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 and it is highly probably no significant reversal will occur.

Once the group determines that a contract will be loss-making, by reviewing future estimate costs and profit margins, full provision is made for losses on all contracts in the year in which they are first foreseen.

Future variable revenue from long-term contracts is constrained to take account of the risk of non-recovery of resulting contract balances from failure to achieve the respective conditions (e.g. failure to meet a delivery date). When assessing whether variable consideration is constrained, management use all available information including both historical performance and the status of ongoing projects. Revenue is recognised over time as the product is being manufactured or a service being provided if any of the following criteria are met:

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

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

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

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

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

A contract asset/liability is recognised where payment is received in arrears/advance of the revenue recognised in meeting performance obligations.

Non-contract revenue

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

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

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

Dilapidations

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

Dividends

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

Principal Accounting Policies (Continued)

Exceptional items

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

Non-underlying items

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

Management uses a range of measures to monitor the group's performance. Management judgement has been used to determine those items that should be classified as 'Adjusted Earnings before interest, tax and amortisation' so to give a better understanding of the underlying trading performance of the group. In order to provide a trend of underlying performance, profit is presented excluding items which management consider will distort comparability, either due to their significant non-recurring nature or as a result of specific accounting treatment – these include: share based payment expense, acquisition costs, restructuring costs, amortisation of intangibles from business combinations and (gain)/loss on derivatives.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Assets held under right of use assets are depreciated over their expected useful lives on the same basis as owned assets or, were 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. Land is not depreciated. The rates/periods generally applicable are:

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

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

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

Impairment testing of goodwill, other intangible assets and property, plant and equipment

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

Goodwill, other individual assets or cash-generating units that include goodwill, and those intangible assets with an indefinite useful life 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. The discount rate for the EPM and PSRE divisions is 11.6% and for the MII division this is 14%.

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.

Principal Accounting Policies (Continued)

Leased assets

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

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

Measurement and recognition of leases as a lessee

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

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

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. The incremental borrowing rate has been determined by looking at historical borrowing rates and adjusting these to reflect the term of the lease, economic environment, and type of asset being leased. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. On transition to IFRS 16 Leases, incremental borrowing applied to leases fell in the range of 2.9% – 5.8% depending on the nature and term of the lease.

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

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

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

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

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. Cost is purchase price.

Investment income is recognised on a received basis.

Unlisted investments

Unlisted investments are measured at fair value through profit and loss. As quoted prices are unavailable, the Group assesses fair value by reference to share issues made by the investment entity during the period, adjusted to consider the timing of issues and other available information.

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.

Principal Accounting Policies (Continued)

Finance income/costs

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

Taxation

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

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

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

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

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

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

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

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

Intangible assets

i) Order book and customer relationships

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

The useful lives for these intangible assets are finite.

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

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

The amortisation charge is shown within amortisation of intangibles in the income statement. If the asset is not in full use no amortisation is incurred until the asset is in full use.

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.

Principal Accounting Policies (Continued)

Intangible assets (continued)

iii) Brand

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

iv) Internally generated development costs

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

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

The development costs relating to Sellafield have been amortised on a per box basis over the total number of boxes to be delivered for the duration of the contract.

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

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

Borrowing costs

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. All other borrowing costs are expensed in the period in which they are incurred and reported within "finance costs". No general borrowing costs have been capitalised in relation to qualifying assets.

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.

Principal Accounting Policies (Continued)

Equity (continued)

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. The gain on disposal of non-controlling interest in subsidiary company regarding the Magnetica acquisition is also included here. Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.

Retained earnings represents accumulated comprehensive income for the year and prior periods less dividends, less actuarial gains/losses arising on the remeasurement of the defined benefit pension scheme.

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 separately in the income statement.

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.

Principal Accounting Policies (Continued)

Financial assets and liabilities (continued)

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. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 25 Financial Instruments for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

The incremental costs of obtaining a contract are recognised as a contract asset when they are expected to be recovered from the customer. Subsequently, the asset is amortized over the contract life. As a practical expedient, incremental costs of obtaining a contract are expensed if the amortisation period would be one year or less.

Exceptional expenses

Items are classified as exceptional where the Directors believe that presentation of the results in this way is useful in providing an understanding of the Group's financial performance. Exceptional items are identified by virtue of their size, nature or incidence.

In determining whether an event or transaction is exceptional, the Directors considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Examples of exceptional items include the costs of acquiring a new subsidiary, share based payments, and restructuring costs.

Classification and measurement of financial liabilities

The Group's financial liabilities include trade payables, other 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.

Principal Accounting Policies (Continued)

Financial assets and liabilities (continued)

Classification and measurement of financial liabilities (continued)

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

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

Cash and cash equivalents

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

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

Post employee benefits

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

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

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

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

The asset recognised in the statement of financial position for defined benefit plans is the present value of the fair value of plan assets less the Defined Benefit Obligation (DBO) at the reporting date. The net surplus at the end of the year is £0.5 million (2022: £1.7 million) which is deemed recoverable and therefore recognised in full. The unconditional right condition in IFRIC14 is satisfied as the Company has an unconditional right to a refund of surplus after the last pensioner dies, assuming the Plan continues indefinitely.

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.

Principal Accounting Policies (Continued)

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

Share-based employee remuneration (continued)

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

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

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

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

Foreign currencies

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

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

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

Segmental reporting

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

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

Government grants

The group receives government grants for research and development, training and facilities.

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.

A government grant relating to assets is presented as deferred income or by deducting from the assets carrying amount. Where deferred income is recognised, it is subsequently released to the income statement 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.

Principal Accounting Policies (Continued)

Government grants (continued)

A government grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant shall be applied against any unamortised deferred credit in respect of the grant.

Stainless Metalcraft (Chatteris) Limited based in Chatteris, UK, was awarded £3.2m grant in 2021 from Cambridgeshire and Peterborough Combined Authority Local Growth Fund. The grant has been used to build an apprentice training school. As per IAS 20.24 the group has elected to net off the corresponding asset against the deferred income relating to the grant.

Hayward Tyler Limited, based in Luton, UK, was awarded a £3.5 million grant from the Regional Growth Fund prior to the 2017 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.

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

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

Contingent consideration is initially measured at fair value at the acquisition date. Fair value is estimated by forecasting future cash flows and discounting them to reflect the time value of money. Discounting is subsequently unwound over the period, giving rise to interest expense in the income statement. Any subsequent changes in managements estimation of fair value is recognised as a gain or loss in the income statement.

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 are no significant judgements made by management in applying the accounting policies of the Group in the financial statements.

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.

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. Management assesses contract revenue using the expected value method which is based on the range of possible outcomes and the probabilities of each outcome. Estimates of the total contract cost take into consideration historical costs on similar products and services, which is then updated to take into consideration changes to supplier prices, movements in exchange rates, and managements latest view on remaining work required to complete a contract.

Principal Accounting Policies (Continued)

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

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 26.

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 with customers. Management periodically revisit the claim and their assessment of the amount expected to be recovered. Contract assets and trade receivables are detailed in note 18. The value of contract assets at 31 May 2023 was £25.6m. Intercompany balances and investments held by the Company have been reviewed by Management by reviewing future cash flows and despite recent stress in macro economic conditions are still considered to be recoverable.

Warranties

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience, current knowledge and future expectation that defects may arise. The value of warranty provisions at 31 May 2023 was £1.0 million (note 20).

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 £8.4 million (2022: £10.5 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 2023 was £0.5 million (2022: £1.7million). Further details of the pension scheme are in note 29.

Consolidated Income Statement

For the year ended 31 May 2023

	Note	2023 £'000	2022 £'000
Revenue	2	**116,437**	99,075
Cost of sales		**(78,137)**	(65,242)
Gross profit		**38,300**	33,833
Distribution costs		**(4,458)**	(3,630)
Administrative expenses		**(25,866)**	(23,018)
Operating profit before amortisation of acquired intangibles, other non-underlying items and exceptional items		**9,452**	8,494
Amortisation of acquired intangibles	13	**(993)**	(869)
Share based payment	28	**(237)**	(188)
Acquisition costs	36	**(14)**	(29)
Restructuring costs		**(232)**	(93)
Other exceptional		**–**	(130)
Operating profit	2	**7,976**	7,185
Finance income	5	**109**	176
Finance costs	6	**(609)**	(386)
Profit before taxation	3	**7,476**	6,975
Taxation	9	**(1,246)**	(971)
Profit after taxation from continuing operations		**6,230**	6,004
Profit after taxation from discontinued operations	36	**(1,168)**	57
Profit for the financial year		**5,062**	6,061
Profit is attributable to:			
Owners of Avingtrans PLC		**5,194**	6,478
Non-controlling interest	37	**(132)**	(417)
Total		**5,062**	6,061
Earnings per share:			
From continuing operations			
– Basic	11	**19.4p**	18.7p
– Diluted	11	**18.9p**	18.1p
From continuing and discontinuing operations			
– Basic	11	**15.7p**	18.9p
– Diluted	11	**15.3p**	18.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2023 £'000	2022 £'000
Profit for the year	**5,062**	6,061
Items that will not be subsequently be reclassified to profit or loss		
Remeasurement of defined benefit liability (note 29)	**(1,388)**	95
Income tax relating to items not reclassified	**347**	(24)
Items that may/will subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(579)**	1,445
Total comprehensive income for the year attributable to equity shareholders	**3,442**	7,577

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Consolidated Balance Sheet

For the year ended 31 May 2023	Note	2023 £'000	2022 £'000
Non-current assets			
Goodwill	12	**21,585**	21,420
Other intangible assets	13	**18,790**	15,675
Property, plant and equipment	14	**23,612**	25,239
Deferred tax	26	**666**	1,544
Unlisted Investments	16	**8,000**	4,000
Pension and other employee obligations	29	**526**	1,688
		73,179	69,566
Current assets			
Inventories	17	**12,656**	11,759
Trade and other receivables: falling due within one year	18	**49,691**	46,817
Trade and other receivables: falling due after one year	18	**1,550**	1,579
Current tax asset	9	**618**	686
Cash and cash equivalents	19	**17,717**	24,287
		82,232	85,128
Total assets		**155,411**	154,694
Current liabilities			
Trade and other payables	21	**(32,140)**	(29,629)
Lease liabilities	24	**(1,503)**	(1,605)
Borrowings	23	**(3,077)**	(5,497)
Current tax liabilities	9	**(1,303)**	(710)
Provisions	20	**(1,315)**	(1,770)
Derivatives	23	**(15)**	–
Total current liabilities		**(39,353)**	(39,211)
Non-current liabilities			
Borrowings	23	**(669)**	(762)
Lease liabilities	24	**(3,328)**	(3,097)
Deferred tax	26	**(3,238)**	(4,465)
Other creditors	22	**(368)**	(1,342)
Total non-current liabilities		**(7,603)**	(9,666)
Total liabilities		**(46,956)**	(48,877)
Net assets		**108,455**	105,817
Equity			
Share capital	27	**1,612**	1,607
Share premium account		**15,979**	15,693
Capital redemption reserve		**1,299**	1,299
Translation reserve		**1,170**	825
Merger reserve		**28,949**	28,949
Other reserves		**1,457**	1,457
Investment in own shares	35	**(4,235)**	(4,235)
Retained earnings		**59,811**	58,223
Total equity attributable to equity holders of the parent		**106,042**	103,818
Non-controlling interest	37	**2,413**	1,999
Total equity		**108,455**	105,817

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 26 September 2023 and signed on its behalf by:

S M King, Director. Company number: 1968354

Company Balance Sheet

For the year ended 31 May 2023	*Note*	***2023*** ***£'000***	*2022* *£'000*
Non-current assets			
Investments	15	**54,695**	46,298
Deferred tax asset	26	**404**	–
		55,099	46,298
Current assets			
Trade and other receivables	18	**12,981**	14,800
Cash at bank and in hand	19	**6,404**	14,761
		19,385	29,561
Total assets		**74,484**	75,859
Current liabilities			
Trade and other payables	21	**(585)**	(580)
Borrowings	23	**(83)**	(182)
Total current liabilities		**(668)**	(762)
Non-current liabilities			
Borrowings	23	–	(68)
Total non-current liabilities		–	(68)
Total liabilities		**(668)**	(830)
Net assets		**73,816**	75,029
Capital and reserves			
Share capital	27	**1,612**	1,607
Share premium account		**15,979**	15,693
Capital redemption reserve		**1,299**	1,299
Merger reserve		**28,949**	28,949
Other reserves		**237**	237
Profit and loss account		**25,740**	27,244
Total equity attributable to equity holders of the parent		**73,816**	75,029

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 £410k (2022: £696k).

