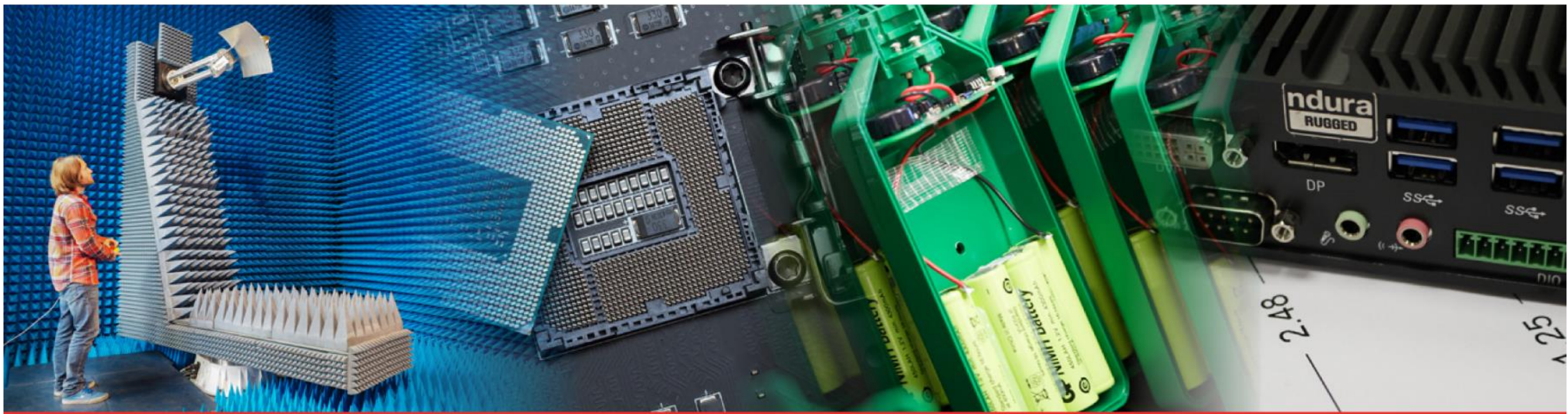
SOLID STATE PLC

DESIGN - MANUFACTURE - DISTRIBUTION

Annual Report & Accounts
31st March 2020



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DIRECTORS, SECRETARY AND ADVISERS

Directors:	Peter Haining, FCA, *Non-Executive Director and Interim Chairman* Gary Stephen Marsh, *Chief Executive Officer* Peter Owen James, BSc FCA*, Executive Director* John Lawford Macmichael, *Executive Director* Matthew Thomas Richards, *Executive Director* Nigel Foster Rogers*, Non-Executive Director (Appointed 1 July 2019)* Anthony Brian Frere, *Non-Executive Chairman (Retired 31 March 2020)* John Michael Lavery*, Non-Executive Director (Retired 31 August 2019)*
Company Secretary and Registered Office:	Peter Haining, FCA **Solid State PLC** 2 Ravensbank Business Park Hedera Road, Redditch B98 9EY
Company Number:	00771335
Nominated Adviser and Broker:	**W H Ireland Limited** 24 Martin Lane London EC4R 0DR
Joint Broker:	**finnCap Limited** 60 New Broad Street London EC2M 1JJ
Auditors:	**RSM UK Audit LLP** St Philips Point, Temple Row Birmingham West Midlands B2 5AF
Solicitors:	**Shakespeare Martineau LLP** 1 Colmore Square Birmingham West Midlands B4 6AA
Bankers:	**Lloyds Bank PLC** 125 Colmore Row Birmingham West Midlands B3 3SF
Registrars:	**Neville Registrars Limited** Neville House Steelpark Road Halesowen B62 8HD
Country of Incorporation of Parent Company:	England and Wales
Legal Form:	Public Limited Company
Domicile:	United Kingdom

CHAIRMAN'S STATEMENT

Overview of the year

The financial year ended 31 March 2020 has seen the Group deliver a record performance in terms of revenue and profit, having made significant progress against its strategic objectives. The Group's strategy is to deliver growth both organically and through acquisition. These results illustrate our continued commitment to delivering on this strategy.

During our first full year of ownership of Pacer Technologies, acquired in November 2018, the Value Added Distribution (VAD) division has successfully completed the integration of Pacer's Opto-electronics business, which will enable the division to harness effectively the benefits of enlarged scale and customer reach.

The Group has continued to invest in its R&D activities in the Computing, Power and Opto-electronics business units to support sustainable margin improvement. There has been significant progress in developing own brand computing products that will enable the business development team to target Artificial Intelligence (AI) architecture opportunities. Our investment in enhanced battery pack designs provide power for autonomous craft in addition to providing solutions which fulfil the growing demand to replace fossil fuel motors with an electric power train.

The Group has invested in business development resource to target new customers and markets across both divisions. This will enable the Group to maintain a diversified customer base and maintain the resilience that we have established while allowing us to exploit bigger opportunities with our Tier 1 customers.

Financial overview

Set out below are the fundamental financial key performance indicators which reflect the record year and a very pleasing result:

KPI	2020	2019	Change
Reported Revenue	£67.4m	£56.3m	+19.7%
Proforma Revenue**	£67.4m	£64.7m	+4.2%
Reported operating profit margin	6.1%	5.2%	+90bps
Adjusted operating profit margin*	7.2%	6.5%	+70bps
Reported profit before taxation	£4.0m	£2.8m	+42.9%
Adjusted profit before taxation*	£4.7m	£3.5m	+34.3%
Adjusted diluted EPS	46.3p	35.9p	+29.0%
Underlying cash flow	£8.0m	£4.0m	+103%
Net cash/(net debt)	£3.2m	(£2.0m)	+260%
Dividend	12.5p	12.5p	-
Open order book @ 31 May 2020	£37.9m	£35.9m	+5.6%

* Adjusted performance metrics are reconciled in note 32.
**Proforma revenue restates the prior year on a like for like basis to include the £9.4m pre-acquisition Pacer revenue for 2018/19 and excludes £1.0m non-recurring electronics revenue as reported in prior year.

Pleasingly the Group has delivered:

- 4% organic sales growth in proforma Group revenue, driven by 8.8% organic growth in Manufacturing and 1% growth in VAD against an electronic component distribution market that experienced a 7% decline
- Record profitability reflected in adjusted operating margins increasing 70bps to 7.2%, based on margin improvement in both divisions and the operational gearing
- Record operating cash generation of £8.0m with reported cash conversion of 197% (2019: 168%)
- Adjusted fully diluted EPS up 29% to 46.3p (2019: 35.9p)
- 5.6% organic growth in the open orderbook at the 31 May 2020
- Dividend maintained – testament to the resilience of the Group's business model

Strategic Achievements in 2019/2020

Notable achievements in 2019/20 to advance our strategy included:

- Investment in technology across the Group including our battery pack designs, own brand computing products and enhanced production capabilities in the Weymouth value added facility
- Investment in business development resource to target new customers and markets for our technical solutions
- Integration of Pacers Opto-electronics business into VAD to enable the division to leverage the benefits of scale and reach
- Investment in ERP systems across the Group

CHAIRMAN'S STATEMENT (continued)

Senior management and corporate governance

During 2020 Solid State made significant progress in refreshing the Board to take the business through the next phase of its development.

I would like to acknowledge the contribution of both Mr A B Frere and Mr J M Lavery who both retired from the Board during the financial year.

Mr J M Lavery served as both an Executive and Non-Executive Director over his 36 years' service with Steatite, the last 17 years with the Group after Steatite was acquired by Solid State in 2002.

Mr A B Frere served as Chairman for the last six years and nearly 10 years as a Board member.

Under his chairmanship, Solid State PLC achieved a great deal, making seven acquisitions, considerably broadening its product offering, and building a trusted brand whilst developing the business and the governance structures to put the business in a strong position looking forward.

Mr N F Rogers joined the Board on the 1 July 2019 bringing a wealth of business experience. He has made a significant contribution during his first year and will be a valuable member of the team as we take the Group forward.

The recruitment process for the new Non-Executive Director and the appointment of a full time Chairman is not yet concluded and is now being hindered by COVID-19 distancing protocols. As a result, I have assumed the role of Interim Chairman until such time as a permanent appointment can been made.

Acquisitions

Our stated strategy to further the Group's development through a combination of organic and acquisitive growth is unchanged. Whilst progress on our near-term acquisitions is currently paused, the Group remains acquisitive and is at the early stage of evaluating several opportunities.

Pipeline development continues both on UK bolt-on targets and larger businesses that will expand our international sales. The Board will look to be opportunistic should an acquisition target arise as we exit the COVID-19 pandemic and we plan to resume these activities as soon as possible.

Having now repaid the final instalment of our term loan for the acquisition of Pacer Technologies, Solid State is now debt free. With cash at bank of £4.5m as at 31 May 2020 and a recently renewed and unutilised Revolving Credit Facility of £7.5m we are well placed to support our acquisition strategy when activities resume.

Dividend

The resilience of the Group's business model and the strong cash position gives the Board confidence in recommending a final dividend despite the current challenging environment. Solid State plc has paid a dividend every year since joining AIM in 1996. The Group's stated dividend cover range is between 2.5 and 3.0 times. However, given the current exceptional circumstances the Board considered it prudent when recommending a final dividend to temporarily increase cover this year to 3.75 times. Next year, depending on the market backdrop, we will aim to return to our targeted dividend cover range. The Board is proposing to maintain last year's dividend meaning a final dividend of 7.25p (2019: 8.3p), giving a full year dividend of 12.5p (2019: 12.5p).

Subject to approval of the final dividend by shareholders at the AGM on 9 September 2020, the final dividend will be paid on 23 September 2020 to shareholders on the register at the close of business on the 4 September 2020. The shares will be marked ex-dividend on 3 September 2020.

CHAIRMAN'S STATEMENT (continued)

Opportunities and prospects for 2020/2021

Whilst the forthcoming period will no doubt be dominated by the effects of COVID-19, the Group is well placed to weather the current crisis and emerge in a stronger position than many of its competitors. Although the Group is seeing and expecting some slowdown in order intake during this financial year, its diverse sector exposure and strong open order book will provide some resilience.

The Group's business model now serves a wide customer base of over 1500 clients, operating across multiple sectors, offering a broad product range with decentralised production across the UK. This diversification provides the Group with a resilience when markets are challenging. The Group's most recent acquisition of Pacer Technologies further diversified the Group and greatly improved its access and offering to the medical sector, which has been relatively strong during the COVID-19 pandemic.

We expect sectors such as oil & gas and commercial aviation will continue to be impacted in addition to the softness in demand for computing products for certain niche applications. That said, the Board believes demand for image capture, processing, and transmission post COVID-19 will see significant growth in the medium term, driven by increased adoption of industrial AI and the roll out of 5G. The Group is equally seeing other sectors, notably medical and food retail, delivering strong sustained demand providing some mitigation to the adversely impacted market sectors.

While risks outside COVID-19 remain, the Group continues to benefit from opportunities in its core markets as noted above. The Group has traditional strength in serving the security and defence sector, furthermore it is well placed to benefit from any shift by Prime Contractors away from a globalised supply chain to buying more of their vital electronics and services closer to home.

The Group continues to drive cross selling initiatives. The VAD division is seeking opportunities requiring higher levels of technical integration, that can be fulfilled though collaboration with the Manufacturing division. Two notable programmes are expected to start in 2020 leveraging the full capabilities of the Group, bringing new and previously unattainable opportunities to the business.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions and fossil fuel replacement are being targeted in varied market sectors including land based, sea and subsea. The Group is taking care to select markets for its products and solutions that have not been commoditised.

We have found new ways to engage with clients including virtual "hands-on" design and specification meetings and more of our marketing budget will be re-deployed to continue these innovations.

Entering the year with the strong open order book has meant trading in the first quarter has been broadly in-line with prior year and ahead of management expectations. While we have been able to maintain a good open order book the Q1 order intake is down just under 15% compared to prior year, as a result of COVID-19.

The outlook remains difficult to predict, however the Board is confident that given its niches in sectors currently in demand and those likely to be in receipt of government stimulus packages, for example in transportation and medical, it is well placed to navigate these exceptional trading conditions.

P Haining
Interim Chairman
30 June 2020

CHIEF EXECUTIVE'S STRATEGIC REPORT

Introduction to Solid State PLC

Comprised of two divisions but with a shared mission, strategy and consistent business values, Solid State thrives on a trusted advisor relationship with its customers. Solid State provides technology solutions, primarily designed for demanding applications, safely, reliably, and swiftly freeing customers to focus on their core business with confidence.

Solid State's mission and strategy to deliver growth

The Group's mission is "*To remain at the forefront of electronics technology, delivering reliable, high quality products and services. Adding value at every opportunity, from enquiry to order fulfilment; consistently meeting customer and partner expectations.*"

The stated strategy is to supplement organic growth with selective acquisitions within the electronics industry which will complement our existing Group companies and over time deliver improved operating margins through the delivery of operational efficiencies, scale and distribution.

The strategy to deliver this has three key elements:

1) Investment in people, technical knowledge, and resources to ensure Solid State remains at the forefront of electronics technology. To constantly seek opportunity to add value meeting our customers' unmet needs and establishing long term relationships as a trusted advisor and subject matter experts;
2) Targeting strategic acquisitions which are aligned with Solid State's core capabilities and provide access to new markets or deepen the Group's knowledge and ability, whilst enhancing the value it can add for its customers; and,
3) Continue to develop strategic partnerships with customers and suppliers within the electronics industry, building its portfolio of value added services.

The Group is focused on the supply and support of specialist electronics equipment through its Value Added Distribution ('VAD') and Manufacturing divisions. The VAD division is a market leader in delivering innovative, valuable, technical solutions for customers seeking specialist, electronic and opto-electronic components and displays.

The Manufacturing division is a market leader in the design, development and supply of high specification rugged computers, custom battery packs providing portable power and energy storage solutions and advanced communication systems, encompassing wideband antennas and high performance video transmission products.

The market for the Group's products and services is driven by the need for bespoke electronic solutions to address complex needs, typically in harsh environments where enhanced durability and resistance to extreme and volatile humidity, temperature, pressure and wind is vital. The drivers of value in its markets include safety, technical performance, efficiency improvements, cost savings, and environmental monitoring.

Value Added Distribution ('VAD') division

The Group's VAD division has two business units; electronics and opto-electronics. The division focuses on serving the needs of the original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities in the UK, principally from its operations in Redditch, Pangbourne and a USA sales office. The division continues to invest in its value added services facility in Weymouth which includes a Class 7 clean room giving the Group an industry leading capability.

The division represents a select number of suppliers who manufacture semiconductors, related electronic and opto-electronic components, modules and displays. The division has an in depth understanding of these products and as such can offer outstanding levels of commercial and technical support to its customers.

The products offered are from globally recognised manufacturers and include those for 5G and the Internet of Things (IoT), embedded processing, control, wireless and wired communications, power management, optical emitters and sensors, displays and LED lighting. The division has expertise in high-reliability components for military and aerospace applications. The division's quality management system is accredited to the international aerospace standard AS9100 and AS9120.

The VAD division understands the need to provide the highest level of service to its customers and has a clear focus on supporting the electronic and opto-electronic design community. Wherever possible the VAD division offers services for customers who require their programmes pre-loaded onto hardware or their products prepared to go direct to the production line. All of these services are carried out in a bespoke electrostatic discharge (ESD) safe facility in line with the AS9100 certification. This is an offering many competitors are unable to provide.

Manufacturing division – Computing, Power and Communications business units

The division is a market leader in the design, development and supply of portable power and energy storage solutions, rugged and industrial computers, advanced communication systems, including high-performance video transmission products and wideband antennas. The facilities and personnel are cleared by the UK Government as necessary to allow secure work. It is the technical knowhow, product quality and team responsiveness that sets this business apart from its competitors.

