Advancing safer mobility

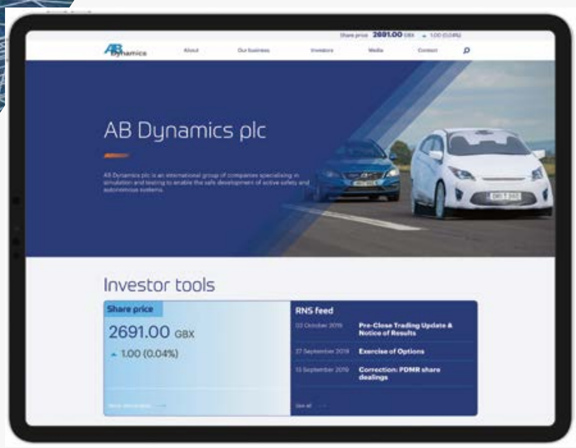
AB Dynamics plc
Annual Report and Accounts 2019

AB Dynamics

Founded in 1982 as a specialist vehicle engineering company, AB Dynamics has grown consistently to become one of the world's most trusted global suppliers of automotive test and verification systems.

Today, our customers include the top 25 global vehicle manufacturers, tier one suppliers, all 8 Euro NCAP laboratories, numerous global test facilities and autonomous vehicle developers

Discover more at abdplc.com



Highlights of 2019

Financial highlights

Revenue

£58.0m
+56%

2019	**58.0**
2018	37.1
2017	24.6
2016	20.5

Adjusted* operating profit

£13.5m
+58%

2019	**13.5**
2018	8.5
2017	5.9
2016	4.7

Adjusted* operating margin

23.3%
+20bps

2019	**23.3**
2018	23.1
2017	23.9
2016	22.7

Adjusted* diluted earnings per share ('EPS')

55.4p
+50%

2019	**55.4**
2018	36.9
2017	26.5
2016	25.8

Net cash

£36.2m
+127%

2019	**36.2**
2018	15.9
2017	9.6
2016	10.4

Dividend per share

4.40p
+20%

2019	**4.40**
2018	3.67
2017	3.33
2016	3.03

Operational highlights

- Strong organic growth supported by long-term, sustainable structural growth drivers.
- Acquisitions of Dynamic Research, Inc. and rFpro.
- Establishment of overseas offices in Germany, the USA and Japan.
- Further development of aVDS simulation market with key sales to Kempten University and Alfa Romeo Formula 1 team.
- Launch of new products including Guided Soft Target HD, LaunchPad HD, Ground Traffic Control software, ANVH 250 and TrackFi PowerMesh.
- Construction commenced on our new 'North Site' facility and land for new manufacturing site purchased in Wiltshire.

* Adjusted to exclude acquisition related charges, agent termination fees and share based payment charges. A reconciliation to statutory measures is given on page 31.

The future of assisted and autonomous vehicle safety

The changing world of the provision of mobility and how AB Dynamics plays a key role in ensuring its safe and responsible development

The rapidly evolving market for driver assistance systems and autonomy.
The automotive market is undergoing significant transformational change with the implementation of Advanced Driver Assistance Systems ('ADAS') and the transition towards semi-autonomous and ultimately fully autonomous vehicles. This relentless drive towards autonomy is changing the way vehicles are tested and verified and AB Dynamics plays a key role in this process.

100,000
lives saved
(if autonomous vehicles are 10% better than human drivers)

90%
of accidents are caused by human error

275
million miles
(distance required to verify that AVs are as good as human drivers)

Autonomy is complex

In order to deliver advanced semi-autonomous or autonomous vehicles, a vast number of scenarios are required to be verified. There are five primary categories of variables that will combine to create these scenarios, including:

> Physical environment

> Interaction objects

> Weather and Lighting

> Vehicle dynamics

> Social Conventions and Road Traffic laws

If these categories are overlaid against the objects in differing positions at differing speeds, the number of scenarios cannot be replicated through real-world testing alone and will require simulation as part of the verification process.

Acceptable level of safety

There is currently no universally accepted level of safety and probabilities of fatalities are required to be very low to improve on current human driver statistics.

To achieve 95% confidence that AVs show a 20% improvement over the current fatality rate using human drivers, it is estimated that 11 billion miles will be required, or >500 years even if using a large fleet of vehicles.[1] In addition, this process would need to restart every time any change is made to the vehicle which inevitably occurs regularly during product development.

1 N. Kalre and S. Paddock, "Driving to Safety" Trans. Res. Part A Policy Pract., vol. 94, pp 182–193 Dec. 2016.

- President of Toyota quoted as saying 8.8 billion miles required to verify autonomy – or 500 cars at 60kph 24 hours a day for 54 years

- Thatcham Research predicts that by 2025 some driving functions will be introduced on highways that will be automated in certain circumstances; however, user monitoring will be required

- **500** years (time taken to verify that AVs are 20% better than human drivers)

- We cannot 'drive' our way to safety – physical testing not practicable to determine safety of AVs

Differing approaches

Leading organisations in this market are taking two very different approaches to active safety. Automotive OEMs are taking an incremental approach towards advanced active safety systems and ultimately semi or fully autonomous vehicles. They are driven by market conditions and regulatory drivers to improve safety and achieve incremental progress through a combination of track testing and simulation.

In contrast, autonomous vehicle developers are aiming for full autonomy and are using a combination of real-world testing on public roads and simulation. It is likely that the market will see certain driving tasks being automated in the first instance with the driver in control for more complex tasks.

> "Our relationship with OEMs and test facilities position us well to support these market developments."

At a glance
Enabling mobility across all our markets

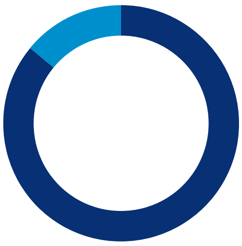
Our sectors

Track testing

Track testing products and services represent ca. 86% of the revenue and include products used for the test and evaluation of ADAS, autonomous systems and vehicle dynamics. Driving robots and ADAS test products including our Guided Soft Target ('GST') and LaunchPad are accurately controlled using our Synchro and Ground Traffic Control ('GTC') software.

This enables our customers to conduct complex, multi-object test scenarios with a simple to use software interface to satisfy internal or external regulatory test requirements.

Revenue contribution to the Group



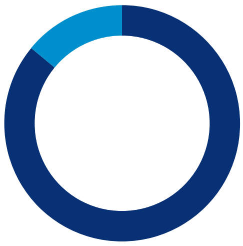
£49.8m
+50%

■ Group revenue 86%

Laboratory testing and simulation

Laboratory testing and simulation (including rFpro) represent ca. 14% of total revenue and include products such as the Suspension Parameter Measurement Machine ('SPMM'), Advanced Vehicle Driving Simulator ('aVDS') and rFpro physics based simulation software. AB Dynamics products are used to evaluate dynamic characteristics of vehicles, simulate vehicle dynamics and evaluate the performance of ADAS across conventional vehicles, motorsport and autonomous vehicles.

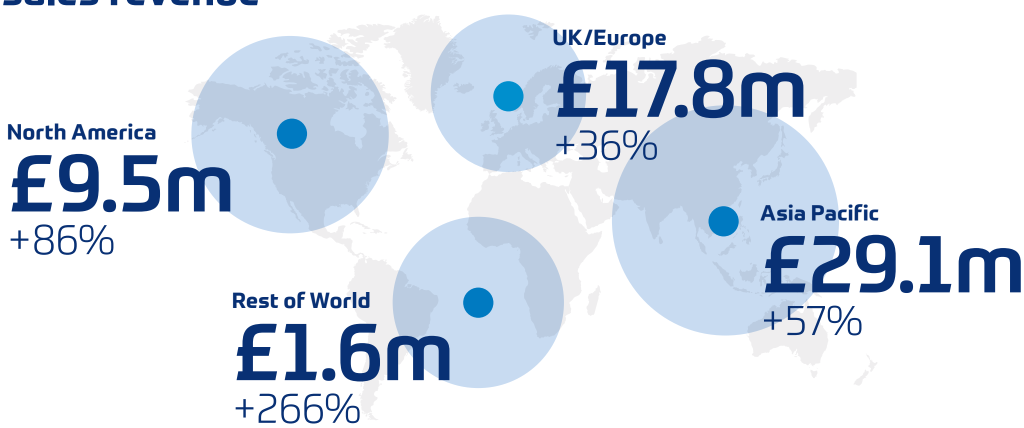
Revenue contribution to the Group



£8.2m
+118%

■ Group revenue 14%

Our global sales revenue



Our market drivers

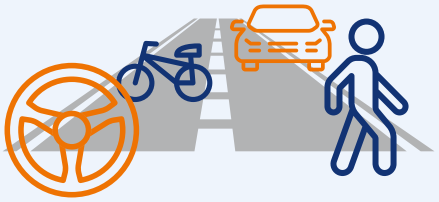
Market evolution
The automotive market is undergoing rapid change due to the drive towards autonomy and electrification of vehicles. The active safety features of vehicles and the desire for provision of autonomous mobility is driving automotive companies, tier 1 suppliers and support organisations to rapidly develop new technologies which require verification through testing and simulation. This is further supported by increased consumer demand for driver assistance systems.

Regulatory
Recent changes in regulations, including the UN/EU requirement for all vehicles sold in 40 countries worldwide to have minimum ADAS by 2022, are driving rapid changes in the testing of new vehicles. In addition, Euro NCAP and other global NCAP organisations are driving consumer standards for active safety systems which influence consumer demand encouraging automotive OEMs to develop increasingly complex and effective driver assistance systems. We anticipate that in future there will be increased regulation of autonomous vehicle testing on public roads.

Technology
The drive towards the incremental addition of active safety systems on conventional vehicles and the desire to implement autonomous vehicles is driving rapid technology development, the performance of which must be verified. It is becoming increasingly clear that autonomous systems will require a combination of simulation and physical testing to ensure they can perform at an acceptable level of safety. This is driving the need for increased simulation software and systems and the provision of increasingly complex physical testing products and services.

Growth drivers – Euro NCAP active safety roadmap

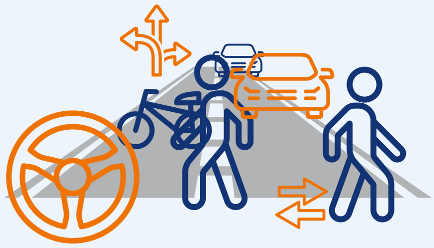
2019



Vehicle to Vehicle ('V2V') features being tested:
- > Autonomous Emergency Braking ('AEB')
- > Lane Support Systems ('LSS')

Vulnerable Road User ('VRU') features being tested:
- > Autonomous Emergency Braking (pedestrians and cyclists)

2024+



Vehicle to Everything ('V2X') capabilities tested in complex, multi-object scenario based tests:
- > Scenario interactions with many other objects

ADAS
ADAS platform products are used in physical testing of ADAS and future requirements will include:
- > Control of higher number of objects in complex, multi-object scenario based tests
- > Increased realism of ADAS objects including the need to replicate real-life behaviours

Driving robots
Driving robots, including the Flex-0 drive-by-wire system, are typically used for vehicle dynamics testing and to precisely control and synchronise the vehicle being assessed during ADAS testing.
- > Base technology relatively mature with product evolution occurring against defined test protocol changes
- > Continued demand from emerging markets where product penetration is earlier in the lifecycle

Simulation
Applications include vehicle dynamics, particularly assessing small changes in vehicle configuration in motorsport, as well as simulation of ADAS and autonomy in faster than real time.
- > aVDS allows assessment of driver-in-the-loop interactions with ADAS and autonomy
- > rFpro software enables physics based assessment of a wide variety of interacting variables to determine performance of ADAS and autonomy

A platform for future growth

Combined capabilities of AB Dynamics and rFpro.

"The aVDS is the only driving simulator where every parameter change can be felt."

Antonio Giovinazzi
Formula 1 Driver, Alfa Romeo Racing

Critical sale to high profile Formula 1 team

Simulation in motorsport is a significant growth area for AB Dynamics, therefore advocation from a respected team in the highest class of automotive racing is pivotal. AB Dynamics has been selected as a Technical Partner to Alfa Romeo Racing through its advanced capability in vehicle dynamics and simulation.

Rapid development of simulation technology

The partnership with Alfa Romeo allows AB Dynamics and newly acquired rFpro the opportunity to gain a competitive advantage by developing the vehicle performance toolset along with the existing aVDS product line.

> **“We are convinced the aVDS from AB Dynamics is the best available driving simulator.”**
>
> **Ian Wright**
> Head of Vehicle Science, Alfa Romeo Racing

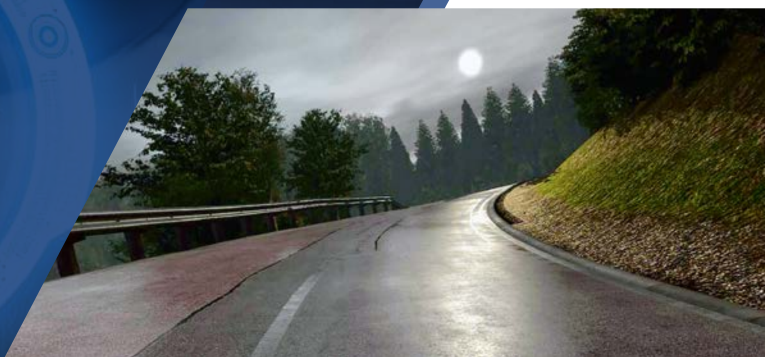
rFpro acquisition enables unique verification offering

To ensure that autonomous vehicles are sufficiently safe to be deployed on public roads, verification is proving to be a crucial capability. Autonomous safety cannot be demonstrated by simply driving on public roads and therefore the timescales reported are not feasible.

rFpro is a specialist in engineering grade digital twins having created high-resolution, accurate models of digital road surfaces including urban city centres, rural routes, highways and motorways. These physics based models offer an unprecedented level of correlation between the real and virtual world, displaying an intricate level of detail including discontinuities, light levels, water and moisture.

These real-world variables are critical when evaluating the performance and safety of autonomous systems as sensors and perception algorithms will be affected by light and weather conditions, as well as the quality of the road surface and markings. This unrivalled level of accuracy is fundamental for ensuring vast numbers of scenarios can be evaluated at a workstation to reduce the time taken to optimise autonomous systems before physical assets are constructed and tested.

rFpro is working in collaboration with AB Dynamics on a new solution where sensor perception models are directly injected into the advanced Vehicle Driving Simulator (‘aVDS’) to enable assessment and verification of LiDAR, camera and radar based systems in complex driving scenarios.



Chairman's statement
Continuing to deliver

Anthony Best
Chairman

"Our confidence about the future is based on our strong track record, unique capabilities and market position."

Overview

I am pleased to report that the Group has delivered its tenth successive year of record revenue and adjusted profit reflecting continued strong demand for our advanced testing systems and measurement equipment. During the year the Group experienced a very favourable market background and reported revenues grew 56% to £58m and adjusted operating profit grew 58% to £13.5m. The outturn also benefited from our success in reducing our lead times, which had lengthened with strong levels of demand, to more appropriate levels. We operate in markets that benefit from long-term structural and regulatory growth drivers, and against this positive backdrop our customers continue to develop ever more sophisticated Advanced Driver Assistance Systems and semi and fully autonomous vehicles that will be required in the future. The results are discussed in detail in the Chief Executive's review that follows on pages 10 to 12 and in the Financial review on pages 30 and 31.

In May 2019, the Group raised gross proceeds of £50.1m through a placing of £45.1m, followed in June 2019 by the closing of an open offer of £5m, both of which were oversubscribed. We were delighted by the response from existing and also new investors whom we were pleased to welcome to the shareholder register. At the time the Board signalled its intention to use the net proceeds from the fundraise to support the Group's strategy, updated earlier in the year. The refreshed strategy, under the leadership of our CEO, has brought added focus to our new product development, our capability and capacity requirements to meet future growth, our international footprint, service and support functions, and opportunities for acquisitive growth.

Following the capital raise, the opportunity arose to acquire two complementary and attractive businesses with whom we had previously worked very closely for a number of years. In June 2019, we were pleased to announce the acquisition of rFpro, Kangaloosh Limited, for a maximum consideration of up to £21.6m and at the end of August 2019 the purchase of Dynamic Research, Incorporated ('DRI') for a maximum consideration of up to US$24.5m. Both businesses are firmly aligned to our acquisition criteria, with rFpro adding important engineering grade simulation software and highly accurate digital replicas of public roads, test tracks and racing circuits, and DRI who are experts in testing ADAS and vehicle dynamics, alongside the manufacture of a range of products for use in ADAS testing. I have much pleasure in welcoming the staff of both organisations to AB Dynamics.

Read more on **pages 10–13**

International footprint and manufacturing facilities

We continue to invest in our manufacturing capacity and international footprint, our capabilities and our people. During the year we commenced operations from new facilities in Germany and the USA and as part of our international expansion we intend to establish Group operations in other key markets, including Japan, where we are currently transitioning activities in house.

As we have previously announced the Group has now received full planning permission for a new 2,850m^2 facility adjacent to our existing headquarters in Bradford-on-Avon that will be used as a simulation centre of excellence and for engineering research and development. Ground work has begun with completion expected in Q4 2020. In addition, the Board has approved the consolidation of activities currently located in a number of smaller locations into a single operational site. The Group has purchased a 2.5 acre site on the outskirts of Melksham, approximately 5 miles from our main operations, on which we plan to build a new production facility. Building work is expected to commence in FY2021 and will take approximately 12 months to complete.

Board changes

Dr James Routh joined the Group on 1 October 2018 as Chief Executive Officer. James has brought strong leadership and a wealth of relevant experience to the Group and it has been a great pleasure to welcome him to AB Dynamics and the Board.

On 13 February 2019 it was announced that Robert Hart had informed the Group of his intention to step down from his role as Chief Financial Officer and from the Board after ten years with AB Dynamics. I would like to thank Rob for his contribution to the success of the Group over the years up to and since our AIM IPO in 2013. As previously announced, Sarah Matthews-DeMers has been appointed as Chief Financial Officer with effect from 4 November 2019. Sarah brings extensive experience of financial management in public companies, investor relations and strategic development and I am delighted she has joined AB Dynamics.

Bryan Smart has also informed the Board of his intention to step down from his position as Chairman of the Audit and Risk Committee and retire from the Board at the AGM in January 2020. I would like to thank Bryan for his support and contribution to the development of the Group over the years since our flotation. The Board has begun the search for a suitable replacement and has also taken the decision to look to appoint a Non-Executive Director with relevant industry experience.

I would also like to thank each of our Non-Executive Directors for their continued wise counsel and contribution to the success of the Group during the year.

Corporate governance

The Board is united in its view that robust corporate governance and risk management are essential to maintaining the stability and growth of the Group and its financial health. I am pleased to confirm that AB Dynamics has adopted the Quoted Companies Alliance ('QCA') Code and a statement of compliance is set out on our AIM Rule 26 website. I report separately on the Group's approach to governance and its procedures in my corporate governance statement, which can be found on pages 35 to 39 of this Annual Report.

Our employees

I would like to thank all our employees for their continued hard work and professionalism over a very busy year. At its heart AB Dynamics is a people business and it is the contribution and performance of our talented employees that underpin our undoubted achievements. As we have grown, we have welcomed a significant number of new staff to the Group and we now have 264 employees (2018: 145), including employees of rFpro and DRI. I am pleased to say that we continue to attract the talent that we require to develop the increasingly complex new products that will be demanded by both our long-standing and newly emerging customers.

Dividend

The Board is recommending a final dividend of 2.79p per share payable on 13 February 2020 subject to shareholder approval at the AGM. The ex-dividend date will be 2 January 2020 and the record date will be 3 January 2020. The total dividend for the year will therefore be 4.40p per share, which is an increase over the prior year of 20%.

The Board expects to continue to pursue a progressive dividend policy in the future.

Outlook

AB Dynamics operates in long-term growth markets and has established a unique position as a leading designer, manufacturer and supplier of advanced testing and simulation solutions to the automotive industry globally. We continue to invest heavily into new product development that is critical to our future success and it is particularly pleasing therefore to report that we have now received a third order for our advanced Vehicle Driving Simulator. We expect simulation to play an increasingly important and critical part in the development of semi and fully autonomous vehicles in the future, as manufacturers will need to evaluate their vehicles extensively under large numbers of complex scenarios to provide a safe environment for all road users.

