RNS Number : 5576M
Andrews Sykes Group PLC
12 May 2020

Andrews Sykes Group plc
Preliminary results
For the 12 months ended 31 December 2019

Summary

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Revenue from continuing operations	**77,246**	78,563
EBITDA* from continuing operations	**28,519**	26,737
Operating profit	**19,298**	20,681
Profit after tax for the financial period	**15,019**	17,046
Basic earnings per share from total operations (pence)	**35.61p**	40.39p
Interim and final dividends paid per equity share (pence)	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	**10.50p**	11.90p
Net cash inflow from operating activities	**18,522**	19,110
Total interim and final dividends paid	**10,038**	10,048
Cash reserves**	**23,897**	23,381
Net funds	**12,136**	23,381

* Earnings Before Interest, Taxation, Depreciation, profit on sale of property, plant and equipment, Amortisation and non-recurring items as reconciled on the consolidated income statement.
** Cash at bank less bank loans before IFRS 16 right-of-use lease obligations

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Chairman's Statement
Outlook

Andrews Sykes Group plc (the "group") remains resilient as sectors in which we trade have shown continuous demand whilst facing an unprecedented challenge in the form of the coronavirus pandemic. We are thankful and proud of our team members who continue to respond as essential service providers.

The group's trading in the first quarter of 2020 started positively, especially in the UK where the pump hire business benefited from the recent abnormally wet weather while March was unfavourably affected by the pandemic. As many of our products are sourced from China, our supply chain was only mildly affected as most of our goods had already been delivered before the virus spread. Customer demand in specific geographical areas of our business has been affected more than others. Our relatively small businesses in Italy and France faced strict lockdowns in late February and March, and the UK introduced a more flexible lockdown on 23 March 2020. The Benelux countries have adopted a similar approach, we are able to continue to trade, albeit at a reduced level and with increased health and safety and social distancing measures. In the UAE trading is also continuing but at a lower level than in the past.

The wellbeing of our employees and business partners is of paramount importance as we adhere to the local government guidelines. In the UK we have temporarily closed some of our smaller depots, introduced social distancing measures in our larger depots and embraced at home working employees. Our priority is to keep operations safe for customers, employees and business partners.

The result for 2019 was the second best on record following the record result in 2018, and cash reserves* are robust. We have modelled with caution the effects of sales decline along with other factors to ensure the group remains within its bank facilities including cash flow forecasts for a period in excess of 12 months. The group has cash reserves* beyond May 2021 without renegotiating its bank facilities. The Board therefore considers the group is well positioned to manage through the impact of the pandemic considering its strong balance sheet and significant net cash position.

The Board has in the past declared two dividends, an interim of 11.9 pence per share payable in November and a final, also of 11.9 pence per share, payable the following June. The Board has decided to propose a final dividend of 10.5 pence per share that will be paid in June 2020.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

2019 trading summary

The group's revenue for the year ended 31 December 2019 was £77.2 million, a decrease of £1.3 million, or 1.7%, compared with the same period last year. This decrease had a more than proportionate impact on operating profit which decreased by 6.7%, or £1.4 million, from £20.7 million last year to £19.3 million in the year under review. This decrease would have been £0.3 million greater had it not been for the adoption of IFRS 16 for the first time this year. Further details of the effect of IFRS 16 on the results this year are disclosed in note 3 of this preliminary announcement. Despite this decrease, which followed a 17.6% increase last year, the performances from both our hire and sales businesses in the UK and Europe continue to be strong supported by a further improved performance from our business in the Middle East. Although down on an exceptional result last year, the current year's trading performance is the second best on record.

Net finance costs were £0.7 million this year compared with net finance income of £0.4 million in 2018. This is largely attributable to two factors; firstly an interest charge of £0.5 million this year on right-of-use lease obligations following the adoption of IFRS 16 on 1 January 2019, further details of which are given in note 3 of this preliminary announcement, and secondly a foreign exchange loss arising on the retranslation of inter-company balances of £0.3 million this year compared with a gain of £0.3 million in 2018. This reflects slight strengthening of Sterling compared with both the Euro and UAE Dirham.

