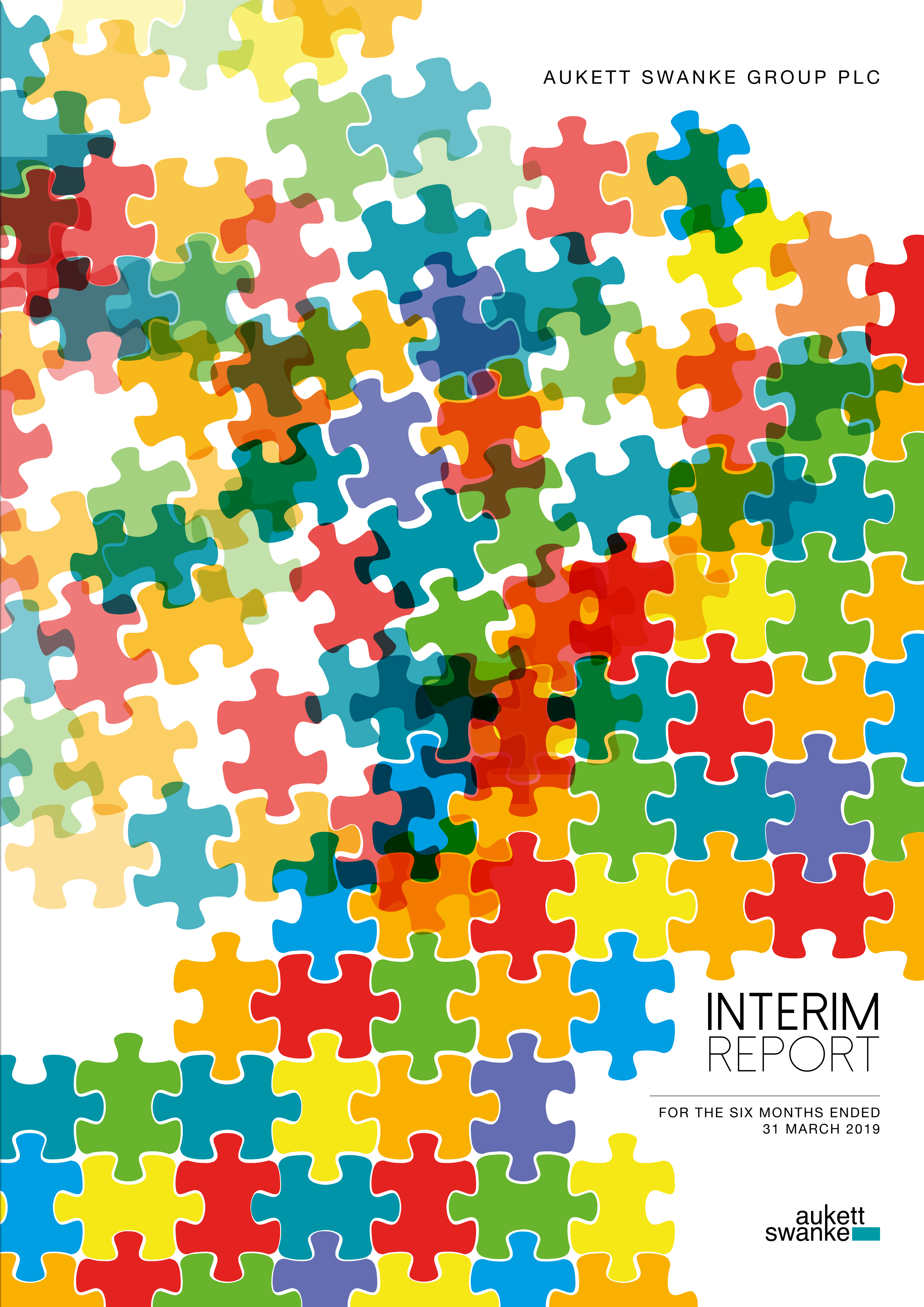


AUKETT SWANKE GROUP PLC

INTERIM REPORT

FOR THE SIX MONTHS ENDED
31 MARCH 2019

recovery/rɪˈkʌv(ə)ri/

A return to a normal state of health, mind, or strength

Aukett Swanke is an award-winning architecture, interior design and engineering practice, designing and delivering commercial projects throughout the United Kingdom, Continental Europe and the Middle East

HIGHLIGHTS

- Revenues marginally down at £7.30m (2018: £7.41m)
- Loss before tax significantly reduced to £371k (2018: £1.22m loss)
- Cash (net of overdraft) of £628k (2018: £317k) with net funds of £199k (2018: net debt of £311k)
- UK operation recovered strongly in H1 to achieve breakeven at a loss of £15k (2018: loss £879k)
- Middle East recovery delayed due to quieter market; losses widened to £438k (2018: Loss £380k)
- Continental Europe improved on associate and JV results to £60k profit (2018: £18k)

Nicholas Thompson, Chief Executive Officer, commented:

“Every section of the construction industry continues to struggle with the slowdown arising from the uncertainty presented by the current political and economic climate around the world; but we are pleased to show an improvement in our figures as a result of the vigorous actions taken by our management teams in the reorganisation and restructuring of the business and have every expectation of a return to profitability in the near future.”