The financial statements were approved by the Board of Directors and authorised for issue on 26 September 2023 signed on its behalf by:

S M King
Director
Company number: 01968354

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 May 2023

	Share capital £'000	*Share premium account £'000*	*Capital redemp-tion reserve £'000*	*Merger reserve £'000*	*Trans-lation reserve £'000*	*Other reserves £'000*	*Invest-ment in own shares £'000*	*Retained earnings £'000*	*Total Attribut-able owners of the Group £'000*	*Non-con-trolling interest £'000*	*Total Equity £'000*
At 1 June 2021	1,599	15,347	1,299	28,949	(732)	1,457	(4,235)	53,614	97,298	1,665	98,963
Ordinary shares issued	8	346	–	–	–	–	–	–	354	–	354
Dividends paid	–	–	–	–	–	–	–	(1,265)	(1,265)	–	(1,265)
Share-based pay-ments	–	–	–	–	–	–	–	188	188	–	188
Total transactions with owners	8	346	–	–	–	–	–	(1,077)	(723)	–	(723)
Profit for the year	–	–	–	–	–	–	–	6,478	6,478	(417)	6,061
Investment in subsidiary with non-controlling interest	–	–	–	–	112	–	–	(863)	(751)	751	–
Other comprehensive income											
Actuarial gain for the year on pension scheme	–	–	–	–	–	–	–	95	95	–	95
Deferred tax on actuarial movement on pension scheme	–	–	–	–	–	–	–	(24)	(24)	–	(24)
Exchange gain	–	–	–	–	1,445	–	–	–	1,445	–	1,445
Total comprehensive income for the year	–	–	–	–	1,557	–	–	5,686	7,243	334	7,577
Balance at 31 May 2022	**1,607**	**15,693**	**1,299**	**28,949**	**825**	**1,457**	**(4,235)**	**58,223**	**103,818**	**1,999**	**105,817**

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 May 2023

	Share capital £'000	*Share premium account £'000*	*Capital redemp-tion reserve £'000*	*Merger reserve £'000*	*Trans-lation reserve £'000*	*Other reserves £'000*	*Invest-ment in own shares £'000*	*Retained earnings £'000*	*Total Attribut-able owners of the Group £'000*	*Non-con-trolling interest £'000*	*Total Equity £'000*
At 1 June 2022	1,607	15,693	1,299	28,949	825	1,457	(4,235)	58,223	103,818	1,999	105,817
Ordinary shares issued	5	286	–	–	–	–	–	–	291	–	291
Dividends paid	–	–	–	–	–	–	–	(1,331)	(1,331)	–	(1,331)
Share-based pay-ments	–	–	–	–	–	–	–	237	237	–	237
Total transactions with owners	5	286	–	–	–	–	–	(1,094)	(803)	–	(803)
Profit for the year	–	–	–	–	–	–	–	5,194	5,194	(132)	5,062
Investment in subsidiary with non-controlling interest	–	–	–	–	924	–	–	(1,470)	(546)	546	–
Other comprehensive income											
Actuarial gain for the year on pension scheme	–	–	–	–	–	–	–	(1,388)	(1,388)	–	(1,388)
Deferred tax on actuarial movement on pension scheme	–	–	–	–	–	–	–	347	347	–	347
Exchange gain	–	–	–	–	(579)	–	–	–	(579)	–	(579)
Total comprehensive income for the year	–	–	–	–	345	–	–	2,683	3,028	414	3,442
Balance at 31 May 2023	**1,612**	**15,979**	**1,299**	**28,949**	**1,170**	**1,457**	**(4,235)**	**59,812**	**106,043**	**2,413**	**108,455**

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 May 2023

	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 2021	1,599	15,347	1,299	28,949	237	29,017	76,448
Ordinary shares issued	8	346	–	–	–	–	354
Dividends paid	–	–	–	–	–	(1,265)	(1,265)
Share-based pay-ments	–	–	–	–	–	188	188
Total transactions with owners	8	346	–	–	–	(1,077)	(723)
Loss for the year	–	–	–	–	–	(696)	(696)
Total comprehensive income for the year	–	–	–	–	–	(696)	(696)
Balance at 31 May 2022	**1,607**	**15,693**	**1,299**	**28,949**	**237**	**27,244**	**75,029**
At 1 June 2022	1,607	15,693	1,299	28,949	237	27,244	75,029
Ordinary shares issued (note 27)	5	286	–	–	–	–	291
Dividends Paid (note 10)	–	–	–	–	–	(1,331)	(1,331)
Share-based payments (note 28)	–	–	–	–	–	237	237
Total transactions with owners	5	286	–	–	–	(1,094)	(803)
Loss for the year	–	–	–	–	–	(410)	(410)
Total comprehensive expense for the year	–	–	–	–	–	(410)	(410)
Balance at 31 May 2023	**1,612**	**15,979**	**1,299**	**28,949**	**237**	**25,740**	**73,816**

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 May 2023

	Note	***2023*** ***£'000***	*2022* *£'000*
Operating activities			
Cash flows from operating activities	**30**	**10,682**	4,173
Finance costs paid		**(620)**	(388)
Income tax (paid)/received		**(331)**	203
Contributions to defined benefit plan		**(164)**	(282)
Net cash inflow from operating activities		**9,567**	3,706
Investing activities			
Acquisition of subsidiary undertakings, net of cash acquired	**36**	**(852)**	(582)
Investment in unlisted undertaking	**16**	**(4,000)**	(4,000)
Disposal of a subsidiary undertaking, net of cash disposed	**36**	**877**	–
Finance income		**109**	176
Purchase of intangible assets		**(5,401)**	(1,996)
Purchase of property, plant and equipment		**(3,291)**	(2,989)
Proceeds from sale of property, plant and equipment		**34**	44
Net cash used in from investing activities		**(12,524)**	(9,347)
Financing activities			
Equity dividends paid		**(1,331)**	(1,265)
Repayments of bank loans		**(2,843)**	(468)
Repayment of leases		**(1,771)**	(1,486)
Proceeds from issue of ordinary shares		**291**	355
Proceeds from borrowings		**2,254**	2,493
Net cash outflow from financing activities		**(3,400)**	(371)
Net decrease in cash and cash equivalents		**(6,356)**	(6,012)
Cash and cash equivalents at beginning of year		**23,902**	29,736
Effect of foreign exchange rate changes on cash		**(160)**	178
Cash and cash equivalents at end of year	**19**	**17,386**	23,902

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Company Statement of Cash Flow

For the year ended 31 May 2023

	Note	*2023* *£'000*	*2022* *£'000*
Operating activities			
Cash flows from operating activities	**31**	**(1,129)**	(1,781)
Finance costs paid		**(6)**	(6)
Income tax (paid)/received		**(224)**	545
Net cash outflow from operating activities		**(1,359)**	(1,242)
Investing activities			
Investment in subsidiary undertaking	**15**	**(4,297)**	(2,059)
Repayment/(loan to) from subsidiary undertakings		**2,019**	(1,640)
Acquisition of investment in unlisted undertaking	**16**	**(4,000)**	(4,000)
Equity dividends received		**–**	–
Finance income		**487**	238
Net cash utilised by investing activities		**(5,791)**	(7,461)
Financing activities			
Equity dividends paid		**(1,331)**	(1,265)
Repayments of bank loans		**(167)**	(182)
Proceeds from issue of ordinary shares		**291**	354
Net cash outflows from financing activities		**(1,207)**	(1,093)
Net decrease in cash and cash equivalents		**(8,357)**	(9,796)
Cash and cash equivalents at beginning of year		**14,761**	24,557
Cash and cash equivalents at end of year	**19**	**6,404**	14,761

The principal accounting policies and notes on pages 37 to 92 form part of these financial statements.

Notes to the Annual Report

For the year ended 31 May 2023

1 Corporate information

The consolidated financial statements of Avingtrans plc and its subsidiaries (collectively the Group) for the year ended 31 May 2023 were authorised for issue in accordance with a resolution of the directors on 26 September 2023. 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 Officer.

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. EPM continues to develop its nuclear installed base (civil, defence and national security) – for life extension applications – and its offering to the hydrocarbon market sectors.
- Energy – PSRE, is the design, manufacture, integration and servicing of an extensive product offering including, gas compressors, pressure vessels, blast doors, and containers. The primary strategy is to develop a comprehensive offering to the nuclear decommissioning and reprocessing markets.
- 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).

From 1 June 2022, the Group's Hayward Tyler Fluid Handling business has been transferred from the PSRE division to the EPM division. Prior year figures have been restated for comparability.