The division has three business units, each operating from a centre of excellence. The Crewkerne facility is the Group's centre of excellence for the design and manufacture of Power products; the Redditch facility focuses primarily on the delivery of Computing products; and the facility in Leominster primarily houses the Communications business unit, which includes antenna design, production, and test facilities.

The Group's environmental test chamber and vibration testing capabilities, in addition to the near-field antenna test chamber are located in Leominster, which supports in-house development and is also made available to third parties looking to utilise the state of the art chamber on a chargeable basis. These facilities provide class leading test and measurement capabilities which are utilised across the Group.

Computing business unit

The Computing business unit designs, manufactures and tests rugged and industrial computing solutions, serving a wide range of markets including industrial, military, transportation, surveillance and broadcasting.

Success has been achieved through specialisation in industrial computer design and integration, custom chassis builds, production, test and certification and customisation of Microsoft Windows IoT and related software products with emphasis on driving the level of value added content. Partnerships with industry leaders including Nvidia and Intel position the business unit to address the growing opportunity in Artificial Intelligence (AI).

The business unit has strong and long standing commercial relationships directly with key suppliers in Asia and the USA. The capabilities extend from the provision of single board computer modules to turnkey integrated systems with significant engineering based value added content in the design, production, testing and commissioning.

Power business unit

The business unit has over 30 years' experience supplying batteries and mobile power solutions into some of the world's most demanding environments. Its battery packs are used in a range of sectors including medical, oil and gas, military and security, aerospace, environmental and oceanographic, and industrial.

The products provide portable power and energy storage solutions. This includes battery pack assembly, power control, electronic and mechanical design, and testing. The Group is agnostic of cell chemistries, enabling the business unit to be the subject matter expert for its customers, selecting the most appropriate chemistry and battery management system for the customers' requirements.

Working from initial design through qualification and United Nations (UN) testing, production, support and disposal at end of life, the business unit is well positioned to respond to an increasing demand for mobile and static power solutions where there is a specific requirement for high reliability, harsh environment and, above all else, safe systems.

The operation has the latest ISO 9001-2015 standard that is complemented by the ISO18001 health and safety accreditation and approval to build equipment intended for use in potentially explosive atmospheres under the ATEX directive. These are all key considerations for our business to business customers.

Communications business unit

This business unit provides custom solutions that include bespoke antenna design and manufacture, advanced high bandwidth radios including related peripheral technology and domain knowledge from the in-house product support team that has direct end user experience.

The radios provide situational awareness solutions and are in service primarily with Special Forces users for ground based and, increasingly, unmanned platforms both aerial and maritime. The team seeks opportunities to enhance the base line radio product with customised packaging for harsh environments, switching and routing hardware and software add-ons as well as leveraging in house antenna capabilities.

With over 40 years of experience, the business unit is at the forefront of antenna design and manufacture. It provides advanced ultra-wide band systems addressing international customer demand. Its antennas are utilised in a range of applications including electronic warfare, meteorological sensors and test and measurement applications.

The Group's purpose built 18,000 sq. ft facility in Leominster, Herefordshire, includes environmental and vibration testing capabilities and a world class near-field test chamber that sets the business apart from competitors and allows the business unit to remain as a pre-eminent provider of ultra-wideband/high power antenna solutions.

Group trading overview

The Solid State Group has delivered organic growth in revenues and record growth in profitability in spite of the very challenging market conditions in 2019/20 which saw a significant destocking in Q1 post the original Brexit date, a cyclical downturn in VAD and, at the end of the year, significant challenges as a result of COVID-19. The strategic progress combined with the focus on value added solutions, has resulted in the Group delivering organic revenue growth and record profits significantly surpassing last year's result.

The completion of the integration of the Pacer business has strengthened the VAD division offering. The enhanced scale, capabilities, market reach and penetration places the Group in a position to target growth opportunities which would not have been previously attainable.

The Manufacturing division's technical centres of excellence have enabled it to service its core sectors of computing, power and communications more effectively in 2019/20. It continues to focus efforts where its expertise and product offerings will add real value to customers. This has resulted in high single digit organic revenue growth which has also enabled the division to continue to improve operating returns year on year.

The Group continues to recognise the value of, and to invest in, its staff with various ongoing professional development initiatives. The Group continues to attract exceptionally high calibre staff giving it a significant competitive advantage in the market place and making it a more attractive partner to do business with. Furthermore, the Group put in place staff welfare programmes to provide both physical health and mental health benefits and resources which are available to all employees.

As highlighted in the principal risk and uncertainties section below, business risks have been considered and, where practical, mitigated. However, the macroeconomic and geopolitical risks and headwinds including; COVID-19, Brexit uncertainty, fall in global oil prices, US/China trading relations and the associated impact on foreign exchange, means it is very difficult to predict and therefore mitigate fully. Whilst the Group sells predominately to the UK, its customers do sell into the global markets and some have reported challenges on new project awards which makes it very difficult to forecast demand.

As a result of the macro environment the Group has seen long lead times and component shortages arising with limited warning for certain critical components, in particular, battery cells, PCBs, some embedded processing modules, semiconductors and computer processors. The Group is also seeing and managing fluctuations in freight costs and availability. The strength of the balance sheet together with smart purchasing actions have enabled the business to successfully mitigate lead times, shortages and transportation impediments. However, this continues to be a challenge requiring active management and necessitates significant buffer stocks being held.

Diversity is a key strength, providing the Group with resilience. The diversity in technology, markets and territory has offered some protection against the global headwinds in the period and enabled Solid State to deliver record results. This has carried forward to the current year and strengthened the Group's ability to weather the COVID-19 storm better than some in the industry. Further details updating on the impact of COVID-19 on the business are set out in the outlook section of this report.

Divisional business review

Value Added Distribution ('VAD') division

2019-20 proved to be a challenging year for the UK electronics distribution and semiconductor industry with the market declining circa 7% over the financial year (source ECSN). Despite this, the VAD division significantly outperformed the market with like-for-like proforma revenues slightly ahead of the prior year at £39.2m (2019: £38.8m).

The key metrics of margin and stock turn continue to be well controlled, with stock turns of more than five times. Divisional margins have benefitted from the first full year contribution of the Pacer business which has delivered particularly pleasing results in the USA where the gross margin has been increased 6%, in part because of the enhanced valued added offering. Underlying margins (USA aside) have been maintained at prior year levels despite the downward market pressure.

VAD ended the year delivering double digit organic growth in the open order book at £24.2m (2019: £21.9m), however COVID-19 has presented unprecedented challenges during Q4 and entering the new financial year.

The integration of the Pacer Opto-electronics business into the division was completed ahead of schedule. The operating margin improvement and growth strategy was defined in this process and is now being executed to good effect. Pleasingly the Opto-electronic business unit operating margins improved more than 3% over the prior year driven by a combination of operational efficiencies and increased value added sales.

In addition, the integration has allowed the acceleration of the Group cross selling initiatives. This has enabled the VAD division to seek opportunities requiring higher levels of technical integration that can be fulfilled though the Manufacturing division. Two major programmes are expected to start in 2020 leveraging the full capabilities of the Group, bringing new and previously unattainable opportunities to the business.

The introduction of new software to monitor and manage VAD's pipeline of projects and design wins has facilitated an increasing level of activity across both business units and has allowed for tighter control and better targeting of human resource to accelerate these programmes.

During the year the division continued to invest in its marketing activity promoting the broader product offering of the enlarged VAD division, supporting the need for an enlarged design-in pipeline to feed the future sales growth. Post year end, COVID-19 has required a re-focus on the ways in which the division promotes, markets, and sells its products. There has been a greater focus on on-line technical support, on-line events and webinars and investment in search engine optimisation. It is expected that many of these innovative and significant changes which have delivered tangible benefits to both our customers and suppliers will remain in place post COVID-19.

The diverse nature of the business continues to provide a level of resilience against business disruption in any given sector as we have seen at the end of the financial year with COVID-19. The increased scale of the division has meant that it is now benefiting from its involvement in the UK's medical manufacturing industry, which historically would not have been the case.

The VAD business continues to invest in staff and capital equipment at its Weymouth value added facility and indeed across the Group. New ERP software is being tested to bring greater efficiencies to the wider business. The investment in production capability and capacity at Weymouth has been made to facilitate new opportunities from both existing and new customers.

The VAD division's strategy remains largely unchanged in terms of its growth ambitions and the means to achieve this growth. The division continues to execute on its strategy, although some of the tactical elements whilst still in place have necessarily slowed during this COVID-19 pandemic.

Manufacturing division and business unit summaries

The focus for the Manufacturing division in 2019/20 has been to win premium work, adding value when opportunity has allowed; to drive improved operating performance, and put in place a foundation for future sustainable profitable growth.

Pleasingly, in the year to 31 March 2020 it has been able to deliver organic revenue growth of 8.8%, primarily driven from the Power business unit. This has translated into record profit with underlying divisional operating margins increasing to 15% (2019: 11%). This improvement reflects a strong sales mix in the year combined with the benefits of operational gearing. The division also benefitted from the sale of some legacy inventory which was written down, the additional margin has been treated as exceptional and is excluded from the underlying operating margins.

During the year, the division invested in enhancing the business development and sales resource. It also re-focused its commercial effort on key structural growth markets including medical, autonomy, 5G, AI, and security where its expertise, technology and solutions should enable it to deliver value and realise growth.

In the latter part of the year and as the Group entered the new financial year, the COVID-19 measures have meant the deferral of a planned capital investment in an EMC chamber and RF testing suite. This has not caused any significant disruption as third party test houses have continued to be utilised. Post the COVID-19 disruption this investment is expected to be made which will further enhance the in-house capabilities and provide flexibility and a competitive advantage allowing the division to differentiate its value offering to customers.

Pleasingly, the open order book at 31 March 2020 has increased 12% to £15.7m (2019: 14.0m), however approximately £2.75m (2019: £0.1m) is billable in more than one year due to the development cycles, which when combined with lower order intake in Q1 2020/21 as a result of COVID-19, means the division expects near term revenue and profit growth to be challenging. That said, the Manufacturing division has had a good start to the year in spite of these challenges.

Computing business unit

The Computing business unit remains well diversified across market sectors and technologies. It has seen a continued increase in the demand for Artificial Internet of Things (AIoT) solutions that are image/video centric, which plays to its strengths. The business unit is particularly well positioned to address the growing trend for "Edge Computing" and related harsh environment applications with a range of fanless high powered, long life computing solutions.

A concerted effort to exploit the Manufacturing division's engineering skills and security accreditations resulted in an important development and production contract from a UK Government organisation for a secure hardware solution for an IT environment, which was designed, manufactured and delivered in the period.

The technology will counter a growing cyber threat that is targeting key workers who are located out of their secure environments. As a result, the business has put in place a product road map to develop a standard compact solution during the coming year, which is being designed for both sensitive Government departments and broader commercial applications where there is a need to operate securely from remote locations.

Demand for image capture, processing, and transmission is growing significantly, driven by AI becoming a powerful solution and the adoption of 5G. In continuing to enhance its offering in this area a product strategy has been put in place to exploit the existing strengths and knowledge in, graphic & video processing. The business unit expertise in designing applied solutions for long term, reliable operation in real world harsh environments provides a competitive advantage and an opportunity to command enhanced margins.

Power business unit

During 2019/20 the Power business unit has successfully transitioned a number of designs for new markets including medical and retail warehousing applications, which were in the development phase in 2019, into production volumes in 2020. This delivered strong organic revenue growth, with operating margins benefitting from the operational gearing.

Good progress has been made in designing higher value added solutions while diversifying the markets and customer base. The business secured a development and production contract from the same retail technology company for a next generation battery solution to utilise state of the art cell chemistry and advanced battery management technology. This development will extend into 2020/21 with production deliveries at the end of that period and beyond.

The short term demand from some of the traditionally strong markets of oil and gas and aerospace have seen significant reductions as a result of the combination of macro-economic factors, low oil prices and COVID-19. This validated the importance of the strategy to diversify the market sectors which has been implemented post the acquisition of Creasefield in 2016. While this has not eliminated the impact, it has certainly reduced the adverse impact of the down turn in these sectors, as we have been able to benefit from stronger demand in other sectors such as retail technology and medical. Against the backdrop of this challenging market, billings growth in 2021 is expected to be difficult.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions and fossil fuel replacement are being targeted in varied market sectors including land based, sea and subsea. The business unit is taking care to select markets for portable power and energy storage solutions that have not been commoditised.

Communications business unit

The Communications business unit encompasses antenna products and advanced radio products and is split into the Antennas team and the Radio team. The business unit's technology is world class with two thirds of sales from the Leominster facility being exported worldwide.

The teams have worked diligently to resolve and purge the final legacy contracts and sell related inventories which were fully provided, while maintaining our reputation and customer relationships.

The Antennas strategic plan, which has been implemented, is to focus on the design and development of smaller and lower risk antenna solutions that can be combined into larger arrays to provide overall performance. This strategy has begun to show results and whilst sales were relatively flat year on year, the improved quality of the orders and reduction of risk resulted in strong margin contribution.

The Radio products are heavily project based, the securing of two high value orders from the UK Government enabled the team to meet bookings, billings and margin expectations for the year and helped them to carry a solid open order book into the current year.

The Radio team has targeted adding value to the offering through selling engineering and training services as an adjunct to the hardware equipment sales, further enhancing the value proposition. In addition, we have started to have some success in securing additional technology partners to complement the world class meshed radio system. A partnership with a software provider who delivers support on the routing and switching of data over the radio networks has been established. This has increased the order values and value add the team can provide as part of the solution.

The strategic priority has been to focus the Radio team on domestic markets in preference to overseas defence programmes which reduces the inherent risk and uncertainty on timing, currency, and difficult commercial constraints. This notwithstanding, a network of overseas partners is being established, simplifying the business model, and providing customers with in-territory support to fulfil these overseas requirements. This initiative is proving successful.

This commercial focus has developed a better quality order book that is more deliverable, building a platform for the year beyond. We have seen stronger bookings in Q4 and into Q1 which provides an order book that sets this business unit up well for FY 2020/2021.

Principal risks and uncertainties

The Group has a process for the identification and management of risk as part of the governance structure operated by the Board. Management of risk is the responsibility of the Board of Directors. In managing and mitigating risk, a comprehensive and robust system of controls and risk management processes has been developed and implemented by the Board.

The Board's role in risk management includes:

- promoting a culture that emphasises integrity at all levels in the business;
- embedding risk management within the core processes of the business;
- setting the appetite for risk;
- determining the principal risks;
- ensuring that these are communicated effectively to the businesses; and,
- setting the overall policies for risk management and control.

The principal risks affecting the Group are identified by the Group Executive team within their functional areas of responsibility and are reviewed by the Board.

In identifying the business risks below, we analyse risks across four key areas:

- strategic risk;
- operational risk;
- commercial risk; and,
- financial risk.

Principal risks and uncertainties		
Acquisition risk – (Strategic risk)		

Business risk
• Loss of key customers.
• Loss of key employees.
• Loss of key suppliers.
• Erosion of Intellectual property base.
• Failure to identify and complete profitable acquisitions.
• Failure to integrate management reporting structures and control disciplines.
	Mitigation and Strategy
	• Rigorous due diligence to ensure that acquisitions can be effectively integrated, and all the relevant stakeholders are engaged, supportive and aligned.
	• Pro-active and early engagement with:
	  ○ key customers and suppliers; and,
	  ○ employees through the on-site presence of Solid State PLC management.
	• Preparation and execution of a cross functional integration plan.
	• Continued investment in development of technology in the acquired businesses.
	  ○ Integration into existing internal control frameworks, processes and reporting systems.
	
