SOLID STATE PLC

4 July 2023

Solid State plc
("Solid State", the "Group" or the "Company")
Final Results for the 12 months ended 31 March 2023
Analyst Briefing & Investor Presentation

Solid State plc (AIM: SOLI), the specialist value added component supplier and design-in manufacturer of computing, power, and communications products, announces its audited final results for the 12 months ended 31 March 2023.

Financial overview:

Set out below are the financial key performance indicators for the year:

KPI	2023	2022	Change
Reported revenue	£126.5	£85.0m	48%
Reported operating profit margin	7.4%	4.4%	300bps
Adjusted operating profit margin*	9.2%	8.7%	50bps
Reported profit before taxation	£8.4m	£3.5m	140%
Adjusted profit before taxation*	£10.8m	£7.2m	50%
Reported EPS	64.5p	29.5p	119%
Adjusted fully diluted EPS	80.7p	70.6p	14%
Adjusted cash flow from operations	£9.4m	£6.0m	57%
Net cash/(net debt)**	(£8.1m)	(£5.2m)	56%
Dividend	20.0p	19.5p	3%
Open order book @ 31 May	£116.2m	£89.7m	30%

* Adjusted performance metrics are reconciled in note 30, the adjustments relate to IFRS 3 acquisition amortisation, share based payments charges, and non-recurring charges in respect of redundancies and acquisition costs and fair value adjustments.

** Net cash / debt includes net cash with banks of £12.2m (2022: £2.9m), bank borrowings of £14.7m (2022: £1.5m), deferred consideration of £5.7m (2022: £6.6m) and excludes the right of use lease liabilities of £2.0m (2022: £2.1m).

The Group has delivered:

- Record year of financial performance, with demonstrable strategic and operational progress, achieved against a backdrop of component shortages, inflationary pressures, and volatile exchange rates.
- Acquisition of Custom Power LLC, a strategically aligned, profitable and, cash generative battery pack manufacturer located in Southern California USA for a total consideration of up to $45.0m in August 2022.
- Awarded contract to help deliver a new One Person Operation CCTV system for Transport for London, as part of the Piccadilly Line Upgrade on the London Underground Network.
- Announced contracts worth £17.1m with NATO Support and Procurement Agency (NSPA) to supply communications equipment to a defence customer through the Group's Systems division.
- Development of the own brand Durakool components range.
- Formation of eTech Developments enhances Group engineering capabilities.

Strategic Achievements in 2022/23:

Notable achievements to advance the Group's strategy include:

- Established new 2030 ambition and strategy to maintain compound annual growth in total shareholder return in excess of 20%.
- Focus on structural growth markets - industrial, security and defence, medical, transport, and energy.
- Investment in talent and development of Group leadership team as key differentiator and driver for future growth.
- Further internationalisation of the Group through the acquisition of Custom Power.
- Systems division targeting 'through–life' support opportunities, providing "annuity" revenues and enhanced customer value.

Post period events:

- $10.7m follow-on order for radio frequency components from existing customer, CyanConnode, through the Group's Components division.

Current trading:

The Group has seen strong trading in Q1 supported by the recent NATO contract and has a robust order book for the year ahead, balanced with the investments made and planned. This, leads Board to expect revenue for the 12 months ending 31 March 2024 to be ahead of current consensus[1], reflecting year on year growth in excess of 15%, and adjusted profit before tax to be marginally ahead of current consensus reflecting circa 10% year on year growth.

Commenting on the results and prospects, Gary Marsh, Chief Executive said:

"Solid State has had a really productive year, building on the pillars of our long-term growth strategy. The acquisition of Custom Power deepens sector specialism, broadens product offering and extends international reach to an increasingly global client base.

"By targeting structurally growing end markets and having a specialist technology-led workforce, the Board is optimistic for the continued success of the business. The Group remains ambitious to meet the new 2030 targets for the benefit of all stakeholders."

[1] Before announcement of these results analysts from brokers Cenkos Securities plc, WH Ireland plc, and finnCap Limited, provide equity research on Solid State, and the Company considers the average of their research forecasts to represent market expectations for Solid State's FY2023/24 financial year, being revenue of £133m, and adjusted profit before tax* of £11.3m.

* The adjustments relate to IFRS 3 acquisition amortisation, share-based payments charges, and non-recurring charges in respect of redundancies and acquisition costs and fair value adjustments.

Analyst Briefing: 9.30 a.m. on Tuesday 4 July 2023

An online briefing for Analysts will be hosted by Gary Marsh, Chief Executive, Peter James, Group Finance Director, and John Macmichael, Managing Director Components Division, at 9.30 a.m. today, Tuesday 4 July 2023 to review the results and prospects. Analysts wishing to attend should contact Walbrook PR on solidstate@walbrookpr.com or on 020 7933 8780.

Investor Presentation: 2.00 p.m. on Wednesday 5 July 2023

Gary Marsh, Chief Executive, Peter James, Group Finance Director, and John Macmichael, Managing Director Components Division, will hold a presentation to cover the results and prospects at 2.00 p.m. on Wednesday 5 July 2023. The presentation will be hosted through the digital platform Investor Meet Company. Investors can sign up to Investor Meet Company for free and add to meet Solid State plc via the following link https://www.investormeetcompany.com/solid-state-plc/register-investor. Investors who have already registered and added to meet the Company will automatically be invited.

Questions can be submitted pre-event to solidstate@walbrookpr.com, or in real time during the presentation via the "Ask a Question" function.

Investor Site Visits to Head Office in Redditch

Solid State holds site visits to its head office in Redditch where operations from both the Systems and Components divisions can be seen. Interested investors should contact solidstate@walbrookpr.com.

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

For further information please contact:

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Analyst Research Reports: For further analyst information and research see the Solid State plc website: https://solidstateplc.com/research/

Notes to Editors:

Solid State plc (SOLI) is a value added electronics group supplying commercial, industrial and defence markets with durable components, assemblies, manufactured units and power units for use in specialist and harsh environments. The Group's mantra is - 'Trusted technology for demanding environments'. To see an introductory video on the Group - https://bit.ly/3kzddx7

Operating through two main divisions: Systems (Steatite, Active Silicon & Custom Power) and Components (Solid State Supplies, Pacer, Willow Technologies & AEC); the Group specialises in complex engineering challenges often requiring design-in support and component sourcing for computing, power, communications, electronic, electro-mechanical and opto-electronic products.

Headquartered in Redditch, UK, Solid State employs approximately 400 staff across the UK and US, serving specialist markets with high barriers to entry in industrial, defence and security, transportation, medical and energy.

Solid State was established in 1971 and admitted to AIM in June 1996. The Group has grown organically and by acquisition - having made three acquisitions in the last three years.

CHAIRMAN'S STATEMENT

I am delighted to announce the Group has delivered another year of record growth across both our divisions, with a solid demand for our products in the market as reflected with our strong orderbook of £120.1m. Total shareholder return over the five years to 2023 has been circa 29% and the Board is committed to maintaining a level in excess of 20% going forward.

Performance

We successfully acquired Custom Power, the battery systems and energy solutions provider based in Southern California in the United States in August 2022, and I am pleased that the business is performing in line with our Board's expectations. This acquisition, alongside previously acquired Willow Technologies & Active Silicon, has strengthened our performance in the medical and transport sectors.

The geo–political environment continues to drive government spending in security and defence, with Group revenue in these sectors approaching 20%. Solid State has been successful in building on its relationships with Tier 1 customers to the security and defence sector. Additionally, the Systems division won a notable contract with NATO to supply communications equipment to a client in the defence sector and provide a foundation for long term recurring revenue in this market as the Group targets 'through–life' support opportunities.

The macro–economic environment continues to be challenging with higher inflation, higher interest rates and the on–going supply chain challenges still present, albeit there has been some stability in the component supply chain. The Group is continuing to pro–actively engage customers to manage the supply chains. The order book visibility (which extends approximately 18 months) is critical as we continue to work with our customers to manage our investment in inventory to support order fulfilment and supply chain risk.

Environmental, Social and Governance (ESG)

ESG is at the core of Solid State's strategy and we continue to focus on developing a governance framework that remains appropriate for our developing business, creating a long–term sustainable business which minimises our adverse impact on the environment and maximising the value for our stakeholders.

We have established an ESG committee which meets regularly and is focused on developing the ESG strategy to deliver on our goals, including achieving Net–Zero in Scope 1 and Scope 2 emissions by 2050. This committee is working hard on how we enhance the communication of our approach to ESG to our stakeholders both internally and externally.

Our technology, products and systems are designed and engineered to be high quality, often upgradable with long life which inherently means we are starting from a strong position. These characteristics help to differentiate us from our competitors and enable us to be ambitious in how we do business, to maintain our position where we believe we are a business leading on ESG in our sector.

Our employees

On behalf of the Board, I would like to thank all our employees for their commitment to the business. Our business has grown to over 400 employees and the investment in our people is essential in successfully delivering on our strategy and underpinning our long–term performance.

We are seeing the benefit of our investment in HR last year with key initiatives & activities being incorporated into the Group's people and talent development plans.

The energy crisis and increased cost of living has made it a challenging year for our employees. The Board has taken steps to supporting our employees including paying a one–off energy bonus and awarding an interim pay increase.

The Board & Governance

The Board strives to maintain the highest standards of corporate governance in line with principles of the Quoted Companies Alliance code on corporate governance. As a result of a Board evaluation, the Board is at an advanced stage in its recruitment of an additional independent non–executive Director in the UK. Subject to agreeing contractual terms and completing the AIM compliance we expect to be able announce the new appointment during the Summer, well ahead of our AGM.

This addition to the Board will provide an equal balance of executive and non executive directors with the Chair having a casting vote.

The 2022 ISS report has concluded that Peter Haining is not independent, and Nigel Rogers is overboarded. The Board has considered these conclusions fully. We agree Peter does not meet the definition of an independent non–executive, however we consider he acts with independence and integrity in fulfilling his non–executive director responsibilities. The Board considers that the recruitment of the additional independent director establishes an appropriate level of independent governance while enabling Peter to continue adding value to the Board with his experience.

The Board has evaluated my capacity to fulfil my role as Chair. This evaluation was led by the senior independent director and concluded that I have sufficient time to fulfil all the roles to the high standard required, even in the event of unforeseen circumstances which may require a significant increase in time commitment. In any event, it has subsequently been announced that I will be stepping down from one of the other roles towards the end of 2023.

Dividend

The Board is proposing a final dividend of 13.5 pence (2022: 13.25 pence) resulting in full year dividends of 20.0 pence (2022: 19.50 pence) which is covered 4.0 times by adjusted earnings (2022: 3.6 times). The Directors believe this policy allows a suitable balance between investment for growth and investor return.

Subject to approval of the final dividend by shareholders at the AGM on 6 September 2023, the final dividend will be paid on 29 September 2023 to shareholders on the register at the close of business on 8 September 2023, and the shares will be marked ex–dividend on 7 September 2023.

Outlook

The Board is confident it will continue to deliver further sustainable growth for shareholders as the Group expands its international presence, broadens its product and service offering, and continues to target complementary acquisitions.

Our 2030 ambition and strategy highlights our ambition to maintain compound annual growth in total shareholder return to be in excess of 20%. We are confident we are well placed to deliver on this ambition and are committed to making strategic investments both organic and M&A to ensure we have a sustainable and scalable business which will drive the mid and long term growth in value for all our stakeholders.

Nigel Rogers
Non-Executive Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to report that despite the challenges in the macro–economic environment the Group has delivered significant progress in the execution of its growth strategy and resulting record financial results for the period, which continues to build on the strong performance we have seen over the last 5 years.

The acquisition of Custom Power reflects an important strategic step forward, enhancing our capabilities to service our international customers' demands for our battery pack technology adding USA production and engineering capabilities.

Our commitment to customer service and long–standing relationships, and a pro–active approach to managing the semiconductor supply chain challenges, enabled us to invest in inventory in partnership with our customers. This has been the key factor in enabling us to secure product and business over the last year which has been the cornerstone of our 18% organic revenue growth.

The last two years have highlighted the huge value of having two distinct divisions, with the Components division supporting the delivery in the Systems division, and the Systems division aligning itself to be in a position to deliver on significantly larger scale projects. It is the diversity of our business that reduces risk and sets us apart in the industry.

Strong Business Performance

The Group has delivered another record year of financial, strategic and operational performance which was achieved against a backdrop of component shortages, inflationary pressures, and volatile exchange rates.

I am very pleased to report 14% growth in adjusted diluted earnings per share over the prior year's record result and a significant step change in revenue year on year at £126.5m (2022: £85.0m), with second half revenues of £67.1m outperforming a strong H1.

Group adjusted operating margins are a key metric. We saw adjusted operating margins increase by 0.5% to 9.2% during the year. Operating margins this year have benefited from a strong mix in sales across both divisions and lower overheads as a result of the challenging labour market driven by recruitment taking longer.

During the year the Group raised £27m, placing 2.7m shares to assist in funding the acquisition of Custom Power. Group AEPS increased 14% to 80.7p (2022: 70.6p). During the first half, the Group invested a significant proportion of its operating cash generation into working capital. Pleasingly, in the second half we saw adjusted operating cash conversion increase to 145% with full year cash conversion of 81% (2022: 81%).

Sector and Divisional review

The Components division delivered revenue of £70.0m (2022: £52.5m), a 33% increase on the prior year. This growth has been built upon the design work which commenced during 2020 when the shortages first started to arise, combined with work with customers to secure order schedules and inventory to ensure we could deliver product.

Our Systems division revenue increased by 77% to £57.5m (2022: £32.5m). This reflects a £16.7m benefit in the current financial year from the acquisition of Custom Power in August 2022.

In November 2022, the Systems division reported notable contract wins to supply communications equipment to a client in the defence sector through NATO. None of the revenue associated with Nato contracts which were announced in Q3 shipped in the current financial year, positioning the division to have a very strong first half to the FY2023/24.

While these contracts are likely to dilute the margin mix within the Systems business in the year ahead, they will contribute positively to the attainment of expectations for FY23/24 and provide a foundation for long term recurring revenue in this sector as the Group targets 'through–life' support opportunities.

Key leadership

Pleasingly, in the second half of the year and into the new financial year, we have seen several internal promotions as well as continued investment in new talent in addition to the talent which has joined our senior team from the acquisition of Custom Power during the year. We are continuing to invest in our people and developing our Group leadership team as this is a key differentiator and driver for future growth as we strive to replicate recent successes.

Acquisitions

Custom Power, the battery systems and energy solutions provider based in Southern California in the United States, acquired in August 2022 and integrated into the Power business unit, continues to perform in–line with management's expectations. Positive co–operation with the Group sales and marketing teams and exposure to an existing customer base is generating new international opportunities in target markets. In the year ahead we plan to invest in and develop the technical sales team to complement and support the established representative sales network which Custom Power leverages to drive organic growth.

The Board continues to actively explore attractive acquisition opportunities across its target markets both overseas and in the UK.