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 2023	*Energy EPM £'000*	*Energy PSRE £'000*	*Medical MII £'000*	*Unallocated central items £'000*	*Total £'000*
Original Equipment	**21,389**	**45,413**	**3,595**	**–**	**70,397**
After Market	**43,200**	**2,806**	**34**	**–**	**46,040**
Revenue	**64,589**	**48,219**	**3,629**	**–**	**116,437**
Operating profit/(loss)	**5,564**	**4,581**	**(1,010)**	**(1,159)**	**7,976**
Net finance (expense)/income	**(422)**	**(74)**	**(39)**	**35**	**(500)**
Taxation (charge)/credit	**(645)**	**(666)**	**(17)**	**82**	**(1,246)**
Profit/(loss) after tax from continuing operations	**4,497**	**3,841**	**(1,066)**	**(1,042)**	**6,230**
Segment non-current assets	**42,030**	**12,106**	**11,043**	**8,000**	**73,179**
Segment current assets	**48,933**	**22,995**	**2,544**	**7,760**	**82,232**
	90,963	**35,101**	**13,587**	**15,760**	**155,411**
Segment liabilities	**(28,899)**	**(13,635)**	**(4,073)**	**(349)**	**(46,956)**
Net assets	**62,064**	**21,466**	**9,514**	**15,411**	**108,455**
Non-current asset additions					
Intangible assets	**1,351**	**363**	**3,848**	**–**	**5,562**
Tangible assets	**1,773**	**1,048**	**470**	**–**	**3,291**
	3,124	**1,411**	**4,318**	**–**	**8,853**
Other income statement items:					
Depreciation and amortisation	**(2,528)**	**(1,452)**	**(314)**	**–**	**(4,294)**

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

Segmental analysis has been revised for FY22 following the segment move from PSRE to EPM for Hayward Tyler Fluid Handling.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

2 Segmental analysis (continued)

Year ended 31 May 2022	***Energy EPM £'000***	***Energy PSRE £'000***	***Medical MII £'000***	***Unallocated central items £'000***	***Total £'000***
Original Equipment	16,188	38,309	2,426	–	56,923
After Market	39,938	2,183	31	–	42,152
Revenue	56,126	40,492	2,457	–	99,075
Operating profit/(loss)	5,005	4,543	(1,291)	(1,072)	7,185
Net finance (expense)/income	(126)	(56)	(23)	(5)	(210)
Taxation (charge)/credit	(1,036)	(464)	149	380	(971)
Profit/ (loss) after tax from continuing operations	3,843	4,023	(1,165)	(697)	6,004
Segment non-current assets	44,782	13,206	7,578	4,000	69,566
Segment current assets	45,618	19,191	1,828	18,491	85,128
	90,400	32,397	9,406	22,491	154,694
Segment liabilities	(25,260)	(17,376)	(3,539)	(2,702)	(48,877)
Net assets	65,140	15,021	5,867	19,789	105,817
Non-current asset additions					
Intangible assets	500	147	1,615	–	2,262
Tangible assets	962	1,429	598	–	2,989
	1,462	1,576	2,213	–	5,251
Other income statement items:					
Depreciation and amortisation	(2,541)	(1,032)	(367)	–	(3,940)

Unallocated assets/(liabilities) consist primarily of interest-bearing assets and liabilities and income tax assets and liabilities. The following tables provides an analysis of the Group's revenue by destination and the location of non-current assets (excluding deferred tax assets and defined benefit pension surplus) by geographical market:

	2023 Revenue £'000	*2022 Revenue £'000*	***2023 Non-current Assets £'000***	*2022 Non-current Assets £'000*
United Kingdom	**53,076**	45,144	**34,954**	31,498
Europe (excl. UK)	**7,411**	6,695	**–**	–
United States of America	**28,955**	23,383	**27,473**	27,933
Africa & Middle East	**2,705**	1,633	**–**	–
Americas & Caribbean (excl. USA)	**5,059**	3,767	**–**	–
China	**10,297**	9,057	**723**	1,771
Asia Pacific (excl. China)	**8,934**	9,396	**8,837**	5,132
	116,437	99,075	**71,987**	66,334

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

	2023 £'000	*2022 £'000*
Over time	**70,515**	46,566
Point in time	**45,922**	52,509
	116,437	99,075

The Group had no single external customer which represented more than 10% of the Group's revenue in the current or prior year.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

2 Segmental analysis (continued)

Contract assets and liabilities

	2023	*2022*
	£'000	*£'000*
Contract assets:		
Energy – EPM	**13,740**	19,041
Energy – PSRE	**11,014**	7,992
Medical – MII	**890**	213
	25,644	27,246
Contract liabilities:		
Energy – EPM	**(2,050)**	(844)
Energy – PSRE	**(1,030)**	(1,932)
Medical – MII	**(70)**	(297)
	(3,150)	(3,073)

A contract asset/liability is recognised where payment is received in arrears/advance of the revenue recognised in meeting performance obligations. At 31 May 2023, a greater proportion of the business's contracts had payments in arrears.

	2023	*2022*
	£'000	*£'000*
Contract liability movement:		
1 June	**(3,073)**	(4,468)
Revenue recognised which was included in the opening balance	**3,073**	4,468
Increases due to cash received, excluding amounts recognised in the year	**(3,150)**	(3,073)
At 31 May	**(3,150)**	(3,073)

3 Profit before taxation – continuing

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

	2023	*2022*
	£'000	*£'000*
Depreciation of property, plant and equipment	**3,720**	3,434
Loss on disposal of property, plant and equipment	**1**	40
Amortisation of internally generated intangible assets	**443**	374
Cost of inventories recognised as an expense	**71,764**	61,471
Loss/(gain) on foreign exchange transactions	**19**	(330)
Amounts recognised from government grants	**(9)**	(1,327)
Staff costs (note 8)	**42,644**	33,821
Charitable donations	**12**	14
Research and development expenditure	**453**	403

Auditor's remuneration	***2023***	*2022*
	£'000	*£'000*
Fees payable to the Company's auditor for the audit of the financial statements	**100**	96
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	**214**	171

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

4 Adjusted Earnings before interest, tax, depreciation and amortisation

	2023	*2022*
	£'000	*£'000*
Profit before tax from continuing operations	**7,476**	6,975
Share based payment expense	**237**	188
Acquisition costs	**14**	29
Restructuring costs	**232**	93
Other exceptionals	–	130
Loss/(gain) on derivatives	**14**	(144)
Amortisation of intangibles from business combinations	**993**	869
Adjusted profit before tax from continuing operations	**8,966**	8,140
Finance income	**(109)**	(176)
Finance cost	**609**	386
Gain/(loss) on derivatives	**(14)**	144
Adjusted profit before interest, tax and amortisation from business combinations ('EBITA')	**9,452**	8,494
Depreciation	**3,720**	3,434
Amortisation of other intangible assets	**444**	374
Amortisation of contract assets	**130**	132
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA') from continuing operations	**13,746**	12,434

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

All costs noted above, apart from the share-based payment expense, depreciation and amortisation of intangibles had a reduction in the cashflow in the year. The tax impact on the above costs is relatively immaterial.

5 Finance income

	Group	
	2023	*2022*
	£'000	*£'000*
Bank balances and deposits	**47**	4
Interest from defined benefit pension scheme	**62**	28
Gain arising on the fair value of derivative contracts	–	144
	109	176

6 Finance costs

	Group	
	2023	*2022*
	£'000	*£'000*
Interest from the unwinding of long-term liabilities	**25**	18
Amortisation of banking facility arrangement fees	**9**	9
Losses arising on the fair value of derivative contracts	**14**	1
Interest on bank loans and overdrafts wholly repayable within five years	**304**	146
Interest on bank loans and overdrafts wholly repayable after five years	**32**	24
Interest on lease agreements	**225**	188
	609	386

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

7 Directors' emoluments

Particulars of directors' emoluments from continuing operations are as follows:

	Salary and Fees £'000	***Bonus £'000***	***Benefits £'000***	***Total 2023 £'000***	*Total 2022 £'000*	***Pension Total 2023 £'000***	*Pension Total 2022 £'000*
Non-executive:							
R S McDowell	82	–	–	**82**	78	–	–
J S Clarke	42	–	–	**42**	38	–	–
L J Thomas	42	–	–	**42**	38	–	–
J S Reedman	39	–	–	**39**	9	–	–
Executive:							
S McQuillan	318	64	2	**384**	425	–	–
S M King	269	54	–	**323**	345	–	–
Total emoluments	792	118	2	**912**	933	–	–

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 (2022: nil).

Employers National Insurance Contributions made relating to directors' emoluments were £137,000 (2022: £135,000).

During 2023 S McQuillan and S M King exercised 115,000 and 100,000 approved share options respectively resulting in paper capital gains of £116,000 and £101,000 as set out on page 31 (2022: S McQuillan and S M King exercised Nil share options).

8 Employees

Particulars of employees, including Executive Directors:

	2023 £'000	*2022 £'000*
Wages and salaries	**37,195**	29,188
Social security costs	**3,473**	2,811
Other pension costs	**1,739**	1,634
Share-based payment expense (note 28)	**237**	188
	42,644	33,821

Discontinued operations wages and salaries of £489,000 (2022 £489,000) have not been included in the above note.

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

	2023 Number	*2022 Number*
Production	**412**	373
Selling and distribution	**61**	50
Administration	**259**	255
	732	678

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'.

For the year ended 31 May 2023

8 Employees (continued)

	2023	*2022*
	£'000	*£'000*
Short term employee benefits (including NIC)	**1,580**	1,532
Post-employment benefits	**9**	7
Share-based payments	**181**	124
	1,770	1,663

9 Taxation

	2023	*2022*
	£'000	*£'000*
Continuing operations		
Current tax		
Corporation tax – current year	–	–
Corporation tax – prior year	**77**	141
Overseas tax – current year	**970**	225
Overseas tax – prior year	**210**	(480)
Total current tax	**1,257**	(114)
Deferred tax (note 26)		
Deferred tax – current year	**(15)**	860
Deferred tax – prior year	**4**	170
Deferred tax – rate	–	55
Total deferred tax	**(11)**	1,085
Tax charge on continuing operations	**1,246**	971
Tax (credit)/charge on discontinued operations	–	–
Total tax (credit)/charge in the year	**1,246**	971

Corporation tax is calculated at 20% (2022: 19%) of the estimated assessable profit/loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2023	*2022*
	£'000	*£'000*
Profit before taxation:		
Continuing operations	**7,476**	6,975
Discontinued operations	**(616)**	57
	6,860	7,032
Theoretical tax at UK corporation tax rate of 20% (2022: 19%)	**1,372**	1,336
Effects of:		
Income/(expenditure) that is not tax deductible	**120**	(134)
Un-provided deferred tax differences	**(177)**	–
Adjustments in respect of prior years	**(467)**	(169)
Recognition of previously unrecognised losses		–
Movement in unprovided deferred tax assets	**226**	(377)
Change in deferred tax rate	**47**	55
Differential in overseas tax rate	**125**	260
Total tax charge	**1,246**	971

The Group has tax losses carried forward of approximately £20.6 million at 31 May 2023 (2022: £26.8 million) that may be relievable against future profits. Further details are detailed in note 26.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

9 Taxation (continued)

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

	2023	*2022*
	£'000	*£'000*
Current tax assets		
Corporation tax	**618**	686
	618	686
Current tax liabilities		
Corporation tax	**(1,303)**	(710)
	(685)	(24)

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

10 Dividends

	2023	*2022*
	£'000	*£'000*
Interim dividend paid of 1.6p per ordinary share (2022: nil p)	**507**	–
Final dividend paid of 2.6p per ordinary share (2022: 4.0 p)	**824**	1,265
	1,331	1,265

The above excludes any proposed dividend not yet paid as disclosed in the strategic report.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

11 Earnings per ordinary share

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

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

	2023 Number	*2022 Number*
Weighted average number of shares – basic	**32,187,135**	32,070,325
Share option adjustment	**820,074**	1,063,674
Weighted average number of shares – diluted	**33,007,209**	33,133,999

	2023 £'000	2022 £'000
Profit from continuing operations	**6,230**	6,004
Share based payment expense	**237**	188
Acquisition costs	**14**	29
Restructuring costs	**232**	93
Other exceptionals	**–**	130
Loss/(gain) on derivatives	**14**	(144)
Amortisation of intangibles from business combinations	**993**	869
Adjusted profit after tax from continuing operations	**7,720**	7,169
From continuing operations:		
Basic earnings per share	**19.4p**	18.7p
Adjusted basic earnings per share	**24.0p**	22.4p
Diluted earnings per share	**18.9p**	18.1p
Adjusted diluted earnings per share	**23.4p**	21.6p
Earnings from discontinuing operations:	**(1,168)**	57
From discontinuing operations		
Basic earnings per share	**(3.6)p**	0.2p
Adjusted basic earnings per share	**(3.6)p**	0.2p
Diluted earnings per share	**(3.5)p**	0.2p
Adjusted diluted earnings per share	**(3.5)p**	0.2p
Earnings attributable to shareholders including non-controlling interest	**5,062**	7,226
Basic earnings per share	**15.7p**	18.9p
Adjusted basic earnings per share	**20.4p**	22.5p
Diluted earnings per share	**15.3p**	18.3p
Adjusted diluted earnings per share	**19.9p**	21.8p

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

There are Nil share options at 31 May 2023 (2022: Nil) that are not included within diluted earnings per share because they are anti-dilutive.