As in previous years, we have a healthy order book that provides good forward visibility and will continue to invest in our capabilities and infrastructure which will tend to constrain our margins. Whilst we remain optimistic about our prospects and the Group's future, we do remain alert to the continued difficulties faced by many of our customers selling into the global automotive market.

Anthony Best
Chairman
26 November 2019

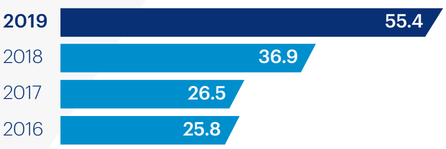
Chief Executive's review
A strategy for sustainable growth

Dr James Routh
Chief Executive Officer

"Another strong financial performance whilst continuing to build the foundations for future sustainable growth."

Adjusted diluted earnings per share ('EPS')

55.4p
+50%



Overview
AB Dynamics has delivered a record year of highly profitable growth whilst implementing its recently announced evolved strategy for long-term sustainable growth. The Group has continued to develop and launch new products to meet the rapidly changing market conditions in the test and verification of both conventional and autonomous vehicle development. In parallel the Group has enhanced its capabilities and capacities to support the current and anticipated growth.

Financial performance
In 2019, the Group delivered strong reported revenue growth of 56% to £58.0m (2018: £37.1m) and the acquisition of rFpro towards the end of the year contributed 1%, with underlying revenue growth of 55%.

Group adjusted operating profit increased 58% to £13.5m (2018: £8.5m) resulting in an improvement in adjusted operating margins of 20bps to 23.3% (2018: 23.1%). This is in line with guidance provided at the half year detailing our planned increase in operating costs to support our growth strategy.

Gross margins have increased by 100bps to 48.2% due to growth in relatively higher margin track testing sales compared to the prior year comparative. During the second half of the year, the Group implemented planned operating cost increases to invest in product development, the establishment of both US and Japan offices and building the management team. Attractive operating margins were maintained due to strong sales growth.

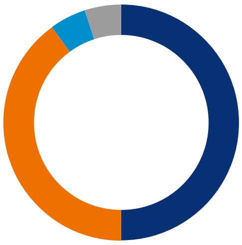
The Group delivered adjusted operating cash flow of £10.5m. The net cash position at year end increased +127% to £36.2m (2018: £15.9m). Excluding the cash raised via the share placing in May 2019 and the subsequent acquisitions of rFpro and DRI, underlying net cash increased by £3.3m to £19.2m.

Read more on **pages 30–31**

Sector review
The track testing sector delivered strong revenue growth of 50% to £49.8m (2018: £33.3m) through continued demand from all sectors for our range of driving robots and ADAS platforms. Driving robot sales grew 43% to £30.1m (2018: £21.1m) through across the board demand, but particular growth in Asia Pacific and the USA. ADAS platforms grew by 66% to £19.7m (2018: £11.9m) with the new LaunchPad platform for Vulnerable Road Users ('VRU') gaining significant market traction complemented by continued growth of the Guided Soft Target platform. The increased proportion of ADAS platform sales is as expected as the market moves towards testing of multi-object scenario based tests which utilise a higher quantity of interaction vehicles and VRUs.

For the laboratory testing and simulation sector, revenues grew by 118% to £8.2m (2018: £3.7m) with strong growth in our sales of SPMMs and aVDS sales increasing, particularly with the successful order and technical partnership formed with Alfa Romeo Formula 1 team. On an underlying basis, excluding the small revenue contribution from rFpro, revenues grew by 99%.

Sales revenue by customer category



The market for SPMM during 2019 improved, particularly as demand from China has increased as new automotive OEMs required kinematics and compliance measurement capabilities. The simulation sector continues to develop as vehicle manufacturers recognise the need for both driver-in-the-loop simulation and driverless simulation in order to accelerate the development of active safety systems and semi-autonomous driving technology. The motorsport market continues to develop as the utilisation of high frequency response motion based simulation can provide significant competitive advantages.

Progress on our strategy

Details of our evolved strategy can be found on pages 16 and 17. The Group has made good progress against our strategic priorities. The Group has delivered a number of new products to the market during the year, including the Ground Traffic Control proving ground automation software, heavy duty versions of both the GST and LaunchPad enabling testing of larger vehicles such as trucks and buses, and the development of an active system for motion cueing in our aVDS simulator. The acquisitions of both rFpro and DRI represent opportunities for further collaborative product development.

The management team has been restructured and developed to ensure we have the appropriate skills and experience to deliver the strategic priorities and construction has commenced on our new 'North Site' facility adjacent to our existing headquarters. Significant investment has been made in ensuring we have sufficient manufacturing capacity to maintain our growth and lead times were reduced in the first half of the year whilst maintaining the Group's focus on quality.

Q&A

Tell us about your first year at AB Dynamics.

I have been greatly impressed by the technology leadership and dedication of the AB Dynamics team. The Group has undergone significant development during the year by refocusing the business on our five strategic priorities and building and developing the senior management team. The combination of innovative products and services supported by strong regulatory and structural growth drivers has delivered an excellent set of results.

What have been your highlights for the year?

There are many highlights for the year, however the successful share placing which raised ca. £50m followed by the acquisitions of rFpro and DRI are particularly pertinent. The improvement in operational performance, including the reduction in customer lead time and the development of our refocused strategy are also key highlights. Finally, the building and development of the management team has been a real success as we prepare for our next phase of growth.

You have recently established a legal entity in Japan. Tell us how this is going.

Japan is a critical market for automotive R&D and a key territory for the development of ADAS and autonomous systems, therefore it was essential to establish a direct sales and customer support entity. The Group recruited an experienced Japanese Managing Director and we transferred our existing technical resources into our newly established office in Yokohama. Our Japanese operation is now directly selling products and services into the Japanese market whilst we build our team of talented engineering and sales resources.

You recently reached the milestone of the Group's 1,000th driving robot – tell us about this.

The Group is the world leader in driving robotics and has been delivering driving robots for over 20 years. It was a real milestone to deliver the 1,000th system to the American Center for Mobility which is using our technology to develop and test autonomous vehicle technology. As the year has progressed, we have continued to deliver systems well beyond this milestone resulting in a large, global installed base which requires ongoing customer service and support.

Tell us about key growth opportunities.

Our growth opportunities continue to be in the field of track based testing of driver assistance systems and autonomous vehicles, particularly in the development of multi-object scenario based testing using a large number of synchronised ADAS platforms representing a wide range of differing objects. In parallel, the Group continues to focus on simulation of ADAS and autonomy, both with and without drivers, as the market continues to recognise that public road driving cannot lead to an acceptable level of safety. Finally, our international expansion means that we can now provide additional services and support to our global customer base.

"Continued delivery of our strategic priorities remains our focus to ensure we capitalise on market opportunities."

Progress on our strategy continued

The Group has established three new international locations, expanding our footprint into strategically important markets. Combined with our recent acquisitions we now have nine locations across four countries to enable us to service our customers directly and ensure responsiveness and agility. New offices have been established in Japan (Yokohama), USA (Detroit) and Germany (Munich) complementing the existing locations in the UK (Bradford-on-Avon) and Germany (Giessen). The acquisitions have provided one additional facility in the UK (Romsey) and three in the USA (Torrance & Bakersfield, California and Ann Arbor, Michigan).

Towards the end of the year the Group introduced a new service and support offering which will be implemented during 2020 through our new international locations.

Read more on **pages 16–17**

Acquisitions

Following the Group's successful share placing in May 2019 which raised net proceeds of ca. £48m we were able to pursue our strategic objective to acquire value enhancing, attractive acquisitions. During 2019 total acquisition spend was £35.4m, of which £18.1m was invested in the acquisition of rFpro, a leading developer of engineering grade simulation software and digital twins. Immediately prior to the end of the financial year we invested £17.3m in the acquisition of Dynamic Research, Inc., a leading supplier of automotive engineering test products and services to the US automotive sector.

The Group continues to seek value enhancing acquisitions and the pipeline of potential opportunities remains positive.

Read more on **pages 6, 7 and 13**

Summary

AB Dynamics reported another robust performance in 2019, delivering strong growth in revenue and earnings. Both the track testing and laboratory and simulation sectors contributed to this growth and this performance provides confidence for continued progress in the year ahead, particularly leveraging the Group's recently acquired businesses. We are aware of continued difficulties and potential delays in the automotive sector. However, with a proven business model coupled with long-term structural market growth drivers the outlook for AB Dynamics remains positive.

Dr James Routh
Chief Executive Officer
26 November 2019

Acquisition of Dynamic Research, Inc.

The Group's updated strategy includes complementing organic growth with carefully selected, value enhancing acquisitions. As part of delivering this strategic objective, at the end of the financial year, the Group completed the acquisition of Dynamic Research, Inc. ('DRI').

DRI is a leading supplier of automotive engineering test products and services to the US automotive sector specialising in the provision of full-scale track testing of driver assistance systems and vehicle dynamics through a dedicated test facility in Bakersfield, California. DRI also provides applied automotive research, human factor studies and simulation in addition to the supply of products for track-based ADAS testing through its subsidiary DRI Advanced Test Systems ('DRI-ATS').

DRI is well known to AB Dynamics, having worked in partnership on ADAS test products for many years. The acquisition meets our financial acquisition criteria and supports a number of the Group's stated strategic objectives, including:

- Expansion of the Group's international footprint in a strategically important territory
- Developing our capabilities through a test track facility that can be utilised year-round and a strong product development team
- Delivering complementary capabilities in the field of driving simulator technology
- Securing commercially beneficial intellectual property in ADAS testing products

DRI was acquired for an initial consideration of \$21.0m with a further conditional cash payment of up to \$3.5m depending on certain performance criteria being met for the year ending 31 May 2020. The initial consideration represents a multiple of ca. 5.7x FY19 EBIT.

Business model
Advancing safer mobility

We use our deep customer relationships and product and technology leadership in automotive testing to create sustainable value for our stakeholders.

We are one of the world's most trusted global suppliers of automotive test and verification products and solutions, playing a key role in ensuring the safe and responsible development of active safety and autonomous systems.

We develop and manufacture products and systems for use in track testing, laboratory testing and simulation. Track testing products and services are used in the test and evaluation of ADAS, autonomous vehicle technology and vehicle dynamics.

Laboratory testing products and services test dynamic characteristics, simulate vehicle dynamics and evaluate the performance of active safety systems across conventional vehicles, motorsport and autonomy.

We sell directly to customers, predominantly through our UK operation but more recently through our own international sales offices in Germany, the USA and Japan. We also have indirect routes to market through an international network of distributors and representatives.

1

Global growth markets
We operate in growing geographic markets. There are also strong regulatory growth drivers for driver assist technology and autonomous vehicles.

2

Deep long-term relationships with automotive OEMs and Tier 1 suppliers
Relationships with all major OEMs and test facilities over many years enable early identification of trends and future needs. These relationships and our deep technological expertise act as high barriers to entry for competitors. Our collaborative approach to R&D and ongoing support ensures customers want to work with us.

3

Product and technology leadership in vehicle track testing and lab testing equipment
Our intellectual property, deep technical expertise and niche product offering generates strong margins. Partnering with customers enables development tailored to market trends, drivers and needs.

4

Agile and responsive organisation working in teams with customers
Our lean organisation structure with decentralised management model allows flexibility in supporting customers. Our engineers work directly with our customers' engineering team, focusing on supporting their needs.

5

International routes to market via direct channels, distribution and representatives
During the year we have set up direct sales and support offices in key territories to facilitate growth. We use distribution and representatives in other locations to expand our reach.

6

Acquisitions to support growth
We support our organic growth through value enhancing acquisitions to facilitate delivery of our strategic priorities. We acquired two businesses in the year and will leverage the acquired products and access to their customers to deliver growth.

How we create value
Our resources
1
Global growth markets
Presence in growing geographic markets
Strong regulatory growth drivers for driver assist technology and autonomous vehicles
2
Deep long-term relationships at all levels of supply chain
Relationships with all major OEMS and test facilities over many years enables early identification of trends and future needs
Relationships and technology act as high barrier to entry
Collaborative R&D and ongoing support ensures customers want to work with us
3
Product and technology leadership in automotive testing
Intellectual property and niche product generates strong margins
Partnering with customers enables development tailored to market trends, drivers and needs
4
Agile and responsive organisation partnering with customers
Lean organisation structure with decentralised management model allows flexibility in supporting customers
Flexibility to customise products and services to meet customer needs
5
International routes to market via direct and indirect channels
Direct sales and support offices in key territories
Wider reach through use of indirect channels
6
Acquisitions to complement organic growth
Value enhancing acquisitions to facilitate our strategic priorities
Leverage acquisitions to deliver growth
Advancing safer mobility

Our strategy

Enabling safe development of active safety and autonomous systems

The Group's strategy enables long-term, sustainable growth and creation of shareholder value in the context of a rapidly evolving automotive market.

The Group's recently launched strategy focuses on five key strategic priorities that together ensure the Company continues to deliver long-term, sustainable growth. The strategy combines delivering ongoing organic growth in the context of a rapidly evolving market, both structurally and technologically, complemented by value enhancing acquisitions. The organic growth is delivered through continued product innovation and development, building the operational capability and capacity and providing additional routes to attractive geographic markets.

As the installed base of the Group's products expands it also provides the opportunity to increase the proportion of the Group's revenues from service and support.

The acquisitions strategy combines solid management and financial discipline and carefully selected acquisition criteria with the intention to accelerate other elements of the strategy. A further objective of the acquisitions strategy is to build a broader based business taking us into related strategic markets.

	Progress in 2019	Future focus	Links to KPIs
1 New product development	Launched several new products including GTC software, LaunchPad and GST HD, active motion cueing for aVDS, TrackFi PowerMesh and ANVH	> Continued focus on capabilities for multi-object testing > Development of software 'toolchain' for connected simulation and testing of automated functions	A / B / E / F Read more on **pages 18–19**
2 Capability and capacity	Improved management team capability and commenced construction on new 'North Site' facility. Started development of new manufacturing facility in the UK Acquired a test track facility in Bakersfield, USA, through DRI	> Development of services offering in track testing in selected regions > New facilities, test tracks and manufacturing capability > Simulation centre of excellence	C / F Read more on **pages 18–19**
3 International footprint	Opened new offices in Germany, the USA and Japan addressing our principal markets. Acquisitions have brought additional locations in the UK and USA	> Continued development of overseas offices, capabilities and people > Establishment of direct routes to market for the Group's products and services > Options for China support office	A Read more on **pages 18–19**
4 Service and support	Developed and launched a new service and support offering to market. New overseas offices enable this to be delivered	> Continued development of overseas offices, capabilities and people > Establishment of direct routes to market for the Group's products and services	A / C / E Read more on **pages 18–19**
5 Acquisitive growth	Defined clear acquisition criteria and acquired both rFpro and Dynamic Research, Inc.	> Further develop pipeline of potential acquisition targets > Deliver further value enhancing acquisitions where appropriate to support organic growth strategy delivery	A / C / F Read more on **pages 18–19**

KPIs

Clear performance measures that highlight sustainable value creation

Growth of the business, quality of earnings and efficient use of resources are crucial target areas for AB Dynamics and we employ a number of performance measures to monitor them. The KPIs used to monitor the financial performance of the business are set out below.

These KPIs enable progress to be monitored on the implementation of the Group strategy, level of investment and business development.

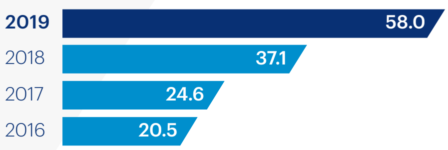
A Revenue
(£m)

Definition
Revenue is measured at the value, net of sales taxes, of goods sold and services provided to customers.

Reason for choice
This is a key driver for the business, enabling us to track our progress in increasing market share by product and by region.

Comment on results
The growth was driven by strong demand across both our track testing and laboratory testing and simulation products.

£58.0m
+56%



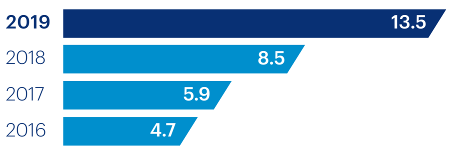
B Adjusted operating profit
(£m)

Definition
Earnings before interest, tax, amortisation of acquired intangibles, acquisition costs, share based payment charges and other adjustments for one-off non-recurring items.

Reason for choice
Adjusted operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations.

Comment on results
The increase in revenue fell straight through to the bottom line.

£13.5m
+58%



C Adjusted operating margin
(%)

Definition
Adjusted operating profit divided by revenue.

Reason for choice
This measure brings together the combined effects of procurement costs and pricing as well as the leveraging of our operating assets.

Comment on results
The increase of 20 bps resulted from a more favourable mix of products and18some operating efficiencies.

23.3%
+20 bps

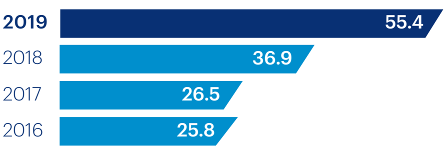
D Adjusted diluted EPS
(pence)

Definition
Profit after tax excluding amortisation of acquired intangibles, acquisition costs, share based payment charges and other adjustments for one-off non-recurring items; divided by the weighted average number of shares, full diluted.

Reason for choice
This measure is designed to include the effective management of interest costs and the tax charge and measure the total return achieved for shareholders.

Comment on results
Adjusted diluted EPS increased by 50%. An increase in the adjusted effective tax rate has diluted the increase in adjusted operating profit of 58%.

55.4p
+50%



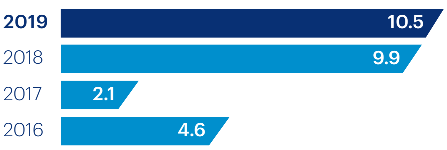
E Adjusted operating cash flow
(£m)

Definition
Cash flow for operating activities adjusted for acquisition costs and other adjustments for one-off non-recurring payments or receipts.

Reason for choice
This provides a measure of the cash generated by the Group's trading. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends.

Comment on results
Adjusted operating cash flow increased by 6% to £10.5m.

£10.5m
+6%



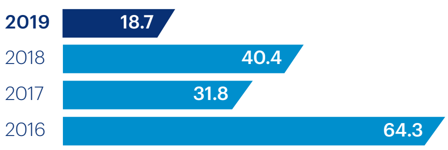
F Return on capital employed
(%)

Definition
Adjusted operating profit as a percentage of capital employed, defined as shareholders' funds less net cash held, deferred tax and deferred consideration.

Reason for choice
This measures efficient use of capital.

Comment on results
ROCE reduced from 40.4% to 18.7% in the year due to the investment in capability and capacity and the significant acquisitions made at the end of the year which increased capital employed by £43.2m.

18.7%
-54%



Risk management
Supporting the delivery of our future growth

To ensure sustainable delivery of shareholder value the Company is implementing a risk management framework and management structure that ensure risks are identified, assessed and mitigated wherever possible. It is recognised that certain risks are beyond the control of the Company; however, the Board is committed to the protection and enhancement of the assets and reputation of AB Dynamics.

Board
- Overall accountability for corporate risk management and strategy
- Determines overall risk appetite

Audit and Risk Committee
- Reviews effectiveness of risk management framework and internal controls
- Ensures compliance with relevant regulations and laws

Executive Directors
- Management of the Group and delivery of the strategy
- Monitoring and mitigation of key risks
- Regular reviews of the risk management framework

Operating Companies
- Identify and record risks
- Implementation of risk mitigation actions and compliance with internal controls and policies
- Responsible for compliance with relevant laws and regulations

Internal Control
- Monitoring of compliance with internal controls and policies of the Group
- Conducts or commissions internal audits where necessary

Methodology
The Board has overall responsibility for the management and maintenance of systems and processes to manage risk and ensure delivery of our strategic priorities.

Risk management responsibility is set out in the displayed structure. The Audit and Risk Committee has responsibility for reviewing the effectiveness of the risk management framework and internal controls and ensures that the Company is in full compliance with relevant regulations and laws, supported by the Company Secretary. Executive Directors have responsibility for overall management and delivery of the strategy, considering the risk environment and regular review of the risk management framework.

Senior management within the individual operating companies is then responsible for identifying and recording risks, implementing agreed mitigation actions, compliance with Group internal controls and ensuring compliance with relevant local laws and regulations.

Although the Company does not currently have a dedicated Internal Auditor, the function of internal control is carried out by Group Finance, supported by the Company Secretary. Its responsibility is to monitor compliance and conduct or, where appropriate, commission internal audits.