	At the end of the financial year the Group's acquisition strategy has been suspended temporarily during this period of uncertainty as a result of the COVID-19 Pandemic. Communication continues with prospective acquisitions however progress will be limited in the short-term, until the COVID-19 restrictions are removed.
		Year on year change in likelihood:
		Down
		Potential impact:
		Low
		Effect:
		Integration of acquired business is not effective

CHIEF EXECUTIVE'S STRATEGIC REPORT (continued)

Principal risks and uncertainties		
Legislative environment and compliance – (Strategic risk)		

Business risk
• Restrictions on business because of regulatory lock down due to a pandemic.
• On-going Brexit negotiations and USA / China trade dispute causing an increased level of uncertainty in the legislative and trading environment in which we operate
• Overseas competitors are favoured in their domestic markets
• Failure to comply with applicable legislation, to include but not limited to:
  ○ Export Control and International Traffic in Arms (ITAR);
  ○ Bribery Act;
  ○ General Data protection regulation (GDPR); and,
  ○ Employment legislation and company legislation.
	Mitigation and Strategy
	• Solid State PLC has continued to trade while being compliant with the government's COVID-19 restrictions. The business operates across four key operational sites, these are independent of each other, and have remained operational by adhering to best practice guidelines on social distancing and hygiene protocols. In terms of risk mitigation, all measures are in place to ensure that the risk of cross-contamination within the business is minimised. Furthermore, where possible the Group invested in technology and equipment to ensure that staff who can work from home are working from home.
	• The on-going Brexit negotiations present a level of risk and uncertainty to the business environment in which we operate, however given our level of trade with the EU is modest our exposure is lower than some other companies. However, our breadth of technical knowledge, service levels from our specialist sales teams, scale of our operations, structure, strong balance sheet, governance, and quality standards mean the Board believes the Group is well positioned to respond quickly. The Board believes that the Group's diversified structure gives it resilience, and places it in a far stronger position than our smaller unlisted competitors within our customers' supply chains.
	• Regular reporting of export / ITAR compliance, and detailed internal control processes and procedures.
	• Continuing education of our employees on the legislative developments and requirements.
	• Internal reviews and external audits.
	• Adopt suitable software systems where appropriate to aid export control procedures and assist with other compliance issues.
	• The individual operating companies maintain operating procedures and are certified to internationally recognised standards, e.g. ISO 9001-2015, AS9100, AS9120, SC21.
		Year on year change in likelihood:
		Up
		Potential impact:
		High
		Effect:
		Trading may be disrupted / restricted, reduced sales volumes and profitability

Principal risks and uncertainties		
Natural disasters – (Operational risk)		
Business risk • Natural disaster or medical epidemic / pandemic disrupts production capability, supply of materials or customer demand.	Mitigation and Strategy • At the end of the financial year the COVID-19 pandemic effected the world, resulting in restrictions on travel and social and business activities. As reported in this annual report the Group implemented changes to working practices to enable the business to continue to meet its customer demand while ensuring that the government guidance on social distancing in conjunction with appropriate hygiene practices were fully embraced to ensure that the risk of cross-contamination within the business is minimised. Furthermore, as noted above home working has been adopted wherever possible. • The Group has a documented and tested disaster recovery plan for each site. In addition, the Group has business interruption insurance, which subject to the terms of the cover purchased provide some insurance mitigation.	**Year on year change in likelihood:** Up **Potential impact:** High **Effect:** Trading may be disrupted / restricted, reduced sales volumes and profitability
Retention of key employees – (Operational risk)		
Business risk • Loss of key people and critical skills. • Insufficient skilled employees. • Poor engagement and morale.	Mitigation and Strategy • COVID-19 has meant that during Q4 and post year end we have seen some customers and market sectors facing significant challenges resulting in what is expected will be short term reduced demand. As a result, the Group has utilised the Government Furlough scheme to help ensure we are able to retain our skilled work force for when demand recovers. • Retention and development of our workforce is critical to the long term success of the Group. • Low staff turnover, with many employees having been with the Group for in excess of ten years. • The Group encourages and invests in continuous professional development and training in core skills and competencies as appropriate. • The Group pro-actively looks to develop its own talent and makes use of the government apprenticeship schemes. • The Group pro-actively communicates with its employees. • The Group reviews & benchmarks employee rewards to ensure we are fairly rewarding our employees.	**Year on year change in likelihood:** Up **Potential impact:** Medium **Effect:** Quality and or service level issues rise, and costs increased

<table>
<tr><th colspan="3">Principal risks and uncertainties</th></tr>
<tr><td colspan="3">Failure of or malicious damage to IT systems – (Operational risk)</td></tr>
<tr><td>Business risk
The inability to access business critical data.
The inability to efficiently run the operating companies.</td><td>Mitigation and Strategy
During 2019 both divisions have been working on upgrading the IT systems to the latest versions, due to COVID-19 these activities are continuing but with a delayed timetable.
The existing systems are reliable and functional however the upgrades will offer improved functionality in due course which will support the development of the business.
The Group:
Has been certified as meeting the "Cyber Essentials" standards.
Runs automated daily back-ups of all business critical data.
Operates off site storage of business critical data.
Has established, documented and tested disaster recovery plans.</td><td>Year on year change in likelihood:
no change
Potential impact:
Medium
Effect:
Costs, sales, profitability and reputational damage</td></tr>
<tr><td colspan="3">Supply chain interruption – (Operational risk)</td></tr>
<tr><td>Business risk
Dependency on significant suppliers or dependency on a qualified supplier within a controlled supply chain.</td><td>Mitigation and Strategy
Active programme to maintain cross qualified second sources of supply.
Rigorous supplier quality management processes.
Maintain close relationships with key suppliers in order to be aware of potential supply issues.
Appropriate levels of buffer stock holding to minimise the effects of extended lead times.
The global COVID-19 restrictions have resulted in supply challenges, however, the mitigation and strategy has meant that through Q4 we have been able to manage the disruption and extended lead times with limited impact during the financial year to 31 March 2020.</td><td>Year on year change in likelihood:
no change
Potential impact:
Medium
Effect:
Quality issues, costs, sales volumes and profitability</td></tr>
<tr><td colspan="3">Competition risk – (Commercial risk)</td></tr>
<tr><td>Business risk
Loss of distribution supplier franchise agreement would result in significant loss of product lines and customers.
Loss of a major contract / customer or business to a competitor.
Price / margin erosion due to predatory pricing from a competitor.</td><td>Mitigation and Strategy
Setting a commercial strategy to gain share by:
Focusing on quality, value and customer service;
Develop and maintain close relationships with suppliers and customers to become the "partner of choice", by forming multi-level partnerships;
As a trusted partner providing product solutions from design, to pilot & volume production; and,
Winning additional business from existing customers and capturing new customers and revenue streams.
Continue to invest in product development to ensure competitive advantage.
Continued investment in the recruitment of high quality personnel.</td><td>Year on year change in likelihood:
no change
Potential impact:
Low
Effect:
Loss of market share, reduced sales volumes and profitability</td></tr>
</table>

CHIEF EXECUTIVE'S STRATEGIC REPORT (continued)

<table>
<tr><th colspan="3">Principal risks and uncertainties</th></tr>
<tr><th colspan="3">Product / Technology change – (Commercial risk)</th></tr>
<tr><td>Business risk
Failure to maintain our leading technical capabilities and knowledge which allows us to develop electronic solutions in partnership with our customers.
Failure to manufacture solutions that meet the agreed specification.
Failure of key distribution franchises to innovate and introduce new products.</td><td>Mitigation and Strategy
Continued investment in the technical training and development of our sales, engineering and operations staff, building our capabilities.
Investment in joint R&D programmes with partners to ensure we are at the forefront of technical electronic solutions.
Maintain rigorous quality and engineering control processes to ensure that our products meet the required specifications.
Perform all necessary detailed product testing to ensure that products are fit for purpose.
Continuously seek new franchises and partners at the forefront of electronics technology.</td><td>Year on year change in likelihood:
No change
Potential impact:
Medium
Effect:
Sales volumes and profitability</td></tr>
<tr><th colspan="3">Forecasting and financial liquidity – (Financial risk)</th></tr>
<tr><td>Business risk
The business does not maintain sufficient funding and liquidity to meet its obligations as they fall due.
The business commits to a materially significant loss making contract.</td><td>Mitigation and Strategy
The Group prepares financial forecasts to evaluate the level of funding required for the foreseeable future. These forecasts are reviewed and approved by the Board.
In the light of the COVID-19 disruption extensive disclosure has been provided in respect of going concern and longer term viability (see page 39, 40 and 76)
Based on these forecasts appropriate funding and liquidity solutions are put in place to ensure that adequate headroom is maintained.
At the year-end 31 March 2020, the Group had an undrawn revolving credit facility of £7.5m and the Group had net cash of £3.2m (2019: £2.0m net debt).
The Group operates a clearly defined delegation of authority matrix and contract review / contract risk register.</td><td>Year on year change in likelihood:
Up
Potential impact:
High
Effect:
Going concern / Financial loss and reputational damage</td></tr>
</table>

Financial Review

In order to provide a fuller understanding of the Group's ongoing underlying performance, a number of 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 32, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues

Group revenues from continuing operations of £67.4m were up 20% on the prior year (2019: £56.3m) as a result of a combination of organic growth and the full year benefit of Pacer. Proforma like-for-like revenues were up £2.7m or ~4.2% from 2019 proforma at £64.5m, which is adjusted for the full year benefit of Pacer and excluding £1m of non-recurring VAD revenue reported in the prior year.

As reported above, the UK electronics distribution and semiconductor industry faced a declining market of circa 7% over the financial year period (source ECSN). Despite this the VAD division significantly outperformed the market and as a whole performed well delivering 1% organic growth with like-for-like proforma revenues slightly ahead of the prior year at £39.2m (2019: £38.8m).

The Manufacturing division reported revenue of £28.2m (2019: £25.9m) which reflects 8.8% organic growth while continuing to improve margins. The current year's strong performance reflects the successful scaling of output and delivery of production volumes of the prior year development projects, which when combined with the benefit of the operational gearing and strong sales mix has delivered a record profit before tax.

Gross profit

Underlying gross profit for the year is up £4.2m to £20.6m (2019: £16.4m), reflecting margins increasing to 30.6% (2019: 29.1%) driven by margin improvement in both divisions. Reported margins of £20.8m include the benefit of the sale of some legacy fully written down manufacturing inventories which has been stripped out as exceptional.

VAD margins have improved by 1.3% to 24.8% (2019: 23.5%) largely due to the full year benefit of the value added work within the Opto-electronics business unit acquired in the prior year. When combined with the significant improvement in the underlying Manufacturing margins to 38.7% (2019: 35.6%), Group underlying margins improved 1.5% in spite of the potentially dilutive impact of the increased VAD in the mix of business.

VAD contributed gross margin of £9.7m (2019: £7.2m), up 36% over the prior year, largely due to the full year impact of the acquisition of Pacer, circa £1.9m, with the remaining £0.6m delivered organically. The Manufacturing division contributed £10.9m (2019: £9.2m) of underlying gross margin which is up 18% organically on the prior year. The underlying gross margin percentage has increased to 38.7% (2019: 35.6%) primarily benefitting from the operational gearing and a favourable mix of sales with higher sales of high value added product being achieved.

Sales and general administration expenses

Sales and general administration (SG&A) expenses of £16.7m (2019: £13.5m) increased by £3.2m. The increase is primarily due to the full year impact of the Pacer operating costs of circa £2.2m acquired in the prior year, additional investment in employee related costs of circa £1.0m, overhead inflation of circa £0.2m, increased depreciation & amortisation (D&A) and share based payment charges of £0.7m and £0.1m respectively. These increases have been partly offset by integration efficiencies and cost savings of circa £1.0m. Adjusted SG&A expenses from continuing operations increased by £3.1m to £15.8m (2019: £12.7m).

The VAD divisions expenses reflect the full year impact of the acquisition of the Pacer overheads which has resulted in the division's adjusted SG&A expenses increasing from £5.5m to £7.5m. The Manufacturing division's adjusted SG&A expenses have increased to £6.6m from £6.3m reflecting primarily investment in staff costs and inflation. Adjusted head office SG&A expenses have increased to £1.7m (2019: £0.9m) primarily owing to an increase in corporate overheads and staff costs.

Sales and general administration expenses – cont’

Within SG&A expenses the reported depreciation and amortisation (D&A) from continuing operations in the year was £2.1m (2019: £1.4m) which is up £0.7m primarily due to the adoption of IFRS16 (which resulted in £0.5m of rent being reclassified as depreciation), the full year impact on D&A arising from the Pacer acquisition, increased amortisation of capitalised R&D. Adjusted D&A from continuing operations (excludes the amortisation of acquisition intangibles) has increased to £1.6m (2019: £1.2m).

Operating profit

Adjusted operating margins increased to 7.2% (2019: 6.5%) with adjusted operating profit from continuing operations up 33% to £4.9m (2019: £3.7m) reflecting the growth in revenue and the improved margins. Reported operating profit was up 42% to £4.1m (2019: £2.9m). The adjustments to operating profit are set out in further detail in note 32.

We have recognised £0.02m (2019: nil) within operating profit in respect of Research and Development Expenditure Credit (RDEC) in addition to the tax credits recognised within the tax line, where we are eligible for the SME R&D tax scheme. 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 34% to £4.7m (2019: £3.5m). Reported profit before tax was up 42% to £4.0m (2019: £2.8m). This is reported after a share based payments charge of £0.4m (2019: £0.3m), amortisation of acquisition intangibles of £0.5m (2019: £0.3m) and exceptional items of £0.2m credit (2019: £0.1m cost).

Profit after tax

The Group benefit from the R&D tax credit scheme which reduces the effective tax rate for the year to 15% (2019: 12%) from the standard rate of 19%. As the profitability grows the benefit of R&D tax credits diminishes. Adjusted profit after tax was up 29% to £4.0m (2019: £3.1m). Reported profit after tax was up 28% to £3.4m (2019: £2.7m).

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2020 is up 29% at 46.3p (2019: 35.9p). Reported fully diluted earnings per share from continuing operations is up 29% at 39.5p (2019: 30.7p).

Cash flow from operations

Cash inflow from continuing operations for the year of £8.0m is up from £4.9m in 2019 primarily due to improved cash profits combined with a £1.4m working capital inflow. Underlying cash flow from operations was up £4.0m at £8.0m (2019: £4.0m) after excluding the net cash benefit from advanced customer payments. This delivers an underlying operating cash conversion percentage of 165% (2019: 109%) and a reported operating cash conversion percentage of 197% (2019: 168%).

There was a working capital cash inflow in the period of £1.4m due to increased payables of £1.8m offset in part by increased receivables £0.4m. Inventories have remained at a higher level due to increased lead times on battery cells and various electronic components and the positioning of inventory to mitigate the potential supply chain disruption arising due to the COVID-19 pandemic.

Investing activities

During the year, the Group invested £0.6m (2019: £0.6m) in property plant and equipment, and £0.3m (2019: £0.3m) in software and research and development intangibles.

The capital expenditure reflects significant investment in IT hardware across the Group of £0.2m and continued investment in the new Opto-electronics business unit facilities in Pangbourne and Weymouth amounting to circa £0.1m. This aside, the investment has been maintained at the historical run rate level for capital expenditure.

Financing activities

The Group has entered or extended leases during the year which has resulted in the recognition of £0.3m of additional right of use assets with a corresponding right of use liability, in accordance with IFRS16. Cash payments were made in the period in respect of lease liabilities of £0.5m.