12 Goodwill

	£'000
Cost	
At 1 June 2021	22,227
Acquisition of subsidiary undertaking	156
Exchange movement	42
At 1 June 2022	22,425
Acquisition of subsidiary undertaking (note 36)	188
Exchange movement	(23)
At 31 May 2023	**22,590**
Accumulated impairment losses	
At 1 June 2021	1,005
Impairment charge	–
At 1 June 2022	1,005
Impairment charge	–
At 31 May 2023	**1,005**
Net book value	
At 31 May 2023	**21,585**
At 31 May 2022	21,420

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:

	2023 £'000	*2022 £'000*
Energy-EPM	**15,351**	15,347
Energy-PSRE	**5,282**	5,094
Medical-MII	**952**	979
	21,585	21,420

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 to six years and derives cash flows for the following years based on estimated growth rates for the specific markets in which each CGU operates. Growth rates vary by site and all fall in the range of 0.4% to 4.0%.

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 for the EPM and PSRE divisions is 11.6% (2022: 10.8%), and for the MII division is 14.0% (2022: 12.1%) which is considered appropriate based on the Group's borrowings adjusted for the aggregate risk in the respective markets.

Management have sensitised these key assumptions for each CGU within what is considered a reasonably possible range for the market in which the Group operates. If we were to assume a 0% long term growth rate no impairment would arise (2022: £nil). If the discount rate was increased by 1% no impairment would arise (2022: £nil).

For the year ended 31 May 2023

13 Other intangible assets – group

	Customer Relationships £'000	Order book £'000	Brand £'000	Development costs £'000	Software £'000	Total £'000
Cost						
At 1 June 2021	9,041	–	1,961	8,891	720	20,613
Additions	–	–	–	1,962	34	1,996
Acquisition of subsidiary undertakings	–	180	43	–	–	223
Transfers	–	–	–	–	31	31
Disposals	–	–	–	–	(17)	(17)
Exchange adjustments	–	–	7	195	(11)	191
At 1 June 2022	**9,041**	**180**	**2,011**	**11,048**	**757**	**23,037**
Additions	–	–	–	5,315	85	5,400
Acquisition of subsidiary undertakings (note 36)	–	162	–	–	–	162
Transfers	–	–	–	–	–	–
Disposals	–	–	–	(373)	–	(373)
Exchange adjustments	–	–	–	(621)	(2)	(623)
At 31 May 2023	**9,041**	**342**	**2,011**	**15,369**	**840**	**27,603**
Accumulated amortisation						
At 1 June 2021	2,608	–	505	2,496	541	6,150
Charge for continuing operations	695	35	154	334	25	1,243
Transfer	–	–	–	(43)	31	(12)
Exchange adjustments	–	–	(1)	–	(14)	(15)
Disposals	–	–	–	–	(4)	(4)
At 1 June 2022	**3,303**	**35**	**658**	**2,787**	**579**	**7,362**
Charge for continuing operations	696	284	166	216	74	1,436
Exchange adjustments	–	–	(10)	36	(11)	15
Transfer	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 31 May 2023	**3,999**	**319**	**814**	**3,039**	**642**	**8,813**
Net book value at 31 May 2023	**5,042**	**23**	**1,197**	**12,330**	**198**	**18,790**
Net book value at 31 May 2022	5,738	145	1,353	8,261	178	15,675

For the year ended 31 May 2023

14 Property, plant and equipment – group

	Land and buildings £'000	*Plant and Machinery £'000*	*Equipment and motor vehicles £'000*	*Total £'000*
Cost				
At 1 June 2021	19,896	14,442	3,465	37,803
Acquisitions	–	52	4	56
Additions	1,745	900	344	2,989
Disposals	(520)	(73)	(134)	(727)
Exchange adjustments	396	599	210	1,205
At 1 June 2022	**21,517**	**15,920**	**3,889**	**41,326**
Acquisitions (note 36)	–	26	2	28
Additions	1,648	990	653	3,291
Disposals	–	(77)	(110)	(187)
Disposal of company	(374)	(1,825)	(394)	(2,593)
Transfer	599	(506)	(93)	–
Exchange adjustments	(49)	15	22	(12)
At 31 May 2023	**23,341**	**14,543**	**3,969**	**41,853**
Accumulated depreciation				
At 1 June 2021	4,199	6,466	1,855	12,520
Charge for continuing operations	1,483	1,528	664	3,675
Disposals	(520)	(11)	(128)	(659)
Exchange adjustments	199	198	154	551
At 1 June 2022	**5,361**	**8,181**	**2,545**	**16,087**
Charge for continuing operations	1,629	1,474	617	3,720
Charge for discontinuing operations	52	51	11	114
Disposals	(366)	(995)	(319)	(1,680)
Transfer	417	(391)	(26)	–
Exchange adjustments	(17)	–	17	–
At 31 May 2023	**7,076**	**8,320**	**2,845**	**18,241**
Net book value at 31 May 2023	**16,265**	**6,223**	**1,124**	**23,612**
Net book value at 31 May 2022	16,156	7,739	1,344	25,239

During the year, the assets of Metalcraft (Chengdu) Limited and Metalcraft (Sichuan) Limited were disposed of. See note 36 for more detail.

Right-of-use assets

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

	Net book value £'000	*Additions £'000*	*Depreciation expense £'000*
Land and buildings	3,227	1,377	922
Plant and machinery	96	–	48
Equipment and motor vehicles	65	–	64
	3,388	**1,377**	**1,034**

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

15 Investments

	Unlisted Investments £'000	*Group undertakings £'000*	*Capital contributions £'000*	*Total £'000*
Cost				
At 1 June 2021	–	44,409	292	44,701
Investment in subsidiary undertaking	–	2,059	88	2,147
Investment in Unlisted Equity	4,000	–	–	4,000
At 1 June 2022	**4,000**	**46,468**	**380**	**50,848**
Investment in Unlisted Entity	4,000	4,297	100	8,397
Investment in subsidiary undertaking	–	–	–	–
At 31 May 2023	**8,000**	**50,765**	**480**	**59,245**
Provision				
At 1 June 2021	–	4,550	–	4,550
Investment written off	–	–	–	–
At 1 June 2022 and 31 May 2023	**–**	**4,550**	**–**	**4,550**
Net book value at 31 May 2023	**8,000**	**46,215**	**480**	**54,695**
Net book value at 31 May 2022	4,000	41,918	380	46,298

In the period the Company purchased additional shares in Magnetica to increase the shareholding from 61.3% to 71.7% owed.

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

Name	**Registered office**	**Principal activity**
Stainless Metalcraft (Chatteris) Limited	15 Honeysome Road, Chatteris, Cambridgeshire, PE16 6SA	Trading
Booth Industrial Industries Limited	15 Honeysome Road, Chatteris, Cambridgeshire, PE16 6SA	Trading
Maloney Metalcraft Limited	15 Honeysome Road, Chatteris, Cambridgeshire, PE16 6SA	Trading
Composite Products Limited	15 Honeysome Road, Chatteris, Cambridgeshire, PE16 6SA	Trading
Space Cryomagnetics Limited **	7 Suffolk Way, Abingdon, Oxfordshire, OX14 5JX	Trading
Scientific Magnetics Limited **	7 Suffolk Way, Abingdon, Oxfordshire, OX14 5JX	Trading
Hayward Tyler Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Trading
Hayward Tyler Inc *	480 Roosevelt Highway, Colchester, Vermont 05446-0680	Trading
Energy Steel & Supply Co. *	1785 Northfield Dr, Rochester Hills, Michigan 48309	Trading
Hayward Tyler Pumps (Kunshan) Co Limited *	243 Huang Pujiang Kunshan, Jiangsu Province, 215300	Trading
Hayward Tyler India PTE Limited *	509-510 Charmwood Plaza, EROS Garden, Faridabad 121009	Trading
Hayward Tyler Fluid Handling Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Trading
Transkem Plant Limited	41 Glenburn Road, East Kilbride, Glasgow, G74 5BJ	Trading
Tecmag Inc **	10161 Harwin Dr. #150, Houston, TX 77036	Trading
Magnetica Limited ACN **	Unit 4, 115 Frederick St, Northgate, Queensland 4013	Trading
Hayward Tyler Group plc	Atla Group Limited, Burleigh Manor, Douglas, IM1 5EP	Holding
Southbank UK Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Property

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

15 Investments (continued)

Name	Registered office	Principal activity
Hayward Tyler Group Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Holding
Hayward Tyler Holdings Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Holding
Hayward Tyler Holding Inc *	480 Roosevelt Highway, Colchester, Vermont 05446-0680	Holding
Nviro Cleantech Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Holding
Redglade Associates Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Property
Redglade Investments Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Holding
Hayward Tyler Pension Plan Trustees Limited*	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Pension
Hayward Tyler (UK) Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Dormant
Appleton & Howard Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Dormant
Credit Montague Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Dormant
Mullins Limited *	1 Kimpton Road, Luton, Bedfordshire, LU1 3LD	Dormant
Crown UK Limited	15 Honeysome Road, Chatteris, Cambridgeshire, PE16 6SA	Dormant

* Indirectly owned subsidiary.

** All subsidiaries are 100% owned with the exception of Magnetica (71.7% owned, 2022: 61.3%) and its 100% owned subsidiaries Space Cryomagnetics Limited, Scientific Magnetics Limited and Tecmag Inc.

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of the individual accounts by virtue of section 479A of the Act:

Name	Company number
Southbank UK Limited	07574162
Hayward Tyler Group Limited	03232768
Hayward Tyler Holdings Limited	03251397
Redglade Associates Limited	05303263
Redglade Investments Ltd	05501823
Transkem Plant Limited	SC017991

Avingtrans will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year end 31 May 2023 in accordance with 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Avingtrans will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

16 Unlisted Investment

	Unlisted Investments £'000
Movements	
At 1 June 2021	–
Additions	4,000
Revaluations	–
At 1 June 2022	**4,000**
Additions	4,000
Revaluations	–
At 31 May 2023	8,000

The unlisted investment relates a convertible loan and shares in Adaptix Ltd ("Adaptix"). At 31 May 2023, the Group owned 18.0% (2022: 11.9%) of Adaptix's issued shares. Both convertible bonds and shares investments are accounted for at fair value.