The group has reported a decrease in the basic earnings per share of 4.78p, or 11.8%, from 40.39p in 2018 to 35.61p in the current year. This is mainly attributable to the above decrease in the group's operating profit and increase in net finance costs. Nevertheless, the basic EPS remains high and is indicative of the underlying business performance and strength of the group.

The group continues to generate strong cash flows. Net cash inflow from operating activities was £18.5 million compared with £19.1 million last year. Despite shareholder related cash outflows of

£10.0 million on ordinary dividends, net cash reserves* increased by £0.5 million from £23.4 million at 31 December 2018 to £23.9 million at 31 December 2019.

Cost control, cash and working capital management continue to be priorities for the group. Capital expenditure is concentrated on assets that give a good return and in total £7.8 million was invested in the hire fleet this year, £0.3 million more than last year and significantly more than the wasting depreciation charge of £6.4 million. In addition, the group invested a further £0.8 million in property, plant and equipment. These actions will ensure that the group's infrastructure and revenue generating assets are sufficient to support future growth and profitability. Hire fleet utilisation, condition and availability continue to be the subjects of management focus.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Operating performance

The following table splits the results between the first and second half years:

	Turnover	Operating profit
	£'000	£'000
1st half 2019	**34,974**	**6,918**
1st half 2018	37,815	9,280
2nd half 2019	**42,272**	**12,380**
2nd half 2018	40,748	11,401
Total 2019	**77,246**	**19,298**
Total 2018	78,563	20,681

The above table demonstrates that after a disappointing result in the first half of 2019, trading improved significantly in the second half year. Whilst turnover in the first half of the year showed a 7.5% decrease compared with the same period in 2018, improved trading in the second half year resulted in turnover increasing by 3.7% compared with the second half of 2018. Overall turnover was only 1.7% below the record result returned last year.

Operating profit followed the trend in turnover. In the first half of the year, operating profit was 25.5% below the same period in 2018 but in the second half it improved significantly to show an 8.6% improvement compared with 2018. Traditionally, the group makes more profit in the second half year due to the higher profit margins on its air conditioning products which are hired predominantly in the second half of the year and this factor was apparent this year.

The operating profit of our main business segment in the UK and Northern Europe decreased from £19.1 million last year to £16.9 million in the year under review. The winter of 2019 was much milder than 2018 meaning that there were less opportunities for our heating and boiler hire products. Trading improved in the second half and whilst revenue from our air conditioning business did not reach the very high levels of 2018, primarily due to the lack of a hot summer in the UK in 2019, it was in line with our expectations. The wet weather in the final quarter enabled the pump hire business to recover after a slow start to the year and the results of our heating business were also better than expected. This year's result demonstrates that with properly directed investment, a well-maintained hire fleet, a knowledgeable management team and dedicated employees, we are able to take full advantage of opportunities when they are presented to us and deliver a strong performance for the benefit of all shareholders.

Our hire and sales business in the Middle East delivered a very good trading result. Operating profit for this business segment increased from £2.4 million in 2018 to £3.2 million in the current year reflecting a strong performance in both the first and second halves of the year. This result was driven by several large projects in the region including the 2020 Expo which is planned to be held in Dubai.

Our fixed installation business sector in the UK returned an improved operating profit of £0.2 million this year compared with £0.1 million in 2018. The market continues to be fragmented with high levels of price competition.

Central overheads were £1.0 million in the current year compared with £0.9 million in 2018.

Profit for the financial year

Profit before tax was £18.6 million this year compared with £21.1 million last year, a decrease of £2.5 million. This is attributable to the above £1.4 million decrease in operating profit and by a swing in finance costs from a net credit of £0.4 million last year to a net charge of £0.7 million this year. This was due to two factors: an interest charge on right-of-use lease obligations of £0.5 million following the adoption of IFRS 16 for the first time in 2019; and a foreign exchange loss arising on the retranslation of inter-company balances of £0.3 million this year compared with a gain of £0.3 million in 2018, reflecting slight strengthening of Sterling compared with both the Euro and UAE Dirham.

Tax charges decreased from £4.0 million in 2018 to £3.6 million this year. The overall effective tax rate increased slightly from 19.0% in 2018 to 19.1% this year. Profit for the financial year was £15.0 million compared with £17.1 million last year.