The financing activities reflect the accelerated repayment of the £6.0m of acquisition facilities put in place to fund the acquisition of Pacer. The Group repaid all bar the last £0.3m which was repaid post year end in May 2020. Solid State continues to have a strong relationship with Lloyds Bank and, having repaid the term loan early, Lloyds has extended the quantum and term of revolving credit facility to £7.5m (2019: £3.5m) which is now committed until the 30 November 2021. The facility is currently undrawn.

Pleasingly, as a result of the strong cash generation the Group has reported a year end net cash position of £3.2m (2019: net debt £2.0m) which in conjunction with the unutilised bank facilities provides significant funding headroom for 2021 and beyond.

Statement of financial position

During the year, the Group has continued to see its balance sheet position strengthen. The Group's net assets have increased to £22.5m (2019: £19.9m) reflecting the retained profits in the year. Furthermore, the Group has returned to a net cash position with £3.2m at the year end (2019: £2.0m net debt). The adoption of IFRS 16 has resulted in the recognition of £1.1m of right of use lease assets and an offsetting right of use lease liability. The impact on net assets is immaterial at both transition and as at 31 March 2020.

Dividend

The Board is proposing to maintain last year's dividend meaning a final dividend of 7.25p (2019: 8.3p), giving a full year dividend of 12.5p (2019: 12.5p). Subject to approval of the final dividend by shareholders at the AGM on 9 September 2020, the final dividend will be paid on 23 September 2020 to shareholders on the register at the close of business on the 4 September 2020. The shares will be marked ex-dividend on 3 September 2020.

KPIs

In addition to the KPI information provided in the Chairman's Report and this Strategic Report, the Directors use several key performance indicators to manage the business, disclosed in the financial review on pages 17 to 19. Non-financial KPIs are not disclosed other than in the environmental CO2e reporting on page 24.

COVID-19 update and Outlook

Post the year end, the direct impact on sales of COVID-19 has been modest with a very low number of customers closing and a minimal impact on the open order book. The business reacted early to the pandemic with all staff who could work from home being equipped to, and management having tested their capability to work from home well before the government imposed lock down. The business has not lost a single day's trading as a result of the pandemic.

Several staff volunteered to cross train to ensure warehouse operations and production operations can continue without significant disruption. The Group operates across four independent manufacturing sites in the UK. These sites have remained open and operating effectively with minimal disruption while adhering to best practice guidelines on social distancing and hygiene protocols. Measures have been put in place to ensure that the risk of cross-contamination within the business is minimised.

As the lock down eases, where possible staff are continuing to work from home, however the Group has implemented the plans for a gradual phased return to the offices. The key objective is to maintain a safe working environment with a view to minimising the risk to staff.

Commercially COVID-19 is affecting the business in contrasting ways: The Group has been notified by numerous customers in both its Manufacturing and VAD divisions that the Group has been designated a critical supplier under the government's critical industries and key workers guidance. Sectors highlighting this dependency include medical, food retail, security, transportation, and defence.

Conversely, the Group is experiencing softness in the demand for batteries for the commercial aerospace market and in computing products for certain niche applications in the industrial sector. Separately, owing to the fall in oil prices, we are currently experiencing lower levels of orders for battery packs from the oil and gas industry.

The Group continues to hold relatively high levels of stock to limit exposure to supply chain volatility. At present, the Group holds approximately 2.5 months' stock.

The Board is taking prudent steps to mitigate and manage its cashflow and cost base to withstand this near-term uncertainty. These included a recruitment freeze; a salary increase freeze for all Directors and staff; adoption of available deferrals for VAT and PAYE payments to HMRC; and furloughing of some staff under the Coronavirus Job Retention Scheme.

Furthermore, the Board has suspended the Group's acquisition strategy temporarily during this period of uncertainty, and delaying new planned capital expenditure, for example in new EMC test equipment for manufacturing. However, ongoing projects around ERP system upgrades and the acquisition of an advanced welder to support new battery developments have gone ahead.

While the Group's acquisition strategy has been paused, the Group remains acquisitive and is at the early stage of investigating several opportunities. It will look to be opportunistic should an acquisition target arise as we exit the COVID-19 pandemic.

The continued margin improvement and organic growth achieved by the Manufacturing division, in conjunction with a technology development across all of the key sectors of computing, power and communications puts the Group in a strong position, albeit the macroeconomic headwinds in 2020/21 continue to be a challenge. The Manufacturing division is in a strong competitive position to deliver profitable growth in the mid-term once we get past the COVID-19 disruption.

Following the acquisition and integration of the Pacer Group of companies, the enlarged VAD division has the scale, reach and capabilities to attract further significant franchises such as Microchip which we signed during the year. We have invested significantly in our value added services facility in Weymouth, which differentiates our VAD portfolio to provide us with exciting opportunities for the future.

Whilst the order intake in Q1 has been just under 15% lower than the prior year we have a number of significant opportunities which we are currently bidding on which could provide upside to the fortunes for the full year, albeit Q2 and the early part of Q3 are expected to be challenging.

Over the next two years of Solid State's five year plan, the Group will remain focused on securing quality orders as it strives to achieve the goal set to double the size of the business through a combination of organic growth and strategic acquisitions. The Board is confident that the achievements of the last year and the growth in the open order book demonstrate that Solid State is making good progress towards achieving its goals and that the prospects for the Group remain very positive in spite of the disruption that COVID-19 is causing.

Cautionary statement

This report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts.

Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning.

Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Solid State PLC's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. These risks and uncertainties include, among other factors, changing economic, financial, political, business or other market conditions.

Solid State PLC is under no obligation to revise or update any forward looking statement contained within these financial statements, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

The strategic report on pages 6 to 21 has been approved by the Board of Directors and signed on its behalf by:

G S Marsh
Chief Executive Officer

30 June 2020

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

Code of business conduct, ethics and anti-corruption

Our business conduct policy sets out the values and standards of behaviour expected from all employees. In addition, it addresses expectations relating to the day-to-day conduct of business partners and agents who act as representatives of Solid State PLC.

The policy also deals with how employees, business partners and agents can report any concerns that may arise.

The policy actively promotes corporate social responsibility across our Group. It addresses how we work with a wide range of third party organisations in areas such as ethical employment policies, educational and community work.

It sets out the responsibilities of employees in ensuring that they carry out their business activities in a manner aligned with the Group's values and business principles.

All staff are required to ensure that they comply with all relevant laws and regulations of the countries in which we operate and do business. The policies also set out behaviours that are unacceptable and which could bring Solid State PLC's reputation into disrepute.

The policy contains guidance on avoiding conflicts of interest, confidentiality, adherence to export controls, our approach to gifts and hospitality, bribery and corruption and managing relationships with third parties.

Upholding the policy is the responsibility of all Solid State PLC employees and business partners. We actively encourage everyone to report any behaviour which may be in breach of the Code, is unethical or illegal. This is achieved by fostering a culture of openness and accountability, and by providing a clear procedure that enables any individual to raise breaches of policy or malpractice directly at the highest level.

All those working for, or on behalf of, Solid State PLC are required to confirm that they have read and understood the business conduct policy, and a copy of the policy is readily available to all employees.

Commercial business practices

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. We work with our partners to adopt best business practices, which include:

In our dealings with customers

Working closely in partnership with customers and potential customers to help us improve the value we can add to them through our products and services;

Being open and honest about our products and services, communicating with customers all appropriate information they need to ensure we consistently meet their expectations;

Ensuring that any issues or problems are dealt with efficiently, with fairness and in a timely manner;

Ensuring that we seek feedback to benchmark and evaluate what we do in order to help us deliver continuous improvement in our products and services to maintain our value.

In our dealings with suppliers

Working with our suppliers to help us improve the value of the products and services we offer to customers with the benefit of the access to the supply chain that we have; Identifying and selecting suppliers to work in partnership with using fair and reasonable methodologies;

Identifying and working with suppliers who operate to ethical business standards;

Working closely with suppliers to help us improve the value of the products and services we offer customers to the benefit of the supply chain.

In our relationships with employees and other stakeholders

Ensuring employment practices throughout the Group are fair and in full compliance with employment legislation;

Encouraging volunteer work in community activities;

Supporting local academic establishments and participating in voluntary business advisory services via professional bodies.

CORPORATE AND SOCIAL RESPONSIBILITY REPORT (continued)

How we invest in our people

Our success depends on our people. The Group recognises the important role our employees play, and that effective teamwork is critical for us to achieve our corporate goals.

We strive to make the Solid State Group a "great place to work" where our actions demonstrate this with behaviours that the team deliver each and every day. This is aimed at providing an environment of teamwork and collaborative respect, where we are all valued for our contribution and everyone is proud to be part of "the Solid State team".

We maintain equality of opportunity in all employment practices, policies, and procedures regardless of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs. As part of our policies we set out our approach to diversity.

Human rights

Solid State PLC is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards.

Modern slavery

The Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisation and in their supply chains. The Group has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. The Group has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act. Reference to the policy may be found on the corporate website at www.solidstateplc.com.

Health and Safety

Solid State PLC places health and safety at the core of all the business activities to ensure a safe working environment for everyone involved in the business. As a corner stone of our business operations Health and Safety reporting is a standing item on the Board agenda.

All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by actively reporting all safety observations and incidents, being involved in safety audits, risk assessments and regular awareness training sessions.

The operations teams are actively involved in electronics industry-wide initiatives, working with industry associations and proactively registering under new regulatory directives such as Registration, Evaluation, Authorisation & restriction of Chemicals (REACH) and Waste Electrical and Electronic Equipment recycling (WEEE).

Bribery Act

We implement and enforce effective systems to uphold our zero tolerance approach to bribery and corruption. To ensure we only work with third parties whose standards are consistent with our own, all agents and third parties who act on behalf of the Group are obliged by written agreement to comply with the standards set out in the Code.

Confidentiality

Our business conduct policy emphasises the need for confidentiality to be maintained in all our business activities.

Maintaining confidentiality is a critical part of our culture. Our policy and practices help to ensure that all staff understand what constitutes confidential information and restricts internal access based on a "need to know basis".

Information relating to third parties is not disclosed without the third parties' written consent. Where we conduct work for customers including government agencies where specific confidentiality requirements exist such as the official secrets act we have process and procedures to ensure we comply with these requirements.

CORPORATE AND SOCIAL RESPONSIBILITY REPORT (continued)

Environmental

The Group's activities can be summarised as largely distribution, manufacturing/assembly operations, combined with office based research, product development and other commercial functions, where we essentially receive materials and products from suppliers, assemble them into a new product and dispatch them to customers.

The primary impact on the environment, which is entirely within the Group's control, is the consumption of the normal business energy sources such as heating and power, which the Group aims to minimise through compliance with relevant environmental legislation. However, the largest factor impacting energy consumption in our facilities is the weather. In a year with moderate summer / winter weather our energy consumption is low, however if we face extreme hot / cold weather the energy consumption increases significantly.

The Group do not operate its own delivery fleet, the Group use third-party carriers to deliver their products to customers. Therefore, the Group's ability to control the environmental impact of its logistics partners is limited. However, the Group has a fleet of company owned cars which have been included in the Group's environmental impact assessment. The Group is actively moving the company owned cars to be low CO_2, Hybrid or Electric vehicles as they are replaced

Waste management is a critical part of conducting our business. We comply with all the relevant waste legislation with the key areas of legislation being The Waste Batteries and Accumulators Regulations 2009 and the Waste Electrical and Electronic Equipment (WEEE) Directive in conjunction with RoHS.

Where appropriate the Group actively works with its customers which is seen as tangible value to ensure that all hazardous waste is properly managed. In complying with the waste legislation, the Group ensures that all waste is disposed of properly and waste is recycled where it is practicable to do so.

Local management teams are committed to good environmental management practices and are responsible for implementing the necessary initiatives to meet their local obligations. Facilities participate in recycling paper, plastic, cardboard. The business continues to focus on minimising energy consumption through the efficient use of heating and lighting.

As a company quoted on AIM the Group is required to report its CO_2e, the Board believes there are direct benefits to our organisation in the measuring and reporting of environmental performance, which should assist the Group to reduce its energy consumption and therefore resource costs, as well as gaining a better understanding of the Group's exposure to the risks of climate change.

Therefore, the following data has been compiled to establish the Group's baseline CO_2 consumption for the financial year 2019–20. Where possible the Group has reported its figures using billed data, which relates to its premises and activities.

Data has been collected for the following CO_2 emission sources: electricity consumption; gas consumption; water consumption; company owned vehicles and waste processing.

In collating this data, we have utilised the 2019 conversion factors to obtain figure for the CO_2 consumption of the Group as a baseline.

In 2019/20 our baseline was 434 Tonnes of CO_2e.

In addition, we have also calculated an intensity ratio based on added value. Added value is used as the intensity ratio (CO_2e / £1M added value). The group defined "added value" as the "gross margin". It is believed that this best represents business output and is therefore a valuable metric against which to judge environmental performance. In 2019/20 our baseline intensity ratio was 20.9 Tonnes per £1m of value added.

G S Marsh
Chief Executive Officer
30 June 2020

CORPORATE GOVERNANCE REPORT

Statement of compliance against the UK Corporate Governance Guidance

The Board of Directors believes in high standards of corporate governance and is responsible for ensuring that the Group has in place appropriate governance practices and is accountable to shareholders for the Group's performance in this area.

Solid State PLC, as a quoted company on AIM, a market operated by The London Stock Exchange PLC, is required in accordance with AIM rule 26 to adopt a corporate governance code. Solid State PLC has chosen to adopt the QCA corporate governance code (the "Code") over the FRCs UK Corporate Governance Code.

In adopting the Code the Directors have provided corporate governance disclosures and explain how the company adopts the ten principles of the Code in a manner that is considered appropriate for our company. The Code is available on the QCA website at: www.theqca.com.

This statement describes how the Group is applying the relevant principles of governance, as set out in the Code. Throughout the year ended 31 March 2020, the Group has applied the principles of the Code. In adopting the Code the board has also been cognisant of the guidance issued from other regulatory bodies in respect of best practice corporate governance such as the FRC to ensure that the governance framework adopted at Solid State PLC is rigorous, robust and appropriate for our size and structure.

How the corporate governance principles are adopted at Solid State PLC

The Board considers that throughout 2019/20, Solid State PLC has sought to comply with the "Ten Principles" within the code and this report sets out how the Board has done this through the year. This statement addresses the main subject areas of the Code namely; delivering growth, maintaining a dynamic management framework, and building trust.

Principle	Compliance status	Explanation	Further disclosure(s)
Delivering growth			
Principle 1: -"Establish a strategy and business model which promote long-term value for shareholders"	Fully compliant	Group business strategy is set out in the Chairman's statement and the Strategic Review above. Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the board.	See the Chairman's Statement on pages 3 to 4 and Strategic review on pages 5 to 21.
Principle 2: - "Seek to understand and meet shareholder needs and expectations"	Fully compliant	Regular meetings are held with shareholders at the release of interim and full year results, the AGM and a number of additional ad hoc meetings.	See further reporting on the stakeholder engagement provided on page 28 to 29 of this report and pages 22 to 24 of the corporate and social responsibility report.
Principle 3: - "Take into account wider stakeholder and social responsibilities and their implications for long-term success"	Fully compliant	Directors and the management team adopt a broad view during decision making to take meaningful account of the impact of our business on all key stakeholder groups.	See further reporting on the stakeholder engagement provided on page 28 to 29 of this report and pages 22 to 24 of the corporate and social responsibility report.