At 31 May 2023, the Group held a convertible loan valued at £3,000,000 (2022: £nil). The convertible loan has a principal value of £2,000,000 and a 3-year term. The convertible loan attracts interest at 12% which is payable at maturity. The loan can be converted by the Group at any point over the term at a conversion rate of £5 per share.

At 31 May 2023, the Group held shares valued at £5,000,000 (2022: £4,000,000).

Fair value

As the quoted prices (level 1 inputs) for these shares ae unavailable, we have used observable inputs (level 2 inputs) to determine the fair value. Other observable inputs include recent share transactions, financial forecasts and other information obtained attendance at the investment's board meetings.

Nature and extent of risks arising from unlisted investments

The Group is exposed to a number of risks including credit risk, foreign exchange risk and interest rate risk.

Credit risk relates to the convertible loan. It represents the risk that Adaptix will be unable to repay the £2.0m loan principal and interest at the maturity.

Foreign exchange risk impacts both the convertible loan and the shares. A significant portion of Adaptix's cash inflows are anticipated in foreign currencies. A strengthening of GBP against foreign currencies would reduce the value of those currencies on translation, potentially resulting in lower valuations.

Interest rate risk impacts the convertible loan and the shares. Rising interest rates impact discount rates for future cash flows. This in turn can lead to lower present values for future cash flows, potentially resulting in lower valuations.

Further details on the Group's risk management practises can be found in note 25.

17 Inventories

	Group	
	2023 £'000	*2022 £'000*
Raw materials and consumables	**6,628**	6,772
Work in progress	**2,788**	2,036
Finished goods	**3,240**	2,951
	12,656	11,759

The replacement cost of the above stocks would not be significantly different from the values stated. During the year there was an impairment charge included in cost of sales of £473,000 (2022: £93,000). The stock provision included within raw materials is £1,808,000 (2022: £1,693,000).

For the year ended 31 May 2023

18 Trade and other receivables

	Group		Company	
	2023	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*
Amounts falling due within one year				
Trade receivables	**21,981**	17,974	**–**	–
Allowance for doubtful debts	**(260)**	(150)	**–**	–
	21,721	17,824	**–**	–
Other receivables	**618**	679	**4,246**	4,246
Amounts owed by group undertakings	**–**	–	**8,508**	10,527
Prepayments	**3,258**	2,647	**227**	27
Contract assets	**24,094**	25,667	**–**	–
	49,691	46,817	**12,981**	14,800
Amounts falling due after one year				
Contract assets	**1,550**	1,579	**–**	–

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

The Group'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 in note 25 financial instruments.

The Contract Assets relates to a contract with contracted life of greater than one year and has been allocated based on expected schedules.

19 Cash and cash equivalents

Cash and cash equivalents included the following components:

	Group		Company	
	31 May 2023	*31 May 2022*	***31 May 2023***	*31 May 2022*
	£'000	*£'000*	***£'000***	*£'000*
Cash at bank and in hand:				
GBP	**12,499**	22,203	**6,404**	14,761
USD	**3,655**	689	**–**	–
EUR	**22**	3	**–**	–
Other	**1,541**	1,392	**–**	–
Total cash at bank and in hand	**17,717**	24,287	**6,404**	14,761
Overdraft (note 23):	**(331)**	(385)	**–**	–
Total cash and cash equivalents	**17,386**	23,902	**6,404**	14,761

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

20 Provisions

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

	Warranty £'000	*Loss making and onerous contracts £'000*	*Dilapidations £'000*	*Total £'000*
Carrying amount				
1 June 2021	1,495	162	85	**1,742**
Additional provisions	397	168	–	**565**
Amounts utilised	(539)	(72)	–	**(611)**
Reversals	(48)	–	–	**(48)**
Exchange adjustments	110	7	5	**122**
1 June 2022	**1,415**	**265**	**90**	**1,770**
Additional provisions	1,797	161	–	**1,958**
Through business combinations	–	236	–	**236**
Amounts utilised	(972)	(378)	–	**(1,350)**
Reversals	(1,277)	–	(27)	**(1,304)**
Exchange adjustments	2	1	2	**5**
31 May 2023	**965**	**285**	**65**	**1,315**

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

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

Dilapidations: Provision for dilapidation mainly represents the estimated cost to restore the property to the agreed condition set out in the lease rental agreement.

The Company had £nil (2022: £nil) provision at year end.

21 Trade and other payables

	Group		*Company*	
	2023 £'000	*2022 £'000*	***2023 £'000***	*2022 £'000*
Trade payables	**14,654**	10,563	**100**	72
Other tax and social security	**1,899**	2,515	**36**	36
Other payables	**1,960**	1,290	**170**	174
Contract liabilities	**3,150**	3,073	**–**	–
Accruals	**10,477**	12,188	**279**	298
	32,140	29,629	**585**	580

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

22 Other creditors

	Group		*Company*	
	2023	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*
Non-current				
Other creditors	**368**	1,342	**–**	–

Other creditors relates to deferred grant income received from the Regional Growth Fund for capital investment. During the year the Group agreed the repayment of £639k of the original £3,500k grant due to not achieving all the targets. Payment will be made in FY24.

The deferred grant income will be amortised in the income statement over the life of the assets which the grant relates to.

23 Financial assets and liabilities

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

	Group		*Company*	
	2023	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*
Financial assets at amortised cost:				
Trade and other receivables	**21,721**	17,824	**8,508**	10,527
Cash and cash equivalents	**17,717**	24,287	**6,404**	14,761
Total financial assets	**39,438**	42,111	**14,912**	25,288
Financial liabilities at amortised cost:				
Trade payables	**14,654**	10,563	**100**	72
Accruals	**10,477**	12,188	**279**	298
Borrowings	**3,746**	6,259	**83**	250
Lease obligations (note 24)	**4,831**	4,702	**–**	-
	33,708	33,712	**462**	620
Financial liabilities measured at FVTPL:				
Derivative financial instruments	**15**	–	**–**	–
Contingent/deferred consideration	**–**	343	**–**	–
Total financial liabilities	**33,723**	34,055	**462**	620

A description of the Group's financial instrument risks is included in note 25.

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

Borrowings comprise of:

	Group		*Company*	
	2023	*2022*	***2023***	*2022*
Secured borrowings	***£'000***	*£'000*	***£'000***	*£'000*
Bank overdrafts and short-term borrowings	**2,885**	2,509	**–**	–
Bank loans	**861**	3,750	**83**	250
Total borrowings	**3,746**	6,259	**83**	250
Amount due for settlement within 12 months	**3,077**	5,497	**83**	182
Amount due for settlement after 12 months	**669**	762	**–**	68

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

23 Financial assets and liabilities (continued)

	Group		*Company*	
	2023	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*
Bank loans due within one to two years	**36**	166	**–**	68
Bank loans due within two to five years	**108**	99	**–**	–
Bank loans due after five years	**525**	497	**–**	–
	669	762	**–**	68

Bank loans, overdrafts and short-term borrowings of £3,746,000 (2022: £6,259,000) are secured on certain assets of the Group. The debt is secured over land and buildings, inventory and trade receivables. Their carrying values can be seen in notes 14, 17 and 18 respectively.

At 31 May 2023 the Group had £19,362,000 (2022: £25,460,000) 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 SONIA rates plus margins of between 1.5% – 2.75%.

The Group have £10,600,000 (2022: £11,500,000) of bond and guarantee facilities to support ongoing contract trading activity. As at the 31 May 2023, £3,761,000 is utilised (2022: £2,185,000).

24 Lease liabilities

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

	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Current	**1,503**	1,605
Non-current	**3,328**	3,097
	4,831	4,702

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

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

24 Lease liabilities (continued)

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

	Within 1 year £'000	***1-2 years £'000***	***2-3 years £'000***	***3-4 years £'000***	***4-5 years £'000***	***Over 5 years £'000***	***Total £'000***
31 May 2023							
Lease payments	**1,692**	1,414	1,066	666	382	83	5,303
Finance charges	**(194)**	(136)	(84)	(42)	(13)	(3)	(472)
Net present value	**1,498**	**1,278**	**982**	**624**	**369**	**80**	**4,831**
31 May 2022							
Lease payments	1,747	1,099	1,002	845	202	157	5,052
Finance charges	(142)	(94)	(62)	(31)	(12)	(9)	(350)
Net present value	1,605	1,005	940	814	190	148	4,702

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

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

	2023 £'000	*2022 £'000*
Short-term leases	**134**	160
Leases of low value assets	**22**	44
	156	204

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £0.7m at 31 May 2023 (31 May 2022: £2.5m).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. 15% (2022: 2%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 10% (2022: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on a three or 5 year basis.

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

See note 32 for further details re the lease liability movements in the year.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

25 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 23. 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 23 and 24 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

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

	Group		***Company***	
The gearing ratio at the year-end is as follows:	***2023***	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*
Debt	**(8,577)**	(10,961)	**(83)**	(250)
Cash and cash equivalents	**17,717**	24,287	**6,404**	14,761
Net cash	**9,140**	13,326	**6,321**	14,511
Equity	**108,455**	105,817	**73,816**	75,029
Net cash to equity ratio	**8.4%**	12.6%	**8.6%**	19.3%

Debt is defined as short and long term borrowings and lease liabilities, as detailed in note 23. 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 exposure to foreign currency risk expressed in GBP was as follows:

	31 May 2023			*31 May 2022*		
	USD	***EUR***	***RMB***	*USD*	*EUR*	*RMB*
	£'000	***£'000***	***£'000***	*£'000*	*£'000*	*£'000*
Trade and other receivables	**12,144**	**192**	**6,723**	10,085	434	7,948
Overdrafts	**(2,885)**	**–**	**–**	(2,508)	–	–
Bank loans	**(73)**	**–**	**–**	(120)	–	–
Lease liabilities	**(2,682)**	**–**	**(272)**	(2,318)	–	–
Trade and other creditors	**(15,362)**	**(155)**	**(2,717)**	(12,118)	(187)	(125)

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 foreign exchange forward contracts to purchase £1.1 million (2022: £2.0 million) in order to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2023.

The foreign exchange loss in the year shown in the Statement of Comprehensive Income is mainly due to the strengthening of the UK Pound from the prior year.

For the year ended 31 May 2023

24 Financial instruments (continued)

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

	Euro currency impact		***US $ currency impact***		***RmB currency impact***	
	2023	*2022*	***2023***	*2022*	***2023***	*2022*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
Impact (+/-) on						
Profit for the financial year/equity	**(4)**	(27)	**358**	226	**(445)**	(869)

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 £56,000. These charges are considered to be reasonably possible based on observation of current market conditions.

Price risk management

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

Credit risk management

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

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

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

The Group has no major customer representing more than 10% (2022: no major customer which representing more than 10%) of trade receivables, the Group has no other significant concentration of receivables.