Equity dividends

The company paid two dividends during the year. On 21 June 2019, a final dividend for the year ended 31 December 2018 of 11.9 pence per ordinary share was paid and this was followed on 8 November 2019 by the payment of an interim dividend for 2019, also of 11.9 pence per share. Therefore, during 2019, a total of £10.0 million in cash dividends has been returned to our ordinary shareholders.

For the reasons given in the outlook section above, the Board has decided to propose a final dividend of 10.5 pence per share. If approved at the forthcoming Annual General Meeting this dividend, which in total amounts to £4.4 million, will be paid on 19 June 2020 to shareholders on the register as at 29 May 2020.

Share buybacks

The company did not purchase any of its own ordinary shares for cancellation during the period under review. In previous years, purchases were made which enhanced earnings per share and were for the benefit of all shareholders. As at 11 May 2020, there remained an outstanding general authority for the directors to purchase 5,271,794 ordinary shares which was granted at last year's Annual General Meeting.

The Board believes that it is in the best interests of shareholders to have this authority in order that market purchases may be made in the right circumstances if the necessary funds are available. Accordingly, at the next Annual General Meeting, shareholders will be asked to vote in favour of a resolution to renew the general authority to make market purchases of up to 12.5% of the ordinary share capital in issue.

Net cash reserves* and funds

At 31 December 2019, the group had net cash reserves* of £23.9 million compared with £23.4 million last year, an increase of £0.5 million despite shareholder related cash outflows of £10.0 million on ordinary dividends during the year.

As a result of adopting the accounting requirements of the new leasing standard, IFRS 16, existing lease commitments as at 1 January 2019 of £11.7 million were recognised on the balance sheet. The group adopted the standard's modified retrospective approach as at 1 January 2019 in accordance with which the cumulative effect of initially applying IFRS 16 was recognised as an adjustment to capitalise right-of-use assets and lease liabilities at the date of initial application. Comparative information was not restated. As at 31 December 2019 the group had right-of-use lease liabilities of £11.8 million and consequently net funds, after the IFRS 16 adjustment, at that date were £12.1 million.

* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

Bank loan facilities

The group continues to operate within its bank covenants. In April 2017, a bank loan of £5 million was taken out with the group's bankers, Royal Bank of Scotland. The first three loan repayments of £0.5 million were made in accordance with the bank agreement on 30 April 2018, 2019 and 2020.The remaining balance of £3.5 million is due to be repaid by one annual instalment of £0.5 million on 30 April 2021 followed by a final balloon repayment of £3 million due on 30 April 2022.

JG Murray
Chairman
11 May 2020

Consolidated Income Statement
For the 12 months ended 31 December 2019

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Continuing operations		
Revenue	**77,246**	78,563
Cost of Sales	**(32,244)**	(31,908)
Gross profit	**45,002**	46,655
Distribution costs	**(11,996)**	(12,073)
Administrative expenses	**(13,708)**	(13,901)
Operating profit	**19,298**	20,681
EBITDA*	**28,519**	26,737
Depreciation and impairment losses	**(7,203)**	(6,666)
Depreciation of right-of-use assets	**(2,538)**	-
Profit on the sale of plant and equipment	**520**	610

Operating profit	**19,298**	20,681

Finance income	**146**	461
Finance costs	**(884)**	(97)
Profit before taxation	**18,560**	21,045
Taxation	**(3,541)**	(3,999)
Profit for the financial period attributable to equity holders of the parent	**15,019**	17,046

There were no discontinued operations in either of the above periods

Earnings per share

Basic (pence)	**35.61p**	40.39p
Diluted (pence)	**35.61p**	40.39p
Interim and final dividends paid per equity share (pence)	**23.80p**	23.80p
Proposed final dividend per equity share (pence)	**10.50p**	11.90p

* Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non- recurring items.