The Board has developed the framework shown below to identify and manage risks, set the risk appetite of the Group and determine the overall risk tolerance levels.

A bottom-up risk analysis is undertaken considering detailed individual risks that fit into four main categories; strategic, operational, financial and compliance. This is combined with a strategic top-down review to ensure that all appropriate risks are identified, assessed and quantified. Mitigation plans and actions are then put in place to ensure risks are reduced to a level that is as low as reasonably practicable.

The risks are assessed both pre- and post-mitigation to identify the overall risk level based on a combination of probability of occurrence and the magnitude of potential consequences. For identified risks that are considered by the Board to be material, the Board monitors specific actions to mitigate these risks. For all other risks, the actions are implemented at local management level and are reviewed periodically by Executive Directors.

Principal risks and uncertainties

Principal risks and uncertainties

The following section provides an overview of the principal risks and uncertainties that have the potential to impact the implementation of the Group's strategy and business model.

Strategic

Downturn or instability in major markets

Risk	Mitigation	Change
Adverse changes in macro economic conditions in key territories or specific automotive markets could potentially reduce or delay demand for the Company's products and services	> Revenue spread across a range of geographic markets > Active safety and autonomous vehicle technology required despite automotive downturn > Reviewing options for entering adjacent markets > Constant monitoring of market trends, drivers and needs to ensure market leadership	

Loss of major customers

Risk	Mitigation	Change
Loss of a significant customer to competition could result in reduced revenues	> Largest customer during FY19 represents 6% of Group revenues > Continued product development and high levels of customer service to retain key customers > Long-term relationships with all key customers	

Dependence on external routes to market

Risk	Mitigation	Change
The Group uses several agents and resellers to address particular geographic markets: > Risk of reduced revenues if agreements end at short notice > Limited control of market pricing with resellers > Potential financial consequences on termination	> Transitioning the Group to a direct sales model in key territories with offices in Germany, the USA and Japan > The Company will maintain agents and resellers in other territories as appropriate > Risks relating to financial consequences are understood and all transitions managed to minimise potential quantum of termination payments	

Acquisitions integration & performance

Risk	Mitigation	Change
The Group has completed its first acquisitions and there is potential for these to not deliver the expected performance resulting in a financial impact	> Extensive financial, commercial and legal due diligence > Appropriate warranties and indemnities from sellers > Use of earn-out deal structures to ensure management retention and incentivisation > Recruitment of senior management to support acquisitions, including finance > Close management and monitoring of business performance against budgets	

Operational

Cybersecurity and business interruption

Risk	Mitigation	Change
Risk of malicious cyber attack on Company IT systems or significant failure of IT infrastructure	> External cyber audit completed during 2019 and recommended actions being implemented > Implementation of a new cloud-based CRM/ERP system during 2020	

Competitor actions

Risk	Mitigation	Change
Competitors may develop new technologies and/or products which may restrict revenue growth. Competitors may establish physical assets in key locations	> Constant product and technology development > Monitoring of competitors and the IP/patents to ensure no infringement on Company intellectual property > Monitoring of competitor product launches and territory actions	

Loss of key personnel

Risk	Mitigation	Change
In previous years the Company had dependence on a small number of key individuals which could affect future business growth if they left the Company	> Expansion of staff headcount and specific actions around succession planning > Strong staff retention rate with average length of service of more than four years with over two-thirds of employees recruited in the last two years > Recruitment and training of new management > Broadening of the senior management team	

Threat of disruptive technology

Risk	Mitigation	Change
Unforeseen new and novel technology displaces the need for Company products and services. Simulation potentially reduces the volume of physical testing products	> Constant horizon scanning of new technologies > Engagement with customers and regulators to ensure we meet their current and future requirements > Established simulation capability and acquired rFpro to ensure the Company can address both virtual and real-world testing	

Operational continued

Product liability

Risk	Mitigation	Change
Risk that products supplied by the Group fail in service and result in a claim under product liability	> Robust product development process ensuring products are safe and fit for purpose > Established quality system to ensure that manufactured products meet the design standard > Suitably qualified and experienced engineering and technology staff > Product liability insurance policy in place	

Failure to manage growth

Risk	Mitigation	Change
Rapid growth places demand on the Group's management and resources. Suitable facilities are required to support the current and forecast demand of the market. Failure to ensure adequate capability and capacity could result in reduced revenues and/or growth	> Strategic priority placed on Group's capability and capacity > Implementation of a five-year financial model which determines requirements for people, facilities and equipment > Two new facilities currently under construction > Implementation of appropriate IT infrastructure through comprehensive CRM/ERP system > Overseas offices established in the USA, Germany and Japan to support customers and product installed base	

Financial

Foreign currency

Risk	Mitigation	Change
The Group operates internationally and is exposed to both transactional and translational foreign exchange risk. The Group is particularly exposed to the Euro and US Dollar. Exposure to the Chinese RMB and Japanese Yen is expected to grow The risk is enhanced by Brexit uncertainty and related currency volatility and the recently established overseas entities	> Group Finance function monitors currency exposure forecasts > Majority of the Group's revenues are contracted in GBP > Use of foreign currency contracts to hedge where appropriate	

Financial continued

Credit risk

Risk	Mitigation	Change
The Group has the potential to be exposed to bad debt risk from customers; however, there is no history of material bad debt in the business	> Risk is assessed on a case by case basis and payment terms established according to risk > Advance payments and letters of credit used where appropriate	−

Compliance

Intellectual property/patents

Risk	Mitigation	Change
The Group utilises its intellectual property to deliver product and service revenue. Intellectual property theft and/or infringement could adversely affect product sales	> The Group has patented technology where appropriate that covers the key sales territories > Where products are not able to be protected through patents, design features and/or encryption is used to protect the core IP > Continual review of current patent and IP status and review of new products/technology conducted to ensure IP is protected	−

Sustainability

The Board believes that being a responsible business through effective management of social, ethical, Health & Safety and environmental matters benefits our operational effectiveness, builds on the trust of our stakeholders and protects our reputation

"Board focus on Health & Safety matters continues to demonstrate improved accident KPIs."

Employees

The Group recognises that it is essential to build and develop the core competencies and skills of its employees, and to recruit and retain the best and brightest talent in the regions in which it operates, in order to maintain its growth and expertise. Maintaining employee motivation and teamwork are recognised by the Board as being essential to achieving the Group's business objectives and delivering its performance goals. The loss of key personnel is also identified by the Board as a risk within its ongoing Business Risk Assessment process.

The low staff turnover rate of just 3.5% in 2019 demonstrates the current stability and commitment of the Group's employees, and whilst the average length of service is only ca. four years for 2018, down from ca. five years in 2017, this is largely due to the increase in headcount creating an influx of new personnel with relatively short periods of service.

The Group values the commitment of its employees and recognises the importance of communication to maintain trust and confidence between management and personnel. Keeping employees informed on matters relating to their employment, on business developments and on the financial and economic factors affecting the Group is essential in maintaining good working relationships. This is achieved through the Executive Management Group ('EMG'), management briefings, internal announcements, the Group's website and the distribution of preliminary and interim announcements and press releases. As part of this initiative, 24 employees have attended the Effective Communications Programme to further improve the flow of information amongst personnel.

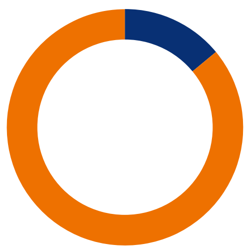
The Group's employment policies and practice are based on non-discrimination and equal opportunities. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees.

Key employee statistics

The Board recognises the importance of gender diversity in the Group but the percentage of female employees reduced during 2018 as the female proportion was not maintained with the increase in headcount; however, this has now improved during 2019. According to Engineering UK only 12.4% of all engineers are female; therefore the Group remains above the market average for our industry with women representing 16.9% of our workforce.

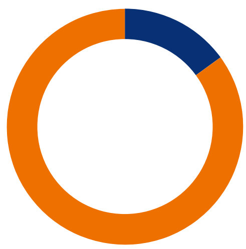
Set out below is an analysis of the Group's employees by gender in October each year:

Board



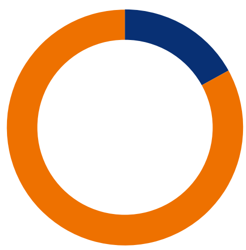
Female	**1**
2018:	0
2017:	0
Male	**6**
2018:	7
2017:	7

Senior Management team



Female	**15%**
Male	**85%**

All staff



Female	**17%**
2018:	15%
2017:	18%
Male	**83%**
2018:	85%
2017:	82%

Employment policies throughout the Group have been established to comply with relevant local legislation and codes of practice relating to employment, Health and Safety and equal opportunities.

The Group has provided supervisory management and team leadership training to ten members of staff. Employees are encouraged to undertake Continuing Professional Development ('CPD') to maintain any relevant professional accreditations.

Health and safety

The Group actively promotes a strong safety culture, striving to instil safe working principles in every employee, every activity and every facet of our business. Whilst the Chief Executive Officer (supported by the Director of QHSE and Business Systems) has overall responsibility for Health and Safety policies and procedures across the Group, the Company demands that each operating business and each employee carries responsibility for their own personal safety, thus creating collective responsibility for ensuring health and safety standards are met and continually improved on.

Local management teams are accountable for ensuring compliance with local regulatory requirements, culture and specific business needs; however, these are audited by the Group periodically.

The Group's Health and Safety Committee meets four times a year and has attendees from throughout the business from the Chief Executive Officer down to site representatives.

Health and Safety has formed part of the induction process for new employees since 2012, and the Group has good coverage of employees who have undertaken this formal Health and Safety training. The Group has also engaged an external consultancy to provide more specialist training in the form of the Institution of Occupational Safety and Health ('IOSH') Working Safely course, for specific functions working in higher risk environments. The current focus is on manufacturing operations personnel with more than 50 individuals having undertaken this course to date.

The Group is not yet collating global health and safety data, owing to the relatively recent inclusion of our overseas facilities, therefore the following table represents the Group's UK activities:

UK Health and Safety Statistics	2018	2017	2016
UK Employees	**164**	118	**90**
UK Booked Hours	**239,777**	172,441	**135,738**
Accidents	**10**	8	**10**
Dangerous Occurrences	**7**	2	**1**
Near Misses	**1**	2	**2**
Reportable Incidents	**0**	0	**0**
Lost Time Incidents	**0**	0	**0**
Frequency Rate Accidents/ 1,000,000 hours worked	**42**	46	**74**
Injury Rate/100 Employees	**6.1**	6.8	**11.1**

Whilst the number of accidents has remained largely stable for the last three years, this can be interpreted as a reduction due to the significant increase in headcount/hours booked, as demonstrated by the decreasing injury and frequency rates. The Company retains its record of no lost time or reportable incidents.

All incidents are fully investigated, and corrective actions and preventative measures are put in place to ensure that the incident does not reoccur, and future risks are mitigated. The majority of accidents relate to minor injuries associated with cuts and/or abrasions.

Uphill to Wells Relay

UK employees took part in the Uphill to Wells 46km relay race to raise money for Prostate Cancer. Staff took part in group training sessions before the event which strengthened employee relationships whilst boosting health and fitness and supporting a good cause.

Formula Student

The Company supported the UK Formula Student event – an educational engineering competition organised by the Institution of Mechanical Engineers (IMechE) where over 100 university teams from around the globe design, build and race a small-scale racing car. The competition encourages young people to pursue a career in engineering, combining practical experience with business and project management skills.

Human rights

The Group's subsidiaries are based within the major advanced economies of the UK, USA, Germany and Japan, which have strong legislation governing human rights. The Group complies fully with applicable legislation in these areas, and the other countries in which it operates, to ensure the rights of every person (whether employees, suppliers, clients or stakeholders) are respected. We uphold employment policies and practices which support and promote diversity and equal opportunities to make sure all employees are treated with dignity and respect, and all staff are provided with a safe, secure and healthy environment in which to work, regardless of where in the world they are located.

Modern slavery

The Group is committed to acting ethically and with integrity in all our business dealings and relationships, and implementing and enforcing effective systems and controls to ensure modern slavery in all its forms (including human trafficking, forced labour and child labour), is not taking place anywhere in our Group businesses or in any of our supply chains. The Group has taken the decision to move away from the current method of ad hoc monitoring and auditing of suppliers, to incorporate its supplier due diligence within the new ERP system, with the expectation that this will significantly improve the transparency of its supply chains. The Group has published a Company-wide Modern Slavery Policy and a statement on the steps taken to prevent slavery, which is available on the Company's website.

Environmental

The Group's activities can be summarised as largely manufacturing/assembly operations, combined with office based research, product development and other commercial functions, where we essentially receive materials and products from suppliers, assemble them into a new product and dispatch them to customers. The Group's businesses do not operate delivery fleets; they use third-party carriers to deliver their products to customers. Therefore, the Group's ability to control the environmental impact of its logistics partners is limited. The primary impact on the environment, which is entirely within the Group's control, is the consumption of the normal business energy sources such as heating and power, which the Group aims to minimise through compliance with relevant environmental legislation.

The Group is committed to identifying and assessing environmental risks, such as packaging waste, arising from its operations. Waste management initiatives are encouraged and supported by the Group and materials are recycled where practicable. The Group's usage of water is minimal and relates to cleaning, bathrooms and staff refreshments.

Local management teams are committed to good environmental management practices and are responsible for implementing the necessary initiatives to meet their local obligations. Each facility participates in recycling paper, plastic, cardboard and wood from pallets and continues to focus on minimising energy consumption through the efficient use of heating and lighting.

The Group does not use its own logistics or freight; hence, its primary direct energy usage and related CO_2 emissions arise from its facilities. Where possible the Group has reported its figures using billed data, which relates to its UK premises and activities which is where the majority of its employees and premises are located. The Group is working towards compiling data for its global activities over the coming year.

Whilst the Company is not yet required to report on greenhouse gas emissions being a company quoted on AIM rather than the Main Market, the Board believes there are direct benefits to our organisation in the measuring and reporting of environmental performance, which should assist the Company to reduce its energy consumption and therefore resource costs, as well as gaining a better understanding of the Group's exposure to the risks of climate change. Therefore, in preparation for next year, the following data has been compiled to establish the Company's baseline gas and electricity consumption for the financial year 2018–19, broken down into three categories: Carbon dioxide equivalent (CO_2e), Methane (CH_4) and Nitrous oxide (N_2O) per tonne.

Tonnes CO_2e

221.2

Tonnes CH_4

0.43

Tonnes N_2O

0.68

Business ethics

The Group is committed to acting ethically and with integrity in all its business dealings and relationships, recognising its obligation, towards the parties with which the Group has business dealings including customers, shareholders, suppliers and advisers. Whilst the interactions with shareholders are wholly managed by AB Dynamics plc, our communications and relationships with customers, suppliers and advisers are managed within each subsidiary by senior management and the Group expects a high standard of expertise and business principles to be maintained in such dealings.

The Group's current policy towards suppliers is that each operating business is responsible for negotiating the terms and conditions under which they trade with their suppliers. Group companies are responsible for agreeing payment terms with their suppliers and contractors when they enter into binding contracts for the supply of goods and/or services. Each supplier is aware of and wholly agrees to these terms prior to contract. Group companies seek to abide by these payment terms so long as they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The Group has a strict Share Dealing Policy which is circulated to all individuals who qualify for share options. The policy covers insider trading/inside information, the AIM Rules and Market Abuse Regulations which apply to the Company and the individuals. Employees are asked to sign to demonstrate their acceptance of these terms. Furthermore, in accordance with the Market Abuse Regulation of the Financial Conduct Authority, employees are required to seek the approval of the Chief Executive Officer or Group Company Secretary before dealing in its shares.

Community

We remain focused on supporting young people in the field of engineering and technology and ex-military personnel, as well as the community within which we operate.

The Group is keen to take its part in building a workforce fit for tomorrow. With this in mind the organisation continues to support young students with work experience (eleven students in FY2019), and undergraduates with summer placements (six placements in FY2019), as well as regularly taking on apprentices (with six apprenticeships awarded in FY2019).

The Group remains committed to helping ex-military personnel transition into meaningful civilian employment and develop professional skills and careers.

The Group has a number of former military personnel within its teams and is proactive in its attempts to employ further former military personal, attending the National Employment & Careers Fair in Tidworth organised by the British Forces Resettlement Services on an annual basis.

The Group believes that good community relations are important to the long-term development and sustainability of its operating businesses around the world. The Group's subsidiaries participate and invest in their local communities, making donations towards a number of charitable and fundraising activities primarily in support of STEM related institutions and events and children's charities/welfare with a focus on Bradford-on-Avon, where the Company is headquartered. In FY2019 the Group made donations totalling £23,800. No political donations were made.

Dr James Routh
Chief Executive Officer
26 November 2019

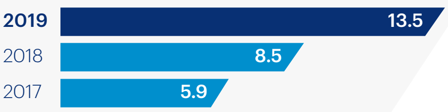
Financial review

The Group has the financial resources to support investment in sustainable growth

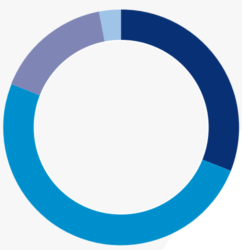
Sarah Matthews-DeMers
Chief Financial Officer

Adjusted operating profit

£13.5m
+58%



Revenue by geography



UK/Europe	31%
Asia Pacific	50%
North America	16%
Rest of World	3%

The Group delivered strong revenue and profit growth during the year and also started to invest in the capability and capacity required to facilitate continued growth. This investment was funded from cash generated from operations. Cash raised from the issue of new shares was used to fund the acquisitions made during the year, leaving net cash at the year end of £36.2m that will support further investment in the Group's capacity and future acquisitions.

Trading performance

Revenue increased by 56% to £58.0m (2018: £37.1m) driven by an increase in track testing revenue of 50% to £49.8m (2018: £33.3m) and laboratory testing and simulation revenue of 118% to £8.2m (2018: £3.7m).

Adjusted operating profit increased 58% to £13.5m (2018: £8.5m) while adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') increased 65% to £14.8m (2018: £9.0m).

Adjusted operating margin increased by 20 bps to 23.3% (2018: 23.1%) as the operating leverage from the additional revenue generated was used to invest in our infrastructure. After adding back depreciation and amortisation, this left return on sales (defined as EBITDA divided by revenue) of 25.1% (2018: 24.3%), an increase of 80 bps.

After net interest income of £0.2m (2018: £0.1m), adjusted profit before tax was £13.7m (2018: £8.6m).

The Group adjusted tax charge totalled £2.3m (2018: £1.2m), an adjusted effective tax rate of 16.8% (2018: 14.1%). The effective tax rate is lower than the current UK corporation tax rate due to allowances for research and development and Patent Box. In future years the effective tax rate is expected to increase as a proportion of profits are expected to be generated overseas in territories with higher tax rates than the UK.

Adjusted diluted earnings per share were 55.4p (2018: 36.9p), an increase of 50%.

Adjustments totalled £2.7m (2018: £0.7m), of which £1.6m relates to acquisition fees, £0.6m to share based payments and £0.5m to fees to terminate agents as we brought our German distribution channel in-house.

Statutory operating profit grew by 37% from £7.9m to £10.8m and after interest income of £0.2m (2018: £0.1m), statutory profit before tax was up 38% from £7.9m to £11.0m, giving statutory basic EPS of 42.9p (2018: 36.3p). The statutory tax charge was £2.3m (2018: £0.9m). A reconciliation of statutory to underlying non-GAAP financial measures is provided below.

Return on capital employed ('ROCE')

Our capital-efficient business and high margins enable generation of strong ROCE (defined as adjusted operating profit as a percentage of capital employed). However, in the years in which we acquire businesses or new properties, our capital base grows disproportionately with profit; therefore, the ratio will be impacted. This accounted for the decrease in ROCE in the year from 40.4% in 2018 to 18.7% in 2019.

Cash generation

Net cash at the end of the year was £36.2m (2018: £15.9m).