CORPORATE GOVERNANCE REPORT (continued)

Principle	Compliance status	Explanation	Further disclosure(s)
Principle 4: - "Embed effective risk management, considering both opportunities and threats, throughout the organisation"	Fully compliant	The group operates a system of internal controls to safeguard group assets and protect the business from identified risks. These controls are subject to examination during the annual external audit process.	See the risks identified and the mitigation and the report our risk management processes on pages 38 to 40 of this report and on pages 12 to 16 of the strategic report.
Maintain a dynamic management framework			
Principle 5: - "Maintain the board as a well-functioning, balanced team led by the chair"	Fully compliant	At the year-end the Board comprises the Interim Non-Executive Chairman; Mr P Haining, the Chief Executive Officer; Mr G S Marsh, three Executive Directors and one Non-Executive Director.	See the Board and its sub committees' section in this report on page 34 to 36.
Principle 6: - "ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities"	Fully compliant	The board is satisfied that the current composition provides the required degree of skills, experience, diversity and capabilities appropriate to the needs of the business, following the appointment of Mr N F Rogers. The ongoing recruitment of a new Non-Executive to replace Mr A B Frere will provide an additional perspective and independence.	See the Board section in this report on pages 34 to 36.
Principle 7: - "Evaluate board performance based on clear and relevant objectives, seeking continuous improvement"	Partially compliant	The Board has completed an internal evaluation of performance which is led by the Remuneration Committee Chairman. The Chairman also actively encourages self-evaluation by all board members, and feedback on the conduct and content of board meetings. The board will continue to keep under review whether a more structured independent review is required in future.	See the Board performance evaluation section in this report on page 36.

CORPORATE GOVERNANCE REPORT (continued)

Principle	Compliance status	Explanation	Further disclosure(s)
Principle 8: - "promote a corporate culture that is based on ethical values and behaviours"	Fully compliant	The board expects high ethical and moral standards. The board and all employees expected to be accountable for their actions and in compliance with the Company handbook. Employees are actively encouraged to participate in training courses and maintain CPD.	See the Board section in this report on pages 34 to 36 and the corporate and social responsibility report on pages 22 to 24.
Principle 9: - "Maintain governance structures and processes that are fit for purpose and support good decision-making by the board"	Fully compliant	The board as a whole take responsibility for ensuring appropriate corporate governance practices are adopted. The roles and responsibilities of each of the Directors (including committee memberships) are clearly defined.	See the Board section in this report on pages 34 to 36 and the audit committee report on pages 41 to 45.
Building trust			
Principle 10: - "Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders"	Fully compliant	Regular meetings with shareholders and other key stakeholder groups provide a specific opportunity for raising any concerns related to corporate governance, including any significant votes cast against or abstaining from shareholder resolutions.	Further narrative disclosure is provided in: Corporate governance report on pages 25 to 40, the corporate and social responsibility report on pages 22 to 24 and the remuneration committee report on pages 46 to 59.

The Board views maintaining high standards in its governance and management of the affairs of the Group as a fundamental part of discharging its stewardship responsibilities.

Accordingly, both the Board and the Audit Committee continue to keep under review the Group's whole system of internal control, which comprises not only financial controls but also operational controls, compliance and risk management.

This process was in place throughout the 2020 financial year and accords with the Revised Guidance for Directors on Risk Management, Internal Control and Related Financial & Business Reporting (formerly called the Turnbull Guidance).

How Solid State PLC has complied with the Companies Act Section 172 requirements and disclosures

The following disclosure describes how the Directors have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the factors set out in section 172(1)(a) to (f).

When performing their duties under section 172 of the Companies Act, they have considered the long-term consequences of decisions, matters affecting the Company's employees and other stakeholder relationships, and the need to act fairly between members of the Company.

Furthermore, they have recognised that companies are run for the benefit of their shareholders, but that the long-term success of a business is dependent on maintaining relationships with all significant stakeholders. The Board continuously reviews relationships that support the generation and preservation of value in the Company. These relationships include those with employees, suppliers, customers and industrial partners, and the Groups bankers.

Stakeholder engagement

Stakeholder	Engagement method	Disclosure cross ref
Investors	The key investors identified are the shareholders and lenders. The major interests in our shares are set out in page 37 of our corporate governance report. Key metrics for both our bank and our shareholders are the share price, adjusted profit before taxation, adjusted earnings per share, cash generation and leverage. Through the publication of our half year and full year financial reports and our engagement with shareholders we look to provide insight where possible into the group strategy and how we look to create value for our shareholders by generating strong and sustainable results that translate into earnings and cash. We seek to promote an investor base that is interested in a long term holding in the company. Further disclosure of how we engage with our Investors is set out in the corporate governance report.	p.25 – p.40
Employees	Employees are those individuals who are contracted to work for the company both full and part time. The Group's success is reliant on retaining the knowledgeable and skilled workforce who are committed to our business and the delivery of our strategy; maintaining and delivering on the high standards that the Group sets for itself. We have policies and procedures in place to look after the welfare of our employees, and we pride ourselves on a "Solid State family" culture which is friendly and supportive of all members of our team. Given the nature of our business we take health and safety extremely seriously and ensuring a best practice safe working environment is essential. We promote employee engagement, encourage employees to share ideas and to help us deliver on our goal of continuous improvement. During the COVID-19 pandemic we have engaged with employees to ensure that they share ideas on how we can maximise the safety of the whole team which has delivered many valuable and practical operating practices which have been implemented across the Group. The knowledge and ability of our teams is a critical cornerstone of our value. Therefore, we encourage and offer training where it is considered beneficial to the employee and the company. Further disclosures are provided in our corporate and social responsibility report.	p.22 – p.24

Stakeholder	Engagement method	Disclosure cross ref
Customers and Industrial Partners	Our teams use their knowledge and ability to work collaboratively with our customers and industrial partners to provide a tailored component, product or service to meet their specific requirements and add value. Whilst we always aim to design, manufacture and supply products of the highest quality. We believe that we differentiate our offering in terms of how we engage with our customers and the relationships we build in providing a tailored solution. We meet these objectives by ensuring that our teams have the knowledge and expertise to meet or exceed the expectations of our customers and industrial partners. During the year, our customer engagements support and focus our investment in R&D to enable us to deliver continuously evolving technical solutions. Further disclosures are provided in our corporate and social responsibility report.	p.22 – p.24
Suppliers	Our extensive supply chain relationships with component manufacturers are critical to ensuring that we can meet the customers' technical requirements for their specific application. Our supplier relationships and partnerships are underpinned by the technical knowledge that our team has of the components which we distribute and design into our manufactured solutions. As a result, our relationships with our suppliers are a critical part of both our suppliers' and our Group's success. We regularly engage with our suppliers to discuss performance, price and how we can continue to improve our supply chain relationships to deliver mutual benefit. Key topics of engagement for the year were price and supply with the potential disruption that Brexit and latterly COVID 19 may cause. plans were agreed to help minimise any disruption to the supply chain. Further disclosures are provided in our corporate and social responsibility report.	p.22 – p.24

Principal decisions linked to our strategy and the stake holders impacted

Principal decision	Basis of the decision and conclusion	Primary Stakeholder
Setting of annual financial budget and periodic updating of forecasts	The board receives regular financial reports from the executive management, both historic and forward looking. The board endeavours to meet or exceed all stakeholder expectations where possible. Based on this the board issues appropriate stakeholder and market communication through relevant channels. Pleasingly, during the financial year ending 31 March 2020 we have seen significant commercial progress and have been able to upgrade the adjusted profit before tax expectations three times from £3.5m to £4.7m reported in this annual report. The annual financial budget for 2021 for the Group was approved in early March 2020, indicating a reasonable view that the results for the financial year would meet or exceed market expectation. However, the rapid development of the COVID-19 virus meant that in Q1 the Board felt it was not appropriate to issue investor guidance due to the uncertainty that all businesses faced. While trading has continued well, we expect to issue market guidance once the Government lifts the restrictions in a sustainable manner.	Shareholders, lenders, employees
Changes to board	The Directors seek to ensure that the composition of the board is appropriate to the current circumstances and has enough capacity to manage growth and succession planning. During the year Mr N F Rogers joined the Board as an Independent Non-Executive Director replacing John Lavery who retired at the end of August 2019. On the 31 March 2020 Mr A B Frere retired from the Board as Chairman. The recruitment process for the new Chairman was on-going during Q4 and was hindered by COVID-19 distancing protocols. As a result, Mr P Haining, currently Non-Executive Director, assumed the role of Interim Chairman until such time as a permanent appointment can be made.	Shareholders, employees
Acquire Battery IP vs inhouse development of the IP	Technology development is an integral part of continuing to deliver sustainable value for our stakeholders. One of the key areas where the Group is looking to enhance its existing capabilities is in the area of Battery Management Systems (BMS). The Board explored the risks and rewards of two strategic options: a) acquire a business which had the BMS IP the group was looking to add; or, b) invest in our in house engineering team to develop the capability. In making this decision the Board looked at two potential acquisition targets and evaluated an R&D appraisal put forward from the engineering team. The evaluation of the two potential acquisition targets concluded that they would enhance the BMS IP but there was insufficient additional incremental valued added beyond the IP. Therefore, the Board concluded that the best approach was to progress with the in house development which would be a substantially lower initial investment and could be tailored to meet specific customer requirements. Thus, matching investment with the development of commercial opportunities, while also enhancing the scale and capabilities of our employees and team.	Employees, Customers and commercial partners

CORPORATE GOVERNANCE REPORT (continued)

Principal decision	Basis of the decision and conclusion	Primary Stakeholder
Integration of the Pacer businesses into the VAD division and systems upgrade.	Post acquisition as part of the strategic review with the input of the VAD and Pacer team the Board approved the strategy for the integration of Pacer. The key decision was that the maximum value could be realised through integrating Pacer's opto-electronic offering into the Valued Added Distribution division giving the VAD division significantly enhanced value-add capabilities and scale that it could leverage. As part of this it was identified that the enterprise resource planning systems (ERP) would need to be improved. The Board concluded that investing in a platform which could service the distribution, assembly and manufacturing operations whilst facilitating consistent reporting and metrics was a critical part of the integration into the VAD division. A project team was set up to evaluate the options and make a recommendation to the divisional MD and Board. The project team completed a comprehensive evaluation and project plan which was communicated to the Board by the Divisional MD. The Board challenged, considered, and evaluated; the level of investment; the employee training requirement; customer and supplier interactions; and, how alternative options were considered by the Project team in reaching their recommendation to the Board. The recommendation was to upgrade the Microsoft system used by Pacer, considered the lowest risk approach both in terms of investment and operational risk. The Board approved the investment and the project plan to upgrade the Pacer systems to the latest version. The initial plan was to upgrade the system by the end of March 2020, however, with the complexity of implementing consistent reporting, combined with the significant restrictions and additional demands on the IT resources to enable home working as a result of COVID-19, it was recommended to the board that the project be paused. The existing systems do what is needed and are stable and reliable, therefore the Board agreed it was appropriate to pause the project until the restrictions have been lifted. The project could then be delivered in-line with the plan which manages the project and operational risks appropriately with comprehensive testing and training being completed to ensure a successful implementation.	Customers and commercial partners, Suppliers, Employees
Banking facilities	The group has a proactive and constructive relationship with its bankers, Lloyds Bank PLC. Pleasingly the term loan drawn in 2018 to fund the acquisition of Pacer was repaid early with the final repayment being made in May 2020. In making these early repayments the Group has agreed that the unutilised revolving credit facility be increased to £7.5m and extended to 30 November 2021 to maintain funding flexibility.	All

Principal decision	Basis of the decision and conclusion	Primary Stakeholder
COVID-19 management and risk mitigation	The COVID-19 virus presented unprecedented challenges to all businesses at the end of our financial year and into the new year, due to the restrictions on mobility and social distancing guidance issued by the government to reduce the risk of the virus spreading. Due to significant advanced planning and preparation for home working and social distancing the Board evaluation determined that it was appropriate for the business to continue to operate and supply products to meet customers demand whilst adhering to the safe working guidance. In making the decision to continue to operate, the board ensured that all staff that could work from home did work from home. COVID-19 is affecting the business in contrasting ways: Solid State has been notified by numerous customers in both its Manufacturing and VAD divisions that the Group has been designated a critical supplier under the government's critical industries and key workers guidance. Sectors highlighting this dependency include medical, food retail, security and defence. Conversely, the Group is experiencing softness in the markets for batteries, for aerospace products and from the oil & gas industry due to the fall in oil prices and lower demand for computing products in some niche markets in the industrial sector. Where production operations could not be done from home the Board ensured that the four manufacturing sites remained open, operated effectively, while adhering to best practice guidelines on social distancing and hygiene protocols. As a result of the impact seen on customer demand in conjunction with the operational changes required to ensure that social distancing is maintained, the Board made the decision to furlough a number of staff under the government COVID-19 job retention scheme. Detailed Covid-19 specific risk assessments have been completed and published for all sites. Additionally, the Group continues to hold relatively high levels of stock to limit exposure to supply chain volatility. At 31 March 2020, the Group held c.2.5 months' stock. Whilst the Group had net cash of £3.2m at 31 March 2020 and has a £7.5m unutilised Revolving Credit Facility, the Board has taken a number of measures to conserve cash as a result of the COVID-19 uncertainty. The Board has opted to take advantage of the available government support measures through time to pay against both PAYE and VAT. Internal cash management decisions have been taken to ensure cash conservation in the short-term. These include: • Recruitment freeze; • Deferment of salary increases for all Directors and staff; • Deferment of FY19/20 bonus payments for Directors and staff until the end of Q1. In addition, the Group's acquisition strategy has been suspended temporarily during this period of uncertainty. Communication continues with prospective acquisitions, however progress will be limited in the short-term. New planned capex has been suspended, however, committed ongoing projects to improve safety and ERP system upgrades are continuing. The Board is continuing to keep this under close review, taking prudent steps to manage its cashflow and cost base to withstand this near-term uncertainty.	All

The Board

During 2020 the Group has made significant progress in refreshing the Board to take the business through to the next phase of its development.

Ahead of the retirement of Mr J M Lavery on 31 August 2019, Mr N F Rogers joined the Board in 1 July 2019. He has bought a wealth of experience and knowledge to the Board and his industry experience has enabled him to get up to speed with the business quickly.

Following the retirement of Mr A B Frere as Chairman on the 31 March 2020, the recruitment process for the new Non-Executive Director and the appointment of a full time Chairman is not yet concluded and is now being hindered by COVID-19 distancing protocols. As a result, Mr P Haining, currently Non-Executive Director, has assumed the role of Interim Chairman until such time as a permanent appointment can been made.

The Board has acknowledged that one its Non-Executive Directors would be independent in accordance with the FRC Code and the other is not. However the QCA guidelines acknowledge for growing companies it may not be possible for boards to meet the definition uof "independence" for all Non-Executive Directors and sets out that it is important for the board to foster an attitude of independence of character and judgement, and the fact that a Director has served for more than nine years does not automatically affect independence, although concurrent tenure with management could hinder the ability to be objective. Based on the QCA guidelines the Board conclude that all the Non-Executives are independent in terms of character and judgement in how they execute their role as Non-Executive Directors.

The Board is mindful of the threats to independence and actively manages the potential risk to ensure that the Non-Executives provide independent constructive challenge. The terms and conditions of appointment of the Non-Executive Directors are available for inspection upon request to the Company Secretary.

Rules concerning the appointment and replacement of Directors of the Group are contained in the Articles of Association ("Articles"). Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

The Board has considered the FRC's guidance to companies outside the FTSE 350 to consider the annual re-election of all Directors and consider that this would be overly burdensome for the current nature of the Group. Biographies of the Directors are set out on page 62. These show the range of business and financial experience upon which the Board is able to call.

The Board's goal is to ensure that its membership should be balanced between Executives and Non-Executives and have the appropriate skills and experience and knowledge of the business. The Board recognises the special position and role of the Chairman under the Code and has approved the formal division of responsibilities between the Chairman and Chief Executive Officer.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness, and the Chief Executive Officer manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of the strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long term interests of shareholders and take proper account of the interests of the Group's other stakeholders.