Consolidated Statement of Comprehensive Total Income
For the 12 months ended 31 December 2019

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Profit for the financial period	**15,019**	17,046
Other comprehensive (charges) / income		
Items that may be reclassified to profit and loss:		
Currency translation differences on foreign operations	**(906)**	405
Foreign exchange difference on IFRS 16 adjustments	**1**	-
Related deferred tax	**-**	-
Items that will never be reclassified to profit and loss:		
Remeasurement of defined benefit assets and liabilities	**559**	(1,649)
Related deferred tax	**(106)**	313
Other comprehensive (charges) for the period net of tax	**(452)**	(931)
Total comprehensive income for the period	**14,567**	16,115

Consolidated Balance Sheet
As at 31 December 2019

	31 December 2019		31 December 2018	
	£'000	**£'000**	£'000	£'000
Non-current assets				
Property, plant and equipment		**24,561**		23,651
Right-of-use assets		**11,515**		-
Prepayments		**44**		45
Deferred tax asset		**254**		677
Retirement benefit pension surplus		**1,963**		1,356
		38,337		25,729
Current assets				
Stocks	**6,333**		5,083	
Trade and other receivables	**21,333**		19,994	
Cash and cash equivalents	**27,880**		27,862	
	55,546		52,939	
Current liabilities				
Trade and other payables	**(12,942)**		(12,889)	
Current tax liabilities	**(1,674)**		(2,294)	
Bank loans	**(493)**		(493)	
Right-of-use lease obligations	**(2,279)**		-	
Obligations under finance leases	**-**		(5)	
	(17,388)		(15,681)	
Net current assets		**38,158**		37,258
Total assets less current liabilities		**76,495**		62,987
Non-current liabilities				
Bank loans	**(3,490)**		(3,983)	
Right-of use lease obligations	**(9,482)**		-	
				(3,983)
		(12,972)		
Net assets		**63,523**		59,004
Equity				
Called-up share capital		**422**		422
Share premium		**13**		13
Retained earnings		**59,447**		54,013
Translation reserve		**3,395**		4,300
Other reserves		**246**		246
Surplus attributable to equity holders of the parent		**63,523**		58,994
Non-controlling interests		**-**		10
Total equity		**63,523**		59,004

Consolidated Cash Flow Statement
For the 12 months ended 31 December 2019

	12 months ended 31 December 2019 £'000	12 months ended 31 December 2018 £'000
Cash flows from operating activities		
Cash generated from operations	**22,917**	22,888
Interest paid	**(609)**	(88)
Net UK corporation tax paid	**(2,227)**	(2,236)
Overseas tax paid	**(1,559)**	(1,454)
Net cash flow from operating activities	**18,522**	19,110
Investing activities		
Sale of property, plant and equipment	**685**	944
Purchase of property, plant and equipment	**(6,207)**	(7,142)
Interest received	**100**	41
Net cash flow from investing activities	**(5,422)**	(6,157)
Financing activities		
Loan repayments	**(500)**	(500)
Capital repayments for right-of-use lease obligations	**(2,296)**	-
Finance lease capital repayments	**-**	(45)
Equity dividends paid	**(10,038)**	(10,048)
Purchase of own shares	**-**	(438)
Net cash flow from financing activities	**(12,834)**	(11,031)
Net increase in cash and cash equivalents	**266**	1,922
Cash and cash equivalents at the beginning of the period	**27,862**	25,311
Effect of foreign exchange rate changes	**(248)**	629
Cash and cash equivalents at the end of the period	**27,880**	27,862

Reconciliation of net cash flow to movement in net funds in the period

Net increase in cash and cash equivalents	**266**	1,922
Cash outflow from the repayment of loans and right-of-use lease obligations	**2,796**	545
Non-cash movement in respect of raising loan finance	**(7)**	(8)
Non-cash movements re new right-of-use lease obligations	**(2,593)**	-
Increase in net funds during the period	**462**	2,459
Opening net funds at the beginning of the period	**23,381**	20,293
Transitional adjustment for right-of-use leases at the start of the period	**(11,699)**	-
Effect of foreign exchange rate changes on right-of-use lease obligations	**240**	-
Effect of foreign exchange rate changes	**(248)**	629
Closing net funds at the end of the period	**12,136**	23,381

Consolidated Statement of Changes in Equity
For the 12 months ended 31 December 2019