Operating activities generated adjusted cash inflow of £10.5m (2018: £9.9m) with cash conversion of 78% after net investment in working capital of £3.6m. After interest income of £0.2m and paying tax of £1.4m and dividends of £0.7m, this allowed us to invest £4.9m in property,

£ million	2019 Statutory	2019 Adjustments	2019 Adjusted	2018 Statutory	2018 Adjustments	2018 Adjusted
Operating profit (£m)	**10.8**	**2.7**	**13.5**	7.8	0.7	8.5
Operating margin (%)	**18.7**	**4.6**	**23.3**	21.3	1.8	23.1
Profit before tax (£m)	**11.0**	**2.7**	**13.7**	7.9	0.7	8.6
Taxation (£m)	**(2.3)**	**—**	**(2.3)**	(0.9)	(0.3)	(1.2)
Profit after tax (£m)	**8.7**	**2.7**	**11.4**	7.0	0.4	7.4
Diluted earnings per share (pence)	**42.1**	**13.3**	**55.4**	35.0	1.9	36.9
Cash flow from operations	**9.9**	**0.6**	**10.5**	9.9	—	9.9

The adjustments comprise:

£ million	2019 £m	2018 £m
Acquisition related charges	**1.6**	—
Fees to terminate agent	**0.5**	—
Share based payment	**0.6**	0.7
Adjustments	**2.7**	0.7

plant and equipment and acquisition of intellectual property, leaving £3.1m (2018: £4.6m) free cash flow.

On 7 June 2019, a total of 2,050,000 new ordinary shares were placed for £22.00 and 227,500 new ordinary shares were admitted to trading on AIM following the issue of open offer shares, raising total net proceeds of £48.2m. The exercise of share options added a further £1.6m.

£35.4m of these proceeds were invested in the acquisition of rFpro and DRI (£32.8m net of cash acquired and expenses).

Acquisitions

On 27 June 2019, the Group completed the acquisition of Kangaloosh Limited (trading as 'rFpro') for initial consideration of £18.1m with deferred contingent consideration of up to £3.5m.

On 30 August 2019, the Group acquired 100% of the share capital of Dynamic Research, Incorporated for initial consideration of $21.0m with deferred contingent consideration of up to $3.5m.

The cash consideration was funded from the cash raised through the share placing and open offer completed during the year.

Research and development

While research and development forms a significant part of the Group's activities, a significant proportion relates to specific customer programmes which are included in the cost of the product. Other research and development costs, all of which have been written off to the profit and loss account as incurred, total £0.8m (2018: £0.5m).

Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and, with the acquisition of DRI and international expansion of our sales offices, exposure to both foreign currency translation risk and transaction risk will increase.

The Group maintains a natural hedge whenever possible to transactional exposure by matching the cash inflows and outflows in the respective currencies wherever possible.

Dividends

The Board is recommending a final dividend of 2.79p per share giving a total dividend for the year of 4.40p per share which is an increase over 2018 of 20%. The Board expects to pursue a progressive dividend policy in the future.

Alternative performance measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information. The principal measures presented are adjusted measures of earnings including adjusted operating profit, adjusted operating margin, adjusted profit before tax, adjusted EBITDA and adjusted earnings per share.

The Annual Report includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

We provide comparatives alongside all current year figures. The term 'adjusted' is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. All profit and earnings per share figures in this Annual Report relate to underlying business performance (as defined above) unless otherwise stated.

A reconciliation of adjusted measures to statutory measures is provided above.

Sarah Matthews-DeMers
Chief Financial Officer
26 November 2019

Board of Directors
A balance of skills

The Chairman considers all of the Directors to contribute valuably, and to continue to be important to the Company's long-term sustainable success.

Director changes

Robert Hart, who was appointed as Chief Financial Officer on 14 August 2017, retired 31 July 2019. Sarah Matthews-DeMers commenced her role as Chief Financial Officer on 4 November 2019.

A Audit and Risk Committee

R Remuneration Committee

N Nomination Committee

Chairman

Anthony Best
Chairman

Appointed:
Founded the Company in 1982 and joined the Board immediately following the IPO on 22 May 2013. Following the departure of the previous Chief Executive Officer, Anthony was appointed interim Executive Chairman on 28 February 2018 until the arrival of Dr James Routh as Chief Executive Officer on 1 October 2018.

Skills and experience:
Anthony graduated from Cambridge University in Mechanical Sciences Tripos (Engineering) and subsequently joined Rolls-Royce Cars in 1960 working on vehicle suspensions. In 1963, he moved to Avon Rubber Limited working on the design and development of tyre manufacturing equipment, ultimately becoming Production Manager in 1965. In 1967, he joined Moulton Developments as Chief Engineer working on vehicle suspensions for cars, trucks and coaches. Following the closure of Moulton Developments in 1982, he founded Anthony Best Dynamics Limited. He is a Fellow of the Royal Academy of Engineering, Fellow of the Institution of Mechanical Engineers and is on the Court of the Worshipful Company of Engineers.

Number of Board meetings attended:
8 of 8

External appointments:
None

Dr James Routh
Chief Executive Officer

Appointed:
Joined the Company and was appointed to the Board on 1 October 2018.

Skills and experience:
James brings significant engineering and management leadership gained across international businesses. Prior to joining the Group, James was Group Managing Director at FTSE 250 listed Diploma PLC for six years where he delivered a series of successful international acquisitions. His previous career involved engineering leadership positions predominantly in the aerospace and defence industry, including senior roles at Chemring Group PLC and Cobham PLC. James holds a PhD in engineering and is a Chartered Mechanical Engineer and Fellow of the Institution of Mechanical Engineers.

Number of Board meetings attended:
7 of 7

External appointments:
None

Sarah Matthews-DeMers
Chief Financial Officer

Appointed:
Joined the Company and was appointed to the Board on 4 November 2019.

Skills and experience:
Sarah has extensive experience of financial management in public company environments, investor relations and strategic development. Most recently Group Finance Director of Carclo plc, Sarah was previously Director of Strategy at Rotork plc where she led a wide-reaching strategic review. Prior to this she was Deputy Finance Director at Avon Rubber plc, being part of the senior management team during a period of significant transformation. She began her career at PwC, working with many international manufacturing and technology companies. Sarah is a Chartered Accountant and Fellow of the ICAEW with a first-class degree in Accountancy Studies.

Number of Board meetings attended:
N/A

External appointments:
None

Matthew Hubbard
Chief Technology Officer

Appointed:
Joined the Company in 1999 and was appointed to the Board on 14 August 2017.

Skills and experience:
Matthew studied at Cambridge University gaining a Master of Engineering in Electrical and Information Sciences Tripos ('EIST'). He joined Anthony Best Dynamics Ltd in 1999, initially as a Project Engineer and more recently as Operations Director. Matthew has played a leading role in the development and marketing of new technologies whilst at AB Dynamics, in particular the Company's proprietary driverless vehicle testing system and more recently the development of simulation technologies.

Number of Board meetings attended:
8 of 8

External appointments:
None

Graham Eves
Non-Executive Director

A R N

Appointed:
Joined the Board and appointed Chairman of the Remuneration Committee on 22 May 2013.

Skills and experience:
Graham spent 13 years at GKN plc operating across multiple overseas jurisdictions including setting up and running a special operation for GKN plc's head office in Switzerland. From 1980 he worked in venture capital and established his own international business consultancy. He co-founded and was Chairman of an automotive technology company, Mechadyne (now part of Rheinmetall Automotive AG). He was also Chairman of PCB manufacturer, Lyncolec Limited, Chairman of a specialist security company and a director of 3PC Investment Trust. Graham was directly involved in the AIM flotations of Antonov plc and Transense Technologies plc and was on the AIM Advisory Committee of the London Stock Exchange for a number of years.

Number of Board meetings attended:
5 of 8[1]

External appointments:
Graham is a Non-Executive Director of Haydale Graphene Industries plc and Chairman of ExpatInfoDesk International Ltd.

Bryan Smart
Non-Executive Director

A R N

Appointed:
Joined the Board and appointed Chairman of the Audit Committee on 22 May 2013.

Skills and experience:
Bryan is a Chartered Accountant with over 40 years' experience in finance both in professional and commercial roles at various organisations including Deloitte and Mercedes-Benz UK where he served as Chief Financial Officer. Since leaving Mercedes-Benz, he has held director roles in a number of private and public companies including being Chairman of the supervisory board of CarboTech AG, a Salzburg based manufacturer of complex carbon fibre structures for the automotive industry. Bryan has served on the board of Brunel University and is currently a trustee of the Mercedes-Benz UK pension fund.

Number of Board meetings attended:
5 of 8[1]

External appointments:
Bryan is a Non-Executive Director of G3E plc.

Richard Hickinbotham
Non-Executive Director

A R N

Appointed:
Joined the Board and appointed Chairman of the Nomination Committee on 14 August 2017.

Skills and experience:
Richard holds a BSc in Mechanical Engineering from Imperial College and is a Chartered Accountant with over 30 years' City experience. He is currently Head of Research at N+1 Singer and was previously in research management roles at Cantor Fitzgerald Europe and Charles Stanley Securities. He has held several senior positions at Investec and S G Warburg & Co. (acquired by UBS). In 2013 Richard was part of the advisory team that took the Company onto AIM.

Number of Board meetings attended:
6 of 8[1]

External appointments:
Richard is Head of Research at N+1 Singer and a Non-Executive Director of Directa Plus Plc.

1 Board attendance figures include ad-hoc meetings at which a number of the Non-Executive Directors were not in attendance.

Chairman's introduction to corporate governance

Anthony Best
Chairman

"The statement of corporate governance practices set out on pages 35 to 47, including the reports of Board Committees, constitutes the Corporate Governance Report of AB Dynamics plc."

Dear shareholders

On behalf of the Board, I am pleased to present AB Dynamics plc's Corporate Governance Report for the year ended 31 August 2019. This report seeks to provide shareholders and stakeholders with a clear understanding of how we discharge our governance duties and apply the principles of good governance set down in the QCA Code ('the Code').

The Board is fully supportive of the principles laid down in the Code and continues to review its systems, policies and procedures that support the Group's sustainability and governance practices.

We acknowledge that good governance is fundamental to the success of the Group and it is woven into the strategy and decision-making processes throughout the business. The tone from the top is cascaded from the Board to the Executive Team and out to the business. The composition of the Board is routinely assessed to ensure that we have a diverse balance of skills, experience and knowledge required to achieve our strategic goals. The Board embraces widening diversity in terms of background, ethnicity, age, experience, gender and perspective; however, appointments are made on merit.

Under the articles, one third of the Directors are required to retire from office by rotation each year.

As stated in the Chairman's Statement, Bryan Smart wishes to retire at the AGM in January 2020 and I would like to thank Bryan for his contribution to the corporate governance of the Company over the years since our flotation.

We remain cognisant of the strong relationship between ethics and governance and the role the Board plays in demonstrating ethical leadership. Further information on ethics is contained in our Sustainability Report on pages 26 to 29.

Our Corporate Governance Report is set out on pages 35 to 47, and incorporates the Audit and Risk Committee Report on pages 40 to 41, the Nomination Committee Report on pages 42 to 43 and the Remuneration Committee Report on pages 44 to 47.

Whilst the Group has functioned for the past few years without in-house specialist company secretarial skills, I am pleased to report that an experienced and dedicated Group Company Secretary was appointed on 1 July 2019 and I look forward to working with her to take AB Dynamics' corporate governance standards to a higher level during the next 12–18 months.

Anthony Best
Chairman
26 November 2019

Statement of corporate governance

The Board

The Board recognises the value of good corporate governance and can confirm that it complies with the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') as required by the AIM Rules, as well as other corporate governance standards that are appropriate and relevant to our culture, status, profile, size and circumstances. This statement of corporate governance is an explanation of how the Company has applied the ten principles of the QCA Code throughout the year and the Board can confirm that the Company has complied with the QCA Code and its internal control requirements for the period under review. The Code and these standards are integrated into the Group's operations and work to support the achievement of our strategic objectives.

Whilst day-to-day operational decisions are managed by the Chief Executive Officer, certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board.

Board composition and Board changes

As at 31 August 2019, the Board comprised a Non-Executive Chairman, two Executive Directors and three independent Non-Executive Directors. A biography of each Director in office at the end of the year is set out on pages 32 and 33. James Routh joined the Board as CEO of the Group on 1 October 2018 and Robert Hart, Chief Financial Officer, stepped down from the Board on 31 July 2019 after more than six years on the Board. Sarah Matthews-DeMers has now been appointed as Chief Financial Officer with effect from 4 November 2019.

Anthony Best is Non-Executive Chairman of the Board. Each of the three independent Non-Executive Directors performs additional roles as Chairmen of the three Committees: Audit and Risk, Nomination and Remuneration (as further detailed herein).

The Board

Role of the Board
To ensure that the business is managed for the long-term benefit of all shareholders, whilst at the same time having regard for our employees, customers, suppliers and the impact of our activities on both the environment and the communities in which we operate.

Matters reserved for the Board
- Determining the Group's overall strategy and direction
- Establishing and maintaining controls, audit processes and risk management policies to ensure they counter identified risks and that the Group operates efficiently
- Approving budgets and reviewing performance relative to those budgets and approving the financial statements
- Approving material agreements and non-recurring projects
- Approving senior appointments, in particular Board appointments
- Reviewing and approving remuneration policies
- Promoting a corporate culture based on sound ethical values and behaviours

Where appropriate, matters are delegated to a Committee, which will consider them in accordance with its terms of reference.

Nomination Committee
- Board and Committee composition
- Succession planning
- Diversity
- People strategy

Read more on page 42

Audit and Risk Committee
- External audit
- Financial reporting
- Risk management and internal controls
- Internal audit

Read more on page 40

Remuneration Committee
- Remuneration policy
- Remuneration principles
- Incentive scheme design and setting of targets
- Executive and senior management remuneration

Read more on page 44

Board composition and Board changes continued

The composition of the Board is monitored by the Nomination Committee. The Board is satisfied that it has an effective and appropriate balance of skills and experience. The Board is also satisfied that it has a suitable balance between independence and knowledge of the Group to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and constructively challenge other Directors where appropriate.

Board responsibilities

Roles of the Non-Executive Chairman and Chief Executive Officer

There is a clear ongoing division of responsibility between the Non-Executive Chairman and the Chief Executive. The Chairman is responsible for managing the Board and its oversight of the business, and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the day-to-day management of the Group.

Role of the independent Non-Executive Directors

The role of the independent Non-Executive Directors includes questioning and challenging the Executive Directors and assisting where possible in developing strategic proposals; reviewing and commenting on the integrity of the Group's financial reporting systems and the information they provide; ensuring that appropriate standards of corporate governance are adhered to; reviewing internal control systems; ensuring that risk management systems are robust, and reviewing corporate performance and ensuring that performance is reported to shareholders.

Activities of the Board

The Company's governance framework is set out herein. The core activities and calendar of the Board and its Committees are planned on an annual basis and this framework forms the basic structure within which the Board operates.

Risk management and internal controls

The Board is responsible for the Group's system of internal controls and for reviewing the effectiveness of that system. It is designed to manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and can only provide reasonable but not absolute assurance against material damage deficiency or loss.

The Board monitors financial controls through the setting and approval of an annual budget and the regular review of monthly management accounts. Management accounts contain several indicators that are designed to reduce the possibility of error in the financial statements.

The Group has in place defined authorisation levels for expenditure, the placing of orders and signing authorities. The daily cash movements of the Group are reconciled and monitored by the finance department. The Group's cash flow is also monitored by management.

Each year on behalf of the Board, the Audit and Risk Committee reviews the effectiveness of these systems. This is achieved primarily by a comprehensive review of the risks within a business risk assessment matrix which covers both financial and non-financial issues potentially affecting the Group, and from discussions with the external auditor.

Anti-corruption

AB Dynamics plc maintains a Group-wide policy on anti-corruption that addresses the requirements of the Bribery Act 2010. This policy and associated procedures ensure continued and effective compliance, and are periodically reviewed. Following the recent acquisitions and continuing growth of the Company, the Board is investigating formalising its anti-corruption training to record and standardise its approach throughout its businesses to ensure effective compliance around the world.

Whistleblowing

The Company has an internally published whistleblowing policy, which provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. The Board aims to encourage openness and will support staff who raise genuine concerns in good faith under this policy, even if they turn out to be mistaken. All reports are investigated in line with the policy, however there were no whistleblowing reports received during this period.

The Board is not aware of any significant failings or weaknesses in the system of internal control (including the Company's approach to bribery and corruption and/or its protection of whistleblowers). The principal risks which the Board has identified this year are set out in the section on Risk Management on pages 22 to 25 of the Strategic Report.

Matters reserved for the Board

Matters reserved for the Board include, but are not limited to:

- Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards, and overview of the Group's operational management;
- Structure and capital, including changes relating to the Group's capital structure and major changes to the Group's corporate structure, including acquisitions and disposals, and changes to the Group's management and control structure;
- Financial reporting, including the approval of the Annual Report and Accounts, half-yearly report, trading statements, preliminary announcement for the final results and dividend, treasury and accounting policies;
- Internal controls, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures;

- Contracts, including approval of all major capital projects and major investments;
- Ensuring satisfactory communication with shareholders; and
- Board membership and other appointments, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

Board of Directors' inductions and training
Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board.

All Directors have received an appropriate induction for their roles within AB Dynamics, including some or all of the following:

- The nature of the Group, its business, markets and relationships;
- Meetings with the Company's official appointed advisers including: Registrar, Solicitor, Auditor, Broker and the Nominated Adviser ('NOMAD');
- Meetings with the relevant operational and functional senior management;
- Board procedures, including meeting protocols, Committee activities and terms of reference, and matters reserved for the Board;
- Overviews of the business via monthly reports; and
- The Group approach to risk management.

Ongoing training and briefings are also given to all Directors, including external courses as required.

Meetings of the Board

The Board has four scheduled meetings during the financial year but will meet more frequently if required. Additional Board meetings or Board conference calls are held as and when required.

Wherever possible and practicable, the Board and its Committees receive appropriate and timely information including relevant Board Committee papers prior to each meeting, and a formal agenda is notified. Any Director can challenge proposals with decisions being taken after discussion. Any Director can ask for a concern to be noted in the minutes of the meeting which are circulated to all Directors. Specific actions arising from meetings are agreed by the Board or relevant Committee and then followed up by management.

The Board is supported by the Audit and Risk, Remuneration and Nomination Committees, each of which has access to information, resources and advice that it deems necessary, at the Group's cost, to enable each Committee to discharge its duties.

Board Committees

Audit and Risk Committee
Chaired by Bryan Smart
Number of meetings in the year: 2

Role of the Committee
The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and monitored, and for meeting the auditor and reviewing the reports from the auditor relating to accounts and internal control systems. The Audit Committee will have discussions with the external auditor at least once a year without any Executive Directors being present.

Nomination Committee
Chaired by Richard Hickinbotham
Number of meetings in the year: 2 plus ad hoc.

Role of the Committee
The Nomination Committee is responsible for recommendations to the Board for the appointment of additional Directors or replacement of current Directors and for succession planning for the Company.

Remuneration Committee
Chaired by Graham Eves
Number of meetings in the year: 3 plus ad hoc.

Role of the Committee
The Remuneration Committee reviews the performance of the Executive Directors and sets and reviews the scale and structure of their remuneration and the terms of their service agreements with due regard to the interests of the shareholders. In determining the remuneration of Executive Directors, the Remuneration Committee seeks to enable the Company to attract and retain Executives of high calibre. No Director is permitted to participate in discussions or decisions concerning his or her own Remuneration. The Remuneration Committee will meet as and when necessary.

Effectiveness

Independence of Non-Executive Directors
Graham Eves, Bryan Smart and Richard Hickinbotham, as Non-Executive Directors, are considered to be independent of the Executive and are free to exercise independence of judgement.

The Board does not believe that a Non-Executive's tenure interferes materially with their ability to act in the best interests of the Group. The Board also believes that each of the Non-Executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group. The Board is satisfied that no conflict of interest exists for any Director.

All Non-Executives have been advised of the time required to fulfil the role prior to appointment and this requirement is included in their letters of appointment. The Board is satisfied that the Chairman and each of the independent Non-Executive Directors is able to devote sufficient time to the Group's business.

The Non-Executive Chairman, Anthony Best, is not considered to be independent by virtue of his substantial shareholding.

Effectiveness continued

Diversity and equality

The Board is committed to strengthening its diversity including gender and ethnic diversity, when appropriate opportunities arise. Diversity across a wide range of criteria is valued, including skills, knowledge and experience as well as gender, ethnicity, religion and sexual orientation. It is also is committed to creating equality of opportunity where people are appointed on merit, in and without any form of positive or negative discrimination.