The Chairman ensures that meetings of Non-Executive Directors without the Executive Directors are held.

How the Board operates

The Board meets regularly through the year and is provided with appropriate strategic, operational and financial information prior to each meeting with monthly reports to enable it to monitor the performance of the Group.

Directors are required to devote such time and effort to their duties as is required to secure their proper discharge and, for Non-Executive Directors, his typically entails one or two days of meetings per month as well as reading and preparation time.

At Board meetings the Chairman ensures that all Directors are able to make an effective contribution and every Director is encouraged to participate and provide their perspective and opinions. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of agenda items.

All Directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and are allowed to take independent professional advice if necessary, at the Company's expense.

The Board has a formal schedule of matters referred to it for decision. This list includes appropriate strategic, financial, organisational and compliance issues, including the approval of high level announcements, circulars, the report and accounts and certain strategic and management issues.

Examples of such items include but are not limited to:

- the approval of interim and annual results;
- the approval of the annual budget;
- approval of acquisitions or disposals;
- approval of major items of capital expenditure;
- the approval of significant contracts;
- approval of changes to corporate or capital structure; and,
- financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees.

Committees of the Board

Executive Committee

The Executive Committee consists of the Executive Directors under the chairmanship of Mr G S Marsh and is responsible for the development of strategy, annual budgets and operating plans linked to the management and control of the day-to-day operations of the Group.

The Executive Committee is also responsible for monitoring key commercial opportunities and relationships, day to day stakeholder engagement and for ensuring that the Board policies are carried out on a Group-wide basis.

Nominations Committee

The Nominations Committee is formed when required as a sub-committee of the Board. The Nominations committee was formed and oversaw the recruitment process to appoint Mr N F Rogers as a Non-Executive Director which was completed in the current financial period.

The Nominations committee took responsibility for identifying; the skills, experience, personal qualities and capabilities required for the next stage in the company's development, linked to the company's strategy.

The nominations committee appointed an external agency to assist with the recruitment process based on the specification set out to ensure that a comprehensive list of suitable candidates was identified in a "long list". From the long list the committee completed the initial review of the candidates and first round interviews to identify a shortlist of preferred candidates that were interviewed by the whole Board to select the preferred candidate for the role.

The Nominations Committee is in the process of recruiting a replacement Non-Executive to join the Board following the retirement of Mr A B Frere at the end of March. This process is following the same approach as has been set out above however as a result of the COVID-19 restrictions this is on-going and is expected to take some time before the process can be finalised and an appointment made.

CORPORATE GOVERNANCE REPORT (continued)

Audit Committee

The Audit Committee consists of the Non-Executive Directors; Mr P Haining and Mr N Rogers. The Committee meets at least twice a year under the Chairmanship of Mr P Haining, who the Board has evaluated to have recent relevant financial experience.

The Chairman of the Audit Committee is not deemed independent by virtue of his length of service and that he has previously held an Executive position. However, given that the Board considers that Mr P Haining fulfils the role with independence of character and judgement, the Board has concluded that it is appropriate to retain the financial experience and knowledge of the business possessed by Mr P Haining in his role as Chairman of the Audit Committee.

The Audit Committee has specific written terms of reference which deal with its authority and responsibilities and these are available for inspection from the Company Secretary. Its duties include monitoring internal controls throughout the Group, approving the Group's accounting policies, and reviewing the Group's interim results and full year financial statements before submission to the full Board. The Audit Committee also reviews and approves the scope and content of the Group's annual risk assessment programme and the annual audit and monitors the independence of the external auditors.

The Audit Committee acts to ensure that the financial performance of the Group is properly recorded and monitored, in fulfilling their role they meet annually with the auditors and review the reports from the auditors relating to accounts and internal control systems.

The Group does not have an independent Internal Audit function, as it is not considered appropriate given the scale of the Group's operations, however the Group operates internal peer reviews, with a scope of evaluating and testing the Group's financial control procedures, to standardise processes around best practice. Any significant issues are reported to the Chairman of the Audit Committee and shared with the external auditors as appropriate.

The Group Finance Director and the external auditors attend meetings of the Audit Committee by invitation. The Committee also holds separate meetings with the external auditors, as appropriate.

Remuneration Committee

The Remuneration Committee consists of Mr N Rogers and Mr P Haining. The Committee meets at least twice a year under the Chairmanship of Mr N Rogers.

The Chief Executive Officer and Group Finance Director have attended some of the meetings of the Remuneration Committee by invitation to respond to questions raised by the Committee, but they are excluded from any matter concerning the details of their own remuneration.

The Remuneration Committee has specific terms of reference which deal with its authority and duties and these are available for inspection from the Company Secretary.

The purpose of the committee is to review the performance of the full time Executive Directors and to set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. In fulfilling this responsibility, the Remuneration Committee is responsible for setting salaries, incentives and other benefit arrangements of Executive Directors and overseeing the Group's employee share schemes.

Members of the Remuneration Committee do not participate in decisions concerning their own remuneration. Further details are provided in the remuneration report on pages 46 to 59.

CORPORATE GOVERNANCE REPORT (continued)

Attendance at meetings

	Board	Audit Committee	Remuneration Committee
Number of meetings in 2019/20	10	3	6
Attendance			
Executive			
Mr G S Marsh	9	n/a	n/a
Mr J L Macmichael	10	n/a	n/a
Mr M T Richards	10	n/a	n/a
Mr P O James	10	3	n/a
Non-executive			
Mr A B Frere (retired 31 March 2020)	9	3	6
Mr P Haining	10	3	6
Mr J M Lavery (retired 31 August 2019)	2	n/a	n/a
Mr N Rogers (appointed 1 July 2019	6	1	6

Board performance evaluation

The Chief Executive reviews the performance of the Executive Directors on a periodic basis and reports to the Remuneration Committee.

The performance of the Directors, the Chairman and of the Board are monitored on an ongoing basis. Annually the Remuneration Committee evaluates performance as part of the review of remuneration and discretionary bonus awards.

During 2018/19 the Board and the Remuneration Committee evaluated the Board performance, including but not limited to Board balance, Board skills and remuneration, to ensure that the Board structure is fit for purpose and is appropriate for the next phase of the Group's development and growth. Given the on-going recruitment and changes to the Board during 2019/20 no formal whole Board performance evaluation was undertaken during the year, however, the Board agreed that a full review will be completed during 2020/21 once the new Non-Executive board member is recruited and is in post.

This Board has completed an informal review which identified that the Board continued to make progress against its strategy with the current trading performance ahead of the Board's expectations. As a result of the pleasing performance in the current year the Executive Directors' share bonus options vested, bonuses and salary increases were awarded to the Executive Board Members. Further details are provided in the remuneration report on pages 46 to 59.

Shareholder relations

The Board regards regular communications with shareholders as one of its key responsibilities. During 2019/20, the Chief Executive Officer and Group Finance Director met with institutional investors on a regular basis to discuss the Group's performance, the shareholder's views, and to ensure that the strategies and objectives of the Group are well understood.

The Chief Executive Officer keeps the Board fully informed of any significant matters discussed with shareholders and of shareholders' views. In addition to this the Board receives copies of the analysts' reports which the Company is made aware of.

The Non-Executive Directors, having considered the Code, are of the view that this approach to shareholder communication remains appropriate for the Group. However, should shareholders have concerns which they feel cannot be resolved through normal shareholder meetings, the Chairman, and the remaining Non-Executive Directors may be contacted through the Company Secretary.

Interim and full year-end shareholder roadshows are held by the Executive Directors together with a Capital Markets Lunch. The Company also arranges investor site visits typically twice a year. These events enable shareholders and potential shareholders to understand first-hand the business, visit the operations and meet the wider team. Furthermore, shareholders attending the AGM are invited to ask the Directors questions about the business. Other than our routine engagement with investors on topics of strategy, governance and performance, the other specific matter discussed with key shareholders included changes to the board and the Director remuneration policy.

The Company also maintains the Group's website, which provides details of the Group's business including its strategy, technologies, operations and products. The Group website has a separate investor relations section which provides the Group's news flow, share price information, and financial reports including the annual and interim reports. Hard copies of these financial reports are also available by request. The website can be found at: www.solidstateplc.com.

In accordance with the recommendations of the Code, the Company will advise shareholders attending the AGM of the number of proxy votes lodged in respect of each resolution, analysed between 'For', 'Against', 'at the Chairman's discretion' and 'abstentions'. These are advised after the resolutions have been dealt with on a show of hands, providing that a poll has not been called for or required.

Significant Shareholders

Shareholders over 3%*	% holding
Schroders	11.00%
Mrs J Comben	8.86%
Mr & Mrs W Marsh	7.61%
Seguro Nominees Limited	7.55%
Charles Stanley & Co	6.45%
BGF Investment Management Limited	5.42%
Canaccord Genuity Group Inc	4.46%
Mr G Marsh	3.29%
Cavendish Asset Management	3.24%

**Significant shareholders that the board has been notified of as at 31 March 2020 the Solid State PLC website is kept updated for notified changes during the year.*

Audit and Accountability

The Code requires that Directors review the effectiveness of the Group's system of internal controls on a continuing basis. The scope of the review covers all key controls including financial, operational and compliance controls as well as risk management.

The Board has put in place a framework of internal controls to manage the risks faced by the Group and the Audit Committee has responsibility to review, monitor and make policy recommendations to the Board upon all such matters.

The Directors acknowledge their responsibility for the Group's system of internal control. The Board, through the Audit Committee, keeps this system under continuous review and formally considers its content and its effectiveness on a bi-annual basis. In completing their review of the effectiveness of the Group's system of internal controls the Audit Committee has taken account of any material developments up to the date of the signing of the financial statements. In addition, recognition is given to the external audit findings, which help to inform the Audit Committee's views of areas of increased risk.

The system of internal control comprises those controls established in order to provide assurance that the assets of the Group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage rather than to eliminate the risk of failing to achieve the business objectives of the Group.

The Directors acknowledge their responsibility for preparing the Annual Report and Accounts. The Audit Committee reviews the Group's reporting processes with the aim of ensuring that the financial reporting, when taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Risk Management

The Board reviews and approves an Annual Budget and Business Plan prior to the start of each financial year. This includes reviewing the key strategic, operational and financial objectives for the year, together with a detailed financial budget.

The Executive Committee is accountable to the Board for delivery of the Annual Business Plan. The Executives report performance against the plan on a monthly basis, which includes detailed analysis of budgetary variances and updated financial projections.

Each Executive Director is responsible for identifying and managing the risks relating to their respective areas of responsibility, including the risks relating to strategy, the Annual Business Plan and day-to-day business.

To provide a framework for the delivery of the Group's strategy and plans, the Executive Committee has developed an organisational structure with clear roles and responsibilities and clear lines of reporting.

In addition to day-to-day risk management the Executive Directors formally assess the major business risks and evaluate their potential impact on the Group. These risks and the reporting of the risk assessment is included in the strategic report on pages 12 to 16.

Internal Control

In respect of internal controls, the Directors are continually reviewing the effectiveness of the systems of internal controls. The key elements of which, having regard to the size of the Group, are that the Board meets regularly and takes the decisions on all material matters. The organisational structure ensures that responsibilities are defined, authority only delegated where appropriate and that the regular management accounts are presented to the Board wherein the financial performance of the Group is analysed.

Further details over the internal controls are set out in the Audit Committee report on page 41 to 45.

The Directors acknowledge that they are responsible for the system of internal control, which is established in order to safeguard the assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. Any such system of control can, however, only provide reasonable, not absolute assurance against material misstatement or loss.

Going Concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2020, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2020, the Group had cash balances of £3.5 million, a drawn term loan of £0.3m (which was repaid post year end in May 2020) and an undrawn revolving credit facility (RCF) of £7.5 million.

The bank facilities are subject to financial covenants requiring the business to be EBITDA positive therefore this facility is available to fund investment in working capital, capital investment or acquisition activities. Should the business face such a significant down turn that it was loss making the facility would not be available to be drawn to fund additional losses without a covenant waiver of amendment. As a result, in evaluating a stressed model the Board have not included the RCF in the headroom.

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 on 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 all published by the UK Financial Reporting Council to provide support to Directors and board in making the assessment of going concern.

Additional disclosures in respect of the Directors' assessment and modelling to support the conclusions below are set out on page 76 and 77 of the basis of preparation.

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.

Long term viability statement

The Directors have assessed the viability of the Group considering the Group's current position and the potential impact of the principal and emerging risks documented above that would threaten its business model, future performance, solvency, or liquidity.

As indicated under the Going Concern assessment above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 30 June 2021.

The Directors have determined that a 2 year period to 31 March 2022 is an appropriate period over which to assess its viability statement. This is based on the significant amount of change that can arise over 2 years in the electronic and optoelectronics market; our business; and, in the macro-economic environment. This has been proved by the impact that COVID-19 has had on our business, the UK and the World economy.

The Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency, or liquidity.

As noted above the Board has also performed specific stress testing on the impact of the COVID-19 pandemic. The outputs from these reviews were then used to perform liquidity analysis on the strategic plan and the COVID-19 scenarios, including the downside sensitivity reviews that were based on principal risks.

The impact of COVID-19 is affecting many of the principal risks detailed above and as such is the most significant factor impacting near and mid-term future financial performance. Although the Company's response to the COVID-19 crisis is management's key focus at this time, the Directors consider the mid and longer term opportunity in the UK manufacturing and value added distribution businesses will remain very strong.

Long term viability statement – cont'

The expectation over the strength of the market is supported by the significant structural technological enhancements (such as: Connectivity / 5G; Sensing; AI /Big data; and, Green tech), where the electronic and opto-electronic component & manufactured solutions we provide are expected to be critical elements of these enhancements. This alignment with the Group's strategy and core capabilities means that the Board believe that the Group will be very well placed to take advantage of these macro opportunities once the adverse impact of the COVID-19 pandemic is overcome.

G S Marsh
Chief Executive Officer
30 June 2020

AUDIT COMMITTEE REPORT

The Audit Committee is chaired by Mr P Haining FCA, a Chartered Accountant. He is considered by the Board and Audit Committee to have the necessary current relevant financial knowledge, qualifications and experience for this role.

In accordance with the QCA guidance the Board has reviewed and evaluated Mr P Haining's performance as a Non-Executive Director and confirm that he remains independent in terms of both his character, his judgement and based on how he conducts himself as a Non-Executive Director and chair of the Audit Committee.

Therefore, given the knowledge, experience and skills of Mr P Haining the Board consider that he remains the most appropriate member of the Board to Chair the Audit Committee.

Primary responsibilities of the audit committee:

- Reviewing the effectiveness of the Group's procedures for the identification, assessment and reporting of risk, financial reporting processes and internal control policies.
- Managing the relationship with the auditors to ensure that the external audit is effective, objective, independent and of a high quality. Furthermore, the Audit Committee ensures that the scope of the audit, the auditors' terms of engagement, and fees are reasonable and appropriate.
- Considering whether there is a need for an internal audit function and make a recommendation to the Board as to what is appropriate for the Board to gain assurance over the financial processes, procedures, controls and reporting of the group.
- Reviewing significant financial reporting issues, accounting policies, and judgements and estimates adopted by management and monitoring the integrity of the Group's financial statements independently of the Executive Directors and external auditors.
- Advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Activities during the year:

The Audit Committee met three times during the year. The meetings were also attended by the Group Finance Director, and representatives of the Group's external auditors by invitation.

At meetings attended by the external auditors, time is allowed for the Audit Committee to discuss issues with the external auditors without the Group Finance Director being present.

As part of the Audit Committee's review process, the Chairman of the Audit Committee and the Group Finance Director visit each of the group's major business units across the year to review and challenge the local management on their draft financial results.

The Chairman reports his observations from these visits to the Audit Committee and the Board as part of the process for approving of the Annual Report and Accounts.