As we reported in the trading update, the Custom Power open order book was up 11% on the prior year at $18.6m (31 March 2022: $16.8m), giving the Board confidence in the growth prospects in the year ahead. Albeit due to the continued impact of supply chain challenges for both Custom Power and its customers, the higher, stretch earn out hurdle is not expected to be exceeded and as such the Group's obligations payable to the vendors will be reduced.

Strategy

Solid State's Strategy remains broadly consistent with prior years, combining an acquisitive and organic growth strategy to actively target strategic customers in growth sectors with high barriers to entry that require accreditations, long standing credibility, and specialist skills and experience where our technology adds tangible value. The Group's key target markets include industrial, security and defence, medical, transport, and energy.

We are continuing the implementation of our mid–term strategy where we have set goals to 2030 aligned with the adoption of key technology and geopolitical / environmental agendas.

Our four strategic pillars to drive growth remain:

- Internationalisation of the Group;
- Talent development embedding our ESG values;
- Broadening our complementary product and technology portfolio;
- Development of our "own brand" components and systems offering securing recurring revenue.

The following key milestones represent critical steps in delivery of our strategy and are cornerstones which our 2030 plans and ambitions will continue to build on:

- The acquisition of Custom Power;
- The development of the own brand Durakool components range;
- Additional talent at Active Silicon to increase our technologies and engineering capabilities; and
- Formation of eTech Developments enhances engineering capabilities.

The team and the strategic foundation which the Group has put in place over recent years underpins the ambition to maintain in excess of 20% annual compound growth in total shareholder return ("TSR") over the next phase of the Solid State's development to 2030, maintaining the record performance which has been delivered over the last 5 years.

Our markets and business development

One of the Group's strategic strengths is the resilience that arises from servicing a broad range of growth markets with high barriers to entry where customers value the high performance, long life sustainably engineered components and systems that the Group provides. In the current year the geo–political environment continues to drive government spending in security and defence, where the Group revenue in this sector has seen strong organic growth and is now circa 18% (2022: circa 14%).

Solid State has been successful in building relationships with Tier 1 suppliers to the medical and the security and defence sectors, such as BAE, NATO and Siemens healthcare. This has been augmented by the acquisition of Custom Power who have strong customer relationships with Tier 1 defence and medical customers in the USA such as Flextronics International, iRhythem Technologies and General Atomics. The Group continues to see further growth opportunities within its strategic Tier 1 customers in its target growth sectors.

Our strategy has positioned the Group to take advantage of new opportunities and allowing us to enter 2023 with a strong pipeline and an order book of £120.1m at 31 March 2023 (31 March 2022: £85.5m). Our order book combined with our inventory management plan positions Solid State to proactively manage the well–publicised on–going electronics supply chain issues with our customer and gives us confidence for the year ahead.

Sustainability and development

Our ESG strategy has developed significantly during the year. ESG is an intrinsic part of our overall purpose and strategy. During the year we have established an ESG committee which is working to challenge ourselves and as far as possible influence our stakeholders to "do the right thing".

The initial findings of the ESG committee were that the business' established principles, values, and behaviours by which Solid State has operated for many years are fully aligned with good practice ESG principles, as a result we believe we are leading in this area in our sector.

However, we recognise that we have significant work to do to ensure we measure and communicate what we do both internally and externally. We recognise that capturing the right data practically, and communicating it, is becoming of increasing commercial importance. This is critical to ensuring that we can deliver on our ambition to differentiate.

Furthermore, as the Group continues to grow, to ensure we maintain the culture where the best practice principles, values and behaviours of ESG, continue to be embedded into what we do and how we do it.

Outlook

We are confident that the strategic progress and the associated growth from new bespoke strong project demand and recurring business will more than offset the potential short term macro–economic and electronics sector headwinds which may arise from foreign currency and the potential for some level of destocking driven by improving component lead times and customers looking to normalise working capital levels.

The supply chain shortages meant our open orderbook visibility was extended throughout the year. Post year end higher interest rates have increased customer focus on working capital. For some components, lead times are starting to improve, which is resulting in customers looking to reduce order schedules back to more normal levels.

Current trading has been very strong with the benefit of Custom Power combined with significant shipments of product under the NATO contract announced in November 2022 resulting in record Q1 revenues which were significantly up over the prior year. We do anticipate that this is a short–term spike with revenues and profits being particularly strong in the first half compared to traditional norms.

With strong Q1 shipments combined with customers looking to normalise order cover, our open orderbook at 31 May 2023 was slightly down at £116.2m (31 May 2022: reported £89.7m, like for like £104.5m) albeit it was up on the prior year both on a reported and like for like basis.

The Group's plans to drive its organic growth strategy and secure the delivery of the strong order book is continuing to progress. While recruitment of talent continues to be challenging, we have seen good progress and plan to add further talent in the remainder of H1 and into H2 to drive mid–term organic growth.

The very strong Q1 and the strength of the order book, balanced with the investments made and planned, means pleasingly we expect revenue in FY2023/24 to be ahead of current consensus, reflecting year on year growth in excess of 15%, and adjusted profit before tax to be slightly ahead of current consensus reflecting circa 10% year on year growth.

Gary Marsh
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REVIEW

To provide a fuller understanding of the Group's ongoing performance, several adjusted profit measures as supplementary information are included on a consistent basis with that reported by the financial analysts that review our business. As detailed in note 30, the adjusted measures eliminate the impact of certain non–cash charges and non–recurring items together with the associated tax impact.

Revenues

Group revenues of £126.5m (2022: £85.0m) reflect the benefit of a significant foreign exchange tailwind (circa £9.3m due to the average US dollar rate moving from circa 1.37 in FY22 to 1.20 during FY23) and the revenue from the acquisition of Custom Power in August 2022. As previously reported, post-acquisition the performance of Custom Power has been in-line with management expectations. Organic constant currency revenue growth (calculated by applying the FY22 exchange rate to FY23 legacy Group figures) was approximately 18%.

The Components division achieved revenues of £69.0m (2022: £52.5m) reflecting very strong organic growth. This is an excellent result and reflects the benefits of the hard work over the last 18 months to leverage the increased component portfolio and secure additional design-ins, supported by our ability to source and invest in inventory to fulfil customer demand.

The Systems division reported revenue of £57.5m (2022: £32.5m), with Custom Power contributing £16.6m, meaning like-for-like revenue up £8.4m (25.8%) against a challenging macro-economic backdrop. Supply chain pressures, including component availability, and the requirement for board and system redesigns as a result, have caused some project delays.

Gross profit

Reported gross profit of £39.7m (2022: £27.5m) are up 44.4%, £12.2m year on year. There was an adverse impact of acquisition accounting charges in both years which have been excluded in the adjusted gross profit (see note 30).

In managing foreign exchange risk, we look to mitigate exposure by quoting in the currency of main supply when possible. The reduction in the gross margin percentage is driven by the dollar exchange rate movement as a result of the Group benefiting from being largely naturally hedged against foreign exchange movements at a gross margin level. In the current year the revenue tail wind results in an estimated margin percentage headwind of circa 2.5%. Excluding the impact of foreign exchange, the underlying margins in both divisions reflect improvements benefiting from the richer sales mix with higher engineering value added sales.

Adjusted gross profit for the year is up £12.1m to £39.8m (2022: £27.7m), albeit because of the currency movements the Group's adjusted gross margin percentage has decreased to 31.4% (2022: 32.6%).

Components contributed adjusted gross profit of £17.5m (2022: £14.0m) and Systems contributed £22.2m (2022: £13.7m).

Sales, general and administration expenses

Reported Sales, general and administration ("SG&A") expenses increased to £30.3m (2022: £23.8m). Within SG&A, there were acquisition related and share based payments charges totalling £2.1m (2022: £3.5m). These items have been added back in reporting our adjusted performance (see Note 30) and are made up as follows:

- £0.3m credit (2022: £1.7m debit) from the Active Silicon earn-out provision true up;
- £0.3m (2022: £0.5m) in relation to acquisition costs;
- £1.6m (2022: £1.0m) amortisation of IFRS3 acquisition intangibles,
- £0.6m (2022: £0.3m) share-based payments charge; and
- £0.1m (2022: £nil) Imputed interest charges.

Adjusted SG&A expenses on an underlying basis increased by £7.8m to £28.1m (2022: £20.3m) reflecting the acquisition of Custom Power (adding approximately £5.5m to overheads in the period), the impact of inflation, and our planned investment to attract new, and retain our existing, talent, as we look to enhance our technical expertise and drive continued growth.

Operating profit

Adjusted operating margins increased to 9.2% (2022: 8.7%) with adjusted operating profit up to £11.6m (2022: £7.4m) reflecting the £1.4m contribution of Custom Power and stronger margins across the Group. Reported operating profit was up 154% to £9.4m (2022: £3.7m), additionally benefiting from the decrease in acquisition related accounting charges. The adjustments to operating profit are set out in further detail in note 30.

Based on the R&D criteria, the Group is now a large company in terms of the classifications for UK R&D tax benefits. Under the large company scheme, we have recognised £0.29m (2022: £0.01m) within operating profit in respect of research and development expenditure credit ("RDEC"). These development programmes are a cornerstone of the Group's future high value add revenue streams.

Profit before tax

Adjusted profit before tax was up 50.0% to £10.8m (2022: £7.2m). Reported profit before tax was up 140% to £8.4m (2022: £3.5m). This is reported after adjusting items totalling £2.4m (2022: £3.7m) of which £0.1m (2022: £0.2m) is charged to cost of sales and the balance is within SG&A and interest set out above.

Profit after tax

The Group's underlying effective tax rate for the year is 21% (2022: 14%) compared to the standard rate of 19% (2022: 19%) in the UK.

The effective tax rate has increased primarily because of three factors: increased profits generated in the USA where the effective corporate tax rate is higher at circa 29%, increased profitability, diluting the benefit of R&D tax credits, and the fact the Group no longer qualifies for the more generous SME scheme.

Adjusted profit after tax was up 38.7% to £8.6m (2022: £6.2m). Reported profit after tax was up 168% to £6.7m (2022: £2.5m).

The corporation tax rate in FY23/24 is planned to increase to 25% from 19% which is expected to result in an increase in our effective rate of tax, albeit the increase has been reflected in the recognition of the deferred tax positions on the balance sheet which will unwind in the years ahead.

EPS

Adjusted fully diluted earnings per share for the year ended 31 March 2023 is up 14.3% to 80.7p (2022: 70.6p). Reported fully diluted earnings per share is up 118% to 63.1p (2022: 28.9p).

Dividend

The Board is proposing a final dividend of 13.50p (2022: 13.25p) for approval at the Annual General Meeting, giving a full year dividend of 20.00p (2022: 19.50p) as set out in the Chairman's statement.

Cash flow from operations

Having seen a significant working capital investment of £5.8m in the first half, cash inflow from operations reduced to £0.6m. In the second half we saw £1.5m of the H1 working capital investment unwind, delivering strong cash inflow from operations of £8.8m in H2. This results in a full year cash inflow from operations of £9.4m (2022: £6.0m).

The second half adjusted operating cash conversion percentage (cash generated from operations/adjusted operating profit) was 145% and full year of 81% (2022: 81%). The full year reported operating cash conversion percentage was 100% (2022: 161%).

The full year working capital cash outflow of £4.3m (2022: £2.5m) is driven by a significant increase in inventories of £12.5m, offset in part by an increase in payables of £6.4m and a decrease in receivables of £1.8m.

The increase in inventories and payables reflects a short-term increase in inventory of circa £4.4m in relation to the NATO contract announced in November 2022 which shipped post year end during Q1 23/24.

Post period end inventories have reduced, albeit as a result of our strategic investment in product to support our significant increase in customer orders our inventories remain inflated, but proportionate to the increase in committed orderbook.

Investing activities

During the year, the Group invested £1.1m (2022: £1.1m) in property, plant and equipment, and £1.2m (2022: £0.6m) in software and research & development intangibles. The Group's capital expenditure programme saw significant increase in the Systems R&D investment and an upgrade to our UK Power facility, with the investment in the refurbishment of the office space combined with the wire bonder and improved battery test equipment delivering a step change in the working environment and technology capabilities for the UK Power business unit.

In the Components division, there was continued investment to integrate the Willow businesses including the recognition of a decommissioning asset and an associated provision of £0.4m in relation to the planned decommissioning of the legacy mercury product production equipment. Furthermore, across the Group we have continued our programme to replace older vehicles with hybrid and electric models.

There are capital commitments of £0.2m (2022: £0.3m) at the balance sheet date, primarily relating to planned upgrades to existing IT systems and properties.

During the period, payments in respect of the acquisitions of Custom Power totalled £28.7m, and Active Silicon and Willow totalled £4.6m (2022: £2.6m). Furthermore, at year end we have released £0.3m of the Active Silicon deferred contingent consideration as a credit to profit and loss. A reconciliation of deferred contingent considerations of £5.7m (2022: £6.6m) is included in note 21.

Financing activities

The Group has entered or extended leases during the period which has resulted in the recognition of £0.1m of additional right of use assets (excluding those acquired with Custom Power) with a corresponding right of use liability, in accordance with IFRS16. Cash payments were made in the period in respect of lease liabilities of £1.1m (2022: £0.9m).

The financing activities reflect loans drawn down of £15.9m, which includes the draw down of £13.0m of term loans and £2.9m of the revolving credit facility (RCF), offset by loan repayments of £2.8m which includes the first two quarterly repayments on the term loan of £0.65m.

Solid State continues to have a strong relationship with Lloyds Bank. Lloyds has authorised a $10m additional working capital short term overdraft subsequent to year end ensuring the Group has facility headroom should there be any working capital delays arising from the NATO contracts previously announced. Furthermore, Lloyds have extended the term of the £7.5m (2022: £7.5m) Revolving Credit Facility (RCF) which is now committed until 30 November 2024. At 31 March 2023 £2.4m of the RCF was drawn (2022: £1.5m).

The Group paid out £2.2m (2022: £1.5m) in respect of dividends and £0.2m (2022: £0.1m) for purchase of own shares.

Statement of financial position

During the year, the Group has continued to strengthen its balance sheet position. The Group's net assets have increased to £58.0m (2022: £27.1m), primarily reflecting the £27.0m equity raised for the Custom Power acquisition, £6.6m income for the year, less £0.9m foreign exchange and £2.2m dividends paid.

As a result of the unprecedented supply chain challenges combined with the acquisition of Custom Power and the short term inventory built to fulfil the Q1 demand (in part arising from the NATO contract) the Group inventory has increased to £33.2m (2022: £17.6m).

As previously reported, the Group continues to pay suppliers on a proforma basis where required to secure inventory in short supply, however the strength of customer and supplier relationships has helped us to manage the cash challenges of the working capital investment effectively.

We have worked in partnership with customers who have, in many cases, made payments in advance to secure supply. The investment to secure product continues to be critical to manage the shortages ensuring product is available to fulfil customer demand. This approach has given us a competitive advantage, strengthened customer relationships and helped to secured growth.