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

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

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

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

25 Financial instruments (continued)

Ageing of trade receivables and expected credit loss provision:

	Trade receivables aged from invoice date					
	0-30	***31-60***	***61-120***	***121-360***	***>360***	***Total***
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
31 May 2023						
Trade receivables, gross	14,116	3,461	1,598	1,465	1,341	21,981
Expected credit loss provision	(39)	(3)	(6)	(35)	(177)	(260)
	14,077	**3,458**	**1,592**	**1,430**	**1,164**	**21,721**
31 May 2022						
Trade receivables, gross	11,976	1,793	1,478	2,169	558	17,974
Expected credit loss provision	(44)	(3)	(8)	(6)	(89)	(150)
	11,932	1,790	1,470	2,163	469	17,824

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 46 days (2022: 27 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 Company has £4.2m receivable from JTC Employer Solutions Trustee Limited (note 35) this is supported by the JTC's shareholding as disclosed on page 23. The Company regularly reviews this in comparison with the current share price for any credit risk. The amounts owed by group undertakings (note 18) is reviewed regularly against financial forecasts for any credit risk.

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 regard 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 23 Financial assets and liabilities and note 24 Lease liabilities.

All facilities are secured on the assets of the Group.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

26 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 2021	701	2,698	57	(1,767)	1,689
Arising on fair value adjustments on business combinations	11	42	–	–	53
Charge/(credit) to income – continuing operations	98	(127)	891	223	1,085
Charge to other comprehensive income	–	–	24	–	24
Foreign exchange differences	–	–	70	–	70
At 1 June 2022	**810**	**2,613**	**1,042**	**(1,544)**	**2,921**
Arising on fair value adjustments on business combinations	40	–	–	–	40
(Credit)/charge to income	(49)	(254)	(585)	878	(10)
Credit to other comprehensive income	–	–	(347)	–	(347)
Foreign exchange differences	–	–	(32)	–	(32)
At 31 May 2023	**801**	**2,359**	**78**	**(666)**	**2,572**

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:

	2023 £'000	*2022 £'000*
Deferred tax assets	**666**	1,544
Deferred tax liabilities	**(3,238)**	(4,465)
	(2,572)	(2,921)

At the balance sheet date the Group has unused tax losses of £20.6 million (2022: £26.8 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £2.3 million (2022: £6.3 million) of such losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results and the future projected profitability of entities within the Group. In addition the Group has an unrecognised deferred tax asset of £163k (2022: £182k) in respect of share-based payments.

At the balance sheet date the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2022: £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.

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

	Tax losses £'000	**Total £'000**
At 1 June 2022	–	–
(Credit) to income statement	(404)	(404)
At 31 May 2023	**(404)**	**(404)**

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

26 Deferred tax (continued)

At the balance sheet date the Company has unused tax losses of £2.2 million (2022: £0.6 million) available for offset against future profits within group undertakings. A deferred tax asset has been recognised in respect of £0.4 million (2022: nil) 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 Company's forecast of future operating results and the future projected profitability of entities within the Group.

27 Share capital

	2023		2022	
	No.	***£'000***	*No.*	*£'000*
Allotted, issued and fully paid				
Ordinary shares of 5p each	**32,250,445**	**1,612**	32,141,445	1,607

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

	No.	***£'000***
At 1 June 2022 and 31 May 2022	**32,141,445**	1,607
Shares issued on exercise of share options (note 28)	109,000	5
At 31 May 2023	**32,250,445**	**1,612**

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 424,000 options were exercised, 215,000 and 209,000 at 220.0p and 267.0p respectively. The market price on the day of exercise was between 407.0p and 440.0p. Further details of the scheme are given in note 28.

The market price of the Company's shares at the end of the year was 410.0p (2022: 450.0p). The highest and lowest market prices during the year were 470.0p and 352.0p (2022: 482.5p and 350.0p respectively).

28 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.

	2023		**2022**	
	Options (No. '000)	***Weighted Average Exercise price p***	*Options (No. '000)*	*Weighted Average Exercise price p*
Outstanding at the start of the year	**2,666.5**	**274.90**	2,609.0	234.51
Lapsed during the year	–	–	(27.6)	282.94
Issued during the year	**577.5**	**410.00**	560.0	402.50
Exercised during the year	**(424.0)**	**(243.17)**	(474.9)	203.01
Outstanding at the end of the year	**2,820.0**	**307.34**	2,666.5	274.90
Exercisable at the end of the year	**1,110.5**	**215.92**	972.5	198.28

The options outstanding at 31 May 2023 had exercise prices in the range 109.0p to 410.0p and a weighted average remaining contractual life of 7.0 years (2022: 7.2 years). The average market share price of options at date of exercise was 431.52p (2022: 427.06p).

Of the 424,000 options exercised in the period 109,000 resulted in the issue of new shares, the balance relates to options under the Exsop scheme which are issued on inception (see Note 35).

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

28 Share-based payments (Continued)

The terms of these options are as follows:

Date of grant	*Options outstanding at 31 May 2023*	*Vesting period*	*Market value at date of grant (p)*	*Exercise price (p)*	*Exercise period*
9/12/2014	8,000	3 years	109.00	109.00	10/12/2017 to 9/12/2024
21/12/2016	749,500	3 years	193.00	193.00	22/12/2019 to 21/12/2026
17/12/2019	353,000	3 years	267.00	267.00	17/12/2022 to 16/12/2029
24/11/2020	572,000	3 years	288.00	288.00	24/11/2023 to 23/11/2030
29/11/2021	560,000	3 years	402.50	402.50	29/11/2024 to 28/11/2031
26/01/2023	577,500	3 years	410.00	410.00	26/01/2026 to 25/01/2033

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, Pett, 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

	2023 £'000	*2022 £'000*
In respect of:		
Equity settled share options	**237**	188

There are no share-based payment transactions that were expensed immediately. A deferred tax credit of £nil (2022: £nil) was recognised during the year in respect of share-based payments.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

29 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”), 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.

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 meet the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Plan was carried out as at 1 January 2020 and the next valuation of the Plan is due as at 1 January 2023 which is currently underway. 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, it’s possible that contributions may be reduced. The Company expects to pay no contributions in the year to 31 May 2024.

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 £0.5 million (2022: £1.7 million) which is deemed recoverable and therefore recognised in full. The unconditional right condition in IFRIC14 is satisfied as the Company has an unconditional right to a refund of surplus after the last pensioner dies, assuming the Plan continues indefinitely.

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

The Plan exposes the Company to a number of risks:

- **Investment risk**

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

- **Interest rate risk**

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

- **Inflation risk**

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

- **Member options**

  Certain benefit options may be exercised by members without requiring the consent of the Trustees or the Company, for example exchanging pension for cash at retirement. In this example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge;

- **Mortality risk**

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

- **Concentration risk**

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

There were no plan amendments, curtailments or settlements during the year (2022: nil).

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 cash flows of the Plan caused by changes in interest and inflation rates.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

29 Pensions and other employee obligations (continued)

Profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 10 years.

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 2023 £'000	*At 31 May 2022 £'000*
Defined benefit obligation	**(8,385)**	(10,548)
Fair value of plan assets	**8,911**	12,236
Net defined benefit asset	**526**	1,688

Amounts recognised in the income statement during the year are shown in the table below.

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Interest on liabilities	**350**	249
Interest on assets	**(412)**	(277)
Total credit to income statement	**(62)**	(28)

Scheme assets

The fair value of assets for the reporting years under review are as follows:

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Fair value of assets at start of year	**14,400**	15,177
Interest on assets	**12,236**	14,400
Company contributions	**164**	282
Benefits paid	**(788)**	(720)
Return on assets less interest	**(3,113)**	(2,003)
Fair value of assets at end of year	**8,911**	12,236

Scheme liabilities

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

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Defined benefit obligation at start of year	**10,548**	13,116
Interest cost	**350**	249
Changes to demographic assumptions	**–**	(59)
Changes to financial assumptions	**(2,022)**	(2,038)
Experience loss on liabilities	**297**	–
Benefits paid	**(788)**	(720)
Defined benefits obligation at end of year	**8,385**	10,548

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

29 Pensions and other employee obligations (continued)

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

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Discount rate	**5.35%**	3.45%
Expected rate of pension increases	**2.70%**	3.10%
Inflation assumption	**3.25%**	3.50%
Mortality assumption	**S3PFA CMI**	S3PFA CMI

S3PFA CMI – for males and females projected on a year of birth basis using CMI (2021) projections with a long-term rate of improvement of 1.25% per annum. The mortality assumptions imply the following life expectancies:

- Life expectancy at age 65 of male aged 45 21.0
- Life expectancy at age 65 of male aged 65 19.6
- Life expectancy at age 65 of female aged 45 25.1
- Life expectancy at age 65 of female aged 65 23.6

These assumptions were developed by management under consideration of expert advice provided by Barnett Waddingham, independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting years 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.

The asset spilt is as follows:

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Multi-asset growth portfolio	**4,303**	5,953
Gilts and LDI	**4,423**	5,809
Cash	**185**	474
Total assets	**8,911**	12,236

The remeasurement recorded in other comprehensive income is as follows:

	Group	
	At 31 May 2023 £'000	*At 31 May 2022 £'000*
Loss on scheme assets in excess of interest	**3,113**	2,003
(Gain)/loss from changes to demographic assumptions	**–**	(59)
Experience losses on liabilities	**297**	–
(Gains)/loss from changes to financial assumptions	**(2,022)**	(2,039)
Total loss/(gain) recognised in other comprehensive income	**1,388**	(95)

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

29 Pensions and other employee obligations (continued)

Sensitivity of the value placed on the liabilities

	Approximate effect on liabilities
Reduce discount rate by 0.5% p.a.	£407,000
Increase inflation and related assumption by 0.5% p.a.	£231,000
Increase a long-term rate of longevity improvement by 0.25% p.a.	£38,000
Apply a 90% loading to the mortality base table (reduces probability of death by 10% at each age)	£343,000

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.