INTERIM STATEMENT

OVERVIEW

The results for the six months to 31 March 2019 show a small fall in revenue compared to the first half of last year at £7.30m (2018: £7.41m) but evidence of half on half improvement when compared with the second half of last year. With cost reductions coming through, following management actions in the previous first half period, the loss before tax was substantially reduced to £371k (2018: £1.22m) which was mainly in the Middle East operation.

The most dramatic improvement in performance was in the UK where revenues grew by 16% and costs fell by 9% such that the operation recovered to broadly a breakeven position. This is a significant turnaround from the £879k loss last year.

On the reverse side, revenues in the Middle East fell by 9% in a quieter market. Costs remain well controlled and were reduced, however losses increased from £380k to £438k, representing broadly all of the overall Group loss for the half year.

Both Russia and Turkey continued to experience falls in revenues and with Russia unlikely to recover in the foreseeable future, we continue to seek an alternative local ownership format. The German associate and joint venture were both profitable such that Continental Europe as whole was in profit.

The Group's cash position remains steady with a positive cash position of £628k net of a small overdraft which compares favourably with the 2018 position where net cash was £317k and is only slightly lower than the year end position of £710k. We continued to pay down the amortising loan advanced to fund the acquisition of Shankland Cox Limited. After taking account of that, net funds were £199k (2018: net debt of £311k) showing an improvement since the year end where net funds stood at £157k. As each period elapses our cash position continues to strengthen and is underpinned by improved debtor collections, particularly in the UK. The 24 month rent free period in respect of our London headquarters does not currently provide any real benefit until after May 2019 as it is largely offset by rent deposits until then.

The Group adopted the new accounting standards IFRS 9 and IFRS 15 with effect from 1 October 2018. Whilst the adoption of IFRS 15 resulted in no material restatement of revenue recognition, the impact of IFRS 9 was a restatement of the carrying value of trade receivables and contract assets, reducing them by £221k as at 1 October 2018. This arose from the IFRS 9 requirement to make expected loss provisions on current balances based on a measure of historical losses incurred. This is detailed further in note 9 to the Interim Report.

THE HUB, CAMBRIDGE SCIENCE PARK

DOVEHOUSE STREET, LONDON SW3

UNITED KINGDOM

Encouragingly the UK operation returned a breakeven result at the half way stage which is a considerable improvement on the loss of £879k this time last year and reflects a positive outcome in both better revenue generation in the period and the impact of the cost reduction decisions in staffing and property that were made in the previous year.

Revenue rose by £512k (16%) to £3.73m (2018: 3.22m) largely driven by a growing order book in the Veretec executive architecture business. Costs, by contrast, fell by £352k (9%) as a result of reductions in most overhead categories including property.

Veretec contributed 60% of the first six months revenue which included ongoing projects at Dovehouse for Multiplex, an apartment block for Lodha in Carey Street, LBS Hackney Road, EDS Avantgarde, and BAFTA's head office. This element of the UK business is benefitting from its strong market position and continuation of construction work in the London conurbation. For a fourth year running Veretec was shortlisted for the AJ100 Executive Architect of the Year and has previously won this Award on two occasions in its four year history.

Aukett Swanke Limited, which provides a full architectural service, was bolstered by renewed instructions on our educational scheme in Birmingham for Birmingham City University at Eastside Locks; planning on the Hub in Cambridge; six new instructions for our hybrid building initiative or 'beds on sheds' schemes in the London geography; planning on the Asticus building in Palmer Street; preliminary work on a new hotel resort in Southern England and completion of our work at Ten Trinity Square, the award winning Four Seasons hotel in the City. We completed our interior design work on our Chinese client's projects in the West End and Beijing and, received further instructions for Deutsche Bank in Reading.

Towards the end of the period the design team regained some of its market share with a number of project wins crystallising shortly after the half year.

STEAMHOUSE2, EASTSIDE LOCKS, BIRMINGHAM

Our STEAMhouse2 project at Eastside Locks, Birmingham, for Birmingham City University, incorporates the locally listed Belmont Works and won Planning Approval in May 2019.

It will incorporate the University's STEM Faculty and accommodation for entrepreneur business start ups.