Excluding deferred contingent considerations and IFRS16 lease obligations, the Group had a net debt position with banks of £2.4m at the year-end (2022: net cash £1.4m) having paid £33.5m of consideration for the acquisitions of Custom Power, Active Silicon and Willow. At 31 March 2023, the discounted fair value of the Group's deferred consideration liabilities are £5.7m, with circa £0.1m of discounting imputed interest to be charged to the P&L ahead of payment.

The deferred consideration payable in August 23 in relation to the acquisition of Custom Power is $5.0m for which the Group has cash on deposit. The Group will utilise cash and the RCF facility to fund the final £1.7m deferred consideration payment for Active Silicon which is expected to be paid during Q2 23/24.

Peter James
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £'000	2022 £'000
Revenue	3, 30	**126,503**	84,997
Cost of sales		**(86,829)**	(57,470)
Gross profit		**39,674**	27,527
Sales, general and administration expenses		**(30,266)**	(23,801)
Operating profit	4	**9,408**	3,726
Finance costs	6	**(972)**	(226)
Profit before taxation		**8,436**	3,500
Tax expense	7	**(1,746)**	(977)
Adjusted profit after taxation		**8,553**	6,158
Adjustments to profit	30	**(1,863)**	(3,635)
Profit after taxation		**6,690**	2,523
Profit attributable to equity holders of the parent		**6,693**	2,523
(Loss)/profit attributable to non-controlling interests		**(3)**	–
Other comprehensive (loss)/income - FX on overseas operations		**(869)**	261
Other comprehensive (loss)/income - taxation	7	**(94)**	261
Adjusted total comprehensive income		**7,684**	6,158
Adjustments to total comprehensive income	30	**(1,957)**	(3,374)
Total comprehensive income for the year		**5,727**	2,784
Comprehensive income attributable to equity holders of the parent		**5,730**	2,784
Comprehensive loss attributable to non-controlling interests		**(3)**	–

Earnings per share		2023	2022
Basic EPS from profit for the year	8	**64.5p**	29.5p
Diluted EPS from profit for the year	8	**63.1p**	28.9p

Adjusted EPS measures are reported in Note 8 to the accounts.

All results presented for the current and comparative period are generated from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
Balance at 31 March 2022	428	3,625	33	5	23,042	(57)	**27,076**	–	**27,076**
Issue of new shares	139	26,849	–	–	–	–	**26,988**	–	**26,988**
Share-based payment credit	–	–	–	–	551	–	**551**	–	**551**
Transfer of treasury shares to AESP	–	–	–	–	(152)	152	**–**	–	**–**
Dividends	–	–	–	–	(2,235)	–	**(2,235)**	–	**(2,235)**
Transactions with non-controlling interests	–	–	–	–	–	–	**–**	50	**50**
Transactions with owners in their capacity as owners	139	26,849	-	–	(1,836)	152	**25,304**	50	**25,354**
Result for the year ended 31 March 2023	–	–	–	–	6,693	–	**6,693**	(3)	**6,690**
Other comprehensive income	–	–	(869)	–	(94)	–	**(963)**	–	**(963)**
Total comprehensive income	–	–	(869)	–	6,599	–	**5,730**	(3)	**5,727**
Purchase of treasury shares	–	–	–	–	–	(203)	**(203)**	–	**(203)**
Balance at 31 March 2023	**567**	**30,474**	**(836)**	**5**	**27,805**	**(108)**	**57,907**	**47**	**57,954**

FOR THE YEAR ENDED 31 MARCH 2022

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total £'000	Non-controlling interests £'000	Total Equity £'000
Balance at 31 March 2021	428	3,625	6	5	21,508	(70)	**25,502**	–	**25,502**
Share-based payment credit	–	–	–	–	295	–	**295**	–	**295**
Transfer of treasury shares to AESP	–	–	–	–	(93)	93	**–**	–	**–**
Dividends	–	–	–	–	(1,453)	–	**(1,453)**	–	**(1,453)**
Transactions with owners in their capacity as owners	–	–	–	–	(1,251)	93	**(1,158)**	–	**(1,158)**
Result for the year ended 31 March 2022	–	–	–	–	2,523	–	**2,523**	–	**2,523**
Other comprehensive income	–	–	–	–	261	–	**261**	–	**261**
Foreign exchange	–	–	27	–	–	–	**27**	–	**27**
Total comprehensive income	–	–	27	–	2,784	–	**2,811**	–	**2,811**
Purchase of treasury shares	–	–	–	–	–	(80)	**(80)**	–	**(80)**
Rounding	–	–	–	–	1	–	**1**	–	**1**
Balance at 31 March 2022	428	3,625	33	5	23,042	(57)	**27,076**	–	**27,076**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Intangible assets	12	**41,563**	15,831
Property, plant and equipment	10	**4,718**	3,414
Right-of-use lease assets	11	**1,981**	1,983
Deferred tax asset	23	**375**	539
Total non-current assets		**48,637**	21,767
Current assets			
Inventories	15	**33,228**	17,598
Trade and other receivables	16	**19,699**	17,978
Cash and cash equivalents – on deposit	22	**4,032**	–
Cash and cash equivalents – available on demand	22	**8,192**	4,983
Total current assets		**65,151**	40,559
TOTAL ASSETS		**113,788**	62,326
Liabilities		**£'000**	£'000
Current liabilities			
Trade and other payables	17	**(23,735)**	(16,488)
Deferred and contingent consideration on acquisitions - current	17, 21, 22	**(5,679)**	(4,625)
Current borrowings	19, 21, 22	**(1,279)**	(2,059)
Contract liabilities	18	**(5,380)**	(3,461)
Corporation tax liabilities		**(1,110)**	(531)
Right-of-use lease liabilities	20	**(1,057)**	(758)
Provisions	24	**(323)**	–
Total current liabilities		**(38,563)**	(27,922)
Non-current liabilities			
Non-current borrowings	19, 21, 22	**(13,383)**	(1,500)
Provisions	24	**(715)**	(694)
Deferred tax liability	23	**(2,187)**	(1,832)
Right-of-use lease liabilities	20	**(986)**	(1,326)
Deferred and contingent consideration on acquisitions	21,22	**–**	(1,976)
Total non-current liabilities		**(17,271)**	(7,328)
Total liabilities		**(55,834)**	(35,250)
Total net assets		**57,954**	27,076
Share capital	25	**567**	428
Share premium reserve	26	**30,474**	3,625
Capital redemption reserve	26	**5**	5
Foreign exchange reserve	26	**(836)**	33
Retained earnings	26	**27,805**	23,042
Shares held in treasury	26, 27	**(108)**	(57)
Capital and reserves attributable to equity holders of the parent		**57,907**	27,076
Non-controlling interests	26	**47**	–
TOTAL EQUITY		**57,954**	27,076

The financial statements were approved by the Board of Directors and authorised for issue on 4 July 2023 and were signed on its behalf by:

G S Marsh Director

P O James Director

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
OPERATING ACTIVITIES					
Profit before taxation			**8,436**		3,500
Adjustments for:					
Property plant and equipment depreciation			**1,159**		729
Right-of-use asset depreciation			**965**		763
Amortisation			**2,035**		1,327
(Profit)/loss on disposal of property, plant and equipment			**(45)**		3
Share-based payment expense			**551**		295
Finance costs			**972**		226
(Decrease)/increase in deferred contingent consideration			**(326)**		1,651
Profit from operations before changes in working capital and provisions			**13,747**		8,494
Increase in inventories		**(12,457)**		(6,922)	
Decrease/(increase) in trade and other receivables		**1,767**		(3,679)	
Increase in trade and other payables		**6,380**		8,140	
Decrease in provisions		**–**		(47)	
			(4,310)		(2,508)
Cash generated from operations			**9,437**		5,986
Income taxes paid		**(573)**		(941)	
Income taxes recovered		**184**		–	
Cash acquired			**(389)**		(941)
Net cash inflow from operating activities			**9,048**		5,045
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(1,145)**		(1,178)	
Capitalised own costs and purchase of intangible assets		**(1,197)**		(601)	
Proceeds of sales from property, plant and equipment		**153**		81	
Settlement of deferred consideration in respect of prior year acquisitions		**(4,625)**		(2,572)	
Payments for acquisition of subsidiaries net of cash acquired	32	**(28,662)**		–	
Net cash outflow from investing activities			**(35,476)**		(4,270)
FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		**26,988**		–	
Repurchase of ordinary shares into treasury		**(203)**		(80)	
Borrowings drawn	19	**15,872**		–	
Borrowings repaid	19	**(2,772)**		(2,250)	
Principal payment obligations for right of use assets		**(1,093)**		(871)	
Interest paid	6	**(865)**		(127)	
Transactions with non-controlling interests		**50**		–	
Dividend paid to equity shareholders	9	**(2,235)**		(1,453)	
Net cash inflow/(outflow) from financing activities			**35,742**		(4,781)
Increase/(decrease) in cash and cash equivalents	22		**9,314**		(4,006)

	2023 £'000	2022 £'000
Translational foreign exchange on opening cash	**(14)**	16
Net increase/(decrease) in cash and cash equivalents	**9,314**	(4,006)
Cash available on demand at beginning of year	**2,924**	6,914
Cash and cash equivalents at end of year	**12,224**	2,924

There were no significant non-cash transactions. Cash and cash equivalents comprise:

	2023 £’000	2022 £’000
Cash available on demand	**8,192**	4,983
Overdraft facility	**–**	(2,059)
Cash on deposit	**4,032**	–
Net cash and cash equivalents	**12,224**	2,924

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. Accounting policies

Solid State PLC ("the Company") is a public Company incorporated, domiciled and registered in England and Wales in the United Kingdom. The registered number is 00771335 and the registered address is: 2 Ravensbank Business Park, Hedera Road, Redditch B98 9EY.

Basis of preparation

Whilst the financial information included in this Preliminary Announcement has been prepared on the basis of UK-adopted International Accounting standards, this announcement does not itself contain sufficient information to comply with UK-adopted International Accounting Standards.

The Group expects to publish full Consolidated Financial Statements in July 2023. The financial information set out in this Preliminary Announcement does not constitute the Group's Consolidated Financial Statements for the years ended 31 March 2023 or 2022 but is derived from those Financial Statements which were approved by the Board of Directors on 4 July 2023. The auditor, RSM UK Audit LLP, has reported on the Group's Consolidated Financial Statements and the report was unqualified and did not contain a statement under section 498 (2) or 498 (3) of the Companies Act 2006.

The statutory financial statements for the year ended 31 March 2023 have not yet been delivered to the Registrar of Companies and will be delivered following the Company's Annual General Meeting.

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted International Accounting Standards.

The Group's accounting policies are set out in the 2022 Annual Report and Accounts and have been applied consistently in 2023.

The Group financial statements are presented in pounds sterling, which is the functional and presentational currency of the Group, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2023, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2023, the Group had net debt with banks of £2.4m and deferred consideration liabilities of £5.7m, giving reported net debt (excluding IFRS16) of £8.1m. Furthermore, the Group has a £7.5m revolving credit facility, of which £5.1m was not drawn at the year end.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's cash flows and related assumptions and in accordance with the Guidance published by the UK Financial Reporting Council (Risk Management, Internal Control and Related Financial and Business Reporting 2014, the April 2016 guidance on going concern basis of accounting and reporting on solvency and liquidity risks, and the various guidance issued in 2020). This guidance provides support to Directors and the Board in making the assessment of going concern.

In preparing the going concern assessment, the Directors considered the principal risks and uncertainties that the business faced. The Board concluded that the three areas of risk that remained the most uncertain were the direct and indirect supply chain disruption risks in addition to inflation. The Directors have given careful consideration to the potential impact of ongoing global electronic component shortages and rising inflation on the cashflows and liquidity of the Group over the next 12-month period.

Customer demand has remained solid and, in the last financial year, we have seen customers maintaining strong order cover to help to manage global electronics supply chain issues. The most significant impact on the Group's future performance is the potential for an unwinding of customer stock holdings as the uncertainty arising from the extended electronic component lead times improves and there is a need to manage working capital and cash more tightly.

Management has taken all possible actions to minimise and mitigate the potential impact of this unwind; however, there is potential for some rescheduling of demand/de-stocking in the second half of 2023/24 and, potentially, into 2024/25. While the actions do not mitigate the risk fully, it still positions the Group to manage the impact as effectively as possible (as demonstrated historically over the last two trading years).

The Directors have prepared revised "stressed" forecasts, taking account of the results to date, current expected demand, and mitigating actions that could be taken, together with an assessment of the liquidity headroom against the cash and bank facilities. The bank facilities are subject to financial covenants; therefore, in evaluating a stressed forecast, the Board only included the RCF in the headroom to the extent it is available within the covenants.

This financial modelling is based on applying various sensitivity scenarios to a base case to 30 September 2023, which has been prepared based on an extension of the budget for FY23/24.

In preparing a severe downside scenario, it assumes a shortfall in Group revenue of ~20% over a 12-month period and a 3% margin erosion with limited cost mitigation, resulting in EBITDA reducing by ~69% compared to the Board's base case expectations. Even with this level of reduction to Group EBITDA, when combined with the mitigating actions that are within the Group's control, the Directors currently believe the Group would fully comply with covenants and, thus, maintain sufficient liquidity to meet its liabilities as they fall due.

In considering the assessment of the Group's going concern position, the Directors have also identified that the Group could look to both the Group's bankers and/or the equity markets if additional liquidity were required. Albeit, none of the sensitivities indicate that the Group would require additional sources of liquidity.

In the post balance sheet period, the rolling 12-month order intake remains strong, maintaining a book-to-bill ratio of 1.09, and reflects strong order cover. Furthermore, the Group has put in place a $10m approved short-term working capital overdraft facility until the end of September to ensure that there is funding, should it be needed, to manage any short-term spikes in working capital as a result of the delivery of the significant NATO contracts announced in the prior year. In addition, £1.6m of the short-term deferred consideration on acquisitions was settled in Q1 and the remainder will be settled in early August using the cash set aside on deposit for this purpose.

The Directors have concluded that the potential impact of the electronic component shortages and higher inflation, as described above, does not represent a material uncertainty over the Group and Company's ability to continue as a going concern. Nevertheless, it is acknowledged that there are, potentially, material variations in the forecast level of future financial performance.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months; therefore, it is appropriate to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted in the year.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 April 2022:

- Amendments to IAS 16 regarding deductions from the cost of property, plant and equipment amounts received from selling items produced while the Company is preparing the asset for its intended use, effective for annual reporting periods beginning on or after 1 January 2022
- Amendments to IAS 37 regarding the costs to include when assessing whether a contract is onerous, effective for annual reporting periods beginning on or after 1 January 2022

The adoption of these standards and amendments has not had a material impact on the financial statements.

New standards, amendments and interpretations to published standards issued, but not yet effective and not early adopted

A number of new standards, amendments and interpretations to existing standards have been published that will be mandatory for the Group's accounting periods beginning on, or after, 1 April 2022 or later periods, and which the Group has decided not to adopt early, are listed below. The Group intends to adopt these standards considered relevant to the Group when they become effective.