The Committee operates under formal terms of reference and these are reviewed annually. An annual rolling agenda is used to ensure that all matters within the Audit Committee's Terms of Reference during the year are appropriately covered. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate during the year.

Financial reporting

The Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including evaluating the significant financial reporting judgments made by management to ensure that they were appropriate, considering the reports from management and ensuring that the external auditors concurred with management and the committee's conclusions.

The main areas of focus considered by the Committee during 2019/20 were as follows:

The presentation of the financial statements, including the presentation of adjusted performance measures.

Following review of reports from management the Committee concurred that the presentation of the adjusted performance measures are appropriate, balanced and enables the users of the accounts to understand the underlying and on-going performance of the business. In finalising the accounts, the committee noted that the external auditors materially concurred with management and the committee's conclusions.

Going concern

The Committee assessed the appropriateness of the going concern assumption. In doing this the committee reviewed the resources available to the Group, taking account of the Group's trading and cash flow forecast together with available funding headroom in these very uncertain trading times because of the impact of COVID-19. Based on this as disclosed on pages 39,76 and 77 in the basis of preparation the committee concluded that the Going Concern principle was appropriate. In finalising the accounts, the committee noted that the external auditors accepted management and the committee's conclusions.

Review of the impact of the new leases standard IFRS 16.

The Committee reviewed the reports prepared by management which set out the impact of adopting the new standard which will come into effect for the year ending 31 March 2020.

The report identifies that there will likely be a significant impact on the presentation of both the statement of comprehensive income and the statement of financial position.

On adoption the Group has elected to adopt IFRS16 using the modified retrospective transition approach, with the cumulative effect of adopting the new standard being recognised in equity as an adjustment to the opening balance of retained earnings for the current period.

The standard requires that material leases are recognised on the statement of financial position within non-current assets as a "right to use asset" which will be depreciated. A right of use liability is recognised in respect of future payment obligations.

The committee reviewed the key judgements in determining the value of the right of use assets and liabilities and disclosure and the accounting policies section of the accounts to ensure that the users of the accounts were given a clear indication of the impact of the adoption and restatement which is reflected in the accounts. In finalising the accounts, the committee noted that the external auditors materially concurred with management and the committee's conclusions that the disclosure in the current year was appropriate.

Review for the potential impairment of goodwill and other intangible assets.

The Committee reviewed and challenged the key assumptions, judgements and sensitivities in the report from management. The Committee concurred that the expected future cash flows of the group support the carrying value of goodwill and other intangible assets, and that there were no triggering events which suggested any potential impairment of goodwill and other intangible assets.

Review of product development costs capitalised.

Following review of reports from management and discussion with the Head of Manufacturing Engineering and Operations, the Committee concurred that the product development costs were capital in nature, and that the treatment was in accordance with IAS 38.

Accounting for R&D tax credits.

Following review of reports from management and correspondence with the companies' R&D tax advisors, setting out the level of the R&D claim, the level of the R&D tax credit which is deferred and amortised to match to capitalised development programmes, the Committee concurred that the R&D tax credit accounting was appropriate

Review of judgemental areas, and specifically the level of accounting provisions.

Following review of reports from management the Committee concurred that the provisioning policy had been applied consistently and the level of provisions remains appropriate.

AUDIT COMMITTEE REPORT (continued)

Annual report

At the request of the Board the Committee considered whether the 2019/20 annual report was fair, balanced and understandable and whether it provided the relevant information for stakeholders to assess the Group's performance, business model and strategy.

Having taken account of the other information provided to the Board throughout the year, the Committee was satisfied that, taken as a whole, the annual report was fair, balanced and understandable.

The Committee was satisfied that based on its review, challenge and debate of the draft financial statements and the key accounting items, that the assumptions made, the judgements applied, and the accounting and disclosures were appropriate.

The Committee reviewed and recommended the approval of the narrative reporting statements on corporate governance, internal control and risk management in the annual report and the half year and trading statements.

External auditors

The Audit Committee has developed a formal Auditor Independence Policy. In accordance with this policy, the Committee oversees the relationship with the external auditors and monitors all services provided by them and all fees payable to them. This is to ensure that potential conflicts of interest are considered, and that an independent, objective and professional relationship is maintained.

RSM UK Audit LLP ("RSM") were appointed last year following an audit tender process. Following the completion of the first year audit a comprehensive debrief was completed to ensure that the value from the audit was maximised for all stakeholders. The output of the debrief formed part of the audit planning and scoping process to ensure continuous improvement.

The Audit Committee also monitors the effectiveness of the annual audit. In advance of the financial year end, the Committee receives a detailed audit plan from the auditors which identifies the auditors' assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure that the scope and coverage of audit work is appropriate.

Based on the scope of work the committee ensure that the proposed fees are fair and reasonable and represent value for the services provided.

As in prior years the provision of external audit and tax compliance are separated where practical. As such tax advice is provided by Bevan Buckland LLP and The Kings Mill Practice.

In addition, Solid State PLC's management also provide the Committee with feedback on their view of the quality and effectiveness of the audit. This feedback is considered in conjunction with the Committee's own review of the auditor's performance in delivering an effective, objective, independent and a high-quality audit.

Based on the prior year audit and the review completed of this year's services delivered in respect of the 2019/20 audit of Solid State PLC both management and the audit committee were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and they assessed the quality of the audit process as good.

AUDIT COMMITTEE REPORT (continued)

Non-audit services

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

Under this policy, the award to the Group's auditors of audit related services, tax consulting services or other non-audit related services in excess of £10,000 must first be approved by the Audit Committee. The policy also sets out guidelines for the recruitment of employees or former employees of the external auditor.

During the year, the audit committee approved non-audit services in respect of some preliminary due diligence and employment and remuneration services. The committee reviewed the potential threats to independence and the associated safeguards and concluded that independence would be maintained.

In addition, the Group's auditors are required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

The nature of the services provided by the auditors and the amounts paid to them are as detailed below:

	31 March 20 £'000	31 March 19 £'000
RSM UK audit LLP (Group auditors)		
Fees payable to company's auditors for the audit of the parent company accounts and consolidated financial statements	75	63
Fees payable to company's auditor and its associates for other services:		
• The audit of the company's subsidiaries	-	17
• Other assurance services	1	-
• Taxation services	-	-
• Services relating to corporate finance transactions	9	-
• Other non-audit services	18	-
	_______	_______
Total fees payable to the Group auditors	**103**	**80**
	_______	_______

The audit scope for the year ended 31 March 2020 relates to the audit of the Consolidated Group Accounts and that of the parent company. The UK trading subsidiaries have adopted the exemption from the requirements to 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.

Internal Audit

The Board asks the Audit Committee to review annually the requirement for an internal audit function, having regard to the size of the Group, the costs of such a function versus the likely benefit and the sufficiency of the assurance to validate the functioning of the system of internal control, given the operational and financial circumstances facing the Group.

Based on the review of the management reporting and external audit assurances over controls and financial reporting, the Audit committee considers there was no requirement for an internal audit function at this time.

As part of the Group Financial Director's review processes the divisional Managing Directors and the site Financial Controllers are obliged to positively confirm, quarterly, that the agreed procedures are in place and are being adhered to, with specific reference to key controls such as bank and control account reconciliations.

It has been reviewed by the Committee and they remain satisfied with the arrangements. No significant failings or weaknesses were identified by the internal management review and sign off process, but several minor improvements were identified and implemented.

The Committee also considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the FRC's revised guidance on Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Risk management activities are dealt with in more detail in the Strategic Report on pages 12 to 16.

Internal control

The Audit Committee reviews the effectiveness of the Group's system of internal controls and risk management activities bi-annually as part of the half year end and full year public reporting.

The key procedures that the Directors have established with a view to providing effective internal control include the following:

- a clearly defined organisational structure and delegated limits of authority;
- Group policies and procedures in respect of financial reporting and control, contract approval, project appraisal, human resources, quality control, health and safety, information security and corporate governance and compliance;
- the preparation of annual budgets and regular forecasts which are approved by the Board;
- the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board;
- regular review and self-assessment of the risks to which the Group is exposed, taking steps to monitor and mitigate these wherever possible;
- where appropriate, taking out insurance cover; and,
- approval by the Audit Committee of audit plans and, on behalf of the Board, receipt of reports on the Group's accounting and financial reporting practices and its internal controls together with reports from the external auditors as part of their normal audit work.

P Haining FCA
Audit Committee Chairman
30 June 2020

REMUNERATION COMMITTEE REPORT

On behalf of the Board, it is my pleasure to present our Directors' Remuneration Report (the "Report") for the year ended 31 March 2020. I succeeded Mr A B Frere as Chair of the Remuneration Committee in July 2019 when I joined the Board. As we announced previously Tony retired from the Board on the 31 March 2020, I would like to thank him for his support and wish him well for the future.

The approach that we have adopted in reviewing the Company's remuneration policy for Executive Directors is to motivate, retain and, when necessary, attract executive management of the right calibre.

To do this, we provide packages which reflect individual experience and performance and take into account the remuneration paid by companies of a similar size and complexity to Solid State PLC.

During the year, the Committee completed a comprehensive review of the Company's remuneration policy, and in this report I have set out the updated revised policy incorporating a number of changes from the previous policy, in order to move towards adopting best practice, to improve the competitiveness of remuneration packages and to further enhance stakeholder alignment.

In determining the remuneration packages for the Executive Directors for the forthcoming financial year, the Committee took into account the following factors:

- The Group's overall performance and strategy - in particular, the Committee noted the strong organic growth in profitability, value enhancing acquisitions, and record trading of Solid-State PLC for the year ended 31 March 2020;
- Current and emerging market practice;
- Best practice expectations of institutional investors; and
- The competitiveness of the Company's remuneration – the Committee looked both at other companies in the AIM and SmallCap index as well as a set of comparators that have similar complexities to Solid State PLC.

The Committee's conclusion was that the current structure was reasonable however it did need to be updated to ensure that it is fit for purpose going forward. The updates ensure it remains simple and consistent, with pay outcomes dependent upon performance linked to our business strategy.

All decisions made by the Committee have been made under the updated Group Remuneration Policy.

Basic salary increases for the forthcoming year have been determined by reference to an externally produced benchmarking survey of AIM company remuneration published in April 2019. The Committee concluded that it is appropriate to increase basic salaries by an amount slightly higher than the general rate of salary inflation to reflect our intention to transition from lower quartile levels prevailing previously, towards median levels of pay.

Accordingly, increases have been determined as follows:

- Group Chief Executive – 5.7%
- Group Chief Financial Officer – 11.5%
- Divisional Managing Directors – 6.7%

The Committee is mindful that the salary of the Group Chief Executive remains below the median comparator level, and has undertaken to carry out a further review in October 2020.

In addition to basic pay, the Committee reviewed its policy in relation to annual bonus entitlements, which have previously been entirely discretionary. The outcome of this review has determined that an annual bonus pool should be set aside based upon a reasonable share of the excess of any profits earned over the market expectation at the beginning of each year. This will be set such that:

1. no bonus accrues until the company meets or exceeds expectation (after bonus cost);
2. the cost of the scheme would not normally exceed one third of the excess profits; and,
3. aggregate allocations from the pool (set at the discretion of the Committee at the end of each year) would not normally exceed 50% of aggregate basic salaries.

REMUNERATION COMMITTEE REPORT (continued)

Business performance and resulting remuneration outcomes for the year ending 31 March 2020

It has been a record year for the Company and for Shareholders. Solid State PLC has continued to deliver strong results for Shareholders: trading for the year ended 31 March 2020 was strong across both divisions and the Group has delivered full-year earnings which are 34% ahead of the market expectations from the beginning of the year.

There were several achievements which we expect to build value over the longer term. You can read more detail in the Strategic Report on pages 6 to 21 but some of the highlights are summarised below:

- Strong growth in sales, orders, profits and earnings
- Organic growth driven by strong performance from the Manufacturing division
- Further good progress on key strategic and performance targets
- Successful progress in integrating the Pacer Opto-electronics BU in to the VAD division while increasing the divisional EBIT return to 5.9%
- Record year-end order book of £39.9m

Considering this performance, the Committee decided to award discretionary annual bonus payments to each of the executive Directors' equivalent to 85% of basic salary. The level of bonus is significantly higher than the relatively nominal levels declared in previous years, and above the long term limits set in the new scheme. This reflects the view of the Committee that the current year performance has indeed been exceptionally strong.

It has been particularly pleasing to see continued recognition of the long-term strategic progress being made by the Company. This resulted in full vesting of the EMI Share plan awards granted in 1 June 2017.

Further details of bonus and EMI awards can be found on page 58 of this report.

Share Option incentives

The Committee also recognise the benefits of implementing a long term reward for the executive through an LTIP. This is intended to encourage retention and motivation of executive Directors and other key members of the management team through building an equity investment in the company aligned to the generation of long term shareholder value.

Detailed proposals are underway to design and implement two new share option plans; a HMRC approved Company Share Option Plan ("CSOP") and an unapproved Long Term Incentive Plan ("LTIP") offering opportunities to build meaningful equity stakes in the Company for approximately 12 – 15 key employees, including the executive Directors. These plans will operate in manner consistent with relevant Investment Association's guidelines, including, for example, a limit to dilution as a consequence of aggregate awards of 10% over a ten year period.

Investor consultations will be carried out in due course, and these proposals will be put before the Company at the forthcoming AGM.

The first awards are expected to be made after the approval at the AGM of the updated remuneration policy at the AGM with subsequent awards being awarded annually.

Other key activities in the year ending 31 March 2020

During the year under review, the Committee held six formal meetings. As well as the implementation of the remuneration policy, the Committee also carried out the following activities:

- Reviewed and approved the Executive Directors' performance against financial and non-financial objectives for the year ended 31 March 2020 and the 2017 EMI Share plan targets and determined the bonuses payable;
- Reviewed and approved the increase in contractual notice periods of Mr P O James and Mr M T Richards from three to twelve months to bring them in line with the other Executive Directors;
- Determined salary increases for Executive Directors for the year ending 31 March 2021;
- Approved the LTIP Awards to be made in the year ending 31 March 2021 and their performance conditions;
- Reviewed and approved the annual bonus structure for Executive Directors for the year ending 31 March 2021;
- Reviewed and approved the payment of vehicle allowances in lieu of company cars;
- Establish a new HMRC approved CSOP plan which will be available to senior staff and executives;
- Establish a new LTIP plan which replaces the 2017 EMI Share plan which concluded on 31 March 2020;
- Implemented a deferred bonus scheme, in line with the Company' remuneration policy; and
- Updated the terms of reference of the Committee.

Further detail on the above can be found in the Annual Report on Remuneration. During 2021, the Committee will continue to review the reward arrangements appropriate to Executive Directors.

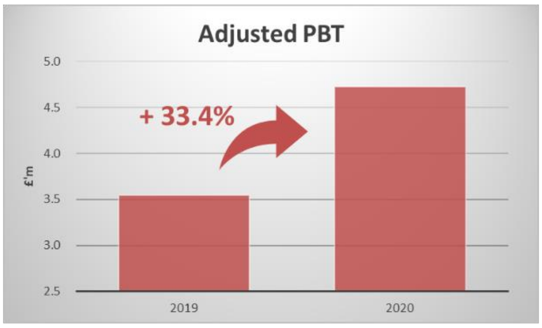
The Annual Report on Remuneration explains how our policy has been updated and implemented during the year and, along with this letter, will be subject to an advisory vote at our AGM (resolution 2). We hope that you will support this resolution.