MIDDLE EAST - UNITED ARAB EMIRATES

A delay on our major retail project in the region coupled with a series of project cancellations and deferrals plus reduced levels of overall market activity led to a 9% fall in revenue (or 15%, stripping out sub-consultant costs recharged to clients). Whilst headcount reductions were made (the full benefit of which will be evident in the second half) with costs falling £408k (12%) to £3.11m (2018: £3.52m) the current year loss widened to £438k (2018: £380k) and this figure is the main determinant of the Group's overall loss at the Interim stage.

We continued our major refurbishment project at the Atlantis, The Palm, in supporting the construction of the Leader Sports Mall in Sports City, providing site services to the Al Ain Museum and have been involved in a number of Pavilions for Dubai Expo 2020.

In March we won an international competition to design six buildings in Abu Dhabi for ALDAR. The location of the buildings is on The Grove development on Saadiyat Island home to the Guggenheim Museum, Louvre and Sheikh Zayed Museum. In addition the Samanea Market was finally instructed as detailed in our release earlier this week and should contribute significantly to the second half performance. This substantial concept design commission along with continuing commissions is expected to lift our H2 revenues (and more particularly our revenues less sub consultants) to levels that will bring the region into profit for the second half.

SAMANEA MALL, DUBAI

On 29th April 2019 Mr. Wong Luen Hei, Chairman of Samanea Group, a Singapore based international developer of trade centres, formally instructed the construction of their Samanea Dubai Market.

The 1,180,000sqft Market has been designed by Aukett Swanke, and is to be constructed in Dubai International City at a cost of $272m and is scheduled for completion in Q3 2021.

The Market will focus on furniture and home appliances manufactured by international manufacturers who are seeking to establish a foothold in the Gulf. The development of the Market is evidence of fast-growing relations between Asia and Dubai.

The curved form of the Market was inspired by Arabian Desert dunes arranged around an oasis; the 'wadi' canyon runs through the centre of the Market, which creates the primary retail experience.

MERCEDES PLATZ, BERLIN

Mercedes Platz, completed late in 2018, is the heart of a new 60,000sqm enterainment quarter in Berlin-Friedrichshain and includes the Verti Music Box - a multifunctional hall for 4,000 visitors - a 14 screen cinema complex with 2,500 seats, a lifestyle bowling concept, restaurants, bars, two hotels and an office building with 400 underground car parking spaces. The Platz is divided into an urban square to the south and the event square in the north. Anschutz Entertainment Group (AEG) is the client and AUKETT + HEESE were responsible for the Design and Detailed Building Permit Application, detailed design and complete working drawings.

LIVING LYON RESIDENTIAL DEVELOPMENT, FRANKFURT

FITOUT FOR DIMENSION DATA, PRAGUE

CONTINENTAL EUROPE

The performance of our businesses in Continental Europe has been mixed with both Russia and Turkey making small losses. Revenue for these two operations fell again to £234k (2018: £526k). Once we include the contributions from the associate and two joint ventures the overall result is a profit of £64k (2018: £18k).

Wholly owned operations

Turkey began the year with several projects beginning on site including those for VM Ware in Bulgaria and Credit Suisse, Nike and Sanofi in Istanbul. Russia has continued to operate at a minimal cost level and, whilst making a small loss, is completing a suite of small Moscow based residential apartments, revisions to the Vernadskogo luxury apartment complex and some larger regional residential and hotel project concept designs in various locations including Tumen and Omsk.

Associate and joint venture operations

Both the Berlin and Frankfurt operations in Germany continue to enjoy buoyant local markets. Major project completions this year include the Mercedes Platz Arena, a major leisure and arts venue in Berlin, several fit-outs and refurbishment works in the iconic Messe Turm, the fit-out of Zurich Insurance's 17 storey HQ and the Living Lyon housing project in Frankfurt.

The Prague office completed Dimension Data's HQ project (shortlisted for an award) in Prague, and has begun work on two significant projects including the refurbishment of the OC Repy Triyaka Shopping Centre and the recently won 12,000sqm fit-out for WPP in their HQ building in Prague.

GROUP COSTS

Group costs at £18k (2018: £17k) were consistent compared to the prior period.

PROSPECTS

Providing there is no delay to the recently won projects in the UAE and that there is a better conversion rate on design-led commissions in the UK the Board expects the second half to show a considerable profit improvement over the first half and continues to expect a full year profit.

Nicholas Thompson
Chief Executive Officer

27 June 2019

PUBLIC REALM R+D, BLENDING INDUSTRIAL AND RESIDENTIAL USE

BCO AWARD FOR NO2 FORBURY PLACE, READING

We are delighted that No2 Forbury Place was announced winner of the BCO (British Council for Offices) Regional Award for Best Commercial Workplace (South of England & South Wales) in May 2019.

The 230,000sqft building is the final part of our award-winning new landmark office development in the Thames Valley that brings Central London quality to Reading. Developed speculatively by owners M&G and development manager Bell Hammer, the Forbury Place Estate consists of three buildings: two new office buildings and a third older building that has been renovated to complement the estate.