- Amendments to IAS 1 and IFRS Practice Statement 2, regarding the classification of liabilities and disclosure of accounting policies, effective for annual reporting periods beginning on, or after, 1 January 2024
- Amendments to IAS 8 regarding the definition of accounting estimates, effective for annual reporting periods beginning on, or after, 1 January 2023
- Amendments to IAS 12 regarding deferred tax on leases and decommissioning obligations, effective for annual reporting periods beginning on, or after, 1 January 2023
- Amendments to references to the Conceptual framework in IFRS Standards

The Directors anticipate that none of the new standards, amendments to standards or interpretations will have a significant effect on the financial statements of the Group.

Principle of consolidation

The consolidated financial statements incorporate the financial results and position of the Parent and its subsidiaries.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Business combinations

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position, respectively.

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Acquisition-related costs are expensed as incurred.

The consideration transferred for the acquisition of a subsidiary comprises the: fair values of the assets transferred; liabilities incurred to the former owners of the acquired business; equity interests issued by the Group; fair value of any asset or liability resulting from a contingent consideration arrangement; and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured, initially, at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired, is recorded as goodwill.

If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Impairment of non-financial assets
Non-financial assets that have an indefinite useful life (e.g. goodwill) or other intangible assets that are not ready to use and, therefore, not subject to amortisation (e.g. ongoing incomplete R&D programmes) are reviewed at least annually for impairment.

Impairment tests on goodwill are undertaken annually on 31 March, and on other non-financial assets whenever events or changes in circumstances indicate that their carrying value may not be reasonable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Impairment charges are included in sales, general and administration expenses in the consolidated statement of comprehensive income, except to the extent that they reverse gains previously recognised in the consolidated statement of recognised income and expense. An impairment loss recognised for goodwill is not reversed.

Intangible assets
a) Goodwill
Goodwill arising on an acquisition is recognised as an asset and is, initially, measured at cost, being the excess of the fair value of the consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised. However, it is reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units to which it relates. Any impairment identified is charged directly to the consolidated statement of comprehensive income. Subsequent reversals of impairment losses for goodwill are not recognised.

b) Development costs
Expenditure incurred that is directly attributable to the development of new, or substantially improved, products or processes is recognised as an intangible asset when the following criteria are met:

- the product or process is intended for use or sale
- the development is technically feasible to complete
- there is an ability to use or sell the product or process
- it can be demonstrated how the product or process will generate probable future economic benefits
- there are adequate technical, financial and other resources to complete the development; and
- the development expenditure can be reliably measured

Directly attributable costs refers to the materials consumed; the directly attributable labour; and the incremental overheads incurred in the development activity. General operating costs, administration costs and selling costs do not form part of directly attributable costs.

All research and other development costs are expensed as incurred.

Capitalised development costs are amortised on a straight-line basis over the period, during which the economic benefits are expected to be received, typically ranging between one and five years. Amortisation expense is included within sales, general and administration expenses in the statement of comprehensive income.

The estimated remaining useful lives of development costs are reviewed at least on an annual basis. Amortisation commences once the project is completed and revenues are being generated.

The carrying value of capitalised development costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

c) Software

Externally acquired software assets are, initially, recognised at cost and, subsequently, amortised on a straight-line basis over their useful economic lives. Cost includes all directly attributable costs of acquisition. In addition, directly attributable costs incurred in the development of bespoke software for the Group's own use are capitalised.

The useful economic life over which the software is being amortised has been assessed to be three to five years.

The carrying value of capitalised software costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

The costs of maintaining internally developed software, and annual licence fees to utilise third-party software, are expensed as incurred.

d) Other intangibles

Other intangible assets are those which arise on business combinations in accordance with IFRS3 revised. These intangible assets form part of the identifiable net assets of an acquired business and are recognised at their fair value and amortised on a systematic basis over their useful economic life which is, typically, five-to-ten years. This includes the open orderbook, brand and customer relationships, the fair value of which are evaluated using the multi-period excess earnings method "MEEM".

Capitalised acquisition intangibles are amortised on a straight-line basis over the period, during which the economic benefits are expected to be received, which, typically, range between five and ten years. Amortisation expense is included within sales, general and administration expenses in the statement of comprehensive income.

The carrying value of other intangible assets is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at historical cost or deemed cost where IFRS1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses.

Costs include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use including any qualifying finance expenses.

Depreciation is provided on all items of property, plant and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

- Short leasehold property improvements – straight-line over minimum life of lease
- Fittings and equipment – 25% per annum on a reducing balance basis or a straight-line basis over three-to-five years with an appropriate residual value as considered most appropriate
- Computers – between 20% and 33.3% per annum on a straight-line basis
- Motor vehicles – 25% per annum on a reducing balance basis

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of comprehensive income.

Leases

IFRS16 "Leases" addresses the definition of a lease, the recognition and measurement of leases and establishes the principles for the reporting useful information to users of the financial statements about the leasing activities of both lessees and lessors.

The Group has applied judgement to determine the lease term for some lease contracts, in which, as lessee, there includes a renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognised.

The lease liability reflects the present value of the future rental payments and interest, discounted using either the effective interest rate or the incremental borrowing rate of the entity.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis over the lease term as an expense within the income statement.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at, or before, the commencement date less any lease incentives received. Right-of-use assets are related to the property leases, plant and machinery and motor vehicles, and are depreciated on a straight-line basis over the lease term.

Right-of-use lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease payments less any lease incentives receivable. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on either average purchase cost or the cost of purchase on a first in, first out basis, which is the most appropriate for the category of inventory. Work in progress and finished goods include labour and attributable overheads. Net realisable value is based on estimated selling price less any additional costs to completion and disposal.

Financial instruments
Classification and measurement of financial instruments under IFRS9 classifies financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial instrument.

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

Trade and other receivables
Trade receivables are initially measured at their transaction price. Other receivables are initially recognised at fair value plus transaction costs.

Receivables are held to collect the contractual cash flows, which are solely payments of principal and interest. Therefore, these receivables are, subsequently, measured at amortised cost using the effective interest rate method.

The effect of discounting on these financial instruments is not considered to be material.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Impairment of financial assets
IFRS9 requires an expected credit loss ("ECL") model, which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account and this will result in the earlier recognition of potential impairments.

An impairment loss is recognised for the expected credit losses on-financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability weighted amount determined from a range of outcomes and takes into account the time value of money.

Impairment of trade receivables
For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the ageing of the receivable.

The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables ("the lifetime expected credit losses"). Different provision rates and periods are used based on groupings of historic credit loss experience by product type, customer type and location.

Impairment of other receivables
The measurement of impairment losses depends on whether the financial asset is "performing", "underperforming" or "non-performing" based on the Company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year end, which have a detrimental impact on cash flows.

The financial asset moves from "performing" to "underperforming" when the increase in credit risk since initial recognition becomes significant.

In assessing whether credit risk has increased significantly, the Company compares the risk of default at the year end with the risk of a default when the investment was, originally, recognised using reasonable and supportable past and forward-looking information that is available without undue cost.

The risk of a default occurring takes into consideration default events that are possible within 12 months of the year end ("the 12-month expected credit losses") for "performing" financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for "underperforming" financial assets.

Impairment losses and any, subsequent, reversals of impairment losses are adjusted against the carrying amount of the receivable and are recognised in profit or loss.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities are classified as either:

- Financial liabilities at amortised cost; or
- Financial liabilities as at fair value through profit or loss (FVTPL).

Any contingent consideration due in relation to acquisitions is measured at FVTPL with all other financial liabilities measured at amortised cost and include:

- Trade and other payables;
- Contract liabilities;
- Borrowings;
- Lease liabilities;
- Deferred consideration for acquisitions.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

They are, initially, recognised at fair value net of direct transaction costs and, subsequently, held at amortised cost.

Contract liabilities
Contract liabilities comprise payments in advance of revenue recognition and revenue deferred due to contract performance obligation not being completed.

They are classified as current liabilities if the contract performance obligations payment are due to be completed within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Contract liabilities are recognised, initially, at fair value, and, subsequently, stated at amortised cost.

Borrowings
Borrowings are recognised, initially, at fair value, net of transaction costs incurred and, subsequently, stated at amortised cost. Borrowing costs are expensed using the effective interest method.

Equity instruments and share capital
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 the proceeds.

Treasury shares
Where any Group Company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

These shares are held in a separate negative reserve in the capital section of the consolidated statement of financial position. Any dividends payable in relation to these shares are cancelled.

Where such shares are, subsequently, sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends
Equity dividends are recognised when they become legally payable. Interim dividends are recognised when paid. Final dividends are recognised when approved by the shareholders at an annual general meeting.

Adjusted performance metrics and non-recurring charges/credits
Non-recurring charges/credits are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Transactions are classified as non-recurring where they relate to an event that falls outside of the ordinary activities of the business and where individually or in aggregate, they have a material impact on the financial statements.

In presenting our adjusted performance metrics we also exclude the non-cash charges/credits that relates to acquisition accounting and share-based payments and the associated tax effect of these items.

Foreign currency
Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are retranslated at the rates ruling at the balance sheet date. Exchange differences arising are recognised in the statement of comprehensive income.

Revenue
The Group manufactures and distributes a range of electronic equipment. Revenue comprises sales to external customers after discounts, excluding value-added taxes.

The Group's performance obligations with respect to physical goods is to deliver a finished product to a customer.

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full control over the products supplied, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Where performance obligations have not be satisfied at the reporting date any advanced payments are recognised as contract liabilities.

For goods that are subject to bill and hold arrangements this means:

- the goods are complete and ready for collection;
- the goods are separately identified from the Group's other stock and are not used to fulfil any other orders; and
- the customer has specifically requested that the goods be held pending collection.

Normal payment terms apply to the bill and hold arrangements.

Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with market practice. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a returns provision. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors, who are responsible for allocating resources and assessing performance of the operating segments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Executive Directors assess the performance of the operating segments based on the measures of revenue, Profit Before Taxation (PBT) and Profit After Taxation (PAT). Central overheads are not allocated to the business segments.

Government grants
Income received from government grants is recognised as "Other Income" within operating profit in the Statement of Comprehensive Income in the same period as the staff costs to which the income relates. Government grant income is only recognised once there is reasonable assurance both that the Group will comply with any conditions and that the grant will be received.

Pensions
The pension schemes operated by the Group are defined contribution schemes. The pension cost charge represents the contributions payable by the Group.

Current and deferred taxation
Income tax on the profit or loss for the year comprises current and deferred tax.

Taxable profit differs from accounting profit because it excludes certain items of income and expense that are recognised in the financial statements but are treated differently for tax purposes. Current tax is the amount of tax expected to be payable or receivable on the taxable profit or loss for the current period. This amount is then amended for any adjustments in respect of prior periods.

Current tax is calculated using tax rates that have been written into law ("enacted") or irrevocably announced/committed by the respective Government ("substantively enacted") at the period end date. Current tax receivable (assets) and payable (liabilities) are offset only when there is a legal right to settle them net and the entity intends to do so. This is, generally, true when the taxes are levied by the same tax authority.

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted, or substantively, enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities, and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

2. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies and relevant legislation. This Note provides an overview of the areas that involved a higher degree of judgement or estimation complexity as noted, and of items that are more likely to be materially adjusted due to assumptions driving the estimates or judgements turning out to be wrong.

Acquisition accounting (estimation)

In accounting for the Custom Power acquisition (see Note 32) in accordance with IFRS 3, there were several key areas identified where the estimation of the value could have changed if key assumptions were varied. This primarily relates to the fair value of tangible assets, the fair value of brand and customer relationship intangible assets, and the recognition of the $5m of contingent consideration (and the impact to the resultant goodwill carrying value).

A £0.9m uplift to the carrying value of tangible assets was booked as a fair value adjustment, primarily reflecting the substantial replacement cost value for testing equipment. The estimation range on these assets was calculated as between £Nil (book value) and £1.7m (estimated replacement cost). The fair value adopted was based on the best estimate of depreciated replacement cost for items that are not available for sale on the open market, due to creation via internally generated expertise, and the expected useful economic life ("UEL") for those assets. If the estimated full replacement cost had been used, the uplift value recognised could have increased by £0.8m.

A third-party expert completed an independent valuation of IFRS 3, intangible assets recognised on acquisition, with two material assets identified, being Customer Relationships and Brand. These assets will be depreciated between three and ten years based on the value of incremental earnings in the model. Estimates required included customer attrition, future profitability, and appropriate discount rates.

The $5m contingent consideration liability has not been recognised in the acquisition accounting consideration as the stretch threshold set for revenue is not expected to be achieved. The fair value of this element of the consideration is estimated to be Nil as the hurdle is an "all or nothing" target and will not be achieved based on the agreed budget target and the current open orderbook. This is still considered an estimate as there is an outside possibility that Custom Power may receive a transformational order, where all components are easily available to fulfil by the deadline. However, in the opinion of the Directors, this is considered highly unlikely.

The above estimations of the quantum of the fair value of intangibles and tangible assets and the consideration would impact the recognised goodwill value.

Expected credit losses (estimation)

In accordance with IFRS 9, the Group is required to assess the expected credit loss occurring over the life of its trade receivables. As a result of the continued component shortages and rising inflation across the globe, the Directors expect that the risk of credit default continues to be higher than historical norms, however, the Group has experienced no material credit losses in the reported period after careful credit management. As a result, the Directors have made a judgemental assessment of the potential credit losses in the current business environment. This includes the forward assessment of ongoing component shortages, where customers could invest in most of the goods required to complete their product and suffer adverse cash flow due to any missing components and the impact of rising inflation. In these financial statements the Directors have provided full disclosures of the provisions for credit default in Note 21.

Custom Power also has a historically high collection rate and trades with large, reputable customers so is judged to have decreased the overall credit risk of the Group. The calculation of the provision based on the Directors' judgemental assessment of expected credit loss reflects the impact of the acquisition of Custom Power with a small increase to the overall figure from 2022 of £39k.

If the Group were to provide for all debt that is overdue according to agreed credit terms, the recognised provision would increase by £2m to £2.7m.

Provisions for slow moving or obsolete inventories (estimation)
Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is reviewed in detail on an ongoing basis and provision for obsolete inventory is made based on several factors including age of inventories, the risk of technical obsolescence, the risk that customers default on customised product and the expected future usage.

This estimate is considered highly judgemental given the deliberate investment in inventory during the financial year to mitigate the challenge presented by market component shortages. An element of working capital risk can be mitigated with receiving advance customer deposits, however, there remains a risk of default and order cancellation.

Differences between such estimates and actual market conditions may have a material impact on the amount of the carrying value of inventories and may result in adjustments to cost of sales. If an additional 10% of the year-on-year increase in underlying inventory values were to be provided, the provision increase would be £1.2m. See Note 15 for details of the inventory provisions and the amounts written off to the consolidated statement of comprehensive income in the year.