Whilst the Nomination Committee reviews the structure, size, diversity, balance and composition of the Board, the principal objective of the Nomination Committee is to ensure that all candidates are suitably qualified and experienced for the role. Additional information on diversity can be found on page 26 in our Key Employee Statistics.

Board evaluation

The collective performance of the Board is reflected in the success of the business. To date, the Board has undertaken informal and ad hoc evaluations of its performance during the course of each financial year; however, under the direction of the Chairman it has taken the decision formalise this process using specially designed evaluation forms for the new financial year, to coincide with arrival of our new CFO, Sarah Matthews-DeMers.

Re-election

With the exception of those Directors appointed prior to the first AGM of the Company, all Directors are subject to reappointment by shareholders at the first Annual General Meeting following their appointment and thereafter by rotation. If not reappointed he/she shall vacate office at the conclusion of the AGM.

Liability insurance

Each Director and Officer of the Company is covered by appropriate Directors' and Officers' liability insurance ('D&O') at the Company's expense in line with market practice.

The D&O insurance covers the Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The insurance does not provide cover where the Director or Officer has committed a deliberate fraudulent or deliberate criminal act.

Professional advice

It is the Company's policy to allow each Director to obtain independent professional advice at the Company's expense in furtherance of their duties as a Director of AB Dynamics plc. In addition, each Committee is authorised, through its terms of reference, to seek advice at the Company's expense. During the year advice was sought by the Chairman of the Remuneration Committee from PwC in relation to the remuneration of the Executive Directors of the Company.

Conflicts of interest

All Directors are subject to a statutory duty under the Companies Act 2006 ('the Companies Act') to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests.

Directors of public companies may authorise conflicts and potential conflicts in accordance with the Companies Act where it is appropriate to do so and where the articles of association ('the Articles') contain a provision to this effect.

The Act also allows the Articles to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. Procedures adopted to deal with conflicts of interest continue to operate effectively and the Board's authorisation powers are being exercised properly in accordance with the Company's Articles.

Accountability

The Board is responsible for ensuring that the Annual Report and Accounts, taken as a whole, present a clear, fair and balanced assessment of the Group which provides the information necessary for shareholders to assess the Group's performance, strategy and business model.

The Board receives a detailed report from the Chief Financial Officer which sets out the key matters that impact or could impact the Group's financial statements and Annual Report and highlights areas of the financial statements where it has been necessary to rely upon a significant level of subjectivity.

The Board also has access to all relevant information and reviews other periodic management information and RNS announcements. The draft Annual Report and Accounts are circulated to each member of the Board in sufficient time to allow challenge of the disclosures where necessary. The Directors' Responsibilities Statement is set out on page 49 (within the Directors' Report).

Shareholder engagement

The Company's investor relations are managed by the Chief Executive Officer with the support and assistance of the Company's brokers. The Company maintains regular contact with major shareholders to communicate the Group's objectives. The Board is committed to communicating openly with shareholders to ensure that its strategy and performance are clearly understood; this is achieved through the Annual Report and the Interim Statement, trading and other announcements made on RNS and at the Annual General Meeting, where the Board encourages investors to participate.

Following the announcement of the Group's half year and full year results the Chief Executive Officer, together with other Directors (as appropriate), make presentations to institutional shareholders, private client brokers and investment analysts. Meetings and site visits are regularly held with existing and prospective institutional and other investors at which attendees have an opportunity to meet with senior management in the Group and gain a better understanding of the businesses' product portfolios.

The Group also maintains a website www.abdplc.com which contains information on the Group's business, corporate information and specific disclosures required under AIM rules and the QCA Code. It contains up to date information for shareholders, which includes the Annual Report and Accounts of the past six years (since its admission to AIM), a link to current share price information, and all announcements released via RNS. The website also contains factual data on the Group's businesses, products and services and links to press releases.

The Group discloses contact details on its website and on all announcements released via RNS. In addition, investor relations queries may be routed via the Group's broker, Cantor Fitzgerald Europe, or its financial PR agency, Tulchan Communications.

The Group's Executives and Non-Executives are given regular updates as to the views of institutional shareholders and changes significant shareholdings through research carried out ca. quarterly by the Group's broker and adviser. The Chairman and independent Non-Executive Directors will also attend meetings with investors and analysts as required, in addition to being available at the Group's AGM to discuss any matter that shareholders might wish to raise. Formal feedback from shareholder meetings is also provided by the Group's broker and discussion of these meetings and feedback is a standard item on the Board's agenda.

AGMs can be called with 21 clear days' notice in accordance with the Company's Articles, for general meetings, other than AGMs, the Board will continue, in ordinary circumstances, to provide as much notice as possible and certainly no less than 14 working days.

Audit and Risk Committee report

Monitoring all aspects of financial reporting and risk

Bryan Smart
Audit and Risk Committee Chairman

No. of meetings

2

Audit and Risk Committee members

- Bryan Smart (Chairman)
- Graham Eves
- Richard Hickinbotham

Dear shareholders

I am pleased to report on the activities of the Audit and Risk Committee for the financial year ended 31 August 2019.

After more than six years as a Non-Executive Director and Chairman of the Audit and Risk Committee, I plan to retire from the Board at the conclusion of the AGM in January 2020. It has been a pleasure to serve this hugely successful organisation, and I wish my replacement every success for the future.

Audit and Risk Committee role and activities

The key roles of the Committee are as follows:

- To review the Group's risk management framework, and ensure adherence to policies and effectiveness of mitigating actions.
- To advise the Board on whether the Committee believes the Annual Report, taken as a whole, is fair, balanced and understandable through review of the accounting policies and significant judgements used in the Group's accounts.
- To manage the appointment of the Group's external auditor, and assess the effectiveness of the audit and auditor independence including the policy of inviting the auditor to bid for non-audit services as and when required.
- To review the internal control environment and consider the need for an internal audit function.
- To review whistleblowing procedures and other Group policies as relevant.
- To monitor compliance with the UK corporate governance guidelines contained in the Quoted Companies Alliance ('QCA') Code in respect of audit and risk committees.

Activities during the year

The Committee met twice during the financial year under review, and also privately with the external auditor. For the first time this year, its remit was extended to review and assess the risks that this growing business needs to monitor.

In addition to the Committee members, invitees included our Chairman, CFO, CTO and external auditor and appropriate company secretarial support. The meetings included review of the audit plan, discussion of the auditor's proposed materiality thresholds and review and discussion of audit findings and action points arising.

Significant accounting judgements

The Audit and Risk Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant accounting judgements made by management, taking into account the reports of the CFO and the external auditor. The main areas of focus considered by the Committee were as follows:

- Review of the accounting for the acquisition of Kangaloosh Ltd (rFpro) and Dynamic Research, Incorporated and the value ascribed to the intangible assets. The Committee reviewed the nature of the assets identified and the assumptions underpinning management's valuation and was satisfied that the acquisition accounting is appropriate.
- Review of revenue recognition on long-term contracts. The Group has established processes in relation to

estimating the stage of completion, milestones and expected profitability of long-term contracts. The Committee reviewed these assumptions and was satisfied that they are appropriate.

Other accounting judgements included:

> Review of the accounting for share based payments. The calculation of the fair value of share based payments at grant date is primarily determined by the volatility of the share price which has been based on historical share price movements. The Committee was satisfied that the assumptions are appropriate.

Other matters considered by the Committee included:

> Review of the Group's risk management framework. This was added to the Committee's responsibilities during the year. The Committee undertook a first comprehensive review and agreed action plans for mitigations with responsibilities and timescales for implementation.

> Review of the whistleblowing procedures.

> Review of the need for an internal audit function. It was agreed that this was an area that should be revisited as the Group continues to grow.

> Review of the external audit plan and approval of the audit fee.

Key areas of focus for FY2020

Key areas of focus for the coming year are:

> Recruitment of a new Audit and Risk Committee Chair.

> Reassessment of need for an internal audit function.

> Monitoring of implementation of risk mitigation action plans.

The QCA Code has recently recommended extending the activities of the Committee to include:

> Demonstrating involvement throughout the annual reporting cycle.

> Reviewing the Committee's terms of reference at least annually.

> Continuous improvement of the assessment of the Group's internal control and risk management activities.

These recommendations will be implemented by the Committee in the coming year.

External auditor objectivity and independence

The Audit and Risk Committee reviewed the independence and objectivity of the external auditor and the effectiveness of the audit process. The Committee received confirmation from the auditor that it had complied with independence rules and with the Ethical Standards for Auditors. Having reviewed the audit plan, audit findings report and enquiries of management, the Committee concluded that audit effectiveness was satisfactory.

The Committee also reviewed the nature, extent, impact on objectivity and cost of non-audit services provided by the auditor. During the year, Crowe provided tax advice regarding optimisation of capital allowances in relation to the new building and also provided assistance in compilation of the FY2018 tax returns and filings. Due to the nature of the work and the fact that at £28,000, non-audit fees were not significant, the Committee concluded that the external auditor was independent during the financial year. However, in future it is expected that tax advisory and compliance services will be performed by another provider.

Crowe has been the Group's external auditor for a number of years. In light of this and the continued expansion of the Group, the Committee will consider annually whether the re-appointment of Crowe remains appropriate. The Committee has recommended that Crowe be appointed as auditor for FY2020.

Bryan Smart
Audit and Risk Committee Chairman
26 November 2019

"As the Company grows and extends its global footprint, the internal control and risk management processes will evolve."

Nomination Committee report
Ensuring a breadth of skills, depth of experience, and independence

Richard Hickinbotham
Nomination Committee Chairman

No. of meetings
2

Nomination Committee members
> Richard Hickinbotham (Chairman)
> Bryan Smart
> Graham Eves

Dear shareholders

I am pleased to provide an update on the work of the Nomination Committee. The Committee is responsible for recommendations to the Board for the appointment of additional Directors or the replacement of current Directors and for succession planning for the Group. Diversity and gender inclusiveness span the whole Group and are important and enduring considerations in the search for, and selection of, Board members. The terms of reference of the Committee were reviewed and updated in September 2018 and can be found on the Group's website.

Committee membership and Chair

The Nomination Committee consists of the three independent Non-Executive Directors: Graham Eves, Bryan Smart and me as Chairman. The Nomination Committee met twice during the year and was involved in a number of additional meetings and telephone conference calls jointly with the Remuneration Committee, including discussion of the terms of employment of the new Group Chief Financial Officer.

Key duties and focus in the year

The ongoing work of the Committee remains to support the Board in reviewing its size, structure and composition to ensure an appropriate balance of skills, knowledge, independence and experience, and as appropriate to make suitable recommendations to the Board for the appointment of new Executive and Non-Executive Directors and their reappointment following retirement by rotation. The skills and experience of the Board are set out in their biographical details on pages 32 and 33 of this Annual Report. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise the performance of the Group.

Following the departure of the former Chief Executive in February 2018, Anthony Best undertook the role of Interim Executive Chairman until the appointment of Dr James Routh who joined the Board as Chief Executive Officer on 1 October 2018. The Committee is grateful to the Chairman for his contribution and support to the Group during his seven months in an executive capacity and was pleased to welcome James to AB Dynamics.

On 13 February 2019 it was announced that Robert Hart had informed the Group of his intention to step down from his role as Chief Financial Officer and from the Board after ten years with the Company. The Nomination Committee worked closely with our CEO and the Group employed the services of an external recruitment firm with the ensuing search conducted against a comprehensive job specification. After an extensive and thorough process, and recommendation from the Committee, the Board approved the appointment of Sarah Matthews-DeMers as Chief Financial Officer with effect from 4 November 2019.

Succession planning

The Committee is responsible for succession planning for the Board, as exemplified by the recent successful searches for a new CEO and CFO. As announced on 27 November 2019, Bryan Smart has informed the Board of his decision not to offer himself for re-election as a Non-Executive Director at this year's Annual General Meeting to be held on 15 January 2020 due to health reasons. A search for a replacement Non-Executive Director with a strong financial background has begun and the Board has also agreed that it would benefit further from a Non-Executive Director with a strong and relevant industry background. The Committee remains firmly committed to recruiting the best talent available, based on merit and assessed against objective criteria of skills, knowledge, independence and experience. The primary objective is to ensure AB Dynamics maintains the strongest possible leadership.

Board evaluation

The collective performance of the Board is reflected in the success of the business. Evaluation of the performance of individual Board members has historically been implemented in an ad hoc manner. During 2019, these processes were reviewed and it was agreed with the Board that a formal internal review process would be conducted as soon as practical after the arrival of the new CFO. In conjunction with the Chairman, the Committee keeps Board evaluation processes under review and will consider the appointment of external evaluators at an appropriate time in the development of the Group having regard to the scale and complexity of its activities. At this time the Board is operating in an open and transparent manner, and in an environment of trust with all Board members having the freedom to express opinions for the benefit of the business.

Richard Hickinbotham
Nomination Committee Chairman
26 November 2019

"AB Dynamics' products serve a fast evolving and increasingly complex market. Strong and effective leadership is essential."

Remuneration Committee report
Aligning remuneration to market best practice and business performance

“Our revised remuneration policy ensures market best practice and aligns Company performance to executive remuneration.”

Graham Eves
Chair of the Remuneration Committee

No. of meetings
3

Remuneration Committee members
> Graham Eves (Chairman)
> Bryan Smart
> Richard Hickinbotham

Key achievements
> Introduction of a revised remuneration policy encompassing salary, bonus scheme and Long Term Incentive Plan (‘LTIP’) following a review of external benchmarking data
> Review and revision of the Executive Director salaries in line with market
> Setting of appropriate incentive targets for Executive Directors and Senior Management
> Introduction of a new LTIP to replace the phased-out Company Share Option Scheme (‘CSOP’) and Unapproved Share Option Scheme (‘USOP’).

Dear shareholders

On behalf of the Board, it is my pleasure to detail the Remuneration Report for the year ended 31 August 2019. It has been another outstanding year for AB Dynamics with strong growth in sales, operating profits and earnings, whilst adding significant shareholder value through a successful equity placing in May 2019 and completion of two significant acquisitions.

The AB Dynamics remuneration approach is to ensure the Company can motivate, incentivise and attract senior management to deliver continued, long-term sustainable shareholder value. We have revised our remuneration policy during this year to reflect the rapidly changing nature of the business and to ensure attraction and retention of key staff. The policy considers remuneration packages at companies of similar size and market capitalisation that are of similar complexity to AB Dynamics.

To assist with the review of current and future executive remuneration the Committee engaged PwC to ensure alignment with current market best practice for AIM listed companies.

During the year, Robert Hart, Chief Financial Officer, retired and the Group engaged an external executive search firm to identify his successor. As part of this process it was apparent that existing levels of remuneration were not competitive to attract suitable candidates, and this has been reflected in the new remuneration policy and arrangements for Sarah Matthews-DeMers, who joined the Company on 4 November 2019.

Annual bonus awards for Executive Directors for performance in 2019 are to be awarded on the previous scheme which relates to the profit performance of the Company. Details of the bonus awards payable to Executive Directors for 2019 are provided on page 45.

Remuneration for Executive Directors for the year ended 31 August 2019

	James Routh[1]		Robert Hart[2]		Matthew Hubbard	
£'000	**2019**	2018	**2019**	2018	**2019**	2018
Base salary	**220**	—	**117**	120	**128**	120
Pensions	**2**	—	**11**	12	**13**	12
Annual performance bonus	**165**	—	**75**	84	**120**	84
Gain on exercise of share options	**—**	—	**595**	—	**—**	—
Total	**387**	—	**798**	216	**261**	216

1 James Routh commenced as Chief Executive Officer on 1 October 2018, which equates to a full year equivalent salary for 2019 of £240,000.

2 Robert Hart retired from the Company on 31 July 2019 and the Remuneration Committee approved a pro-rated bonus for his contribution to the 2019 financial year.

Fees for Non-Executive Directors for the year ended 31 August 2019

	Anthony Best[1]		Graham Eves		Bryan Smart		Richard Hickinbotham	
£'000	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fees	**75**	94	**40**	38	**40**	38	**40**	38

1 During 2018 Anthony Best adopted the role of Executive Chairman from 28 February 2018 to 1 October 2019.

Basic pay

Executive Directors are paid a basic salary together with annual bonus payments based on the achievement of Group targets. In addition, Executive Directors receive benefits in kind including medical expenses and participate in the Group's share option scheme.

Non-Executive Directors are paid a fee to attend Board meetings and to serve as members of the Audit, Nomination and Remuneration Committees.

Directors' pension arrangements

During the year three Directors accrued benefits under the Group's defined contribution pension scheme.

Directors' interests in shares

Directors' interests in the shares of the Company, including related parties, were as follows:

	Ordinary shares of 1p each
Anthony Best*	6,047,107
Robert Hart	30,000
Matthew Hubbard*	107,649
Bryan Smart*	655

* These individuals' shareholding includes the shareholding of persons closely associated with them.

Directors' interests in share options

	Grant date	Exercise price (pence)	As at 1 September 2018	Awarded during the year	Exercised during the year	**As at 31 August 2019**	Earliest date for exercise	Latest date for exercise
James Routh	9 November 2018	1230	—	100,000	—	**100,000**	9 November 2019	9 November 2028
Robert Hart	11 July 2016	395	100,341	—	55,696	**44,645**	11 July 2017	11 July 2026**
Matthew Hubbard	11 July 2016	395	65,119	—	—	**65,119**	11 July 2017	11 July 2026

** Robert Hart retired from the Company on 31 July 2019 and was therefore required to exercise his options prior to this date.

Share awards made during the year

As part of the transition to the new LTIP scheme, the Committee has approved the phasing out of the existing share option scheme for Executive Directors. The Company awarded James Routh 100,000 share options at an option price of £12.30 in November 2019 following his appointment as Chief Executive Officer and to the Board. Following a revision to the vesting schedule by the Remuneration Committee these options will now vest in three equal parts starting on the first anniversary of the award and completing in November 2021.

No other Executive Directors were awarded any shares during the financial year; however, post the year-end 60,000 share options were awarded to Matthew Hubbard, vesting over a two-year period ending November 2021. The Remuneration Committee has also approved the award of 60,000 share options to Sarah Matthews-DeMers which will vest over a two-year period ending November 2021.

Directors' contracts

The Executive Directors have rolling service contracts that are subject to six months' notice. The Chairman and Non-Executive Directors do not have contracts of service.

Revised remuneration policy

The tables below detail the elements of Executive Director and Non-Executive Director rewards as set out by our revised remuneration policy.

Executive Directors

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain Executive Directors with the required skills and experience to deliver growth strategy	Base salaries are reviewed on an annual basis with any changes effective 1 September each year	There is no maximum salary although salary levels are set to progressively move towards median levels for companies of similar size and complexity	Base salary levels and corresponding increases are based on individual experience, skills and Company performance along with competitiveness against similar companies
Pensions	Competitive to market to reward sustained contribution by Executive Directors	Employer matched pension contributions to a maximum of 10% of base salary	Maximum Company contribution of 10%	No performance metrics applicable
Annual performance related bonus	To reward and incentivise based on the achievement of the budget and other business related objectives	Financial and non-financial performance targets are set and reviewed by the Remuneration Committee 20% of any bonus earned is deferred into shares for three years	Maximum of 125% of base salary for the Chief Executive Officer and 100% for other Executive Directors On target performance is 60% of maximum and performance below threshold results in zero payment	The majority of the bonus is related to financial performance criteria based on the budget approved by the Board. A proportion of the potential bonus relates to current business objectives

Executive Directors continued

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan ('LTIP')	To align Executive Directors to the delivery of the long-term strategy of the Group and provide long-term value for shareholders	Performance is assessed against rolling three-year performance periods. Awards vest at the end of the three-year performance period with 60% released after year three and 20% in each of the following two years Shareholding objectives apply to ensure Executive Directors build up to minimum of 150% of salary within five years	The maximum opportunity is nil-cost options to the value of 125% of base salary for the Chief Executive Officer and 100% of base salary for other Executive Directors No more than 25% of the award will be payable at threshold performance	Awards will be granted subject to the achievement of targets set by the Remuneration Committee for EPS growth and Total Shareholder Return ('TSR') vs the AIM 100

Non-Executive Directors

Element	Purpose	Operation	Maximum opportunity	Performance metrics
Chairman and Non-Executive Directors' fees	To attract and retain a Chairman and independent Non-Executive Directors with the required skills and experience	Paid monthly in arrears and reviewed each year. Any reasonable business related expenses can be reimbursed	The Chairman's and Non-Executive Directors' fees are determined by relevant benchmark data	Annual review by the Board

Implementation of revised remuneration policy for the year ending 31 August 2020

Following an extensive review using external consultants the Remuneration Committee revised base salaries for the Executive Directors to ensure competitiveness and retention. As a result of this review the base salaries of the Chief Executive Officer and the Chief Technology Officer have been increased to £310,000 and £180,000 respectively, effective 1 September 2019. The base salary of the Chief Financial Officer has been set at £235,000.