No2 Forbury Place was completed in 2018 and consolidates this exceptional high calibre development with dynamic architecture, quality finishes and proven success.

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2019

	Note	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Revenue	4	7,301	7,412	14,380
Sub consultant costs		(725)	(729)	(1,286)
Revenue less sub consultant costs		6,576	6,683	13,094
Personnel related costs		(5,644)	(5,995)	(11,915)
Property related costs		(812)	(882)	(2,029)
Other operating expenses		(725)	(1,098)	(2,066)
Other operating income	5	154	83	287
Operating loss		(451)	(1,209)	(2,629)
Finance costs		(14)	(18)	(36)
Loss after finance costs		(465)	(1,227)	(2,665)
Share of results of associate and joint ventures		94	3	121
Loss before tax	4	(371)	(1,224)	(2,544)
Tax credit		17	134	171
Loss for the period		(354)	(1,090)	(2,373)
Loss attributable to:				
Owners of Aukett Swanke Group Plc		(315)	(1,068)	(2,345)
Non-controlling interests		(39)	(22)	(28)
Loss for the period		(354)	(1,090)	(2,373)
Basic and diluted earnings per share for loss attributable to the ordinary equity holders of the Company:				
From continuing operations		(0.19)p	(0.65)p	(1.42)p
Total loss per share	6	(0.19)p	(0.65)p	(1.42)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2019

	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Loss for the period	(354)	(1,090)	(2,373)
Other comprehensive income:			
Currency translation differences	(16)	(102)	(31)
Other comprehensive income for the period	(16)	(102)	(31)
Total comprehensive loss for the period	(370)	(1,192)	(2,404)
Total comprehensive loss is attributable to:			
Owners of Aukett Swanke Group Plc	(343)	(1,163)	(2,370)
Non-controlling interests	(27)	(29)	(34)
Total comprehensive loss for the period	(370)	(1,192)	(2,404)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Note	Unaudited at 31 March 2019 £'000	Unaudited at 31 March 2018 £'000	Restated at 30 September 2018 £'000
Non current assets				
Goodwill		2,374	2,344	2,372
Other intangible assets		773	834	810
Property, plant and equipment		91	108	114
Investment in associate and joint ventures		793	699	793
Deferred tax		391	343	377
Total non current assets		4,422	4,328	4,466
Current assets				
Trade and other receivables		4,049	7,141	4,554
Contract assets		980	-	1,220
Cash at bank and in hand	8	705	1,030	710
Total current assets		5,734	8,171	6,484
Total assets		10,156	12,499	10,950
Current liabilities				
Trade and other payables		(4,209)	(4,479)	(4,386)
Contract liabilities		(748)	-	(886)
Current tax		-	-	(1)
Borrowings	8	(322)	(941)	(246)
Provisions		-	(190)	-
Total current liabilities		(5,279)	(5,610)	(5,519)
Non current liabilities				
Borrowings	8	(184)	(400)	(307)
Deferred tax		(56)	(65)	(61)
Provisions		(871)	(855)	(927)
Total non current liabilities		(1,111)	(1,320)	(1,295)
Total liabilities		(6,390)	(6,930)	(6,814)
Net assets		3,766	5,569	4,136
Capital and reserves				
Share capital		1,652	1,652	1,652
Merger reserve		1,176	1,176	1,176
Foreign currency translation reserve		(52)	(87)	(24)
Retained earnings		(624)	1,182	(309)
Other distributable reserve		1,494	1,494	1,494
Total equity attributable to equity holders of the Company		3,646	5,417	3,989
Non-controlling interests		120	152	147
Total equity		3,766	5,569	4,136