Estimated useful life of intangible assets arising on acquisitions (estimation)
The periods of amortisation adopted to write down intangible assets arising on acquisitions (Note 12) requires estimates to be made in respect of the useful economic lives of the intangible assets to determine an appropriate amortisation rate.

Intangible assets arising on acquisitions are amortised on a straight-line basis over the period during which economic benefits are expected to be received, which is typically five to ten years.

The amortisation charge for intangible assets arising on the Custom Power acquisition in August is £575k; if the lives of all the acquired assets were reduced to five years, the impact would be to increase the charge by £554k.

Level of R&D expenditure that is eligible for R&D tax credits (judgement)
Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. This could necessitate future adjustments to taxable income and expense already recorded (Note 7).

At the year-end date, tax liabilities and assets reflect management's judgements in respect of the application of the tax regulations, in particular the R&D tax. In assessing our year-end corporation tax liability, we have made a provisional assessment as to the likely amount of development expenditure that will be eligible under each of the HMRCs large company and SME R&D tax credit schemes as the detailed tax computations have not been completed. The assumption is that the statutory Group entities previously eligible for the SME R&D tax scheme will move into the large company scheme for the 2023 tax year, so a £285k RDEC credit has been recognised in Other Income.

Our estimated taxation exposure at year-end assumed that the level of eligible R&D spend was comparable with prior years. At 31 March 2023, there are net current and deferred tax provisions totalling approximately £2.9m (2022: £1.8m).

Due to the uncertainties noted above, it is possible that the Group's initial R&D position is different to the final position adopted when the tax computation is finalised, resulting in a different tax payable or recoverable from the amounts provided.

Recognition criteria for capitalisation of development expenditure (judgement)
The Group capitalises R&D in accordance with IAS 38 (Note 12). There is judgement in respect of when (or if) R&D projects meet the requirement for capitalisation, which internal costs are directly attributable and, therefore, appropriate to capitalise and when the development programme is complete, and capitalisation should cease.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to the development programme. Management judgement is involved in determining the appropriate internal costs to capitalise that are directly attributable to the development programme.

If there is any uncertainty in terms of the technical feasibility, ability to sell the product or any other risk that means the programme does not meet the requirements of the standard the R&D costs are expensed within the consolidated statement of comprehensive income.

Revenue recognition on customer contracts spanning financial periods (judgement)
The Group is now entering into a higher volume of contracts with customers that require judgement on appropriate milestones to recognise the related revenue. This has partially driven the £1.9m increase in contract liabilities (Note 18) in the financial year.

Key judgements can include the timing of transfer of ownership of inventory to the customer under bill-and-hold arragements as well as the determination of the appropriate contractual milestones and whether the criteria have been met to recognise revenue.

For material contracts that involve a significant level of judgement, management from various business areas will document and communicate the key judgement areas regarding ownership obligations, contractual commitments, and any other relevant inputs to result in the recognition of revenue to the Audit Committee.

3. Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

	2023 £'000	2022 £'000
Geography		
United Kingdom	**71,649**	53,030
Rest of Europe	**18,202**	15,726
Asia	**8,811**	6,542
North America	**27,205**	9,175
Rest of World	**636**	524
Total revenue	**126,503**	84,997

	2023 £'000	2022 £'000
Product		
Computing products	**21,718**	16,103
Communications products	**11,005**	7,745
Power products	**24,789**	8,681
Opto electronic and electronic components and modules	**68,991**	52,468
	126,503	84,997

See further segmental disclosures in Note 31.

4. Profit from operations

This has been arrived at after charging/(crediting):

	2023 £'000	2022 £'000
Staff costs excluding share-based payments (see Note 5)	**23,646**	16,562
Share-based payment expenses	**551**	295
Depreciation of property, plant and equipment	**1,159**	729
Depreciation of right-of-use asset	**965**	763
Amortisation of intangible assets	**2,035**	1,327
(Profit)/loss on disposal of property, plant and equipment	**(45)**	3
Auditors' remuneration:		
Audit fees	**245**	120
Other assurance fees	**–**	–
Non audit fees		
Other advisory services	**–**	6
Research and development costs (includes relevant staff costs)	**2,190**	2,044
RDEC Credit	**(285)**	(10)
Foreign exchange expense/(credit)	**269**	(33)
Stock write downs	**777**	59
Acquisition of subsidiaries legal and due diligence	**234**	533
Other income from government grants	**(14)**	(2)

The foreign exchange differences have been treated as an adjustment to cost of sales rather than as an overhead as they arise from sales income and cost-of-sales expenditures.

5. Staff costs

Staff costs for all employees during the year, including the Executive Directors, were as follows:

	2023 £'000	2022 £'000
Wages and salaries	**20,173**	13,985
Social security costs	**2,147**	1,377
Pension costs	**1,361**	1,200
Share-based payment charges	**551**	295
Total staff costs	**24,232**	16,857

Wages and salaries include termination costs of £45k (2022: £56k).

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

	2023 Number	2022 Number
Selling and distribution	**136**	134
Manufacturing and assembly	**167**	110
Management and administration	**101**	59
	404	303

As the Group continues to grow, we continue to invest in and develop the senior leadership team, which are considered to be key management.

This senior management team includes Executive Directors. The key management team and their total compensation, including employers NI, totals £4,075k (2022: £3,857k). The amount charged in respect of share-based payments for key management personnel is £382k (2022: £202k). The amount charged in respect of defined contribution pension payments for key management personnel is £143k (2022: £198k).

6. Finance costs

	2023 £'000	2022 £'000
Bank borrowings	**790**	127
Interest on lease liabilities	**46**	99
Imputed Interest on deferred consideration	**136**	–
Total finance costs	**972**	226

7. Tax expense

	2023 £'000	2022 £'000
Analysis of total tax expense		
Total tax charge	**1,840**	716
	1,840	716
Current tax expense		
Group corporation tax on profits for the year	**1,537**	735
Adjustment in respect of prior periods	**(283)**	(8)
	1,254	727
Deferred tax expense		
Deferred tax expense charged to income statement	**398**	250
Adjustment in respect of prior periods	**94**	–
Total tax charge to income statement	**1,746**	977
Deferred tax expense/(credit) charged to other comprehensive income	**94**	(261)
Total tax charge to comprehensive income	**1,840**	716

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2023 £'000	2022 £'000
Profit before tax	**8,436**	3,500
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2022: 19%)	**1,603**	665
Effect of:		
Expenses not deductible for tax purposes	**101**	443
Non-taxable credit	**(62)**	–
Difference between depreciation/amortisation for the year and capital allowances	**115**	(60)
Tax relief on exercise of share options exercised	**(60)**	–
Deferred tax asset released/(recognised) on share option expense	**75**	(226)
Movement in relief on research and development expenditure	**143**	(483)
Change in rate in respect of deferred tax recognition	**–**	343
Taxation difference in respect of Intangibles on acquisition	**(14)**	–
Tax losses recognised/(utilised)	**78**	–
Adjustments in respect of prior years	**(189)**	(9)
Overseas tax rate differences	**56**	8
Foreign exchange	**(6)**	35
Total tax charge	**1,840**	716

The UK corporation tax rate is 19% (effective from 1 April 2017). Amendments were, substantively, enacted on 24 May 2021, so the rate of UK corporation tax will rise to 25% from 1 April 2023. The deferred tax liabilities and assets on 31 March 2023 and comparative figures from March 2022 have been calculated based on this revised 25% rate.

R&D tax credits

The Group recognised a credit of £285k (2022: £10k) within other income in relation to claims made under the Research and Development expenditure credit scheme (RDEC). The UK entities in the Group are no longer considered eligible for the SME scheme estimated based on tax calculations. Claims were made under the SME scheme and recognised within the tax expense for the March 2022 comparative period.

8. Earnings per share

The earnings per share is based on the following:

	2023 £'000	2022 £'000
Reported earnings post tax	**6,693**	2,523
Adjusted earnings post tax	**8,553**	6,158
Weighted average number of shares	**10,374,314**	8,551,455
Diluted number of shares	**10,604,768**	8,728,268
Reported EPS		
Basic EPS from profit for the year	**64.5p**	29.5p
Diluted EPS from profit for the year	**63.1p**	28.9p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	**82.5p**	72.0p
Adjusted Diluted EPS from profit for the year	**80.7p**	70.6p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 10,374,314 (2022: 8,551,455) net of the treasury shares disclosed in Note 27.

The diluted earnings per share is based on 10,604,768 (2022: 8,728,268) ordinary shares, which allow for the exercise of all dilutive potential ordinary shares.

The adjustments to profit made in calculating the adjusted earnings are set out in Note 30.

9. Dividends

	2023 £'000	2022 £'000
Prior year final dividend paid of 13.25p per share (2022: 10.75p)	**1,500**	920
Current year interim dividend paid of 6.5p per share (2022: 6.25p)	**736**	535
Cancelled dividends on shares held in treasury	**(1)**	(2)
	2,235	1,453
Final dividend proposed for the year at 13.5p per share (2022: 13.25p)	**1,528**	1,134

The proposed final dividend has not been accrued for as the dividend will be approved by the shareholders at the Annual General Meeting.

10. Property, plant and equipment

Year ended 31 March 2023	Land and buildings £'000	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost					
1 April 2022	466	1,976	773	4,169	7,384
Foreign exchange	30	1	–	(33)	(2)
Additions	–	94	308	1,113	1,515
Acquisitions	–	–	–	991	991
Disposals	–	–	(84)	(61)	(145)
31 March 2023	**496**	**2,071**	**997**	**6,179**	**9,743**
Depreciation and impairment					
1 April 2022	–	987	308	2,675	3,970
Foreign exchange	–	–	–	(11)	(11)
Charge	–	164	151	844	1,159
Impairment	–	–	–	–	–
Disposals	–	21	(74)	(40)	(93)
31 March 2023	**–**	**1,172**	**385**	**3,468**	**5,025**
Net book value					
31 March 2023	**496**	**899**	**612**	**2,711**	**4,718**

Year ended 31 March 2022	Land and buildings £'000	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost					
1 April 2021	446	1,951	678	3,570	6,645
Additions	–	121	302	755	1,178
Disposals	–	(98)	(207)	(158)	(463)
Foreign exchange	20	2	–	2	24
31 March 2022	466	1,976	773	4,169	7,384
Depreciation and impairment					
1 April 2021	–	896	371	2,397	3,664
Charge for the year	–	189	103	437	729
On disposals	–	(98)	(166)	(160)	(424)
Foreign exchange	–	–	–	1	1
31 March 2022	–	987	308	2,675	3,970
Net book value					
31 March 2022	466	989	465	1,494	3,414

11. Right-of-use assets

Year ended 31 March 2023	Land and buildings £'000	Motor vehicles/other £'000	Total £'000
Cost			
1 April 2022	3,820	213	4,033
Additions	115	7	122
Acquisition additions	883	–	883
Disposals	(63)	–	(63)
Foreign exchange	20	–	20
31 March 2023	**4,775**	**220**	**4,995**
Amortisation			
1 April 2022	1,937	113	2,050
Charge for the year	915	50	965
Disposals	(33)	–	(33)
Foreign exchange	32	–	32
31 March 2023	**2,851**	**163**	**3,014**
Net book value			
31 March 2023	**1,924**	**57**	**1,981**

Year ended 31 March 2022	Land and buildings £'000	Motor vehicles/other £'000	Total £'000
Cost			
1 April 2021	3,604	188	3,792
Additions	285	28	313
Disposals	(69)	(3)	(72)
31 March 2022	3,820	213	4,033
Depreciation			
1 April 2021	1,263	53	1,316
Charge for the year	701	62	763
Disposals	(27)	(2)	(29)
31 March 2022	1,937	113	2,050
Net book value			
31 March 2022	1,883	100	1,983

12. Intangible assets

Year ended 31 March 2023	Development costs £'000	Computer software £'000	Goodwill on consolidation £'000	Acquisition intangible assets £'000	Total £'000
Cost					
1 April 2022	1,783	724	9,898	8,781	21,186
Foreign Exchange	–	(2)	(492)	(164)	(658)
Additions	810	387	–	–	1,197

Acquisitions (Note 32)	–	52	20,320	6,858	27,230
Disposals	–	(74)	–	–	(74)
31 March 2023	**2,593**	**1,087**	**29,726**	**15,475**	**48,881**
Amortisation					
1 April 2022	1,583	399	–	3,373	5,355
Foreign Exchange	–	(1)	–	(23)	(24)
Charge for the year	328	105	–	1,602	2,035
Disposals	–	(48)	–	–	(48)
31 March 2023	1,911	455	–	4,952	7,318
Net book value					
31 March 2023	**682**	**632**	**29,726**	**10,523**	**41,563**

The cost of acquisition intangible assets includes the estimated net present value identified on acquisition of:

- customer relationships with a net book value of £8,594k and a remaining useful economic life between one and ten years.
- brand with a net book value of £2,777k and a remaining useful economic life of approx. six years.

The development costs relate to the cost of developing new products and technology to enable the Company to extend its operations into new growth areas. Any assets developed that are no longer deemed to meet the recognition criteria of development costs have been written down.

Year ended 31 March 2022	Development costs £'000	Computer software £'000	Goodwill on consolidation £'000	Acquisition intangible assets £'000	Total £'000
Cost					
1 April 2021	1,433	473	9,898	8,781	20,585
Additions	350	251	–	–	601
Acquisitions	–	–	–	–	–
31 March 2022	1,783	724	9,898	8,781	21,186
Amortisation					
1 April 2021	1,333	350	–	2,345	4,028
Charge for the year	250	49	–	1,028	1,327
31 March 2022	1,583	399	–	3,373	5,355
Net book value					
31 March 2022	200	325	9,898	5,408	15,831

	Cost £'000	NBV £'000
Systems Division commercial relationships	8,769	7,126
Components Division commercial relationships	6,706	3,397
31 March 2023	**15,475**	**10,523**

13. Goodwill and impairment

Details of the carrying amount of goodwill allocated to cash-generating units (CGUs) are as follows:

	2023 £'000	2022 £'000
Systems Division – UK	**3,946**	3,946
Systems Division – Custom Power	**19,828**	–
Components division	**5,952**	5,952
Total	**29,726**	9,898

The recoverable amounts of all the above CGUs have been determined from a review of the current and anticipated performance of these units using a value in use calculation over a period of 5 years then a terminal value. In preparing the base case projection, a pre-tax discount rate of between 10% and 12% (2022: 10%) was used based on the Group's estimated weighted average cost of capital.

Future growth rates of between 5% and 7.5% and terminal growth rate of 2.5% (2022: 2.5%) has been assumed beyond the first year, for which the projection is based on the budget approved by the Board of Directors. It has been assumed that investment in capital equipment will equate to depreciation over this period. The key assumptions are the growth rates and discount rates.

The recoverable amount exceeds the carrying amount for the Group by £141.9m (2022: £95.0m) in the base case.