Remuneration will also include bonus at a maximum of 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer and the Chief Technology Officer.

Other benefits include participation in the new Long Term Incentive Plan, under which awards will be granted at a maximum of 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer and the Chief Technology Officer. However, these awards are subject to performance in future years and do not vest until three years after the date of grant.

As noted above, under the legacy share option scheme 33,333 shares will vest to the Chief Executive Officer at an option price of £12.30 and 30,000 shares will vest to each of the Chief Financial Officer and the Chief Technology Officer at an option price which will be set at closing market price as soon as practicable after announcement of the Group's results on 27 November 2019.

AB Dynamics plc Long Term Incentive Plan

The AB Dynamics plc Long Term Incentive Plan will be adopted in November 2019. Under the plan, awards will be made annually to key employees based on percentage of salary or management grade. Subject to the satisfaction of the required TSR performance criteria and EPS financial performance, these grants will vest upon publication of the results of the Group three years after the grant date.

Graham Eves
Remuneration Committee Chairman
26 November 2019

Directors' report

This section contains information which the Directors are required by law and regulation to include within the Annual Report & Accounts. The Directors who held office during the year are set out on pages 32 and 33.

Shareholders

Incorporation and principal activity

AB Dynamics plc is domiciled in England and registered in England and Wales under Company Number 8393914. At the date of this Report there were 22,419,508 ordinary shares of 1p each in issue, all of which are fully paid up and quoted on the London Stock Exchange's AIM market.

The principal activity of the Group is the design, manufacture and supply to the global automotive industry of advanced testing and verification products and services for ADAS systems, autonomous vehicle technology and vehicle dynamics.

A description and review of the activities of the Group during the financial year and an indication of future developments is set out on pages 10 to 12; the Strategic Report on pages 1 to 31 incorporates the requirements of the Companies Act 2006 ("the Act").

Annual General Meeting

The Annual General Meeting ("AGM") will be held at 11am on Wednesday, 15 January 2020 at the Company's headquarters' – Middleton Drive, Bradford-on-Avon, Wiltshire, BA15 1GB. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the AB Dynamics plc website.

Substantial shareholdings

At 30 September 2019, the Company had been notified of the following interests amounting to 3% or more of the voting rights in its ordinary share capital:

	Percentage of ordinary share capital
Anthony Best	19.8
Sanford DeLand Asset Mgt	11.2
Canaccord Genuity Group Inc	10.2
Naemi Best	6.6
Credit Suisse	4.0
Hargreaves Lansdown Asset Mgt	3.5
Blackrock Investment Mgt	3.3
Liontrust Asset Mgt	3.1

As far as the Directors are aware, there were no other interests above 3% of the issued ordinary share capital.

Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from the Group Company Secretary and are available on the Company's website.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Restrictions on transfer of shares

The Board may in its absolute discretion refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share, unless the instrument of transfer is:

(i) Duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;

(ii) In respect of only one class of shares; and

(iii) In favour of not more than four persons jointly.

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certified shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

Disclosures required under Listing Rule 9.8.4R

There is no information to be disclosed by the Company in respect of Listing Rule 9.8.4R, except for:

> Share options awarded to James Routh in connection with his appointment as Chief Executive Officer (see the Remuneration Committee Report);

- Provision of Services by Controlling Shareholder (see the Remuneration Committee Report); and
- Agreements with Controlling Shareholders (see related party note 23 of the Accounts).

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £8,658,000 (2018: £7,015,000). The Directors recommend a final dividend of 2.79p per ordinary share (2018: 2.2p), to be paid, if approved, on 23 January 2019. This, together with the interim dividend of 1.61p (2018: 1.47p) per ordinary share paid on 13 June 2019 amounts to 4.40p for the year (2018: 3.67p).

The results are shown more fully in the consolidated financial statements on pages 54 to 77 and summarised in the Financial Review on pages 30 to 31.

Provision of information to auditors

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

- So far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- That director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of the information.

Auditor

The auditor, Crowe U.K. LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

Directors' assessment of going concern

At 31 August 2019 the Company had net current assets of £25,281,000 (2018: £11,509,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Ltd, amounting to £25,775,000 (2018: £11,514,0000).

The Company has assessed its ongoing costs with cash generated by its subsidiary to ensure that it can continue to settle its debts as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report, any other surrounding information and the Group and Parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law, they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Parent Company and of their profit or loss for that year. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company 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 Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

This responsibility statement was approved by the Board of Directors on 26 November 2019 and is signed on its behalf by:

Dr James Routh
Chief Executive Officer

Anthony Best
Chairman

Registered office: Middleton Drive, Bradford-on-Avon, Wiltshire BA1 1GB

Independent Auditor's report

To the members of AB Dynamics plc

Opinion

We have audited the financial statements of AB Dynamics plc (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 August 2019, which comprise:

> the Group income statement and statement of comprehensive income for the period ended 31 August 2019;

> the Group and Parent Company statement of financial position as at 31 August 2019;

> the Group statement of cash flows for the year ended 31 August 2019;

> the Group and Parent Company statements of changes in equity for the year ended 31 August 2019; and

> the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

> give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2019 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

> the Parent Company financial statements have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

> the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

> the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements.

We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £450,000 (2018: £250,000) based on a percentage of Group profit before tax.

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

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

We agreed with the Audit Committee to report to it all identified errors in excess of £15,000 (2018: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of our audit approach continued

Overview of the scope of our audit

The main trading Group and its principal subsidiary are accounted for from one central location, the Group's registered office. The Group acquired a new significant component during the year, Kangaloosh Limited, whose accounting records are currently held at the location of this business in Southampton. Our audit of this entity was undertaken at this location.

The Group also has significant component based in the United States of America, being the DRI business acquired on 30 August 2019. A member of the Crowe Global international network was engaged to perform procedures locally under our direction and review.

Key Audit Matters

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

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

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition and accounting for long-term contracts Revenue is recognised in accordance with the accounting policy set out in the financial statements. The accounting policy contains a number of judgements, particularly in recognising when the risks and rewards of ownership have passed to the buyer. This is determined with reference to the underlying contract with the purchaser. For certain products the Company recognises revenue over the period of the contract. The Group uses the percentage of completion method to determine the appropriate amount of revenue to recognise in a given period. This is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. A number of judgements are made by management in making its assessment of estimated costs and profitability.	We validated a sample of contracts to confirm revenue was being recognised in line with the requirements of IFRS 15. We performed cut off testing to ensure revenue is being recorded in the correct period. Our work on long-term contracts focused on validating that estimated contract costs which include staff costs, overheads and material costs are appropriate and reliably estimated and also ensuring that the use of costs as a measure of progress is appropriate. In addition, we assessed whether cut off has been correctly applied and that any resulting work in progress and other entries are appropriate. We considered the original budget for the contract and compared this to actual costs to validate how the contract has performed and enquired into any events which could change this assessment.
Acquisition accounting On 28 June 2019, the Group acquired Kangaloosh Limited for an initial cash consideration of £18.1 million with a conditional cash payment of up to £3.5 million subject to certain performance criteria being achieved for the year ending January 2021. On 30 August 2019, the Group acquired Dynamic Research Inc. for an initial cash consideration of $21 million with a conditional cash payment of up to $3.5 million subject to certain performance criteria being achieved for the year ending 31 May 2020. A further payment of up to a maximum of $0.2 million may be made subject to the determination of the final closing net assets. Accounting for business combinations is complex and requires the recognition of both consideration paid and acquired assets and liabilities at the acquisition date at fair value, which can involve significant judgement and estimates. There is a risk that inappropriate assumptions could result in material errors in acquisition accounting.	We obtained a copy of the sale and purchase agreement to confirm the initial consideration for these acquisitions, as well as assessing the accounting for the conditional elements of the acquisition. We performed audit work on the acquisition balance sheets to confirm the opening balances as at date of acquisition. We reviewed the work undertaken by the independent firm who performed the valuation of intangible assets identified at date of acquisition and assessed and challenged the provisional fair value attributed to these intangible assets, involving our own valuation specialists. We also assessed the disclosures made and application of the standard in line with IFRS.

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

> the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

> the Parent Company financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

John Glasby
Senior Statutory Auditor
for and on behalf of
Crowe U.K. LLP
Statutory Auditor
St Bride's House,
10 Salisbury Square
London
EC4Y 8EH
26 November 2019

Consolidated statement of comprehensive income

For the year ended 31 August 2019

	Note	2019 £'000	Restated* 2018 £'000
Revenue	3	**57,957**	37,051
Cost of sales		**(30,039)**	(24,497)
Gross profit		**27,918**	12,554
Administrative expenses		**(16,505)**	(4,011)
Operating profit before share based payment costs		**11,413**	8,543
Share based payment costs	24	**(586)**	(660)
Operating profit		**10,827**	7,883
Finance income	4	**171**	64
Profit before tax	5	**10,998**	7,947
Tax expense	6	**(2,340)**	(932)
Profit for the year		**8,658**	7,015
Other comprehensive income:			
Items that may be reclassified to consolidated income statement:			
Exchange gains on foreign currency net investments		**178**	—
Total comprehensive income for the year		**8,836**	7,015
Earnings per share – basic (pence)	8	**42.9p**	36.3p
Earnings per share – diluted (pence)	8	**42.1p**	35.0p

* The prior year comparative numbers have been restated to reclassify certain overheads from cost of sales to administrative expenses.

Alternative performance measures

	Note	2019 £'000	2018 £'000
Operating profit		**10,827**	7,883
Add: Acquisition related charges	10	**1,551**	—
Add: Fee to terminate agents		**550**	—
Add: Share based payment costs	24	**586**	660
Adjusted operating profit		**13,514**	8,543
Finance income	4	**171**	64
Adjusted profit before tax	5	**13,685**	8,607
Adjusted earnings per share	8	**56.4p**	38.2p
Adjusted diluted earnings per share	8	**55.4p**	36.9p

Consolidated statement of financial position
As at 31 August 2019

	Note	**2019 £'000**	2018 £'000
Non-current assets			
Goodwill	9	**19,244**	—
Acquired intangible assets	10	**21,803**	—
Other intangible assets	10	**268**	—
Investment	11	**14**	—
Property, plant and equipment	12	**17,922**	13,679
Deferred tax assets	18	**1,952**	1,289
		61,203	14,968
Current assets			
Inventories	13	**11,149**	6,903
Trade and other receivables	14	**12,986**	8,470
Contract assets	15	**1,885**	2,189
Taxation		**939**	56
Cash and cash equivalents	16	**36,225**	15,942
		63,184	33,560
Total assets		**124,387**	48,528
Equity and liabilities			
Share capital	17	**222**	195
Share premium	17	**60,049**	10,258
Reconstruction reserve		**(11,284)**	(11,284)
Merger relief reserve		**11,390**	11,390
Translation reserve		**178**	—
Retained profits		**38,252**	27,484
Total equity		**98,807**	38,043
Non-current liabilities			
Deferred tax liabilities	18	**5,421**	339
Deferred consideration	21	**3,239**	—
		8,660	339
Current liabilities			
Trade and other payables	19	**16,920**	10,146
Total liabilities		**25,580**	10,485
Total equity and liabilities		**124,387**	48,528

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2019 and are signed on its behalf by:

Anthony Best
Director

Dr James Routh
Director

Company registration number: 08393914

Financial statements

Consolidated statement of changes in equity

For the year ended 31 August 2019

	Note	Share capital £'000	Share premium £'000	Reconstruction reserve £'000	Merger relief reserve £'000	Translation reserve £'000	Retained profits £'000	Total equity £'000
At 1 September 2017		191	8,579	(11,284)	11,390	—	19,370	28,246
Share based payments		—	—	—	—	—	660	660
Total comprehensive income		—	—	—	—	—	7,015	7,015
Tax on options		—	—	—	—	—	1,107	1,107
Dividends	7	—	—	—	—	—	(668)	(668)
Issue of shares, net of share issue costs	17	4	1,679	—	—	—	—	1,683
At 31 August 2018		195	10,258	(11,284)	11,390	—	27,484	38,043
Share based payments		—	—	—	—	—	586	586
Total comprehensive income		—	—	—	—	178	8,658	8,836
Tax on options		—	—	—	—	—	2,271	2,271
Dividends	7	—	—	—	—	—	(747)	(747)
Issue of shares, net of share issue costs	17	27	49,791	—	—	—	—	49,818
At 31 August 2019		**222**	**60,049**	**(11,284)**	**11,390**	**178**	**38,252**	**98,807**

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

The reconstruction reserve and merger relief reserve have arisen as follows:

The acquisition by the Company of the entire issued share capital of Anthony Best Dynamics Ltd in 2013 was accounted for a Group reconstruction. Consequently, the assets and liabilities of the Group were recognised at their previous book values as if the Company had always been the Parent Company of the Group.

The share capital for the period covered by these consolidated financial statements and the comparative periods is stated at the nominal value of the shares issued pursuant to the above share arrangement. Any differences between the nominal value of these shares and previously reported nominal values of shares and applicable share premium issued by Anthony Best Dynamics Ltd were transferred to the reconstruction reserve.

Retained profits represent the cumulative value of the profits not distributed to shareholders but retained to finance the future capital requirements of the Group.

Consolidated cash flow statement

For the year ended 31 August 2019

	2019 £'000	2018 £'000
Profit before tax	**10,998**	7,947
Depreciation and amortisation	**1,324**	463
Loss on sale of tangible assets	**—**	15
Interest income	**(171)**	(64)
Acquisition expenses	**768**	—
Share based payment	**586**	660
Operating cash flow before changes in working capital	**13,505**	9,021
(Increase) in inventories	**(3,447)**	(1,944)
(Increase) in trade and other receivables	**(1,667)**	(333)
Increase in trade and other payables and accruals	**1,554**	3,194
Cash flow from operating activities	**9,945**	9,938
Interest received	**171**	64
Income tax paid	**(1,350)**	(1,002)
Net cash flow from operating activities	**8,766**	9,000
Cash flow from investing activities		
Acquisition of businesses (including expenses, net of cash acquired)	**(32,792)**	—
Purchase of property, plant and equipment	**(4,706)**	(3,698)
Purchase of other intangibles	**(228)**	—
Sale of property, plant and equipment	**—**	6
Cash flow used in investing activities	**(37,726)**	(3,692)
Cash flow from financing activities		
Dividends paid	**(747)**	(668)
Proceeds from issue of share capital, net of share issue costs	**49,818**	1,683
Net cash flow generated from financing activities	**49,071**	1,015
Net increase in cash and cash equivalents	**20,111**	6,323
Cash and cash equivalents at beginning of the financial year	**15,942**	9,619
Effect of exchange rates on cash and cash equivalents	**172**	—
Cash and cash equivalents at end of the financial year	**36,225**	15,942

Notes to the consolidated financial statements
For the year ended 31 August 2019

1. General information
AB Dynamics plc is a public company limited by shares and registered in England and Wales with company number 08393914. The Company is domiciled in the United Kingdom and the registered office and principal place of business is Middleton Drive, Bradford-on-Avon, Wiltshire, BA15 1GB. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group').

The principal activity of the Group is the design, manufacture and development of advanced testing and measurement products and services to the global automotive industry. The Group's products and services are used primarily for the development of road vehicles, particularly in the areas of active safety and autonomous systems.

Basis of preparation
The consolidated financial statements are measured and presented in Sterling which is the currency of the primary economic environment in which the Group operates. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit or loss.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU including related interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC'), and in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS. These statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Standards, amendments and interpretations to published standards not yet effective
IFRS 9 'Financial Instruments' has been adopted during the year but has had no material impact on the financial statements.

The Directors have considered those Standards and Interpretations, which have not been applied in the financial statements but are relevant to the Group's operations, that are in issue but not yet effective and do not consider that they will have a material impact on the future results of the Group.

The Directors are in the process of considering the potential changes that may occur to the financial statements under IFRS 16 'Leases'. This will apply to the Group's accounting period beginning on 1 September 2019. It is not expected that the application of IFRS 16 will have a material impact on the Group's results.

2. Summary of significant accounting policies
(a) Going concern
The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive's review. The principal risks and uncertainties and mitigations are included in the strategic report.

Note 20 to the consolidated financial statements sets out the Company's financial risks and the management of capital risks.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows, the Directors believe that the Company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

(b) Critical accounting estimates and judgements
Estimates and judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are as stated below:

Assessment of the percentage of completion of construction projects (laboratory testing and simulation)
The probability of a profitable outcome and stage of completion of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs, forecast costs to complete and any other pertinent information.

The above estimates are made internally by the Group and any changes of these estimates will result in a corresponding change in revenue and profit. Any potential losses on contracts are considered and appropriately recognised immediately upon occurrence, while contract revenue which cannot be estimated reliably is recognised only after confirmed by written agreement.

Share based payments
The calculation of the fair value of share based payments at the grant date impacts the profit or loss over the vesting period. The magnitude of the fair value is primarily determined by the estimated volatility. The volatility has been based on historical share price movement, but this is not necessarily representative of future volatility.

2. Summary of significant accounting policies continued

(b) Critical accounting estimates and judgements continued

Acquisition accounting

When the Group makes an acquisition, it recognises the identifiable assets and liabilities, including intangible assets, at fair value with the difference between the fair value of net assets acquired and the fair value of consideration paid comprising goodwill. The key assumptions and estimates used to determine the valuation of intangible assets acquired are the forecast cash flows, the discount rate and customer/supplier attrition. Customer and supplier relationships are valued using a discounted cash flow model.

Acquisitions often comprise an element of deferred consideration. Deferred consideration is fair valued based on the Directors' estimate of future performance of the acquired entity. The Group's growth strategy is underpinned by the successful execution of acquisitions. This results in material amounts of goodwill and intangible assets being recognised in the consolidated statement of financial position.

(c) Revenue and long-term contracts

Revenue represents the value, net of sales taxes, of goods sold and services provided to customers.

Revenue is disaggregated into the following two categories:

(1) Revenue from **track testing systems**, principally in relation to the robotic systems which are constructed and supplied to a customer within twelve months and where there is no significant degree of customisation, is recognised when control is passed to the buyer, which in almost all cases is on delivery. Any payments received on account are deferred until these items are delivered to the customer. Items such as guarantees, or servicing arrangements sold in relation to these systems are accounted for as separate performance obligations and are recognised over the period to which these obligations are performed by the Group. Guarantees and servicing arrangements have standard pricing, which management consider reflects fair value, and these prices are allocated to the separate performance obligations.

(2) Revenues on **laboratory testing and simulation**. These are projects lasting longer than twelve months and require a significant degree of customisation. They are recognised according to the percentage of completion method.

When a contract with a customer is judged to be a long-term contract, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenue and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to recognise in each period. Management considers the terms and conditions of the contract, including how the contract was negotiated and any elements the customer specifies when identifying individual projects as a long-term contract. The percentage of completion is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. This measurement basis is considered to be the most faithful depiction of the transfer of ownership as the customer is contractually liable for costs incurred to date. Where this is not representative of the stage of completion, management will assess the completion of a physical proportion of the contract work in determining the overall stage of completion.

Variations in contract work, claims and incentive payments are recognised to the extent that they have been agreed with the customer. The probability of a profitable outcome of the contract is determined by regular review by management of project milestones, actual costs against budgeted costs and any other pertinent information. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The aggregate of the cost incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end.

Contract assets (accrued revenue) and contract liabilities (amounts received in advance of performance delivery) are recognised separately. Business development and other pre-contract costs are expensed as incurred.

(d) Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly, or indirectly, to govern the financial and operating policies of an entity to obtain economic benefits from its activities.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

(e) Acquisitions

Acquisitions are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill at the acquisition date represents the cost of the business combination (excluding acquisition related costs, which are expensed as incurred) in excess of the fair value of the identifiable tangible and intangible assets and liabilities acquired.

2. Summary of significant accounting policies continued

(f) Inventories

Inventories are valued on a first in, first out basis at the lower of cost and net realisable value. Cost includes all expenditure incurred during the normal course of business in bringing in inventories to their present location and condition, including in the case of work-in-progress and finished goods an appropriate proportion of production overheads. Net realisable value is based on the estimated useful selling price less further costs expected to be incurred to completion and subsequent disposal.