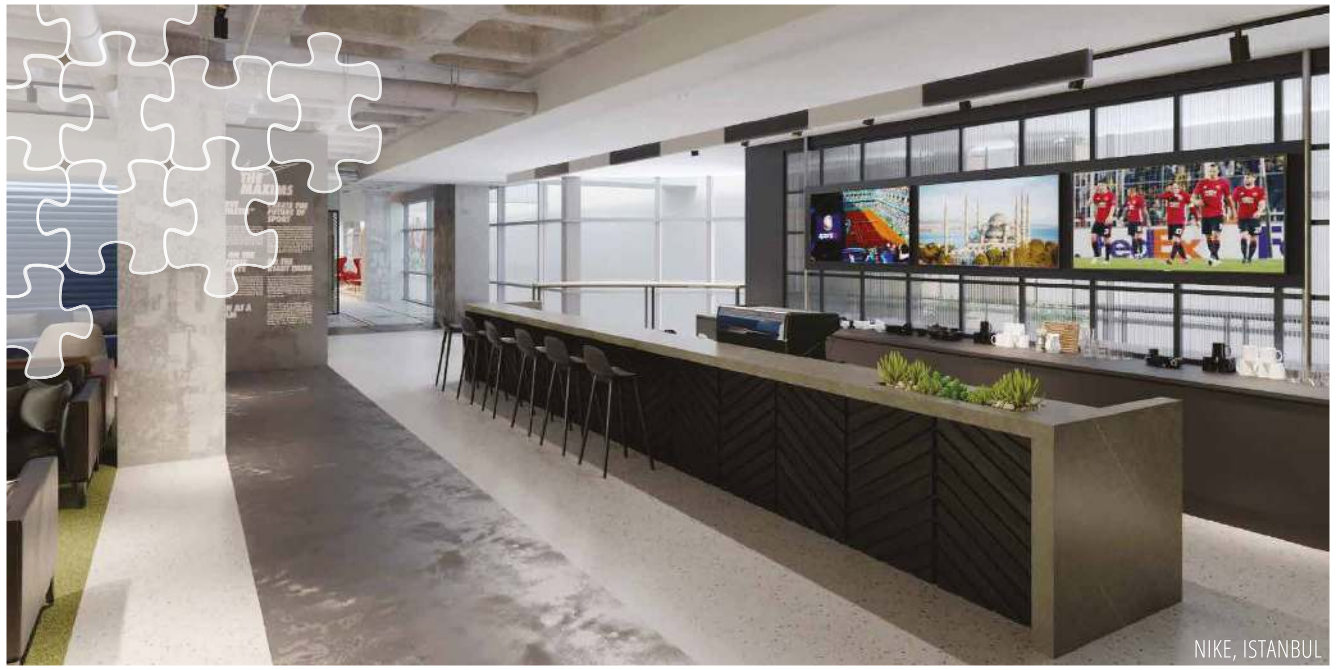
CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2019

	Note	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Cash flows from operating activities				
Cash expended by operations	7	(4)	(576)	(11)
Interest paid		(14)	(18)	(36)
Income taxes paid		(1)	-	-
Net cash outflow from operating activities		(19)	(594)	(47)
Cash flows from investing activities				
Purchase of property, plant and equipment		(5)	-	(79)
Sale of property, plant and equipment		-	25	26
Dividends received		66	66	99
Net cash received in investing activities		61	91	46
Net cash inflow / (outflow) before financing activities		42	(503)	(1)
Cash flows from financing activities				
Repayment of bank loans		(123)	(117)	(236)
Net cash outflow from financing activities		(123)	(117)	(236)
Net change in cash and cash equivalents		(81)	(620)	(237)
Cash and cash equivalents at start of period		710	960	960
Currency translation differences		(1)	(23)	(13)
Cash and cash equivalents at end of period	8	628	317	710

Cash and cash equivalents are comprised of:

Cash at bank and in hand		705	1,030	710
Secured bank overdrafts		(77)	(713)	-
Cash and cash equivalents at end of year		628	317	710



NIKE, ISTANBUL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2019

	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Merger reserve £'000	Total £'000	Non controlling interests £'000	Total equity £'000
Balance at 30 September 2018 as originally presented	1,652	(17)	(95)	1,494	1,176	4,210	147	4,357
Changes in accounting policy (note 9)	-	(7)	(214)	-	-	(221)	-	(221)
Restated total equity at 1 October 2018	1,652	(24)	(309)	1,494	1,176	3,989	147	4,136
Loss for the period	-	-	(315)	-	-	(315)	(39)	(354)
Other comprehensive income	-	(28)	-	-	-	(28)	12	(16)
Total comprehensive loss	-	(28)	(315)	-	-	(343)	(27)	(370)
At 31 March 2019	1,652	(52)	(624)	1,494	1,176	3,646	120	3,766

For the six months ended 31 March 2018

	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Merger reserve £'000	Total £'000	Non controlling interests £'000	Total equity £'000
At 1 October 2017	1,652	8	2,250	1,494	1,176	6,580	181	6,761
Loss for the period	-	-	(1,068)	-	-	(1,068)	(22)	(1,090)
Other comprehensive income	-	(95)	-	-	-	(95)	(7)	(102)
Total comprehensive loss	-	(95)	(1,068)	-	-	(1,163)	(29)	(1,192)
At 31 March 2018	1,652	(87)	1,182	1,494	1,176	5,417	152	5,569

For the year ended 30 September 2018 (as originally presented)

	Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Other distributable reserve £'000	Merger reserve £'000	Total £'000	Non controlling interests £'000	Total equity £'000
At 1 October 2017	1,652	8	2,250	1,494	1,176	6,580	181	6,761
Loss for the year	-	-	(2,345)	-	-	(2,345)	(28)	(2,373)
Other comprehensive loss	-	(25)	-	-	-	(25)	(6)	(31)
Total comprehensive loss	-	(25)	(2,345)	-	-	(2,370)	(34)	(2,404)
At 30 September 2018	1,652	(17)	(95)	1,494	1,176	4,210	147	4,357

NOTES TO THE INTERIM REPORT

1 BASIS OF PREPARATION

The financial information presented in this Interim Report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU that are expected to be applicable to the financial statements for the year ending 30 September 2019 and on the basis of the accounting policies expected to be used in those financial statements.