	Attributable to equity holders of the parent company						Non-controlling interest	Total equity
	Share capital £'000	Share Premium £'000	Retained earnings £'000	Translation reserve £'000	Other reserves £'000	Total £'000	£'000	£'000
At 31 December 2017	423	13	48,789	3,895	245	53,365	10	53,375
Profit for the financial period	-	-	17,046	-	-	17,046	-	17,046
Other comprehensive income and (charges):								
Items that may be reclassified to profit and loss:								
Currency translation differences on foreign operations	-	-	-	405	-	405	-	405
Items that will never be reclassified to profit and loss:								
Remeasurement of defined benefit assets and liabilities	-	-	(1,649)	-	-	(1,649)		(1,649)
Related deferred tax	-	-	313	-	-	313	-	313
Total other comprehensive income and (charges)	-	-	(1,336)	405	-	(931)	-	(931)
Transactions with owners recorded directly in equity:								
Purchase of own shares	(1)	-	(438)	-	1	(438)	-	(438)
Dividends paid	-	-	(10,048)	-	-	(10,048)	-	(10,048)
Total transactions with owners	(1)	-	(10,486)	-	1	(10,486)	-	(10,486)
At 31 December 2018	422	13	54,013	4,300	246	58,994	10	59,004
Profit for the financial period	**-**	**-**	**15,019**	**-**	**-**	**15,019**	**-**	**15,019**
Other comprehensive (charges) and income:								
Items that may be reclassified to profit and loss:								
Currency translation differences on foreign operations	**-**	**-**	**-**	**(906)**	**-**	**(906)**	**-**	**(906)**
Foreign exchange differences on IFRS 16 adjustments	**-**	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Related deferred tax	-	-	-	-	-	-	-	-
Items that will never be reclassified to profit and loss:								
Remeasurement of defined benefit assets and liabilities	**-**	**-**	**559**	**-**	**-**	**559**	**-**	**559**
Related deferred tax	**-**	**-**	**(106)**	**-**	**-**	**(106)**	**-**	**(106)**
Total other comprehensive income and (charges)	**-**	**-**	**453**	**(905)**	**-**	**(452)**	**-**	**(452)**

Transactions with owners recorded directly in equity:									
Dividends paid	-	-	**(10,038)**	-	-	**(10,038)**	-		**(10,038)**
Write-off of non-controlling interest	-	-	-	-	-	-	**(10)**		**(10)**
Total transactions with owners	-	-	**(10,038)**	-	-	**(10,038)**	**(10)**		**(10,048)**
At 31 December 2019	**422**	**13**	**59,447**	**3,395**	**246**	**63,523**	**-**		**63,523**

Notes
For the 12 months ended 31 December 2019

1. Basis of preparation

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. Therefore the financial information set out above does not constitute the company's financial statements for the 12 months ended 31 December 2019 or 31 December 2018 but it is derived from those financial statements.

2. Going Concern

The Board remains satisfied with the group's funding and liquidity position. The group has operated throughout the 2019 financial year within its financial covenants as contained in the bank agreement.

The coronavirus pandemic will have an impact on our business during 2020. Reduced customer demand and our ongoing ability to meet that demand have been identified as our main areas of risk. Our supply chain has not been badly affected as the majority of our goods had already been delivered before the virus spread.

Management has prepared a detailed "bottom-up" profit and loss and cash flow forecast for the 24 months ending 31 December 2021 on a cautiously realistic basis. This takes into account reduced activity levels across all income streams and geographical locations taking into account specific factors relevant in each of our businesses. It has been assumed that the impact of the coronavirus pandemic affects trading for the remainder of 2020 and thereafter things return to a more normal level. These forecasts have been reviewed and approved by the Board.

Certain product lines are more resilient than others and we are experiencing an increase in demand in certain sectors, notably healthcare, emergency temporary hires to cover the breakdown of customer equipment and the hire of dewatering equipment in the UAE to enable construction work to continue.

The impact on the business as of the end of March has been limited with trading levels close to expectation. Cash flow has not changed significantly and we continue to provide our full range of products and services across all territories. We are thankful and proud of our team members who continue to respond as essential service providers.