(g) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously. A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables financial assets. The Group does not hold any financial assets at fair value through other comprehensive income.

Financial assets at fair value through profit or loss

As at the end of the reporting period, there were no foreign currency forward contracts classified under this category.

Loans and receivables financial assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are recognised under an expected credit loss approach, in accordance with IFRS 9. The adoption of IFRS 9 has not had a material impact on the financial statements. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges.

(iii) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Interim dividends are recognised when paid and final dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(iv) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising any resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(h) Property, plant and equipment

Property, plant and equipment is initially recorded at cost. Once the asset is available for use, depreciation is calculated at rates estimated to write off the cost of the relevant assets, less any estimated residual value, on either a straight-line basis or reducing balance basis over their expected useful lives.

Plant and machinery	10% straight line
Motor vehicles	25% reducing balance
Furniture and fittings	10% straight line
Computer equipment	25% straight line
General equipment	10% straight line
Proprietorial equipment	20% straight line
Test equipment	Between 10–20% straight line
Buildings	5% straight line

2. Summary of significant accounting policies continued

(i) Intangible assets

All intangible assets, excluding goodwill arising on a business combination, are stated at their amortised cost or fair value at initial recognition less any provision for impairment.

(a) Research and development costs

Research expenditure is written off as incurred. Development costs are written off as incurred unless forecast revenues for a particular project exceed attributable forecast development costs in which case they are capitalised and amortised on a straight-line basis over the asset's estimated useful life. Costs are capitalised as intangible assets unless physical assets, such as tooling, exist when they are classified as property, plant and equipment.

(b) Computer software costs

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised as other intangible assets. Amortisation is provided on a straight-line basis over its useful economic life of between three and seven years.

(c) Acquired intangible assets – business combinations

Intangible assets that may be acquired as a result of a business combination, include, but are not limited to, customer lists, supplier lists, databases, technology and software and patents that can be separately measured at fair value, on a reliable basis, are separately recognised on acquisition at the fair value, together with the associated deferred tax liability. Amortisation is charged on a straight-line basis to the consolidated income statement over the expected useful economic lives.

	Economic life
Customer relationships	15 years
Brand	10–15 years
Technology	5–7 years

(d) Goodwill – business combinations

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of the consideration over the aggregate fair value of the identifiable intangible, tangible and current assets and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Transaction costs are expensed and are not included in the cost of acquisition.

(j) Impairment of tangible and intangible assets

An impairment loss is recognised to the extent that the carrying amount of an asset or cash generating unit ('CGU') exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of: (i) its fair value less costs to sell: and (ii) its value in use; its value in use is the present value of the future cash flows expected to be derived from the asset or CGU, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. Impairment losses are recognised immediately in the consolidated income statement.

(a) Impairment of goodwill:

Goodwill acquired in a business combination is allocated to a CGU; CGUs for this purpose are the Group's two sectors which represent the lowest level within the Group at which the goodwill is monitored by the Group's Board of Directors for internal and management purposes. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the goodwill attributable to the CGU. Impairment losses cannot be subsequently reversed.

(b) Impairment of other tangible and intangible assets:

Other tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses and any subsequent reversals are recognised in the consolidated income statement.

(k) Taxation

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

2. Summary of significant accounting policies continued

(k) Taxation continued

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Share based payments

Employees (including Directors and Senior Executives) of the Group receive remuneration in the form of share based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights approved by the Board which can only be settled in shares of the respective companies that award the equity-settled transactions. Share options rights are also granted to these individuals by majority shareholders over their shares held. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The statement of comprehensive income charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period.

The fair value of share based remuneration is determined at the date of grant and recognised as an expense in profit or loss on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into Sterling, which is the presentational currency of the Group.

(m) Foreign currencies

(a) Reporting foreign currency transactions in functional currency:

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

(a) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the consolidated income statement.

(b) Non-monetary items measured at historical cost in a foreign currency are not retranslated.

(c) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and conversely, where a gain or loss on a non-monetary item is recognised in the consolidated income statement, any exchange component of that gain or loss is also recognised in the consolidated income statement.

(b) Translation from functional currency to presentational currency:

When the functional currency of a Group entity is different from the Group's presentational currency, its results and financial position are translated into the presentational currency as follows:

(a) Assets and liabilities are translated using exchange rates prevailing at the reporting date.

(b) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used.

(c) All resulting exchange differences are recognised in other comprehensive income; these cumulative exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(c) Net investment in foreign operations:

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the consolidated income statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated financial statements such exchange differences are initially recognised in other comprehensive income as a separate component of equity and subsequently recognised in the consolidated income statement on disposal of the net investment.

2. Summary of significant accounting policies continued

(n) Alternative performance measures

Alternative performance measures are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented below the income statement to provide greater clarity and a better understanding of the impact of these items on the Group's financial performance. In doing so, it also facilitates greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Alternative performance measures may include but are not restricted to: adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

3. Segment reporting

The Group derives revenue from the sale of its advanced measurement, simulation and testing products derived in assisting the global automotive industry in the laboratory and on the test track. The income streams are all derived from the utilisation of these products which, in all aspects except details of revenue, are reviewed and managed together within the Group and as such are considered to be the only segment.

The operating segment is based on internal reports about components of the Group, which are regularly reviewed and used by the Board of Directors being the Chief Operating Decision Maker ('CODM').

Analysis of revenue by country of destination:

	2019 £'000	2018 £'000
United Kingdom	**2,028**	617
Rest of Europe	**15,741**	12,477
North America	**9,499**	5,094
Rest of the World	**30,689**	18,863
	57,957	37,051

All of the Group's revenue originated in the UK. No customer individually represents 10% or more of total revenue.

Assets and liabilities by segment are not reported to the Board of Directors on a monthly basis, therefore are not used as a key decision making tool and are not disclosed here.

A disclosure of non-current assets by location is shown below:

	2019 £'000	2018 £'000
United Kingdom	**41,083**	14,939
Rest of Europe	**347**	29
North America	**19,773**	—
	61,203	14,968

Revenues are disaggregated as follows:

Revenue by sector	2019 £'000	2018 £'000
Track testing	**49,796**	33,304
Laboratory testing and simulation	**8,161**	3,747
	57,957	37,051

4. Finance income

	2019 £'000	2018 £'000
Interest received	**171**	64

5. Profit before tax

The profit before tax is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation of tangible fixed assets	**1,026**	463
Amortisation of other intangible assets	**19**	—
Amortisation of acquired intangible assets	**279**	—
Loss on sale of assets	**—**	14
Realised loss/(gain) on foreign exchange	**130**	(150)
Staff costs:		
– Wages and salaries	**11,319**	7,328
– Social security costs	**1,342**	697
– Other pension costs	**417**	349
Share based payments	**586**	660
Research & development costs charged as an expense	**795**	478
Operating lease rentals – land & buildings	**329**	165

Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the Group's auditor during the year for:		
– the audit of the Company's financial statements	**81**	26
– the audit of the Company's subsidiaries	**18**	18
– tax compliance services	**28**	8
	127	52

The average monthly number of employees, including the Directors, during the year was as follows:

	2019 No.	2018 No.
Directors and commercial	**12**	9
Engineers and technicians	**130**	94
Administration	**39**	25
	181	128

The total number of employees at the year end was 264 (2018: 145).

Total remuneration of key management personnel, being the Directors of the Company and the members of the Executive Management Group ('EMG'), is set out below:

	2019 £'000	2018 £'000
Short-term employee benefits	**2,040**	1,260
Post-employment benefits	**59**	64
Social security costs	**256**	154
Share based payments – equity settled	**431**	218
	2,786	1,696

Further details relating to the remuneration of the Directors of the Company can be found in the Remuneration Committee report.

6. Tax expense

	2019 £'000	2018 £'000
Current tax:		
– for the financial year	**1,470**	1,010
– adjustments in respect of prior year	**45**	(111)
	1,515	899
Deferred tax (note 18):		
– origination and reversal of temporary differences	**368**	148
– related to share based payments on exercised options	**457**	(115)
	2,340	932

The tax assessed for the year is higher than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%) as set out below.

A reconciliation of income tax expense applicable to the profit before taxation at the effective tax rate to the income tax expense at the effective tax rate of the Group are as follows:

	2019 £'000	2018 £'000
Profit before tax	**10,998**	7,947
Tax at the applicable statutory tax rate of 19% (2018: 19%)	**2,090**	1,510
Tax effects of:		
Non-deductible expenses	**548**	41
Research and development tax credit	**(196)**	(118)
Adjustments to current tax charge in respect of previous years	**45**	(111)
Patent box relief*	**(404)**	(272)
Other differences	**207**	(118)
Losses carried back	**(60)**	—
Losses on overseas earnings	**110**	—
Tax expense for the financial year	**2,340**	932

* Patent box relief represents the tax effect of the reduced amount payable on profits that fall within the Patent Box.

In addition to the amount charged to the consolidated income statement, the following amounts relating to tax have been recognised directly in equity:

	2019 £'000	2018 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	**(1,151)**	(273)
Deferred tax		
Change in estimated excess tax deductions related to share based payments	**(1,120)**	(834)
Total income tax recognised directly in equity	**(2,271)**	(1,107)

7. Dividends paid

	2019 £'000	2018 £'000
Final 2017 dividend paid of £0.02 per share	—	384
Interim dividend paid of £0.0147 per share	—	284
Final 2018 dividend paid of £0.022 per share	**430**	—
Interim dividend paid of £0.0161 per share	**317**	—
	747	668

The Board has proposed a final dividend of 2.79p per share totalling £619,000. Together with the interim dividend of 1.61p per share this gives a total ordinary dividend of 4.40p for the year.

8. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive shares. The Company has one category of potentially dilutive shares, namely share options.

The calculation of earnings per share is based on the following earnings and number of shares.

	2019	2018
Profit for the year attributable to owners of the Group (£'000)	**8,658**	7,015
Weighted average number of shares used in calculating earnings per share ('000):		
Basic	**20,201**	19,330
Diluted	**20,585**	20,024
Earnings per share (pence)		
Basic	**42.9**	36.3
Diluted	**42.1**	35.0
Adjusted profit before tax (£'000)	**13,685**	8,607
Adjusted tax (£'000)	**(2,291)**	(1,214)
Adjusted profit after tax (£'000)	**11,394**	7,393
Adjusted earnings per share (pence)	**56.4**	38.2
Adjusted diluted earnings per share (pence)	**55.4**	36.9

Adjusted earnings per share is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact of the items included in the calculation of adjusted profit.

9. Goodwill

	Track testing £'000	Laboratory testing and simulation £'000	Total £'000
At 1 September 2018	—	—	—
Acquisitions	11,709	7,535	19,244
At 31 August 2019	**11,709**	**7,535**	**19,244**

Goodwill will be tested for impairment at least once a year. For the purpose of impairment testing, goodwill is allocated to each of the Group's two sectors. This reflects the lowest level within the Group at which goodwill is monitored by management.

10. Acquired and other intangible assets

	Customer relationships £'000	Brand £'000	Technology £'000	Total acquired intangible assets £'000	Other intangible assets £'000
Cost					
At 1 September 2018	—	—	—	—	—
Additions	—	—	—	—	228
Acquisitions of businesses	9,053	2,034	10,995	22,082	59
At 31 August 2019	**9,053**	**2,034**	**10,995**	**22,082**	**287**
Amortisation					
At 1 September 2018	—	—	—	—	—
Charge for the year	56	14	209	279	19
At 31 August 2019	56	14	209	279	19
Net book value					
At 31 August 2018	—	—	—	—	—
At 31 August 2019	**8,997**	**2,020**	**10,786**	**21,803**	**268**

Acquisition related charges are £1,551,000 (2018: £Nil) and comprise £279,000 (2018: £Nil) of amortisation of acquired intangible assets, £768,000 (2018: £Nil) of acquisition expenses and £504,000 (2018: £Nil) of other acquisition related expenses including exchange loss and transaction bonus payable. Acquired intangible assets relate to items acquired through business combinations which are amortised over their useful economic life.

Other intangible assets comprise Intellectual Property acquired.

11. Investment

	2019 £'000	2018 £'000
Investment	**14**	—

The Group holds a 25% interest in the share capital of Driatsero Srl, a supplier to DRI. At 31 August 2019 there was no material difference between the book value of this investment and its fair value.

12. Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 August 2018	10,841	1,980	2,178	211	15,210
Additions	2,887	949	818	52	4,706
Acquisitions of businesses	322	214	—	20	556
Disposals	—	(5)	—	—	(5)
Exchange differences	—	7	—	—	7
At 31 August 2019	**14,050**	**3,145**	**2,996**	**283**	**20,474**
Accumulated depreciation					
At 31 August 2018	379	798	279	75	1,531
Charge for the year	268	268	449	41	1,026
Disposals	—	(5)	—	—	(5)
At 31 August 2019	**647**	**1,061**	**728**	**116**	**2,552**
Net book value					
At 31 August 2018	10,462	1,182	1,899	136	13,679
At 31 August 2019	**13,403**	**2,084**	**2,268**	**167**	**17,922**

Notes to the consolidated financial statements continued
For the year ended 31 August 2019

12. Property, plant and equipment continued
Included within land and buildings is property under the course of construction with a total net book value of £2,858,000 (2018: £164,000). Depreciation will not be charged until the property is ready for use.

	Land and buildings £'000	Plant and equipment £'000	Test equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 August 2017	8,315	1,286	1,813	164	11,578
Additions	2,786	468	365	79	3,698
Disposals	—	(34)	—	(32)	(66)
Transfer between classes	(260)	260	—	—	—
At 31 August 2018	10,841	1,980	2,178	211	15,210
Accumulated depreciation					
At 31 August 2017	163	633	245	72	1,113
Charge for the year	216	183	34	30	463
Disposals	—	(18)	—	(27)	(45)
At 31 August 2018	379	798	279	75	1,531
Net book value					
At 31 August 2017	8,152	653	1,568	92	10,465
At 31 August 2018	10,462	1,182	1,899	136	13,679

13. Inventories

	2019 £'000	2018 £'000
Raw materials	**8,444**	3,624
Work-in-progress	**2,697**	3,279
Finished goods	**8**	—
	11,149	6,903

The value of inventories recognised as an expense during the year was £23,823,000 (2018: £15,492,000). During the year the amount of write down of inventories recognised as an expense was £Nil (2018: £Nil).

14. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**9,867**	6,496
Less: impairment provision	**(7)**	(7)
	9,860	6,489
Other receivables	**2,085**	1,056
Prepayments	**1,041**	925
	12,986	8,470

14. Trade and other receivables continued

The maximum exposure to credit risk for trade receivables at 31 August, by currency, was:

	2019 £'000	2018 £'000
Sterling	**7,987**	6,257
Euro	**952**	71
US dollars	**921**	161
	9,860	6,489

Trade receivables, before impairment provisions, are analysed as follows:

	2019 £'000	2018 £'000
Not past due	**4,496**	2,838
Past due, no credit loss for impairment	**5,364**	3,651
Past due, credit loss for impairment	**7**	7
	9,867	6,496

The ageing of trade receivables, classified as past due, no credit loss for impairment, is as follows:

	2019 £'000	2018 £'000
Less than three months past due	**4,204**	3,479
Over three months past due	**1,160**	172
	5,364	3,651

15. Amount owed to contract customers

	2019 £'000	2018 £'000
Cost incurred to date	**56,108**	36,790
Attributable profits	**6,948**	3,786
	63,056	40,576
Progress billings	**(65,548)**	(42,728)
	(2,492)	(2,152)
Represented by:		
Contract liabilities (see note 27)	**(4,377)**	(4,341)
Contract assets (see note 27)	**1,885**	2,189
	(2,492)	(2,152)

No retentions were held by customers for contract work.

Notes to the consolidated financial statements continued

For the year ended 31 August 2019

16. Cash and cash equivalents

	2019 £'000	2018 £'000
Short-term deposits:		
– Sterling	**3,000**	3,000
Cash at bank:		
– Sterling	**30,463**	11,296
– Euro	**724**	1,277
– US dollar	**1,575**	7
– Japanese yen	**137**	—
– Chinese RMB	**326**	362
	36,225	15,942

The short-term deposits and cash at bank are both interest bearing at rates linked to the UK base rate, or equivalent rate.

17. Share capital

The allotted, called up and fully paid share capital is made up of 22,219,982 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2017		19,112	191	8,579	8,770
13 September 2017	(i)	82	1	323	324
19 January 2018	(ii)	194	2	766	768
15 May 2018	(iii)	25	—	99	99
23 July 2018	(iv)	124	1	491	492
At 31 August 2018		19,537	195	10,258	10,453
6 December 2018	(v)	143	1	564	565
7 June 2019	(vi)	2,277	23	48,195	48,218
22 July 2019	(vii)	263	3	1,032	1,035
At 31 August 2019		**22,220**	**222**	**60,049**	**60,271**

(i) On 13 September 2017, a total of 82,053 share options were exercised of £0.01 each for £3.95.

(ii) On 19 January 2018, a total of 193,486 share options were exercised of £0.01 each for £3.95.

(iii) On 15 May 2018, a total of 25,127 share options were exercised of £0.01 each for £3.95.

(iv) On 23 July 2018, a total of 123,922 share options were exercised of £0.01 each for £3.95.

(v) On 6 December 2018, a total of 142,702 share options were exercised of £0.01 each for £3.95.

(vi) On 7 June 2019, a total of 2,050,000 new ordinary shares were placed of £0.01 each for £22.00 and a total of 227,500 new ordinary shares of £0.01 were admitted to trading on AIM following the issue of Open Offer Shares.

(vii) On 22 July 2019, a total of 263,246 share options were exercised of £0.01 each for £3.95.

18. Deferred tax

	2019 £'000	2018 £'000
At 1 September	**950**	149
Acquisitions	**(4,714)**	—
Recognised in profit or loss:		
In respect of timing differences	**(368)**	(148)
In respect of deferred tax on share options	**(457)**	115
Recognised in equity:		
In respect of deferred tax on share options	**1,120**	834
At 31 August	**(3,469)**	950

The deferred tax balance is analysed as follows:

	£'000	£'000
Deferred tax asset	**1,952**	1,289
Deferred tax liability	**(5,421)**	(339)
	(3,469)	950

The deferred tax assets are attributable to:

	£'000	£'000
Deferred tax on share options	**1,952**	1,289

The deferred tax liabilities are attributable to:

	£'000	£'000
Accelerated capital allowances	**(780)**	(347)
Short-term timing differences	**73**	8
Acquisitions	**(4,714)**	—
	(5,421)	(339)

19. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	**2,996**	2,427
Contract liabilities (note 27)	**4,377**	4,341
Social security and other taxes	**262**	154
Deferred consideration (note 21)	**2,257**	—
Other payables and accruals	**7,028**	3,224
	16,920	10,146

Contract liabilities relates to payments received in advance which is deferred until the performance obligation has been satisfied.

The maximum exposure to foreign currency risk for trade payables at 31 August, by currency, was:

	2019 £'000	2018 £'000
Sterling	**2,400**	2,059
Euro	**286**	109
US dollars	**266**	246
Japanese yen	**15**	13
Chinese RMB	**29**	—
	2,996	2,427

20. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The overall financial risk management policy focuses on mitigating the potential adverse effects on the Group's financial performance.

(a) Currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the Sterling. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 14, 16 and 19). Currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group maintains a natural hedge whenever possible, by matching the cash inflows (revenue stream) and cash outflows used for purposes such as capital expenditure and operational expenditure in the respective currencies.

Management considers that the most significant foreign exchange risk relates to the US dollar and Euro. The Group's sensitivity to a 10% strengthening in Sterling against each of these currencies (with other variables held constant) is as follows:

	2019 £'000	2018 £'000
Decrease in adjusted operating profit (at average rates)		
US dollar	**152**	105
Euro	**358**	124

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets being interest-bearing bank deposits. The Group's policy is to obtain the most favourable interest rates available whilst ensuring that cash is deposited with a financial institution with a credit rating of 'AA' or better. Any surplus funds are placed with licensed financial institutions to generate interest income.

A 100 basis points strengthening/weakening of the interest rate as at the end of the reporting period would have a £198,000 impact on profit for the year. This assumes that all other variables remain constant.