2 NEW ACCOUNTING STANDARDS APPLIED

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies to correctly reflect the requirements of the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 9 below.

3 NEW ACCOUNTING STANDARDS NOT YET APPLIED

IFRS 16 Leases
The standard will require almost all leases to be on the balance sheet of lessees and introduces a single income statement model which effectively brings the majority of leases onto the balance sheet.

This standard is effective for accounting periods beginning on or after 1 January 2019 and the Group expects to adopt this standard for its accounting period beginning on 1 October 2019. The impact of applying this standard is still being investigated.

4 OPERATING SEGMENTS

The Group comprises a single business segment and three separately reportable geographical segments (together with a Group costs segment). Geographical segments are based on the location of the operation undertaking each project. Turkey and Russia are included within Continental Europe together with Germany and the Czech Republic.

Segment revenue	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
United Kingdom	3,731	3,219	6,744
Middle East	3,336	3,667	6,819
Continental Europe	234	526	817
Total	7,301	7,412	14,380

Segment result before tax	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
United Kingdom	(15)	(879)	(1,505)
Middle East	(438)	(380)	(1,209)
Continental Europe	64	18	131
Group costs	18	17	39
Total loss	(371)	(1,224)	(2,544)

5 OTHER OPERATING INCOME

	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Property rental income	86	11	28
Management charges to associate and joint ventures	55	61	115
Licence fee income	2	2	-
Other sundry income	11	9	17
Fair value gain on the reduction of deferred consideration	-	-	127
Gain recognised on acquisition settlement	-	-	-
Total other operating income	154	83	287

The increase in property rental income from £11,000 in the six months to March 2018 to £86,000 in the six months to March 2019 is due to an increase in property sublet rental income to efficiently match the Group's UK property requirement.

6 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the following data:

Earnings	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Loss for the period	(315)	(1,068)	(2,345)

Number of shares	Unaudited six months to 31 March 2019 '000	Unaudited six months to 31 March 2018 '000	Audited year to 30 September 2018 '000
Weighted average number of shares	165,214	165,214	165,214
Effect of dilutive options	-	-	-
Diluted weighted average number of shares	165,214	165,214	165,214

RESIDENTIAL DEVELOPMENT, TUMEN, RUSSIA

BAFTA HEADQUARTERS, LONDON W1

7 RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH FROM OPERATIONS

	Unaudited six months to 31 March 2019 £'000	Unaudited six months to 31 March 2018 £'000	Audited year to 30 September 2018 £'000
Loss before tax – continuing operations	(371)	(1,224)	(2,544)
Finance costs	14	18	36
Share of results of associate and joint ventures	(94)	(3)	(121)
Intangible amortisation	40	41	80
Depreciation	30	86	161
Profit on disposal of property, plant and equipment	(1)	(14)	(14)
Decrease in trade and other receivables	711	457	1,952
(Decrease) / increase in trade and other payables	(282)	40	586
Change in provisions	(58)	56	(117)
Unrealised foreign exchange differences	7	(33)	(30)
Net cash expended by operations	(4)	(576)	(11)

8 ANALYSIS OF NET FUNDS

	Unaudited at 31 March 2019 £'000	Unaudited at 31 March 2018 £'000	Audited at 30 September 2018 £'000
Cash at bank and in hand	705	1,030	710
Secured bank overdrafts	(77)	(713)	-
Cash and cash equivalents	628	317	710
Secured bank loan	(429)	(628)	(553)
Net funds/(debt)	199	(311)	157

9 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 October 2018, where they are different to those applied in prior periods.

Impact on the financial Statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	30 Sep 2018 as originally presented £'000	IFRS 15 £'000	Unaudited 30 Sep 2018 restated £'000	IFRS 9 £'000	Unaudited 1 October 2018 restated £'000
Current assets					
Trade (and other) receivables	5,995	(1,261)	4,734	(180)	4,554
Contract assets	-	1,261	1,261	(41)	1,220
Total current assets	6,705	-	6,705	(221)	6,484
Total assets	11,171	-	11,171	(221)	10,950
Current liabilities					
Trade and other payables	(5,272)	886	(4,386)	-	(4,386)
Contract liabilities	-	(886)	(886)	-	(886)
Net assets	4,357	-	4,357	(221)	4,136
Foreign currency translation reserve	(17)	-	(17)	(7)	(24)
Retained Earnings	(95)	-	(95)	(214)	(309)
Total equity attributable to equity holders of the Company	4,210	-	4,210	(221)	3,989
Total equity	4,357	-	4,357	(221)	4,136

IRFS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 October 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in below. In accordance with the transitional provisions in IFRS 9 7.2.15) and (7.2.26), comparative figures have not been restated.