The headroom within the UK Systems Division is significant at £59.9m (2022: £53.8m), and the Custom Power CGU £14.5m with the Components division having headroom of £75.7m (2022: £47.3m). The following changes can be made to the above key assumptions in respect of each division and the carrying amount would still exceed, or equal, the recoverable amount for each CGU. It is not considered reasonably possible that changes to the assumptions would trigger an impairment.

Discount rate: Increase the rate of each CGU by 2%

Growth rate: Reduce the annual growth to Nil and retain a 2.5% terminal growth rate

The Custom Power goodwill carrying value is $24,588k and the value in GBP is recalculated at the closing reporting date exchange rate with an FX loss of £492k from the acquisition date.

14. Subsidiaries

The subsidiaries of Solid State PLC included in these consolidated financial statements are as follows:

Subsidiary undertakings		Proportion of voting rights and Ordinary share capital held	Nature of business
Solid State Supplies Limited	UK	100%	Supply of electronic components
Steatite Limited	UK	100%	Supply of electronic components and manufacture of electronic equipment
Custom Power Holdings Inc	USA	100%	Holding Company
Custom Power LLC*	USA	100%	Battery systems and energy solutions supplier
Pacer Technologies Limited	UK	100%	Non trading entity
Pacer Components Limited*	UK	100%	Supply of opto-electronic components
Pacer LLC*	USA	100%	Supply of opto-electronic components
Willow Technologies Limited	UK	100%	Supply of opto-electronic components
American Electronic Components, Inc.*	USA	100%	Supply of opto-electronic components
Active Silicon Limited	UK	100%	Digital image design and manufacturing
Active Silicon, Inc.*	USA	100%	Manufacturing sales facility
Solid State Supplies Electronics Limited	Ireland	100%	Sales office
eTech Developments Limited	UK	75%	Engineering consultation
Custom Power Limited	UK	100%	Non trading entity
Creasefield Limited	UK	100%	Non trading entity
Q-Par Angus Limited	UK	100%	Non trading entity
Ginsbury Electronics Limited	UK	100%	Non trading entity
Wordsworth Technology Kent Limited	UK	100%	Non trading entity
Solsta Limited	UK	100%	Non trading entity
Durakool Limited	UK	100%	Non trading entity

* Indirect holdings. All other holdings are direct.

The non trading entities are exempt from filing audited accounts with the registrar under Section 479a of the Companies Act 2006.

Subsequent to the year end, a new USA holding company, Solsta Holding Inc. was incorporated.

Aside from the operations in the USA and Ireland identified above, the countries of operation and of incorporation are England and Wales, with the same registered office as Solid State PLC. The registered offices for operations in the US and Ireland are listed below.

Subsidiary undertaking	Registered office
Pacer USA LLC	661 Maplewood Drive, Suite 10, Jupiter, FL 33458, USA
American Electronic Components, Inc.	1101 Lafayette Street, Elkhart, Indiana, 46516, USA
Active Silicon, Inc.	479 Jumpers Hole Road, Suite 301, Severna Park, MD 21146, USA
Solid State Supplies Electronics Limited	3rd Floor Ulysses House, 23/24 Foley Street, Dublin 1, Dublin D01 W2T2, Ireland
Custom Power Holdings Inc	10910 Talbert Ave, Fountain Valley, CA 92708, USA
Custom Power LLC	10910 Talbert Ave, Fountain Valley, CA 92708, USA

As set out in the audit committee report, the 100%-owned UK trading subsidiaries are exempt from the requirements to have an audit and file audited financial statements by virtue of Section 479A of the Companies Act 2006. In adopting the exemption, Solid State PLC has provided a statutory guarantee to these subsidiaries in accordance with Section 479C of the Companies Act 2006.

15. Inventories

	2023 £'000	2022 £'000
Finished goods and goods for resale	**30,195**	15,333
Work in progress	**3,033**	2,265
Total inventories	**33,228**	17,598

The Directors are of the opinion that the replacement value of inventories is not materially different to the carrying value stated above. These carrying values are stated net of provisions of £5,053k (2022: £3,694k).

An impairment loss of £1,012k (2022: £610k loss) was recognised in the cost of sales during the year against inventory due to slow-moving and obsolete items.

Inventory recognised in cost of sales during the year, as an expense, was £83,958k (2022: £57,812k).

16. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	**16,379**	14,948
Other receivables	**163**	126
Prepayments	**3,157**	2,904
	19,699	17,978

An impairment credit against trade receivables of £77k (2022: Credit of £13k) was recognised within operating costs during the year.

17. Trade and other payables (current)

	Note	2023 £'000	2022 £'000
Trade payables		**12,919**	8,083
Other taxes and social security taxes		**2,952**	2,607
Other payables		**376**	89
Accruals		**7,488**	5,709
Deferred consideration on acquisitions	**21, 32**	**4,029**	–
Contingent consideration on acquisitions	**21**	**1,650**	4,625
		29,414	21,113

18. Contract liabilities

	2023 £'000	2022 £'000
Contract liabilities	**5,380**	3,461

The contract liabilities identified above relate to unsatisfied performance obligations resulting from proforma and advanced customer payments, where we have not recognised the revenue and provisions for product returned for rework. All these contract liabilities are expected to be recognised in the, subsequent, financial year.

Revenue recognised within the year includes £2,910k (2022: £1,980k), which was included within contract liabilities in the prior year.

19. Bank borrowings and facilities

	2023 £'000	2022 £'000
Current borrowings		
Bank borrowings – overdraft facility	**–**	2,059
Bank borrowings – term loans	**1,279**	–
Non-current borrowings		
Bank borrowings	**13,383**	1,500
Total borrowings	**14,662**	3,559

	2023 £'000	2022 £'000
Within one year	**1,279**	2,059
Between one and two years	**4,958**	1,500
Between two and five years	**8,425**	–
Total borrowings	**14,662**	3,559

The bank facilities are secured by a fixed and floating charge over the assets of the Company and the Group. At the balance sheet date, the Group had the following facilities:

- The Group has a term loan of £6.5m entered into in August 2022, as part of the Custom Power acquisition financing, which is repayable in full in August 2025. The full principal balance was utilised at the year end.
- The Group also entered into a term loan of £6.5m in August 2022 as part of the Custom Power acquisition financing that is repayable in quarterly tranches over a five-year period. A principal balance of £5.85m was outstanding at the year end.
- A revolving credit facility of £7.5m (2022: £7.5m) of which £2.4m (2022: £1.5m) was drawn at the balance sheet date. This facility was committed until November 2023 and then renewed in March 2023 to a November 2024 commitment date.
- In addition, the Group has a multi-currency overdraft facility of £3.0m (2022: £3.0m), which was not utilised at the year end (2022: £2.1m for USD). Subsequent to the year end, the Group agreed a facility extension on the USD overdraft facility of up to $10m to the end of September 2023 in order to cover the maximum potential impact of the NATO project's timing differences to cashflow.

The multi-currency overdraft facility is in place to provide flexibility in financing short-term, multi-currency working capital requirements. This facility is available to utilise as long as the overall balance netted across all accounts in the bank nets to an overall position of £Nil or higher.

The Group's banking facilities are subject to three financial covenants: leverage, debt service and a tangible net worth covenant. These covenants were met at all measurement points throughout the period.

20. Right-of-use lease liabilities

	2023 £'000	2022 £'000
Current right-of-use lease liabilities	**1,057**	758
Non-current right-of-use lease liabilities	**986**	1,326
Total right-of-use lease liabilities	**2,043**	2,084

	2023 £'000	2022 £'000
Within one year	**1,057**	758
Between one and two years	**942**	650
Between two and five years	**44**	676
Total right-of-use lease liabilities	**2,043**	2,084

Lease liabilities relate to leased properties and vehicles and an analysis of the undiscounted maturity analysis of the remaining lease payments is presented in Note 21.

The following is a reconciliation of the Group's lease liabilities:

	2023 £'000	2022 £'000
Right-of-use lease liabilities at 1 April	**2,084**	2,543
Additions	**123**	313
Acquisitions	**883**	–
Payments made	**(1,026)**	(795)
Discounting charge	**46**	99
Disposals	**(56)**	(76)
FX	**(11)**	–
Right-of-use lease liabilities at 31 March	**2,043**	2,084

21. Financial instruments

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial instruments comprise cash and cash equivalents and various items such as trade payables and receivables that arise directly from its operations. The Group is exposed through its operations to the following risks:

- Credit risk
- Foreign currency risk
- Liquidity risk
- Cash flow interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks. Further quantitative information in respect of these risks is presented throughout these financial statements.

The acquisition of Custom Power and the related draw-down of additional long-term fixed borrowings is a substantive change in the Group's exposure to financial instrument risks. Consequently, the objectives, policies and processes have been reassessed to determine the updated risk profile (where relevant).

The Board has overall responsibility for the determination of the Group's risk management policies. The objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the Group's competitiveness and effectiveness. Further details of these policies are set out below.

Credit risk

The Group is exposed to credit risk, primarily, on its trade receivables, which are spread over a range of customers and countries, a factor that helps to dilute the concentration of the risk.

It is Group policy, implemented locally, to assess the credit risk of each new customer before entering binding contracts. Each customer account is then reviewed on an ongoing basis (at least once a year) based on available information and payment history.

The maximum exposure to credit risk is represented by the carrying value of receivables as shown in Note 16 and in the statement of financial position. The amount of the exposure shown in Note 16 is stated net of provisions for doubtful debts.

The credit risk on liquid funds is low as the funds are held at banks with a high credit rating assigned by international credit rating agencies.

Foreign currency risk

Foreign exchange transaction risk arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. The general policy for the Group is to sell to customers in the same currency that goods are purchased in, reducing the transactional risk. Where transactions are not matched, excess foreign currency amounts generated from trading are converted back to sterling and required foreign currency amounts are converted from sterling. Forward currency contracts are not used speculatively and are considered where the Group has a demand for foreign currency that it can reliably forecast. The Group overdraft facility is available on an individual currency basis as well as an overall basis.

Liquidity risk

The Group operates a Group overdraft facility common to all its trading companies (with the exception of the recent Willow, Active and Custom Power acquisitions). This facility has a right of offset, so individual accounts in an overdraft position can be netted from cash held in other accounts in the same bank to a maximum position of £Nil in total.

The Group has, approximately, a three month visibility in its trading and runs a rolling six-month cash flow forecast. If any part of the Group identifies a shortfall in its future cash position, the Group has sufficient facilities that it can direct funds to the location where they are required. If this situation is forecast to continue, remedial action is taken.

Cash flow interest rate risk

External Group borrowings are approved centrally. The Board accepts that this neither protects the Group entirely from the risk of paying rates in excess of current market rates nor fully eliminates the cash flow risk associated with interest payments. It considers, however, that by ensuring approval of borrowings is made by the Board, the risk of borrowing at excessive interest rates is reduced. The Board considers that the rates being paid are in line with the most competitive rates it is possible for the Group to achieve. The Group does not currently hedge interest rates on financing, but monitors the impact of rising interest rates and will put an instrument in place if considered an effective risk mitigation.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The Group maintains its cash reserves at reputable banks. The maximum exposure to credit risk at the reporting date was:

Loans and receivables	2023 £'000	2022 £'000
Trade and other receivables	**16,542**	15,074
Cash and cash equivalents	**12,224**	2,924
	28,766	17,998

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Debt exposure	2023 £'000	2022 £'000
UK	**8,257**	8,471
Non-UK	**8,122**	6,477
	16,379	14,948

The Group policy is to make a provision against those debts that are overdue, unless there are grounds for believing that all, or some, of the debts will be collected. During the year, the value of provisions made in respect of bad and doubtful debts was a charge of £233k (2022: £193k), which represented 0.2% (2022: 0.1%) of revenue. This provision is included within the sales, general and administration expenses in the Consolidated Statement of Comprehensive Income. Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, insolvency or a lack of contact with the customer.

Trade receivables ageing by geographical segment

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2023					
UK	8,576	7,969	394	81	132
Non-UK	8,492	6,711	725	971	85
Total	**17,068**	**14,680**	**1,119**	**1,052**	**217**
UK	(319)	(131)	(80)	(1)	(107)
Non-UK	(370)	(164)	(4)	(119)	(83)
Total provisions	(689)	(295)	(84)	(120)	(190)
Total	**16,379**	**14,385**	**1,035**	**932**	**27**
IFRS9					
UK expected loss rate	3.71%	1.65%	20.17%	1.00%	80.94%
Non-UK expected loss rate	4.35%	2.44%	0.59%	12.26%	97.38%

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2022					
UK	8,860	8,273	418	128	41
Non-UK	6,737	6,122	412	116	87
Total	15,597	14,395	830	244	128
UK	(389)	(322)	(21)	(11)	(35)

Non-UK	(260)	(136)	(24)	(23)	(77)
Total provisions	(649)	(458)	(45)	(34)	(112)
Total	14,948	13,937	785	210	16
IFRS9					
UK expected loss rate	4.4%	3.9%	5.0%	8.6%	85.4%
Non-UK expected loss rate	3.9%	2.2%	5.8%	19.8%	88.5%

The Group records provision for impairment losses on its trade receivables separately from gross receivables. The movements on this allowance account, during the year, are summarised below:

	2023 £'000	2022 £'000
Opening balance	**649**	658
Acquisition of subsidiaries	**124**	–
(Decrease)/increase in provisions	**(77)**	(14)
Written off against provisions	**(9)**	4
Foreign exchange	**2**	1
Closing balance	**689**	649

The main factor used in assessing the expected impairment losses of trade receivables is the age of the balances and the circumstances of the individual customer.

As shown in the earlier table, at 31 March 2023, trade receivables of £1,994k, which were past their due date, were not impaired (2022: £1,011k).

Liquidity risk

	Carrying amount	Contractual cash flow	12 months or less	1–2 Years	2–5 Years	5+ Years
2023						
Trade and other payables	21,628	21,628	21,628	–	–	–
Borrowings	14,662	16,722	2,142	5,671	8,909	–
Right-of-use lease liabilities	2,043	2,138	1,088	792	258	–
Provisions	1,038	1,038	323	94	621	–
Deferred consideration on acquisition	5,679	5,679	5,679	–	–	–
	45,050	**47,205**	**30,860**	**6,557**	**9,788**	**–**
2022						
Trade and other payables	16,488	16,488	16,488	–	–	–
Borrowings	3,559	3,559	2,059	1,500	–	–
Right-of-use lease liabilities	2,084	2,215	781	690	744	–
Provisions	694	694	–	150	544	–
Deferred consideration on acquisition	6,601	6,601	4,625	1,976	–	–
	29,426	**29,557**	**23,953**	**4,316**	**1,288**	**–**

Movement in deferred consideration on acquisitions	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
	Willow		**Active**		**Custom Power**		**Group**	
1 April	**3,500**	5,089	**3,101**	2,433	**–**	–	**6,601**	7,522
Initial recognition	**–**	–	**–**	–	**8,264**	–	**8,264**	–
Increase/(decrease) in estimation	**–**	–	**(326)**	1,651	**–**	–	**(326)**	1,651
Settlement	**(3,500)**	(1,589)	**(1,125)**	(983)	**(4,065)**	–	**(8,690)**	(2,572)
FX movement	**–**	–	**–**	–	**(170)**	–	**(170)**	–
31 March	**–**	3,500*	**1,650***	3,101*	**4,029**	–	**5,679**	6,601

* level 3 contingent consideration values calculated based on forecast management data.