30 Notes to the consolidated cash flow statement

Cash flows from operating activities:

	2023 £'000	*2022 £'000*
Continuing operations		
Profit before income tax from continuing operations	**7,475**	6,975
(Loss)/profit before income tax from discontinuing operations before disposal	**(616)**	57
Adjustments for:		
Depreciation	**3,720**	3,675
Amortisation of intangible assets	**444**	374
Amortisation of intangibles from business combinations	**993**	869
Loss on disposal of property, plant and equipment	**–**	44
Loss on disposal of intangible assets	**373**	–
Finance income	**(109)**	(176)
Finance expenses	**609**	393
Share based payment charge	**237**	188
Changes in working capital		
Increase in inventories	**(729)**	(1,033)
Increase in trade and other receivables	**(3,628)**	(7,837)
Increase in trade and other payables	**2,814**	783
(Decrease)/increase in provisions	**(857)**	32
Other non cash changes	**(44)**	(171)
Cash flows from operating activities	**10,682**	4,173

	2023 £'000	*2022 £'000*
Cash and cash equivalents		
Cash	**17,717**	24,287
Overdrafts	**(331)**	(385)
	17,386	23,902

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

31 Notes to the company cash flow statement

	2023	*2022*
	£'000	*£'000*
Continuing operations		
Loss before income tax from continuing operations	**(590)**	(1,241)
Adjustments for:		
Finance income	**(487)**	(238)
Finance expenses	**6**	6
Share based payment charge	**137**	100
Investment provision	**–**	–
Changes in working capital		
Increase in trade and other receivables	**(199)**	(415)
Decrease in trade and other payables	**3**	6
Other non-cash changes	**1**	1
Cash flow from operating activities	**(1,129)**	(1,781)

32 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 2021	3,368	1,818	4,275	342	9,803
Cash flows:					
Repayments	–	(476)	(1,486)	–	(1,962)
New borrowings	–	953	–	–	953
Non-cash:					
New leases	–	–	1,540	–	1,540
Amortisation of finance fees	–	9	–	–	9
Exchange adjustments	–	202	373	43	618
Reclassification	(2,606)	2,606	–	–	–
At 31 May 2022	**762**	**5,112**	**4,702**	**385**	**10,961**
At 1 June 2022	**762**	**5,112**	**4,702**	**385**	**10,961**
Cash flows:					
Repayments	–	(2,845)	(1,771)	(62)	(4,678)
New borrowings	–	357	1,898	–	2,255
Non-cash:					
New leases	–	–	–	–	–
Amortisation of finance fees	–	2	–	–	2
Exchange adjustments	–	28	1	8	37
Reclassification	(93)	93	–	–	–
At 31 May 2023	**669**	**2,747**	**4,830**	**331**	**8,577**

For the year ended 31 May 2023

32 Reconciliation of liabilities arising from finance activities (continued)

Company	*Long-term borrowings £'000*	*Short-term borrowings £'000*	*Lease liabilities £'000*	*Overdraft £'000*	*Total £'000*
At 1 June 2021	249	181	–	–	430
Cash flows:					
Repayments	–	(181)	–	–	(181)
Non-cash:					
Amortisation of finance fees	–	1	–	–	1
Reclassification	(181)	181	–	–	–
At 1 June 2022	**68**	**182**	**–**	**–**	**250**
Cash flows:					
Repayments	(68)	(98)	–	–	(166)
Non-cash:					
Amortisation of finance fees	–	(1)	–	–	(1)
Reclassification	–	–	–	–	–
At 31 May 2023	**–**	**83**	**–**	**–**	**83**

33 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 23.

Transactions with Magnetica Ltd its subsidiaries were as follows:

	Group 2023 £'000	*Company 2023 £'000*
Recharges to Magnetica and Subsidiaries	**122**	**122**
Recharges from Magnetica and Subsidiaries	**–**	**–**
Balances outstanding as at 31 May		
Inter-company balance owed by Magnetica and Subsidiaries	**–**	**–**
Inter-company balance owed to Magnetica and Subsidiaries	**21**	**21**

During the year 152,000,000 shares in Magnetica Ltd were acquired by Avingtrans plc for £4,296,471 resulting in Avingtrans holding increasing to 71.7% (2022: 61.3%).

34 Financial commitments

Capital commitments
Commitments for capital expenditure were as follows:

	2023 £'000	*2022 £'000*
Contracted for, but not provided in the accounts	**128**	–

35 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 JTC Employer Solutions 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 28 is achieved the option can be exercised by the beneficiaries

During the year Nil (2022: Nil) shares were purchased at a cost of £Nil (2022: Nil) by the Trust and beneficiaries, an interest in which was allocated to the Executive Directors as beneficiaries (note 28). All shares held by the trust are under option to Directors. Costs are charged to profit and loss as incurred. The above holdings are held at a cost of £4,235,000 (2022: £4,235,000) and shown as a deduction from equity in the statement of changes in shareholders' equity.

36 Acquisitions and disposals

Disposal of Metalcraft (Chengdu) Limited and Metalcraft (Sichuan) Limited

On 31 May 2023, the Group disposed of 100% of its shares in Metalcraft (Chengdu) Limited and Metalcraft (Sichuan) Limited. Consideration was received in full during the year.

At the disposal date the carrying amount of net assets held in the business was as follows:

	£'000
Inventories	347
Trade and other debtors	331
Cash	147
Trade and other creditors	(287)
Total net assets	**538**
Consideration comprises:	
Cash consideration	1,024
Forgiveness of amounts owed by the disposal group	(988)
Total consideration	**36**
Loss on disposal	**502**
Cash consideration	1,024
Cash disposed of	(147)
Net cash inflow on disposal	**877**

The loss on disposal is included in the loss for the year from discontinued operations in the consolidated income statement.

	2023 ***£'000***	*2022* *£'000*
Revenue	508	1,330
Other expenses	**(1,174)**	(1,273)
(Loss)/profit before income tax	**(666)**	57
Tax expense	–	–
(Loss)/profit after income tax of discontinued operation	**(666)**	57
Loss on disposal of net asset of discontinued operations	**(502)**	–
(Loss)/profit for the year from discontinued operations	**(1,168)**	57

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

36 Acquisitions and disposals (continued)

Acquisition of HEVAC and HES

On 30 December 2022, the Group acquired the trade and assets of HEVAC Limited ("HEVAC") a heating ventilation and air conditioning solutions provider based in Elland, Yorkshire and the business and assets of HeatExchangeSpares.com ("HES") a plates and gaskets supplier, based in Watford. The acquisitions will complement the Group's Ormandy Rycroft Engineering business and expand its product range.

The details of the business combination are as follows:

	£'000
Goodwill	188
Other intangible assets	162
Property, plant and equipment	28
Inventories	955
Trade and other receivables	2
Total assets	**1,335**
Trade and other payables	(42)
Deferred tax liability	(41)
Provisions	(400)
Total liabilities	**(483)**
Net assets	**852**
Cash consideration	852
Net cash outflow from acquisition	**852**

Consideration was paid in full during the financial year.

Goodwill of £188,000 is primarily the skills and expertise of HEVAC and HES's workforce. Goodwill has been allocated to our PSRE division cash generating unit.

HEVAC and HES contribution to the Group results, post-acquisition are:

	£'000
Revenue	2,862
Expenses	(2,780)
Profit before exceptional expenses and tax	**82**
Exceptional and moving expenses	(218)
Loss before tax	**(136)**
Tax credit	22
Loss after tax	**(114)**

Exceptional expenses comprise £14,000 relating to the acquisition of HEVAC and HES, and £204,000 associated with moving the operations to Group premises in Bradford.

We do not have access to the accounting records prior to the acquisition so are unable to present the contribution the acquisition to the Group were it to have been acquired at the start of the financial year.

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

37 Non-controlling interest (NCI)

During the year the Group increased its shareholding in Magnetica to 71.7% (2022: 61.3%) of the issued shares of Magnetica Limited. For further details on the increase in investment, see note 15.

Summarised statement of financial position:

	2023	*2022*
	£'000	*£'000*
Current assets	**2,544**	2,859
Current liabilities	**(3,410)**	(4,020)
Current net liabilities	**(866)**	(1,161)
Non-current assets	**10,092**	6,599
Non-current liabilities	**(709)**	(281)
Non-current net assets	**9,383**	6,318
Net assets	**8,517**	5,157
Accumulated NCI	**2,413**	2,000

Summarised statement of comprehensive income:

	2023	*2022*
	£'000	*£'000*
Revenue	**4,809**	845
Loss for the period	**(465)**	(1,075)
Other comprehensive income	–	–
Total comprehensive loss	**(465)**	(1,075)
Losses absorbed by NCI	**(132)**	(417)
Dividends paid to NCI	–	–

Summarised cash flows:

	2023	*2022*
	£'000	*£'000*
Cash flow from operating activities	**418**	(138)
Cash flow from investing activities	**(4,745)**	(1,971)
Cash flow from financing activities	**4,490**	1,597
Net increase/(decrease) in cash and cash equivalents	**163**	(512)

Notes to the Annual Report (Continued)

For the year ended 31 May 2023

38 Post balance sheet events (PBSE)

Acquisition of Slack & Parr

On 4th August 2023, the Group acquired the trade and assets of Slack & Parr from Slack & Parr Limited. As at this date control over the business and its subsidiaries has been obtained.

Slack & Parr is a manufacturer of specialist pumps and a market leading supplier of high-precision gear metering pumps, hydraulics flow dividers and industrial pumps.

The Group believes it can utilise its experience in business turnaround as well as its specialist pump knowledge to improve operational capabilities and drive higher margin on its revenue contracts.

£2,600,000 cash consideration has been agreed, of which £300,000 is contingent upon the audited financial statements of overseas subsidiaries. All consideration will be settled in the next financial year.

In addition to the consideration, the Group has agreed to adopt the lease arrangements for the business including a lease on their manufacturing facility and hire purchase agreements on machinery and vehicles.

Overseas subsidiaries acquired:

Name	Country of registration	Ownership
Slack & Parr (International) Inc	USA	100%
S&P Inc	USA	100%
S&P Hydraulics Inc	USA	100%
S&P Special Products Corp	USA	100%
Slack & Parr Shanghai (Joint Venture)	China	50%
Slack & Parr Shanghai Manufacturing	China	100%

Acquisition of Adaptix

On 15 September 2023, the acquired the remaining 82.0% of the shares in Adaptix Limited (“Adaptix”), bringing its ownership and voting rights to 100%, thereby obtaining control.

Adaptix is an Oxford based emerging MedTech Company, specialising in low-dose 3D portable x-ray imaging.

The Group believes that the potential acquisition will give us a market leading position in novel medical imaging products, as applied to several markets including veterinary and orthopaedic imaging at the point of care.

Consideration is in the form of newly issued shares in Avingtrans plc, which at the time of acquisition had a market value of £2,700,000.

In addition to the consideration, the Group has adopted an estimated £2,100,000 of loan liabilities and repaid £3,300,000 of debt.

Notice of Annual General Meeting

Notice is hereby given that the virtual Annual General Meeting of Avingtrans plc will be held at Shakespeare Martineau LLP, No1 Colmore Square, Birmingham, B4 6AA on 16 November 2023 at 11:00am for the following purposes:

Shareholders are encouraged to vote electronically via www.signalshares.com, and to appoint the Chair of the Meeting as their proxy with their voting instructions prior to the meeting. Votes received should be submitted to the Registrar before 11:00am on the 14 November 2023.

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 2023.
2. To declare a final dividend of 2.8p per ordinary share payable on 8 December 2023 payable to shareholders on the register of members on 27 October 2023.
3. To re-elect Steve McQuillan as a Director.
4. To re-elect John Clarke as a Director.
5. To reappoint Cooper Parry Group Limited 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, Resolution 6 being proposed as Ordinary Resolutions and Resolution 7 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 £542,731 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 3,289,280;
   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 £164,464 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
Dated	**Cambridgeshire**
26 September 2023	**PE16 6SA**

Notice of Annual General Meeting (Continued)

Avingtrans Plc

Notes to the Annual Report for the year ended 31 May 2023:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business on 14 November 2023; 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. The Company encourages shareholders to vote electronically via www.signalshares.com, and to appoint the Chair of the Meeting as their proxy with their voting instructions.

Attending in person

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

Voting

3. You can vote either:
   - by logging on to www.signalshares.com and following the instructions;
   - You may request a hard copy form of proxy directly from the registrars, Link Group, by emailing shareholderenquiries@linkgroup.co.uk, or calling on Tel: +44 (0) 371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
   - if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io, and refer to notes below.