	£'000
Closing retained earnings 30 September 2018 – IAS 39/IAS 18	(95)
Increase in provision for trade receivables and contract assets	(214)
Adjustment to retained earnings from adoption of IFRS 9 on 1 October 2018	(214)
Opening retained earnings 1 October 2018 – IFRS 9 (before restatements for IFRS 15)	(309)

Impairment of financial assets

The Group has identified the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables;
- Contract assets relating to unbilled work in progress and project retentions.
- Other financial assets at amortised cost.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and project retentions, and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group engages with clients who are creditworthy, liquid developers. Management identified that the loss allowances should be calculated and applied separately based on geographic segments of the Group, and more specifically to each country in which the Group has operations. Whilst the specific terms each contract the Group engages in may be different, certain common characteristics can be applied.

Provisions on bad and doubtful debts in the UK, Turkey and Russia have been immaterial in the historical period reviewed in order to establish the expected loss rate at 1 October 2018. In the UK and Russia the Group generally builds up advances for contract work recognised as a credit to the balance sheet which reduces the impact of potential bad debts. Amounts due for contract work not yet billed are generally not material. No loss allowance provision has been made for trade receivables and contracts assets owed to Group entities operating in these countries.

Amounts due for contract work in the Middle East segment are material, with contracts in the Middle East often billed in arrears. Sizeable write offs in prior years have informed the overall rate calculated for the provisioning matrix.

The loss allowance for the Middle East operating segment as at 1 October 2018 was determined as follows for both trade receivables and contract assets:

1 October 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate (%)	4%	5%	8%	13%	17%	
Gross carrying amount (£'000)	1,590	463	115	180	566	2,914
Loss allowance (£'000) through CSOFP	71	24	9	23	94	221
Loss allowance (£'000) through retained earnings	69	23	9	22	91	214

The loss allowance was initially calculated in United Arab Emirate Dirhams (AED) being the functional currency of the Group entities in the Middle East operating segment. On conversion to GBP in the Group consolidation a foreign exchange difference of £7k arises which is taken through the foreign currency translation reserve.

The loss allowances for trade receivables and contract assets as at 30 September 2018 reconcile to the opening loss allowances on 1 October 2018 as follows:

	Contract assets £'000	Trade receivables £'000
At 30 September 2018 – calculated under IAS 39	-	915
Amounts restated through opening retained earnings	40	174
Amounts restated through opening foreign currency translation reserve	1	6
Opening total loss allowance as at 1 October 2018 - calculated under IFRS 9	41	1,095

The loss allowances decreased by £54k to £126k for trade receivables and by £7k to £34k for contract assets during the six months to 31 March 2019.

At 31 March 2019 – calculated under IAS 39	-	1,105
Loss allowance provision	34	126
Amounts restated through opening Foreign Currency translation reserve	-	-
Total loss allowance as at 31 March 2019 - calculated under IFRS 9	34	1,231

A further allowance for impairment of trade receivables and contract assets is established on a case by case when there are indicators suggesting that the specific debtor balance in question has been impaired. Known significant financial difficulties of the client and lengthy delinquency in receipt of payments are considered indicators that a trade receivable may be impaired. Where a trade receivable or contract asset is considered impaired the carrying amount is reduced using an allowance and the amount of the loss is recognised in the income statement within other operating expenses.

Other financial assets at amortised cost

Other financial assets at amortised cost include rent deposits, letters of guarantee secured by matching cash on deposit and other receivables. No credit losses have been applied to these balances as the Group has concluded that this risk is not material.

IFRS 15 Revenue from Contracts with Customers – Impact of adoption

IFRS 15 is the new revenue standard which replaces existing standards and guidance including IAS 18 Revenue and IAS 11 Construction Contracts. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To recognise revenue under IFRS 15, an entity applies the following five steps:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct;

Step 3: Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer;

Step 4: Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and

Step 5: Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer. A performance obligation may be satisfied at a point in time or over time. For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

The Group has applied the new standard using the cumulative transition method, with the cumulative effect of applying the standard recorded as an adjustment to retained earnings on the date of initial application, being the 1 October 2018. Our decision to adopt this method rather than retrospectively restate prior periods depends on a number of factors including time, cost and available resources compared to the benefits to the users of the financial statements.