The wellbeing of our employees and business partners is of paramount importance as we adhere to the local government guidelines. We have temporarily mothballed some of our smallest depots, introduced social distancing measures in our larger depots and have enabled at home working for many employees. Appropriate supplies of PPE are provided to our staff to enable them to carry out their duties in a safe manner. Our priority is to keep operations safe for customers, employees and business partners.

In the UK, approximately 50% of our employees are furloughed. In France, Italy, Belgium and Luxembourg we are currently working with significantly reduced staff levels, with the most of our staff enlisted to the appropriate government employment retention schemes. In the UAE and Holland, our employees are currently continuing to work in a close to normal way.

Our cash flow forecast assumes that cash collections will reduce over the next nine months as customers take longer to settle their debts. We will continue to make payments to our suppliers in accordance with our agreed terms and, with the exception of the May 2020 UK VAT payment that will be deferred until later in 2020, all fiscal payments to the UK and overseas government bodies will continue to be made on time. Bank loan repayments are also forecast to be made in accordance with the bank agreement. Due to the reduced level of activity, forecast capital expenditure for 2020 is c£1.2 million less than 2019.

A triennial funding valuation for the group defined benefit pension scheme is currently being prepared by the pension scheme trustees as at 31 December 2019. Management has received an estimate of the deficit as at that date and it has been assumed that this will be agreed and paid to the pension scheme by 31 December 2020.
For the purposes of the cash forecast only, we have assumed that a normal level of dividends will be resumed in November 2020.

The above factors have all been reflected in the forecast for the 24 months ending 31 December 2021. The headline numbers at a group level are as follows:

- The actual cash reserves* as at 31 March 2020 are £27.2 million compared with £23.9 million as at 31 December 2019. This increase reflects strong trading and debt collections in the first quarter with supplier and other payments being made on schedule with payment plans being agreed with some key suppliers and landlords. Group operating profit in the first quarter was c£4.6 million.

- Group turnover for the 12 months ending 31 December 2020 is forecast to be lower than 2019. Operating profit is therefore consequently likely to reduce, however the group still expects to produce a profit for 2020.

- Closing cash reserves* as at 31 December 2020 are forecast to be below the level reported at 31 December 2019, although cash reserves* are not forecast to fall below c£15 million at any month end.

- In 2021 we expect to return to normal levels of trading.

Therefore, it is forecast that the group will have significant cash reserves* throughout 2020 and 2021. Ignoring the positive cash flow in the first quarter, the group's net cash outflow in the nine months ending 31 December 2020 is forecast to be approximately £10 million. Even in an extreme scenario and this trend continued throughout 2021 resulting in an additional cash outflow of c£12 million, the group would still have cash reserves* of c£5 million at 31 December 2021. In this extreme scenario, further remedial action would be taken. Payroll costs could be controlled at the current levels until the business recovers, additional staff could be furloughed and capital expenditure could be postponed until a later date. Our bank has been very supportive and has indicated that it would be prepared to make additional loan facilities available the group if required. Dividend payments could also be reduced or suspended to further conserve cash. The Board is, however, confident that none of these additional measures will be necessary due to the level of confidence it has in the future trading performance of the group.

The group has considerable financial resources and a wide operational base. Based on the detailed forecast prepared by management taking into account the anticipated impact of the coronavirus pandemic, the Board has a reasonable expectation that the group has adequate resources to continue to trade for the foreseeable future even in the extreme scenario that the downturn continues throughout 2021. Accordingly, the Board continues to adopt the going concern basis when preparing this Annual Report and Financial Statements.
* Defined as cash at bank less bank loans before IFRS 16 right-of-use lease obligations.

3. International Financial Reporting Standards (IFRS) adopted for the first time in 2019

With the exception of the adoption of the new leasing standard, IFRS 16, there were no new standards or amendments to standards adopted for the first time this year that had a material impact on the results of the group. The prior year comparatives have not been restated for any changes in accounting policies that were required due to the adoption of new standards this year.

The group has adopted IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosures of leases, with effect from 1 January 2019.