The fair value hierarchy of financial instrument is considered as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

All the Group's financial instruments as disclosed are considered to fall under Level 1, except for deferred contingent consideration due on acquisitions (Willow and Active table above) which are classified as Level 3 instruments.

The measurement of the contingent deferred consideration liability on Active Silicon is based on the performance of the business during the 25 month earn-out period up to the 31st March 2023. The basis of the calculation is a multiple of the post tax profit included within the consolidated Group financial statements and the only immaterial variable that is considered subject to change is the final taxation figure. The contingent consideration in relation to Custom Power has been recognised at £Nil value based on the discounted future forecasts prepared as described in Note 2.

Foreign currency risk

The Group's main foreign currency risk is the short-term risk associated with accounts receivable and payable denominated in currencies that are not the subsidiaries' functional currency. The risk arises on the difference in the exchange rate between the time invoices are raised/received and the time invoices are settled/paid. For sales denominated in foreign currencies the Group will try, as far as practical, to ensure that the purchases associated with the sale will be in the same currency.

All monetary assets and liabilities of the Group were denominated in sterling except for the following items, which are included in the financial statements at the sterling value based on the exchange rate ruling at the statement of financial position date.

The following tables show the Group net assets/(liabilities) exposed to US dollar and Euro exchange rate risk:

USD	2023 £'000	2022 £'000
Trade receivables	**8,870**	8,786
Cash and cash equivalents	**8,235**	(1,308)
Trade payables	**(8,149)**	(4,005)
	8,956	3,473

EUR	2023 £'000	2022 £'000
Trade receivables	**448**	287
Cash and cash equivalents	**444**	272
Trade payables	**(178)**	(175)
	714	384

The Group is exposed to currency risk because it undertakes trading transactions in US dollars and Euros (and immaterial transactions in other currencies). The Directors do not, generally, consider it necessary to enter into derivative financial instruments to manage the exchange risk arising from its operations, but, from time to time, when the Directors consider foreign currencies are weak and it is known that there will be a requirement to purchase those currencies, forward arrangements are entered into. There were no forward purchase agreements in place at 31 March 2023 (2022: £Nil) with £Nil net exposure (2022: £Nil).

The effect of a strengthening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net increase in pre-tax profit for the year and an increase in net assets of, approximately, £1,074k (2022: £428k). In addition, the effect of a weakening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net decrease in pre-tax profit for the year and a decrease in net assets of, approximately, £879k (2022: £351k).

Interest rate risk

The Group finances its ongoing business through a revolving credit facility. During the year, the Group utilised this facility at a floating rate of interest. The Group also, partially, financed the acquisition of Custom Power with two new term loans drawn down in August 2022, as described in Note 19.

The Group's banking facilities with Lloyds Bank PLC incur interest at the rate of 2.55% over LIBOR. The Group is affected by changes in the UK interest rate. As the loans are all based on variable interest rates, the fair value of the Group's borrowings is not materially different to the book value.

In terms of sensitivity, if the ruling base rate had been 1% higher throughout the year, the level of interest payable would have been £122k (2022: £82k) higher, and if 1% lower throughout the year, the level of interest payable would have been lower by the same amount.

Capital risk management

The Group defines total capital as equity in the consolidated statement of financial position plus net debt or less net funds plus deferred consideration. Total capital at 31 March 2023 was £66,070k (2022: £32,251k).

The Group defines net (cash)/leverage as net (cash)/debt plus deferred consideration, which totals £8,117k (2022: £5,177k). In calculating net (cash)/debt, the Group has excluded the right-of-use lease liabilities of £2,042k (2022: £2,084k) from its definition and calculation.

When managing its capital, the Group's main objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as leverage divided by total capital. At 31 March 2023, the gearing ratio was 12.3% (2022: 16.0%).

The Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and to maintain sufficient funding to enable the Group to meet its working capital and strategic investment needs in the light of changes in economic conditions and the characteristic of the underlying assets.

In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position, but also its long-term operational and strategic objectives and sets the amount of capital in proportion to risk.

The Group's gearing ratio at 31 March 2023 is shown below:

	2023 £'000	2022 £'000
Cash and cash equivalents	**(12,224)**	(4,983)
Borrowings/bank overdrafts	**14,662**	3,559
Deferred consideration	**5,679**	6,601
Net leverage/(cash)	**8,117**	5,177
Share capital	**567**	428
Share premium account	**30,474**	3,625
Retained earnings	**27,805**	23,042
Capital redemption reserve	**5**	5
Foreign exchange reserve	**(836)**	33
Shares held in treasury	**(108)**	(57)
Equity	**57,907**	27,076
Gearing ratio (net leverage/(equity + net leverage)/cash))	**12.3%**	16.0%

22. Net debt

Year ended 31 March 2023 (£'000)	At 1 April 2022	Cash flow	Other non-cash movement	At 31 March 2023
Bank borrowing due within one year	–	(1,279)	–	**(1,279)**
Bank borrowing due after one year	(1,500)	(11,822)	(61)	**(13,383)**
Total borrowings	(1,500)	(13,101)	(61)	**(14,662)**
Deferred consideration on acquisition of subsidiaries within one year	(4,625)	4,625	(5,679)	**(5,679)**
Deferred consideration on acquisition of subsidiaries after one year	(1,976)	–	1,976	**–**
Cash and cash equivalents	2,924	9,314	(14)	**12,224**
(Net debt)/net cash	(5,177)	838	(3,778)	**(8,117)**

	2023 £'000	2022 £'000
Increase/(decrease) in cash in the year	**9,314**	(4,006)
Increase in borrowings in the year	**(15,873)**	–
Repayment of borrowings in the year	**2,772**	2,250
Payment of deferred consideration on acquisitions	**4,625**	2,572
Net movement resulting from cashflows	**838**	816

	2023 £'000	2022 £'000
Net debt at 1 April	**(5,177)**	(4,358)
Net movement resulting from cashflows	**838**	816
Contingent consideration recognised in year – short term	**(3,704)**	–
Contingent consideration recognised in year – long-term	**–**	(1,651)
Other non-cash movements	**(74)**	16
Net debt at 31 March	**(8,117)**	(5,177)

Although the Group's banking facilities allow a right of offset between cash balances held at the bank with overdraft balances at the same bank, the overdraft balance at 31 March 2022 was presented as gross on the Statement of Financial Position rather than net in accordance with the Interpretations Committee March 2016 Agenda decision on IAS 32 interpretation of cash-pooling arrangements. No overdraft was utilised as at 31 March 2023.

Lease liabilities are excluded from the Group's definition of net debt and a separate roll-forward of lease liabilities is presented in note 20.

23. Deferred tax

The Group's deferred tax positions arise primarily on share-based payments, accelerated capital allowances, capitalised development costs and intangible assets arising on acquisition of subsidiaries:

	2023 £'000	2022 £'000
At 1 April	**(1,293)**	(1,303)
Deferred tax arising on acquisition of subsidiaries	**67**	–
(Expense)/credit for the year	**(485)**	348
Effect of changes to foreign exchange rates	**(7)**	5
Deferred tax adjustment in respect of prior periods	**(94)**	–
Effect of tax rate change	**–**	(343)
Net deferred tax at 31 March	**(1,812)**	(1,293)
Deferred tax (liabilities)/assets in relation to:		
Accelerated capital allowances on property plant and equipment	**(747)**	(504)
Short-term timing differences on intangible assets	**(1,736)**	(1,437)
Share-based payments	**351**	415
Short-term timing differences	**114**	98
Losses carried forward	**206**	135
Net deferred tax at 31 March	**(1,812)**	(1,293)
Deferred tax assets	**375**	539
Deferred tax liabilities	**(2,187)**	(1,832)
Net deferred tax at 31 March	**(1,812)**	(1,293)

The movements in respect of deferred tax in the year were as follows:

	Accelerated capital allowances	Short-term timing differences on intangible assets	Share-based payments	Short-term timing differences	Losses carried forward	Total
At 1 April	(504)	(1,437)	415	98	135	(1,293)
Acquisition of subsidiaries	(31)	62	–	36	–	67
Recognised in statement of comprehensive income	(212)	(361)	30	(20)	71	(492)
Recognised in other comprehensive income	–	–	(94)	–	–	(94)
At 31 March	**(747)**	**(1,736)**	**351**	**114**	**206**	**(1,812)**

The UK corporation tax rate is 19% (effective from 1 April 2017), which was, substantively, enacted on 17 March 2020. As substantively enacted on 24 May 2021, the UK corporation tax rate will increase to 25% with effect from 1 April 2023. The impact of recalculating the deferred tax at the 25% rate was recognised in comprehensive income in the 2022 comparative period.

The amount of the net reversal of deferred tax expected to occur next year is, approximately, £447k (2022: £231k) relating to the timing differences identified above.

The deferred tax asset of £166k (2022: £261k), in respect of the future tax deduction that would be available based on the share price at the balance sheet date compared to the share price at the date of grant of the options and share bonus, which is used to calculate the share-based payments charge, was recalculated in the year after initial recognition in 2022. The movement in the deferred tax asset has been debited to other comprehensive income ("OCI") and treated as an adjustment to profit. The share price post year end, when the shares are exercised, may be higher/lower than at the balance sheet date; therefore, this deferred tax asset is considered judgemental as it may not be fully recoverable.

In addition, there is an unrecognised deferred tax asset in relation to capital losses carried forward. The capital losses carried forward are, approximately, £275k. The associated deferred tax asset of, approximately, £69k has not been recognised due to the uncertainty over the recoverability combined with the fact it is immaterial.

24. Provisions

	2023 £'000	2022 £'000
At 1 April	**694**	741
Dilapidations acquired on acquisitions at FV	**22**	–
Provisions utilised during the year	**–**	(18)
Recognition of decommissioning asset	**323**	–
(Released)/charged to statement of comprehensive income	**(1)**	(29)
Provisions at 31 March	**1,038**	694

The Group has provided for property related provisions, which, include obligations in respect of exited legacy premises and dilapidations provisions it expects to exit within the next five years. Based on using a discount rate of 6%, the Group has assessed the impact of discounting to be immaterial and has not, therefore, discounted the provisions. Provisions are split in current £323k (2022: Nil) and non-current £715k (2022: 694k).

25. Share capital

	2023 £'000	2022 £'000
Allotted issued and fully paid 11,346,394 (2022: 8,564,878) Ordinary shares of 5p	**567**	428

The Ordinary shares carry no right to fixed income, the holders are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings.

	2023 Shares No.	2023 Value £'000	2022 Shares No.	2022 Value £'000
Share Capital at 1 April	**8,564,878**	**428**	8,564,878	428
Issue of new shares on equity raise	**2,757,516**	**138**	–	–
Share options exercised	**24,000**	**1**	–	–
Share Capital at 31 March	**11,346,394**	**567**	8,564,878	428

At 31 March 2023, the number of shares covered by option agreements amounted to 352,925 (2022: 248,100). At the balance sheet date, there were 72,000 (2022: 96,000) share options which had vested and remained unexercised. 24,000 (2022: Nil) options were exercised in the current year.

26. Reserves

Full details of movements in reserves are set out in the consolidated statement of changes in equity. The total value of transaction costs incurred that have been offset against the share premium account movement in the year total £1,275k (2022: £Nil).

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value
Capital redemption	Amounts transferred from share capital on redemption of issued shares
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income
Shares held in treasury	Shares held by the Group for future staff share plan awards
Foreign exchange	Foreign exchange translation differences arising from the translation of the financial statements of foreign operations
Non-controlling interest	Equity attributable to non-controlling shareholders

27. Treasury shares

At 31 March 2023, the Group held 9,146 (2022: 6,946) shares in treasury with a cost of £108k (2022: £57k). No shares have been cancelled.

	2023 Shares	2022 Shares
At 1 April	**6,946**	11,374
Purchase of shares into treasury	**15,000**	7,000
Transfer of shares to the All Employee Share Plan (AESP)	**(12,800)**	(11,428)
At 31 March	**9,146**	6,946

28. Share-based payment

The total amount charged to the income statement in 2023 in respect of share-based payments was £551k (2022: £295k).

The company operates two long-term share incentive schemes set out below:

Long-term incentive plan (LTIP):

Normal LTIP awards of up to 125% of salary may be made to Executive Directors and senior management.

For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant. Options are granted with a contractual life of ten years and with a fixed exercise price of 5p equal to the par value of the shares or as otherwise disclosed in the Remuneration Report.

The performance conditions will be determined and set by the Remuneration Committee in accordance with the remuneration policy. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between threshold, target and stretch.

On 4 October 2022, 56,000 (2022: 42,800) share options were granted to the Executive Directors under the LTIP.

Principal assumptions	2023	2022
Weighted average share price at grant date in pence	**986**	1,085
Weighted average exercise price in pence	**5**	5
Weighted average vesting period (years)	**3**	3
Option life (years)	**10**	10
Weighted average expected life (years)	**3**	3
Weighted average expected volatility factor	**49%**	47%
Weighted average risk-free rate	**2.28%**	1.50%
Dividend yield	**2.10%**	2.50%

The expected volatility factor is based on historical share price volatility over the three years immediately preceding the grant of the option. The expected life is the average expected period to exercise. The risk-free rate of return is the yield of zero-coupon UK government bonds of a term consistent with the assumed option life.

Non-market performance conditions are incorporated into the calculation of fair value by estimating the proportion of share options that will vest and be exercised based on a combination of historical trends and future expected trading performance. These are reassessed at the end of each period for each tranche of unvested options.

Company Share Option Plan (CSOP):
CSOP awards of up to the HMRC tax approved levels of £30,000 may be made to senior staff and Executive Directors. For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant.

Options are granted with a contractual life of ten years and with a fixed exercise price equal to the market value of the shares under option at the date of grant or as otherwise disclosed in the Remuneration Report

The performance conditions will be determined and set by the Remuneration Committee in accordance with the remuneration policy. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between threshold, target and stretch.

Between 4 October 2022 and 12 January 2023, 48,825 (2022: 36,750) share options were granted to senior management under CSOP.

Principal assumptions	2023	2022
Weighted average share price at grant date in pence	**1,006**	1,050
Weighted average exercise price in pence	**1,008**	1,050
Weighted average vesting period (years)	**3**	3
Option life (years)	**10**	10
Weighted average expected life (years)	**3**	3
Weighted average expected volatility factor	**49%**	46%
Weighted average risk-free rate	**2.28%**	1.50%
Dividend yield	**2.10%**	2.50%

Movement in share options during the year
In addition to the current CSOP and LTIP there are bought forward executive EMI options which have vested. 24,000 were exercised in the year, leaving 72,000, which remain unexercised at the balance sheet date.