(c) Equity price risk

The Group does not have any quoted investments and hence is not exposed to equity price risk.

(d) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from cash balances and trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group seeks to minimise credit risk by dealing exclusively with high credit rating counterparties. An analysis of the ageing and currency of trade receivables is set out in note 14. An analysis of cash and cash equivalents is set out in note 16.

The Group establishes an allowance for impairment that represents its expected credit loss in respect of trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures. Impairment is estimated by management based on prior experience and the current economic environment.

The Group's major concentration of credit risk at 31 August 2019 relates to the amounts owing by four customers which constituted approximately 45% of its trade receivables as at the end of the reporting period.

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period.

The exposure of credit risk for trade receivables by geographical region is as follows:

	2019 £'000	2018 £'000
USA	**2,194**	864
United Kingdom	**282**	16
Europe	**2,552**	2,934
Rest of the World	**4,832**	2,675
	9,860	6,489

20. Financial instruments continued

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

The Group's financial liabilities are as follows:

	2019 £'000	2018 £'000
Trade payables	**2,996**	2,427
Other payables	**7,028**	3,224
	10,024	5,651
The maturities of the undiscounted liabilities are as follows:		
Less than one year	**10,024**	5,651

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the reporting date.

(f) Capital risk management

Capital is defined as the total equity of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages its capital based on debt-to-equity ratio. The strategies adopted were unchanged during the period under review and from those adopted in the previous financial year. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents.

At 31 August 2019, the Group's cash resources exceed its total debt. The Company hence has no net debt.

(g) Classification of financial instruments

All financial instruments are categorised as follows.

	2019 £'000	2018 £'000
Loans and receivables		
Trade receivables	**9,860**	6,489
Contract assets	**1,885**	2,189
Cash and bank balances	**36,225**	15,942
	47,970	24,620
Financial liabilities held at amortised cost		
Trade and accruals and other payables	**10,024**	5,651
	10,024	5,651

(h) Fair value hierarchy

The fair values of the financial assets and liabilities are analysed into level 1 to 3 as follows:

Level 1: Fair value measurements derive from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements derive from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Fair value measurements derive from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of all financial instruments approximates their fair value.

There were no forward contracts in 2019.

21. Acquisition of businesses

On 28 June 2019 the Group acquired 100% of Kangaloosh Limited (trading as 'rFpro') based in Romsey, UK, for initial consideration of £18.1m, which included £0.6m of surplus cash, before acquisition expenses of £0.3m. Maximum deferred contingent consideration of £3.5m is payable based on the performance of rFpro for the twelve months ended 31 January 2021.

On 30 August 2019 the Group acquired 100% of Dynamic Research Incorporated ('DRI') based in California, US, for initial consideration of £17.3m (US$21.0m), before acquisition expenses of £0.4m. Maximum deferred contingent consideration of £2.9m (US$3.5m) is payable based on the performance of DRI for the twelve months ended 31 May 2020.

Acquisition expenses of £768,000 are included in administrative expenses within the consolidated statement of comprehensive income.

Set out below is an analysis of the net book values and provisional fair values relating to these acquisitions:

	rFpro		DRI		Total	
	Book value £'000	Provisional fair value £'000	Book value £'000	Provisional fair value £'000	Book value £'000	Provisional fair value £'000
Acquired intangible assets	—	14,650	—	7,432	—	22,082
Deferred tax	(9)	(2,499)	—	(2,215)	(9)	(4,714)
Other intangible assets	59	59	—	—	59	59
Investment	—	—	14	14	14	14
Property, plant and equipment	58	58	498	498	556	556
Inventories	—	—	799	799	799	799
Trade and other receivables	858	858	1,722	1,687	2,580	2,545
Trade and other payables	(1,089)	(2,197)	(868)	(868)	(1,957)	(3,065)
Net assets acquired	(123)	10,929	2,165	7,347	2,042	18,276
Goodwill	—	7,535	—	11,709	—	19,244
	(123)	18,464	2,165	19,056	2,042	37,520
Cash paid		18,085		17,270		35,355
Cash acquired		(2,860)		(471)		(3,331)
Expenses of acquisition		335		433		768
Net cash paid, after acquisition expenses		15,560		17,232		32,792
Deferred contingent consideration payable		3,239		2,257		5,496
Less: expenses of acquisition		(335)		(433)		(768)
Total consideration		18,464		19,056		37,520

The fair values set out above are provisional and will be finalised in the next financial year. Goodwill of £19,244,000 recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

From the date of acquisition to 31 August 2019, the newly acquired rFpro business contributed £694,000 to revenue and £231,000 to operating profit. The newly acquired DRI business did not contribute to revenue or operating profit as it was acquired at the reporting date.

Had these acquisitions been completed at the beginning of the year Group revenue would have been £68,504,000 and operating profit would have been £13,019,000.

22. Lease commitments

The Group had total commitments at the end of each financial year in respect of non-cancellable operating leases of:

	2019 £'000	2018 £'000
Property leases		
Payable within one year	**669**	220
Payable within 2–5 years	**1,045**	405
	1,714	625

The lease terms are due to complete between 2019 and 2024.

23. Related party disclosures

Anthony Best, Chairman of the Company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £48,000 (2018: £48,000) were made in the year. No amounts were due to or from the trust at any year end.

Balances and transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed in this note.

The remuneration of the key management personnel of the Group is set out in the Remuneration Committee Report.

24. Share based payments

The share option schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The share option schemes are administered by the Remuneration Committee.

The share option schemes adopted by the Company are equity settled and a charge of £586,000 (2018: £660,000) has been charged to the statement of comprehensive income relating to these options.

Summary of movements in share options

	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 September 2018	912,534	395
Options and awards granted	100,000	1,230
Options and awards exercised	(405,948)	395
Options and awards lapsed	(129,840)	395
Outstanding at 31 August 2019	**476,746**	**570**
Exercisable at 31 August 2019	**376,746**	**395**
Outstanding at 1 September 2017	1,337,122	395
Options and awards granted	—	—
Options and awards exercised	(424,588)	395
Options and awards lapsed	—	—
Outstanding at 31 August 2018	912,534	395
Exercisable at 31 August 2018	912,534	395

The weighted average share price on the date of exercise was 2179p (2018: 940p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 7.6 years (2018: 7.8 years).

The fair values of the share option awards granted were calculated using Black Scholes option pricing model. The inputs into the model for options granted in 2019 (none granted in 2018) were as follows:

Stock price	1,315p
Exercise price	1,230p
Interest rate	0.75%
Volatility	40%
Time to maturity	10 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 one third of the options will vest on each of the first, second and third anniversary of the grant date of 9 November 2018 subject to the employees remaining employed by the Company.

25. Ultimate controlling party

There is no ultimate controlling party.

26. Capital commitments

At 31 August 2019 the Group had capital commitments as follows:

	2019 £'000	2018 £'000
Contracted but not provided in these financial statements	**478**	78
	478	78

27. Revenue recognition and contract balances

Contract balances

The Group has recognised the following revenue-related contract assets and liabilities:

	2019 £'000	2018 £'000
Contract assets (i)	**1,885**	2,189
Contract liabilities (ii)	**4,377**	4,341

(i) Significant changes in contract assets

Contract assets decreased as 95% of the contracts included in the 2018 balance have now been invoiced. The current year balance represents four new contracts at various stages of completion as well as contract assets from DRI.

(ii) Significant changes in contract liabilities

This balance consists of deferred income and payments in advance. Contract liabilities increased in the year due to acquired balances from rFpro and DRI. This was offset by an underlying decrease of contract liabilities due to deferred income which principally relates to timing of track testing systems invoicing at 31 August 2019 where payments received on account are deferred until the goods have been delivered to the customer. Within this figure is £1,785,000 relating to support and warranty which is recognised over the period to which these obligations are performed.

Within the opening balance of £4,341,000, an amount of £4,018,000 has been recognised in revenue during the period.

Performance obligations

The performance obligations in relation to the contracts with customers are as follows:

Laboratory test and simulation

The long-term construction contracts are in relation to the laboratory test and simulation systems which are highly customised items which typically take more than twelve months to construct and supply these systems to the customers. In the judgement of management, the Group satisfies the performance obligations under these contracts over time. The key determination of this judgement was that the Company's performance does not create an asset with alternative use to the Company and that the Company has an enforceable right to payment for performance completed to date. Payment for these construction contracts is in accordance with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. The majority of contracts are expected to result in contract liability balances. These balances arise as these contracts typically provide for an up-front deposit and other payments through the course of the contract.

The consideration for these contracts is agreed in advance between the Company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the Company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management have consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

27. Revenue recognition and contract balances continued

Performance obligations continued

Track test

The contracts in relation to the sale of track testing systems are in relation to the robotic systems which typically take less than twelve months to construct and supply these systems to the customers. In the judgement of management, due to the lower level of customisation required, the relative cost and time required to construct the systems, the Group satisfies the performance obligations under these contracts on delivery to the customer. In making this determination, management have considered when the customer obtains control of this system, and the principal indicator of this is when the customer has physical possession. Payment for these construction contracts is in accordance with an agreed schedule with typical contracts including certain technical and physical completion milestones as payment points for customers. A typical contract may include a 30% deposit, which is recorded as a contract liability until such time as the performance obligation is met. The consideration for these contracts is agreed in advance between the Company and the customer and is fixed.

Revenue relating to warranties and related obligations is recognised over the period to which these obligations are performed by the Company.

In determining the transaction prices and amounts allocated to performance obligations for these systems, management have consideration to price lists of component parts and standard pricing for servicing and guarantee arrangements.

Remaining performance obligations as at 31 August 2019

	2019 £'000	2018 £'000
Unsatisfied performance obligations		
Laboratory testing and simulation	**3,407**	1,174
Track testing	**15,972**	20,216
Partially unsatisfied performance obligations		
Laboratory testing and simulation	**2,286**	2,150
Track testing	**2,070**	3,926

The revenue recognised in the period in relation to the opening balances for laboratory testing and simulation systems amounts to £3,100,000 and track testing systems amounted to £23,881,000.

The revenue on outstanding performance obligations at 31 August 2019 on the track testing systems will be recognised on delivery of these items, alongside the associated cost of sales, in the following financial year.

The revenue on outstanding performance obligations at 31 August 2019 on laboratory testing and simulation systems will be recognised over time alongside the associated cost of sales, in the following financial year. The typical length of time for these construction projects is 18–24 months.

Assets recognised from costs to obtain or fulfil customer contracts

No amounts have been recognised in relation to these categories of assets as at 31 August 2019.

Company statement of financial position

As at 31 August 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	3	**41,937**	2,591
Current assets			
Other debtors	4	**25,809**	11,529
Creditors: amounts falling due within one year	5	**528**	20
Net current assets		**25,281**	11,509
Creditors: amounts falling due after one year	6	**3,239**	—
Total assets less current liabilities		**63,979**	14,100
Capital and reserves			
Called up share capital		**222**	195
Share premium account		**60,049**	10,258
Profit and loss account		**3,708**	3,647
Equity		**63,979**	14,100

The profit for the financial year dealt with in the financial statements of the Parent Company was £222,000 (2018: £766,000).

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2019 and are signed on its behalf by:

Anthony Best
Director

Dr James Routh
Director

Company registration number: 08393914

Company statement of changes in equity

For the year ended 31 August 2019

	Note	Share capital £'000	Share premium £'000	Retained profits £'000	Total equity £'000
At 1 September 2017		191	8,579	2,889	11,659
Share based payments		—	—	660	660
Total comprehensive income		—	—	766	766
Dividends	8	—	—	(668)	(668)
Issue of shares, net of share issue costs		4	1,679	—	1,683
At 31 August 2018		195	10,258	3,647	14,100
Share based payments		—	—	586	586
Total comprehensive income		—	—	222	222
Dividends	8	—	—	(747)	(747)
Issue of shares, net of share issue costs		27	49,791	—	49,818
At 31 August 2019		**222**	**60,049**	**3,708**	**63,979**

The share premium account is a non-distributable reserve representing the difference between the nominal value of shares in issue and the amounts subscribed for those shares.

Retained profits represent the cumulative value of the profits not distributed to shareholders but retained to finance the future capital requirements of the Group.

Notes to the Company financial statements

For the year ended 31 August 2019

General information

AB Dynamics plc (the 'Company') is the UK holding company of a group of companies which are engaged in the provision of advanced testing systems to the global motor industry. The Company is registered in England and Wales (registered number 08393914). Its registered office and principal place of business is Middleton Drive, Bradford-on-Avon, BA15 1GB.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention and in accordance with FRS 102 – The Financial Reporting Standard applicable in the UK and Republic or Ireland and the Companies Act 2006. The financial statements present information about the Company as an individual entity and the principal accounting policies are described below. They have all been applied consistently throughout the period.

Reduced disclosure exemptions

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS102 paragraph 1.12 as follows:

No cash flow statement has been presented as the cash flows of the Company are included within the consolidated financial statements of the Group.

Disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures are included in the consolidated financial statements of the Group.

The Company has also taken advantage of the disclosure exemptions in FRS102 paragraph 33.1A as follows:

Related party transactions have not been disclosed with other wholly owned members of the Group.

Going concern

At 31 August 2019 the Company had net current assets of £25,281,000 (2018: £11,509,000) with the main current asset being amounts owed from its subsidiary Anthony Best Dynamics Ltd, amounting to £25,775,000 (2018: £11,514,000). The Company has assessed its ongoing costs with cash generated by its subsidiaries to ensure that it can continue to settle its debts as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Financial instruments

Financial assets and liabilities are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities such as trade and other debtors and creditors and loans to related parties.

Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans and receivables are measured initially at fair value and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Creditors

Short-term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value and are measured subsequently at amortised cost using the effective interest method.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the financial statements:

Share based payment

The fair value of share based remuneration is determined at the date of grant and recognised as a capital contribution to its subsidiary on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

1. Profit for the financial year

The Company has taken advantage of Section 408 of the Companies Act 2006 and, consequently, a profit and loss account for the Company alone has not been presented.

The Company's profit for the financial year was £222,000 (2018: £766,000).

The Company's profit for the financial year has been arrived at after charging auditor's remuneration payable to Crowe U.K. LLP for audit services to the Company of £25,000 (2018: £39,000). Statutory information on remuneration for other services provided by the Company's auditor and its associates is given on a consolidated basis in note 5 of the consolidated financial statements.

2. Employees and Directors' remuneration

Staff costs during the year by the Company were as follows:

	2019 £'000	2018 £'000
Wages and salaries	**192**	182
Social security costs	**22**	20
	214	202

The executive management team is remunerated by the operating subsidiary Anthony Best Dynamics Ltd. Details of their remuneration is in the Remuneration Committee Report.

The average number of employees of the Company during the year was:

	2019 Number	2018 Number
Directors and management	**7**	7

3. Investments

	2019 £'000	2018 £'000
Subsidiary undertaking		
Brought forward	**2,591**	1,931
Capital contribution arising on share based payment	**586**	660
Investment in AB Dynamics Inc	**17,101**	—
Investment in Kangaloosh Ltd	**21,659**	—
Carried forward	**41,937**	2,591

3. Investments continued

The Company owns more than 20% of the following undertakings:

Subsidiary undertaking	Class of share held	% shareholding	Registered office
Anthony Best Dynamics Ltd	Ordinary	100	Middleton Drive, Bradford-on-Avon, Wiltshire BA15 1GB
AB Dynamics GK	Ordinary	100	2-2-3 Shinyokohama, Dai-Ichi Takeo bldg. 6F 606 Kohoku-ku, Yokohama 222-0033, Japan
AB Dynamics Inc	Ordinary	100	48325 Alpha Drive, Suite 120, Wixom, MI 48393 USA
Kangaloosh Ltd	Ordinary	100	Middleton Drive, Bradford-on-Avon, Wiltshire BA15 1GB
*rFpro Inc	Ordinary	100	209 East Washington Street, Suite 200, Ann Arbor, Michigan 48104, USA
*AB Dynamics Europe GmbH	Ordinary	100	Karlschmitter Weg 29, 35580 Wetzlar, Germany
*Dynamic Research Inc	Ordinary	100	355 Van Ness Avenue, Suite 200, Torrance, CA 90501, USA
*DRI Advanced Test Systems Inc	Ordinary	100	355 Van Ness Avenue, Suite 200, Torrance, CA 90501, USA
*DRIATSERO SRL	Ordinary	25	36 Libertatii St, Buhusi, Romania
*AB Dynamics 2013 Ltd	Ordinary	100	Middleton Drive, Bradford-on-Avon, Wiltshire BA15 1GB

* Denotes indirect shareholding.

4. Other debtors

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	**25,775**	11,514
Prepayment	**34**	15
	25,809	11,529

5. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Other payables and accruals	**528**	20
	528	20

6. Creditors: amounts falling due after one year

	2019 £'000	2018 £'000
Deferred consideration	**3,239**	—
	3,239	—

7. Share capital

The allotted, called up and fully paid share capital is made up of 22,219,982 ordinary shares of £0.01 each.

	Note	Number of shares '000	Share capital £'000	Share premium £'000	Total £'000
At 1 September 2017		19,112	191	8,579	8,770
13 September 2017	(i)	82	1	323	324
19 January 2018	(ii)	194	2	766	768
15 May 2018	(iii)	25	—	99	99
23 July 2018	(iv)	124	1	491	492
At 31 August 2018		19,537	195	10,258	10,453
6 December 2018	(v)	143	1	564	565
7 June 2019	(vi)	2,277	23	48,195	48,218
22 July 2019	(vii)	263	3	1,032	1,035
At 31 August 2019		**22,220**	**222**	**60,049**	**60,271**

(i) On 13 September 2017, a total of 82,053 share options were exercised of £0.01 each for £3.95.

(ii) On 19 January 2018, a total of 193,486 share options were exercised of £0.01 each for £3.95.

(iii) On 15 May 2018, a total of 25,127 share options were exercised of £0.01 each for £3.95.

(iv) On 23 July 2018, a total of 123,922 share options were exercised of £0.01 each for £3.95.

(v) On 6 December 2018, a total of 142,702 share options were exercised of £0.01 each for £3.95.

(vi) On 7 June 2019, a total of 2,050,000 new ordinary shares were placed of £0.01 each for £22.00 and a total of 227,500 new ordinary shares of £0.01 were admitted to trading on AIM following the issue of Open Offer Shares.

(vii) On 22 July 2019, a total of 263,246 share options were exercised of £0.01 each for £3.95.

8. Dividends

	2019 £'000	2018 £'000
Final 2017 dividend paid of £0.02 per share	**—**	384
Interim dividend paid of £0.0147 per share	**—**	284
Final 2018 dividend paid of £0.022 per share	**430**	—
Interim dividend paid of £0.0161 per share	**317**	—
	747	668

The Board has proposed a final dividend of 2.79p per share totalling £619,000. Together with the interim dividend of 1.61p per share this gives a total ordinary dividend of 4.40p for the year.

9. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in the Remuneration Committee Report.

10. Share options and warrants

The share option schemes were established to reward and incentivise the executive management team and staff for delivering share price growth. The share option schemes are administered by the Remuneration Committee.

The share option schemes adopted by the Company are equity settled and a charge of £586,000 (2018: £660,000) has been charged to the statement of comprehensive income relating to these options.

Summary of movements in share options

	Number of shares	Weighted average exercise price (pence)
Outstanding at 1 September 2018	912,534	395
Options and awards granted	100,000	1,230
Options and awards exercised	(405,948)	395
Options and awards lapsed	(129,840)	395
Outstanding at 31 August 2019	**476,746**	**570**
Exercisable at 31 August 2019	**376,746**	**395**
Outstanding at 1 September 2017	1,337,122	395
Options and awards granted	—	—
Options and awards exercised	(424,588)	395
Options and awards lapsed	—	—
Outstanding at 31 August 2018	912,534	395
Exercisable at 31 August 2018	912,534	395

The weighted average share price on the date of exercise was 2179p (2018: 940p). The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 7.6 years (2018: 7.8 years).

The fair values of the share option awards granted were calculated using Black Scholes option pricing model. The inputs into the model for options granted in 2019 (none granted in 2018) were as follows:

Stock price	1,315p
Exercise price	1,230p
Interest rate	0.75%
Volatility	40%
Time to maturity	10 years

The expected volatility was determined with reference to the published share price.

For the options granted in 2019 one third of the options will vest on each of the first, second and third anniversary of the grant date of 9 November 2018 subject to the employees remaining employed by the Company.

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