IFRS 16 introduced a single, on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The group adopted IFRS 16 on 1 January 2019 and applied the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to assets and liabilities at the date of initial application. Comparative information is not restated. Management has decided to make use of the practical expedient not to perform a full review of existing leases, bringing onto the balance sheet the net present value of the remaining outstanding lease obligations as at the date of transition as both an asset and liability, and has also applied IFRS 16 to new or modified contracts. There are recognition exemptions for short-term leases and leases of low-value items and the group has decided to make use of the short-term lease exemption. The group also took advantage of the practical expedients to exclude initial indirect costs in measuring the right-of-use assets and applying hindsight to options to extend contracts when determining the lease term at the date of initial application.

The group has recognised a right-of-use asset and a lease liability for its operating leases of properties, plant machinery and equipment, other than those that fall within the above recognition exemption. The amount capitalised was the net present value of the future expected minimum capital payments under the group's operating lease obligations discounted at the group's incremental borrowing rate as at 1 January 2019. Prepaid and accrued lease payments were considered to be immaterial and therefore the right-of-use assets were measured at an amount equal to the lease liability. The nature of expenses related to these leases has changed because the group has recognised a depreciation charge for right-of-use assets and an interest expense, charged within finance costs, on the lease liabilities. The assets are depreciated on a straight-line basis over the remaining life of the lease and the interest expense is calculated in order to give a constant rate of interest on the outstanding capital liability. Previously, the group recognised operating lease expenses on a straight-line basis over the term of the lease as a reduction in operating profit, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 1 January 2019, the date of transition to IFRS 16, the group recognised an additional right-of-use asset and associated right-of-use lease obligations of £11.7 million.

As stated above the group, has adopted the modified retrospective approach and has not restated the comparative figures. The key effects on the current year's consolidated income statement and balance sheet can be summarised as follows:

	2019 on a consistent basis with 2018	**Effect of IFRS 16**	**As reported this year**
	£'000	**£'000**	**£'000**
Income statement			
EBITDA	25,702	2,817	**28,519**
Depreciation	(7,203)	(2,538)	**(9,741)**
Profit on sale of fixed assets	520	-	**520**
Operating profit	19,019	279	**19,298**
Net finance costs	(212)	(526)	**(738)**
Profit before taxation	18,807	(247)	**18,560**
Taxation	(3,588)	47	**(3,541)**

Profit after taxation	15,219	(200)	**15,019**
Balance sheet			
Non-current assets	26,775	11,562	**38,337**
Net current assets	40,437	(2,279)	**38,158**
Total assets less current liabilities	67,212	9,283	**76,495**
Non-current liabilities	(3,490)	(9,482)	**(12,972)**
Net assets	63,722	(199)	**63,523**
Translation reserve	3,394	1	**3,395**
Share capital and other reserves	60,328	(200)	**60,128**
Shareholders' funds	63,722	(199)	**63,523**
Net funds	23,897	(11,761)	**12,136**

There was no significant impact for the group's finance leases which were repaid in full during 2019.

IFRS 16 did not made any significant changes to the accounting for lessors, and therefore there was no significant change in this area as a result of adopting IFRS 16.

4. Distribution of Annual Report and Financial Statements

The group expects to distribute copies of the full Annual Report and Financial Statements that comply with IFRSs by 20 May 2020 following which copies will be available either from the registered office of the company; St David's Court, Union Street, Wolverhampton, WV1 3JE; or from the company's website; www.andrews-sykes.com. The Annual Report and Financial Statements for the 12 months ended 31 December 2018 have been delivered to the Registrar of Companies and those for the 12 months ended 31 December 2019 will be filed at Companies House following the company's Annual General Meeting. The auditor has reported on those financial statements; the report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain details of any matters on which they are required to report by exception.

5. Date of Annual General Meeting

The group's Annual General Meeting will be held at 3.30 p.m. on Tuesday, 16 June 2020 at Unit 5, Peninsular Park Road, London, SE7 7TZ.However in the light of the COVID-19 crisis and the compulsory "Stay at Home" measures implemented by the UK Government which limit public gatherings of more than two people, shareholders will not be permitted to attend this Annual General Meeting and persons seeking to attend the Annual General Meeting will be refused entry. Please see the Notice of Annual General Meeting that will be distributed with the Annual Report and Financial Statements for more information.