	2023 Number of options	2023 Average exercise price in pence	2022 Number of options	2022 Average exercise price in pence
At 1 April	**248,100**	**225**	175,550	125
Granted	**104,825**	**471**	79,550	488
Exercised	**(24,000)**	**0.1**	–	–
Cancelled/lapsed	**–**	**–**	(7,000)	(707)
At 31 March	**328,925**	**320**	248,100	225

24,000 options were exercised in the year (2022: Nil) and the weighted average share price at the date share options were exercised was 1,320p.

As at 31 March 2023, the total number of long-term incentive awards and share options held by employees was 328,925 (2022: 248,100) as follows:

Option price pence/share	Option period ending	2023 Number of options	2022 Number of options
0.1p	31 March 2027	**72,000**	96,000
5p – 592p	31 March 2030	**74,300**	74,300
5p – 1050p	31 March 2031	**77,800**	77,800
5p – 1254p	31 March 2032	**104,825**	–
At 31 March		**328,925**	248,100

No share options have vested in the period (2022: Nil).

All Employee Share plan (AESP)
AESP awards, of up to HMRC tax-approved levels, are given to all UK employees. These awards vest tax free from the AESP after at least three years, but not more than five years from the date of grant subject to continued employment.

On the 27 February 2023, 12,800 (2022: 12,250) share options were awarded to the employees under the AESP.

The share price at the date of award was 1,160p (2022: 960p). As the awards are, effectively, £nil cost awards, the fair value is determined to equal to the share price at the date of grant under the Black-Scholes model. This resulted in a share-based payments charge of £148k (2022: £118k) as part of the total share-based payments charge.

29. Capital commitments
At 31 March 2023, there were capital commitments of £172k (2022: £303k).

30. Adjustments to profit
The Group's results are reported after several imputed non-cash charges and non-recurring items. We have provided additional adjusted performance metrics to aid understanding and provide clarity over the Group's performance on an ongoing cash basis before

imputed non-cash accounting charges. This is consistent with how analysts and investors tell us they review our business performance in presenting an adjusted profit metric adjusting for the following items:

- Non-cash charges arising from share-based payments and the amortisation of acquisition intangibles
- Non-recurring costs relating to acquisition costs (including fair value adjustments and earn-out estimation changes)
- Non-recurring tax credits arising, primarily, from prior year R&D claims and tax deductions on share options
- The movement via OCI of the deferred tax asset relating to the future tax deduction that would be available based on the share price at the balance sheet date compared to the share price at the date of grant of options and share bonus

	2023 £'000	2022 £'000
Reported gross profit	**39,674**	27,527
Adjustments to gross profit	**88**	168
Adjusted gross profit	**39,762**	27,695
Reported operated profit	**9,408**	3,726
Adjustments to operating profit	**2,219**	3,674
Adjusted operating profit	**11,627**	7,400
Reported operating margin percentage	**7.4%**	4.4%
Operating margin percentage impact of adjustments	**1.8%**	4.3%
Adjusted operating margin percentage	**9.2%**	8.7%
Reported profit before tax	**8,436**	3,500
Adjustments to profit before tax	**2,355**	3,674
Adjusted profit before tax	**10,791**	7,174
Reported profit after tax	**6,690**	2,523
Adjustments to profit after tax	**1,863**	3,635
Adjusted profit after tax	**8,553**	6,158
Reported total other comprehensive income	**5,727**	2,784
Adjustments to total other comprehensive income	**1,957**	3,374
Adjusted total other comprehensive income	**7,684**	6,158

2023	Components £'000	Systems £'000	Head office £'000	Total £'000
Acquisition fair value adjustments within cost of sales	–	88	–	**88**
Acquisition fair value adjustments, reorganisation and deal costs	–	289	15	**304**
Decrease in deferred consideration on acquisition of Active Silicon	–	(326)	–	**(326)**
Amortisation of acquisition intangibles	–	–	1,602	**1,602**
Share-based payments	–	–	551	**551**
Imputed interest on deferred consideration unwind	–	136	–	**136**
Adjustment to profit before tax	–	**187**	**2,168**	**2,355**
Current and deferred taxation effect	–	(26)	(466)	**(492)**
Adjustments to profit after tax	–	**161**	**1,702**	**1,863**
Movement of deferred tax asset in OCI re. share price impact on options	–	–	94	**94**
Adjustments to total other comprehensive income	–	**161**	**1,796**	**1,957**

All amortisation charges relating to acquisition intangibles have been consistently classified into head office overheads for the current and comparative year to provide a consistent presentation and accurate representation of underlying divisional trading as presented to the Directors.

In evaluating our adjusted performance metric in respect of Earnings Per Share (EPS) the board consider "Adjusted Fully Diluted EPS" to be the most appropriate metric as our investors and the analysts who cover Solid State PLC use this metric to monitor performance. However, we also recognise the equal importance of the statutory metric of "Reported EPS" as the other relevant metric (which includes the IFRS2 charge for the value gained from employees but excludes the dilution so not to double count with the charge).

Whilst we disclose "Reported Fully Diluted EPS" and "Adjusted EPS" for completeness in note 8 these are not considered to be as appropriate metrics by the Board as "Reported Fully Diluted EPS" reflects a double hit to the results of the IFRS2 charge and the dilution and "Adjusted EPS" does not reflect either the IFRS2 charge or the dilution which clearly makes these metric much less appropriate when assessing performance.

2022	Components £'000	Systems £'000	Head office £'000	Total £'000
Acquisition fair value adjustments within cost of sales	168	–	–	168
Acquisition fair value adjustments, reorganisation and deal costs	–	533	–	533
Increase in deferred consideration on acquisition of Active Silicon	–	1,650		1,650

Amortisation of acquisition intangibles	–	–	1,028	1,028
Share-based payments	–	–	295	295
Adjustment to profit before tax	**168**	**2,183**	**1,323**	**3,674**
Current and deferred taxation effect	(31)	(75)	(221)	(327)
Deferred tax rate change impact on acquisition intangibles and share-based payments	–	–	288	288
Adjustments to profit after tax	**137**	**2,108**	**1,390**	**3,635**
Recognition of deferred tax asset in OCI re. share price impact on options	–	–	(261)	(261)
Adjustments to total other comprehensive income	**137**	**2,108**	**1,129**	**3,374**

Acquisition fair value adjustments within cost of sales relates to the unwind of the IFRS3 fair value uplift on stock to selling price less cost to sell in both periods.

Acquisition fair value adjustments, reorganisation and deal costs in the current year and comparative period relate to transaction costs for the acquisition of Custom Power.

31. Segment information

The Group's primary reporting format for segment information is business segments, which reflect the management reporting structure in the Group. The Components Division comprises Solid State Supplies Limited, Pacer LLC, Pacer Components Limited, Willow Technologies Limited and American Electronic Components, Inc. The Systems Division includes Steatite Limited, Custom Power LLC, Active Silicon Limited, Active Silicon Inc. and eTech Developments Limited.

Year ended 31 March 2023	Components division £'000	Systems division £'000	Head office £'000	Total Group £'000
External revenue	68,986	57,517	–	**126,503**
Operating profit	5,754	7,941	(4,287)	**9,408**
Adjusted operating profit	5,754	7,992	(2,119)	**11,627**
Profit before tax	5,723	7,718	(5,005)	**8,436**
Taxation	(1,041)	(1,488)	783	**(1,746)**
Profit after taxation	4,682	6,230	(4,222)	**6,690**
Consolidated statement of financial position				
Assets	30,435	38,408	44,945	**113,788**
Liabilities	(13,220)	(25,331)	(17,283)	**(55,834)**
Net assets	17,215	13,077	27,662	**57,954**
Other				
Capital expenditure:				
Intangible assets	339	858	–	**1,197**
Intangible assets – acquisitions	–	52	27,178	**27,230**
Tangible fixed assets	836	679	–	**1,515**
Tangible fixed assets – acquisitions	–	991	–	**991**
Right-of-use assets	115	7	–	**122**
Right-of-use assets – acquisitions	–	883	–	**883**
Depreciation – PPE	559	600	–	**1,159**
Depreciation – right-of-use assets	217	748	–	**965**
Amortisation	50	383	1,602	**2,035**
Share-based payments	–	–	551	**551**
Interest	30	222	720	**972**

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2023 or the prior year.

Year ended 31 March 2022	Components division	Systems division	Head office	Total Group
External revenue	52,480	32,517	–	**84,997**
Profit before tax	4,433	2,492	(3,425)	**3,500**
Taxation	(903)	(297)	223	**(977)**
Profit after taxation	3,530	2,195	(3,202)	**2,523**
Consolidated statement of financial position				
Assets	24,616	21,665	16,045	**62,326**
Liabilities	(11,587)	(14,253)	(9,410)	**(35,250)**
Net assets	13,029	7,412	6,635	**27,076**
Other				
Capital expenditure:				
Tangible assets	524	654	–	**1,178**
Tangible assets – acquisitions	–	–	–	**–**

Intangible fixed assets	268	333		**601**
Intangible fixed assets – acquisitions	–	–	–	**–**
Right-of-use assets	216	97	–	**313**
Right-of-use assets – acquisitions	–	–	–	**–**
Depreciation – PPE	331	398	–	**729**
Depreciation – right-of-use assets	264	499	–	**763**
Amortisation	20	279	1,028	**1,327**
Share-based payments	–	–	295	**295**
Interest	48	61	117	**226**

	External revenue by location of customer		Total assets by location of assets		Net capital expenditure by location of assets	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
United Kingdom	**71,649**	53,030	**102,687**	59,023	**2,134**	1,723
Rest of Europe	**18,202**	15,726	**31**	1	–	–
Asia	**8,811**	6,542	–	–	–	–
North America	**27,205**	9,175	**11,070**	3,302	**578**	56
Other	**636**	524	–	–	–	–
	126,503	84,997	**113,788**	62,326	**2,712**	1,779

32. Acquisition accounting for Custom Power LLC

	Book value $'000	Fair value Adjustment $'000	Fair value to Group $'000	Fair value to Group* £'000
Intangible assets	–	8,298	8,298	6,858
Property, plant and equipment	362	895	1,257	1,039
Right-of-use assets**	–	1,069	1,069	883
Deferred tax asset	–	81	81	67
Inventory	4,105	(303)	3,802	3,142
Trade and other receivables	4,368	(250)	4,118	3,403
Trade and other payables	(2,305)	(337)	(2,642)	(2,183)
Right-of-use lease liabilities**	–	(1,069)	(1,069)	(883)
Provision for dilapidations	–	(25)	(25)	(21)
Cash and cash equivalents	319	–	319	264
Net assets on acquisition	**6,849**	**8,359**	**15,208**	**12,569**
Goodwill on acquisition	–	–	24,588	20,321
Discounted consideration			**39,796**	**32,890**
Discharged by:				
Cash paid on acquisition			30,001	24,795
Short-term deferred consideration			10,000	8,264
Gross consideration			**40,001**	**33,059**
Discounting			(205)	(169)
Discounted consideration			**39,796**	**32,890**

* Exchange rate at date of acquisition was 1.21.
** These adjustments are GAAP alignments rather than fair value adjustments.

Solid State PLC incorporated Custom Power Holdings Inc. as a new 100%-owned US subsidiary to subsequently acquire Custom Power, LLC on 5 August 2022. Custom Power LLC is a Company based in Orange County, California, which designs and manufactures custom battery pack solutions. The entire membership interest, and therefore control, of the LLC was purchased for a maximum consideration of $45m, including $10m of deferred consideration (payable in two equal tranches in February 2023 and August 2023) and a $5m contingent earn-out payable on achievement of a revenue performance target.

The fair value of intangible assets recognised is in relation to the brand "Custom Power", the open order book and the customer relationships. The goodwill recognised represents expected synergies from combining the operations of Custom Power LLC with those of the existing Systems Division, expected value from incremental sales arising across the combined operation that is not separately recognisable at the date of acquisition and the value of the work force not recognised as an intangible asset under IFRS3 revised.

The Group acquired the membership interests of Custom Power LLC, which is a disregarded entity for US tax, so we expect to benefit from a tax deduction in the US in relation to the goodwill arising. The goodwill carrying value on consolidation is not amortised, but is assessed for impairment at the end of each reporting period. If no impairment is recognised, the initial asset recognised for deferred taxation will unwind until it becomes a deferred tax liability when the local deduction is fully recognised.

The revenue and profit after tax for the post-acquisition period included in the Statement of Comprehensive Income arising from Custom Power's operations were $19.8m (£16.7m) and $1.7m (£1.4m), respectively. If Custom Power had been acquired on 1 April 22, the estimated values to include in the Group's Statement of Comprehensive Income would have been revenue of $29.4m (£24.5m) and profit after tax of $2.4m (£2.0m). The Group incurred acquisition related costs of £786k (of which £565k was expensed in prior periods and £221k expensed in the current period) on legal fees and due diligence costs, included in sales, general and administration expenses.

Lloyds Bank Plc provided a $10m standby letter of credit which was fully funded by the $10m cash on deposit. By setting aside $10m in a separate deposit account, to minimise charges, the Group fully funded the short-term deferred consideration. $5 million was settled in the year, leaving a balance of $5m disclosed as a separate element of cash and cash equivalents on the face of the consolidated balance sheet.

The final $5m of deferred contingent consideration only becomes payable if Custom Power achieves a last 12-month revenue in excess of $37.5m within an 18-month period post acquisition. Based on the information available to management at the year end date, this stretch hurdle is, currently, not considered to be achievable, and the contingent consideration of $5m has been removed from the goodwill calculations. The deferred consideration amounts were discounted at an appropriate cost of debt and the impact was to reduce the fair value of the consideration by $205k. The discounting will be charged as a non-cash interest charge over the period of the deferment with £136k charged to date.

The total cash settled to date is the initial consideration of £24.8m plus the first $5m of deferred consideration at £4.1m.

33. Related parties

On the 8 June 2022, the Group formed a new entity, eTech Developments Limited, registered Co. number 14159260. eTech Developments Limited is 75% owned by Solid State PLC following an initial £150k investment. This is a new business, which provides engineering consultancy by employing an engineering team. The team provide power engineering services to the Group and external customers on an arm's length basis.

eTech made sales to the Group totalling £196k (2022: £Nil) and purchases from the Group totalling £49k (2022: £Nil). As at 31 March 2023, £60k is owed to the Group from eTech and £8k is owed from eTech to the Group.

34. Post balance sheet events

Subsequent to the year end, the Group agreed a facility extension on the USD overdraft facility of up to $10m to the end September 2023 in order to cover the maximum potential impact of the NATO project's timing differences to cashflow.

A new USA holding company, Solsta Holding Inc., was incorporated with the intention to simplify the structure of the US Components Division legal entities. This entity is 100% owned by Solid State Plc.