Management has performed a review of the impact of adopting IFRS 15 to the Group's financial statements. The review demonstrated that the measurement of revenues for the majority of contracts still follows an "over time" pattern as previously recognised under IAS 18. Some contracts have been noted as being recognised on a "point in time" basis.

However management believes that the financial impact of adjustments to revenue recognition following the adoption of IFRS 15 cumulatively as at 30 September 2018 are immaterial, and has therefore not made an adjustment to the opening reserves for the period commencing 1 October 2018.

Presentation of contract assets and contract liabilities

Aukett Swanke Group Plc has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

Contract assets recognised in relation to amounts due on contract work and project retentions were previously presented as part of trade and other receivables.

Contract liabilities in relation advances form contract work were previously included in trade and other payables.

10 STATUS OF INTERIM REPORT

The Interim Report covers the six months ended 31 March 2019 and was approved by the Board of Directors on 27 June 2019. The Interim Report is unaudited.

The interim condensed set of consolidated financial statements in the Interim Report are not statutory accounts as defined by Section 434 of the Companies Act 2006.

Comparative figures for the year ended 30 September 2018 have been extracted from the statutory accounts of the Group for that period.

The statutory accounts for the year ended 30 September 2018 have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report thereon was unqualified, did not include references to matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain a statement under Section 498 of the Companies Act 2006.

Where comparative figures have subsequently been restated following the adoption of new accounting policies as explained in notes 2 and 9, adjustments have not been audited by the Group's auditors.

11 FURTHER INFORMATION

Copies of the Interim Report will be dispatched by post to direct holders of 100,000 or more shares in due course. An electronic version will be available on the Group's website (www.aukettswanke.com).

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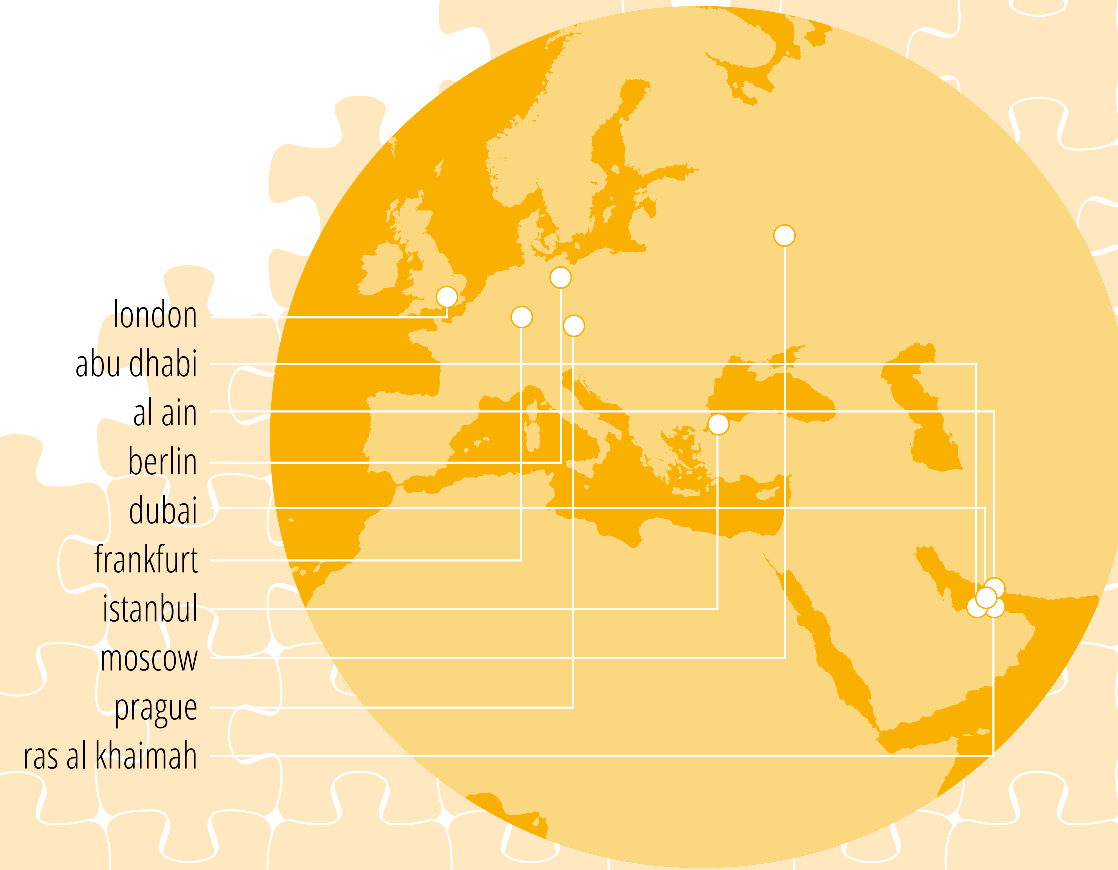

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