Appointment of proxies

4. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. As set out in note 1 above, the Company encourages shareholders to appoint the Chair of the Meeting as their proxy with their voting instructions. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
5. 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.
6. 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 electronically

7. In order to reduce the Company's environmental impact, members are encouraged to appoint a proxy electronically. This can be done by:
   - logging onto www.signalshares.com and submitting a proxy appointment online by following the instructions. If you have not previously done so, you will need to register. To do this, you will need your Investor Code detailed on your share certificate (or otherwise available from the Company's registrar, Link Group); or
   - submitting (if you are a CREST member) a proxy appointment electronically by using the CREST voting service.
   - appointing a proxy electronically via the Proxymity platform.

   Please note that proxy appointments must be received by no later than 11:00 a.m. on 14 November 2023 to be valid.

Appointment of proxy using hard copy proxy form

8. To appoint a proxy using the hard copy proxy form, the form must be completed and signed and sent or delivered to Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL; and received no later than 11:00am on 14 November 2023.

   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.

Notice of Annual General Meeting (Continued)

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 Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

    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 Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL.
    - 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 Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL. no later than 14 November 2023 at 11.00am.

Crest

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
13. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 11:00am on the 14 November 2023. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
14. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001

Proxymity Voting

15. If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11:00 am on 14 November 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.

Notice of Annual General Meeting (Continued)

Issued shares and total voting rights

16. As at 11:00 am on 26 September 2023, the Company's issued share capital comprised 32,892,800 ordinary shares of 5p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 11.00am on 26 September 2023 is 32,892,800

Documents on display

17. The following documents will be available for inspection at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA from 27 October 2023 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.

Notes

The Strategy in action

Pinpoint-Invest-Exit

Pinpoint

Strengthening the portfolio

Acquisition of Adaptix
During the year, the Group invested £4.0m into Adaptix in the form of a convertible loan and the purchase of shares. Post-year end the Group acquired all remaining shares in Adaptix in exchange for £2.7m of Avingtrans shares and has agreed to adopt debt facilities of £2.1m plus repay £3.3m of renegotiated creditors.

Adaptix is revolutionizing radiology with its patent-protected technology, introducing a Flat Panel X-ray Source (FPS) with individually addressable emitters and integrated power supply ("monoblock"). This innovation digitizes the imaging source, enabling fast 3D imaging at a lower dose than CT scans. The FPS seamlessly integrates with existing detectors and workstations, offering cost-effectiveness akin to current 2D systems, but with higher image quality.

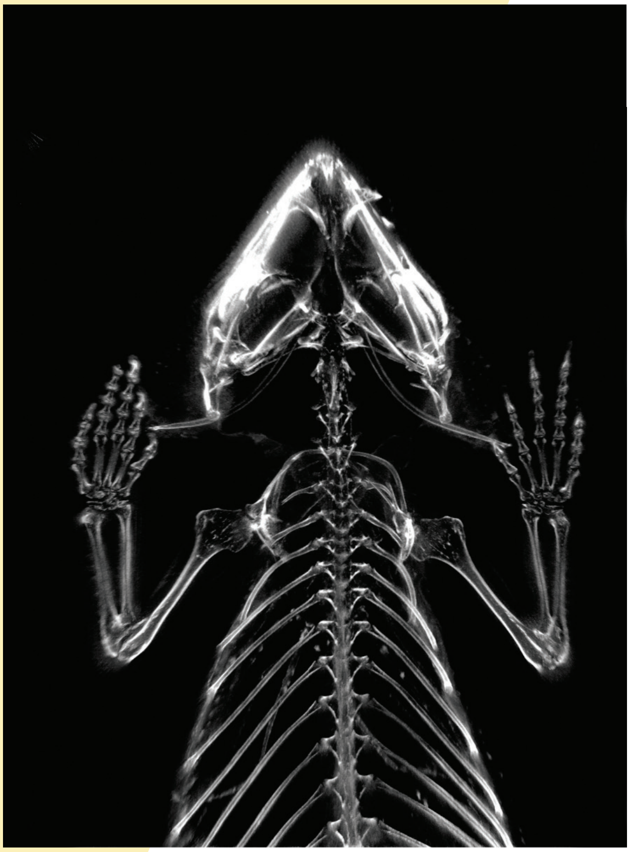
Acquisition of Slack & Parr
Post-year end the Group completed the acquisition of Slack & Parr for a total consideration of up to £4.9m.

Slack & Parr is a manufacturer of specialist pumps and a market leading supplier of high-precision gear metering pumps, hydraulics flow dividers and industrial pumps to customers around the world.

Founded in 1917, it has a strong track record in supporting global blue-chip OEMs and end users, with a large installed base, supported by service facilities in the USA and Asia. Slack & Parr operates from a 64,000 sq ft state-of-the-art manufacturing facility in Kegworth, Derbyshire and it also has facilities in Charlotte, North Carolina and Shanghai, China.

Acquisition of HRS and Hevac
During the year, the Group acquired the trade and assets of HEVAC Limited and HeatExchangeSpares.com ("HES") for cash consideration of £0.9m. HEVAC and HES are a heating, ventilation, and air conditioning solutions provider based in Elland, Yorkshire.

Subsequent to the acquisition, HEVAC and HES have been merged with the Group's Ormandy Rycroft Engineering business based in Bradford, Yorkshire. The merger strengthens and expands our product range and customer base, enabling us to offer a higher quality, more rounded market proposition.



Invest

Technology

Since the acquisition of Magnetica in 2021, the Group has invested over £8.0m in the development of a compact Magnetic Resonance Imaging ("MRI") system. Development has proceeded to plan, with the product launch and FDA approval expected in FY24.

Operating at a gold standard 3 Tesla magnetic field strength, our dry magnet system eliminates the need for liquid helium, ensuring hassle-free operation. With its powerful gradient coils and optimized multi-channel RF coils, our MRI system is purpose-built for dedicated musculoskeletal extremity imaging.

Our patented asymmetric magnet technology, coupled with compact superconducting magnets, is the driving force behind our innovative system. This system geometry reduces the need for patients to position their limbs deep inside the MRI, making the process more comfortable and accessible.

Exit

Returning share-holder value

Disposal of Peter Brotherhood

Peter Brotherhood was acquired for £9.3m as part of the acquisition of HTG in August 2017.

In March 2021 it was sold for an enterprise value of £35.0m representing a return on capital of almost 4X.

This is AVG's 3rd successful exit for the Group since 2013, with the disposal of JenaTec in 2013 for £14.5m (purchased for £4.0m) and Sigma Components in 2016 for £65.0m (purchased for £22.0m).

Disposal of Metalcraft China

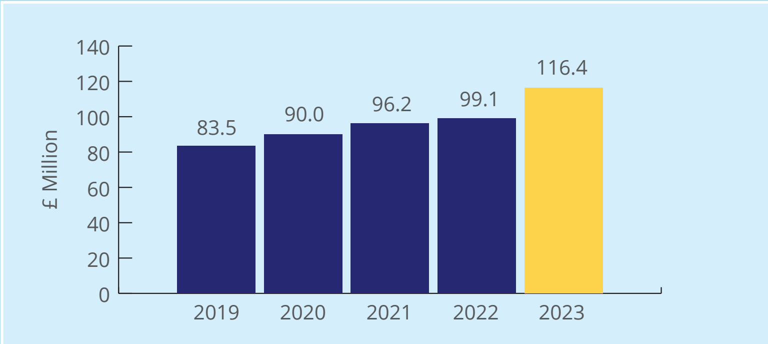
During the period, we also exited from Metalcraft China, selling the business for £1.0m to a local manufacturer. After our interest in MRI component manufacture ended as planned, there was no viable strategic reason to keep this business unit in China.

However, we were pleased to find a good home for it, to ensure that all our employees there continued to enjoy gainful employment.

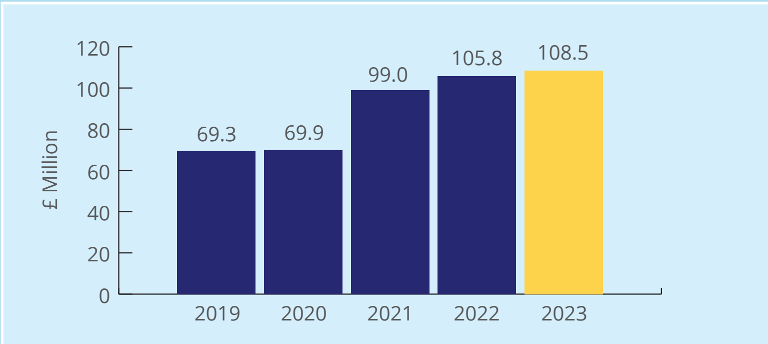
Performance

5 YEAR PERFORMANCE

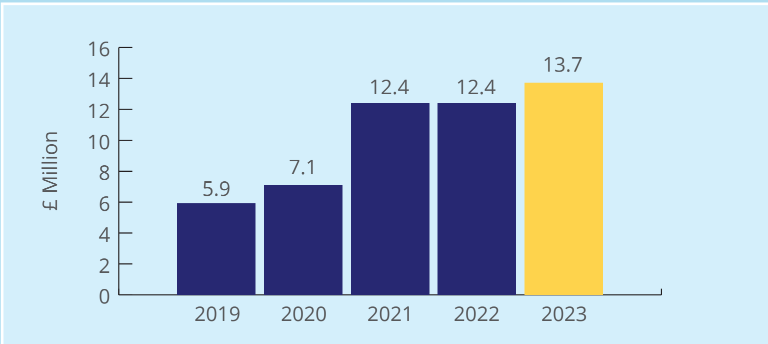
Revenue



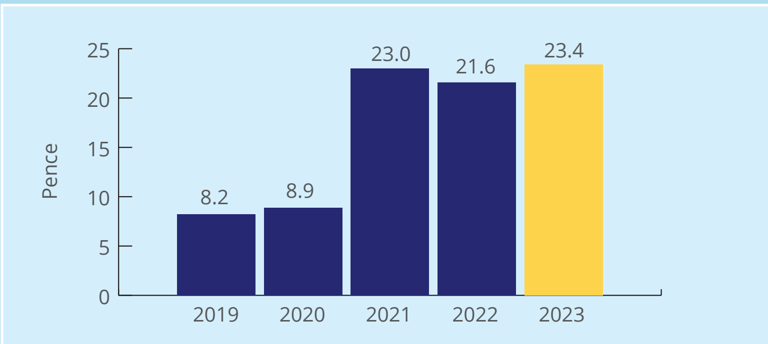
Net Assets



EBITDA (continuing)



EPS – Diluted (adjusted)



Results presented are from continuing operations.

IFRS 16 was adopted in 2020 and both IFRS 15 and IFRS 9 were adopted in 2019. Prior periods have not been restated.”

HAYWARD TYLER

MAGNETICA

energy steel

Metalcraft

Stainless Metalcraft (Chatteris) Ltd.

Ormandy Rycroft Engineering

Booth industries

Composite Products Ltd

SCIENTIFIC MAGNETICS

tecmag

Adaptix Transforming Radiology

Slack&Parr Metering • Hydraulics • Industrial Pumps

www.avingtrans.plc.uk