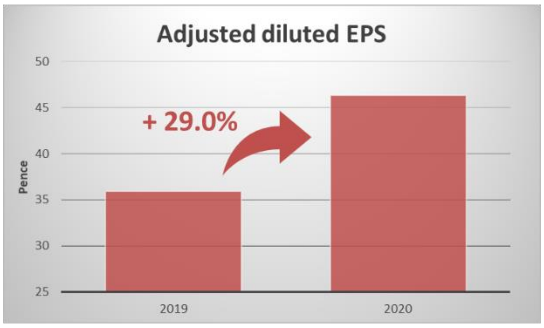
N Rogers
Remuneration Committee Chairman
30 June 2020

REMUNERATION COMMITTEE REPORT (continued)

Single page remuneration summary

Corporate performance for the year

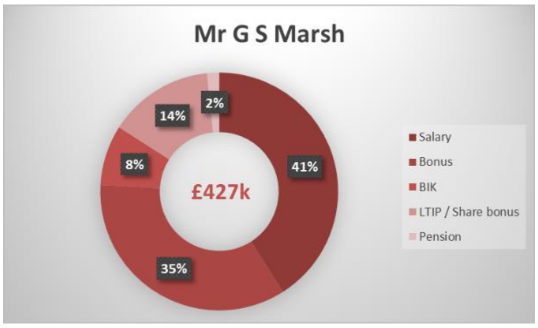


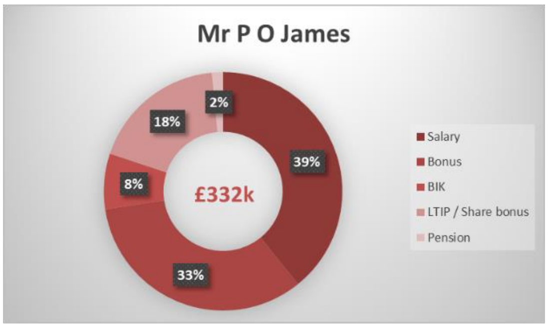


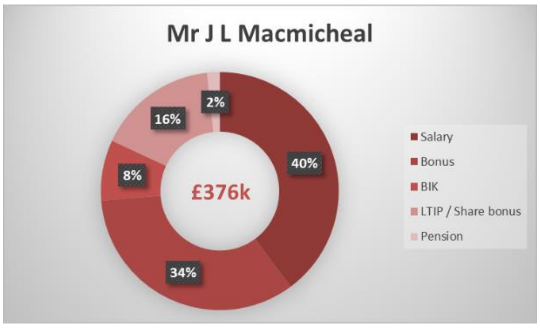
Remuneration principles

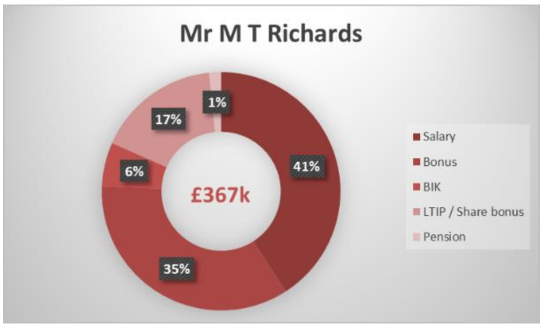
The key principles of our approach to executive remuneration are to attract, retain and motive high calibre executives with the skills, experience, and vision to deliver outstanding company performance, while recognising the need to be cost effective. The aim is to incentivise the executives to deliver against the Solid State PLC business plans and budgets as part of progressing the longer term strategy of sustainable growth of the business by aligning executive remuneration to the Solid State PLC strategic goals and objectives which underpin delivering value for all stakeholders.

Executive Director Total Remuneration









Remuneration report

This report is prepared to address the reporting requirements of the QCA code which the company has adopted in accordance with AIM rule 26.

Remuneration Committee

The Company's remuneration policy is the responsibility of the Remuneration Committee (the 'Rem Co'), which was established in 2017.The terms of reference of the Rem Co are outlined on the Group website:www.solidstateplc.com.

The members of the Committee are: Mr N Rogers (Chairman); and, Mr P Haining; Mr A B Frere was a member of the member of the committee up until his retirement on 31 March 2020.

The Rem Co, which is required to meet at least twice a year, met six times during the year ended 31 March 2020. The Chief Executive Officer and certain executives may be invited to attend meetings of the Committee to assist it with its deliberations, but no executive is present when his or her own remuneration is discussed.

During the year the Committee has sought independent advice relating to the design of the new LTIP from RSM.As set out in the terms of reference the committee are able to seek independent advice when it is required at the Groups expense.

Refreshed remuneration policy

In reviewing the remuneration policy, the committee has refreshed the policy as set out below.

Remuneration element and link to strategy	Operation	Opportunity	Performance metrics
Base Salary – To attract and retain quality executives which provides a competitive total package	Salaries are reviewed annually and normally fixed for 12 months, effective from 1 April. The Committee considers: • Role, competence and performance; • Average change in broader workforce pay; and, • Group salary budgets. In future salaries will also benchmarked against companies of a comparable size and complexity which operate, in similar sectors.	Any percentage increases will ordinarily be in line with those across the wider workforce. However, salary increases may be higher in exceptional circumstances, such as the need to retain a critical executive, or an increase in the scope of the executive's role (including promotion to a more senior role) and/or in the size of the Group.	N/A
Benefits To help retain employees and remain competitive in the marketplace.	Directors, along with other senior UK executives, receive a company car or car allowance, life assurance, and family medical insurance.	Insurance cover based on market rates.	N/A
Pension To facilitate long-term savings provisions.	The Company operates a defined contribution pension scheme. Contributions are benchmarked periodically against companies of a comparable size and complexity which operate in similar sectors. Executive Directors may take a cash allowance in lieu of pension contributions.	Up to 4% of base salary in addition to an employee contribution of 5%.	N/A

Remuneration element and link to strategy	Operation	Opportunity	Performance metrics
Annual bonus The principal long-term measure of Shareholder interests is Total Shareholder Return. The Committee considers that this will be enhanced through the setting and attainment of various short-term targets, which are within the control of the Executive Directors. These are incentivised through the bonus plan which rewards the achievement of annual financial and strategic business targets.	Targets (financial and non-financial) are determined and reviewed by the Committee annually and are selected to be relevant for the year in question. Actual bonus payable is determined by the Committee after the financial year-end, based on performance against these targets. Financial objectives are updated to reflect acquisitions, disposals and currency movements during the year. Bonus payments are delivered in cash or shares. Clawback (of any bonus paid) may be applied during employment or for 1 year post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.	Up to 100% of salary payable for significant over-achievement of financial and non-financial bonus objectives. The bonus will pay 0% at minimum threshold, and 50% at excepted maximum. In exceptional circumstances, the Committee has discretion to declare additional bonus up to a maximum of 100%.	Performance is assessed on an annual basis against financial and personal / strategic objectives set at the start of each year. Financial measures will be weighted appropriately each year according to business priorities, and will represent no less than 70% of the annual bonus. Performance vs. targeted levels will be measured at budgeted FX rates. Financial measures may include (but are not limited to) PBT and Adj FD EPS. Non-financial measures may include strategic measures directly linked to the Company's priorities. Personal/strategic objectives will represent no more than 30% of the bonus and will be set annually to capture expected individual contributions to Solid State PLCs strategic plan. The personal element shall not pay out unless financial performance is at least at Threshold. The Remuneration Committee has discretion to adjust formulaic bonus outcomes to ensure fairness for shareholders and participants, to ensure pay aligns underlying company performance, and to avoid unintended outcomes. These adjustments can be either upwards (within plan limits) or downwards (including down to zero). The Remuneration Committee may consider measures outside of the bonus framework to ensure there is no reward for failure.

Remuneration element and link to strategy	Operation	Opportunity	Performance metrics
Company Share Option Plan (CSOP) To motivate senior staff and executives to deliver shareholder value over the longer term.	Awards of conditional shares through market price options are typically granted annually, with vesting dependent on the achievement of performance conditions over the following three years. Dividend equivalents will be paid on vested awards. These awards will be made under an HMRC approved company share option plan (CSOP) to Senior staff and Executive Directors, Malus and clawback applies to vested and unvested CSOP awards in the event of material misstatement of information or misconduct. The Company monitors the number of shares issued under the schemes and their impact on dilution limits. The Company is committed to remaining within the Investment Association's 10% dilution limit.	Awards of up to the applicable HMRC approved limits	Performance metrics reflect strategic goals and milestones. The exercise of the award is dependent upon the individual's continued employment for a three-year period from the date of grant, subject to the good and bad leaver provisions within the Plan rules and the satisfaction by the Company of certain performance conditions over the three-year vesting period. The performance conditions are based on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period. The Company's share schemes are funded through a combination of shares purchased in the market and newly issued shares, as appropriate.
Long Term Incentive Plan To motivate executives to deliver shareholder value over the longer term.	Awards of conditional shares through nil-cost options are typically granted annually, with vesting dependent on the achievement of performance conditions over the following three years. Vested awards are subject to a two-year holding period, in aggregate a five-year period from award to exercise. Dividend equivalents will be paid on vested awards. These awards will be made under an unapproved share option plan (USOP) to Executive Directors, Malus and clawback applies to vested and unvested LTIP awards in the event of material misstatement of information or misconduct. The Company monitors the number of shares issued under the schemes and their impact on dilution limits. The Company is committed to remaining within the Investment Association's 10% dilution limit.	Up to 125% of salary.	Performance metrics reflect strategic goals and milestones. The exercise of the award is dependent upon the individual's continued employment for a three-year period from the date of grant, subject to the good and bad leaver provisions within the Plan rules and the satisfaction by the Company of certain performance conditions over the three-year vesting period. The performance conditions are based on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period. The Company's share schemes are funded through a combination of shares purchased in the market and newly issued shares, as appropriate.

REMUNERATION COMMITTEE REPORT (continued)

Details of the policy on fees paid to the Company's Non-Executive Directors are set out in the table below:

Remuneration element and link to strategy	Operation	Opportunity	Performance metrics
Fees to attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company.	The fees paid to the Non Executive Directors are determined by the Board (excluding the Non-Executive Directors or group of Non Executive Directors whose remuneration is being discussed). Fee levels are benchmarked against similar roles at comparable companies. Time commitment and responsibility are considered when reviewing fee levels.	Fee levels are reviewed annually, with any adjustments effective 1 April in the year following review. It is expected that increases to Non-Executive Director fee levels will normally be in line with salaried employees over the life of this policy. However, in the event that there is a material misalignment with market, or a material change in the time commitment required to fulfil a Non-Executive Director role, the Board has the power to make an appropriate adjustment to the fee level.	N/A

Notes to the remuneration policy and performance conditions and target setting

Each year, the Committee will determine the weightings, performance metrics and targets as well as timing of grants and payments for the annual bonus, CSOP and LTIP plans within the approved remuneration policy and relevant plan rules.

The Committee evaluates a number of factors which assist in reaching their conclusions and view. These include, but are not limited to, the strategic priorities for the Company over the mid/long term, Shareholder feedback, the risk profile of the business and the macroeconomic climate.

The Annual Bonus Scheme is measured against a balance of profitability, and the delivery of key strategic areas of importance for the business. The profitability metrics used include adjusted profit before tax and /or adjusted fully diluted EPS.

The CSOP and LTIP are assessed against a performance measure identified as the most relevant to driving sustainable bottom line business performance, as well as providing value for Shareholders. This measure is currently considered to be real growth in adjusted fully diluted EPS.

Targets are set against the annual and long-term plans, taking into account analysts' forecasts, the Company's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide an appropriate balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

In exceptional circumstances, the Committee has the discretion to adjust and/or set different targets and performance conditions for annual bonus and long term incentive plans, provided the new conditions are no tougher or easier than the original conditions. This includes events where conditions are unable to fulfil their original intended purpose. Awards may also be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).

Any discretion exercised by the Committee in the adjustment of performance conditions will be fully explained to Shareholders in the relevant report. If the discretion is material and upwards, the Committee will consult with major Shareholders in advance. No such discretion was exercised during FY19/20.

The Committee also has the ability to grant additional LTIP awards to participants in return for their bearing the Company's liability to employer's National Insurance arising on the exercise of such grants made to them above. The additional award ensures that the participants are in a neutral position on an after-tax basis, assuming no change in tax rates.

All historical awards that have been granted before the date this policy came into effect and still remain outstanding (including those detailed on page 58 of this report) remain eligible to vest based on their original award terms.

Recruitment (and appointment) policy

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. The same approach would be adopted where a Director is promoted to the Board from within the Group.

Element	Recruitment Policy
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities, and current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over multiple years subject to the individual's development in the role.
Pension	New appointees will receive pension contributions or an equivalent cash supplement in line with existing policy.
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) those outlined in the policy table.
Annual Bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each executive.
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table. In addition, a new recruit may be awarded up to 125% of salary in performance shares, which would be subject to the same performance measures and rules in force for the LTIPs at the time of appointment.
Compensation for forfeited remuneration	The approach in respect of compensation for forfeited remuneration in respect of a previous employer will be considered on a case-by-case basis taking into account all relevant factors, such as performance achieved or likely to be achieved, the proportion of the performance period remaining and the form of the award. The Committee retains the ability to make use of the relevant guidance to facilitate the "buyout". Any "buy-out" awards would have a fair value no higher than the remuneration forfeited.

Notice period and payment for loss of office

It is the Company's policy that Executive Directors should have service contracts incorporating a notice period of one year. However, it may be necessary occasionally to offer shorter or longer initial notice periods to new Directors.

Under the terms of their service contracts, any termination payments are not pre-determined but are determined in accordance with the Director's contractual rights, taking account of the circumstances and the Director's duty to mitigate loss. The Company's objective is to manage its exposure to the risk of a potential termination payment.

Non-Executive Directors have letters of appointment for a term of one year whereupon they are normally renewed, but generally for no more than nine years in aggregate. Non-Executive Directors are not eligible for payment on termination, other than payment to the end of their contracts.

REMUNERATION COMMITTEE REPORT (continued)

Service contracts and letters of appointment

The Executive Directors have entered into service agreements which can be terminated by either party by providing the required notice period set out in their respective service contracts.

The Chairman and Non-Executive Directors have entered into letters of appointment for an initial fixed period up to the first AGM where in accordance with the Article of Association they are re-elected by the shareholders. Subsequently in accordance with the Article of Association all Directors are required to stand for re-election by rotation at the AGM on a three year cycle. The appointment can be terminated on six months' notice by either party.

		Date of contract / letter of appointment	Expiry of current term
P Haining	Interim Chair and Non-Executive Director	31/10/2017	September 2022
G S Marsh	Group Chief Executive	19/06/1996	12 months by either party
P O James	Group Finance Director	18/11/2016	12 months by either party
M T Richards	Manufacturing MD	06/04/2016	12 months by either party
J L Macmichael	Value Added Distribution MD	26/05/2010	12 months by either party
N Rogers	Non-Executive Director	19/06/2019	September 2022

External appointments

With the approval of the Board in each case, and subject to the overriding requirements of the Group, Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any fees received.

During the year ended 31 March 2020, the Executive Directors did not hold any Non-Executive Directorships with other companies other than Mr P O James who on a voluntary basis is a Non-Executive Director for the British Waterski Federation Limited.

LTIP and Bonus leaver provisions

Reason for leaving	Calculation of vesting / payment
Annual bonus	
Resignation	No annual bonus payable
Good leaver / Change of control	Cash bonuses will typically be paid to the extent that performance objectives have been met. Any resulting bonus will typically be prorated for time worked. The Remuneration Committee retains discretion to vary this treatment in individual circumstances.
LTIP	
Resignation	Outstanding awards would normally lapse however the committee has the discretion to approve vesting based on a pro-rata time apportionment and assessment of achievement of performance conditions.
Good leaver / Change of control	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved. The Remuneration Committee retains discretion to vary this treatment in individual circumstances. The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Remuneration Committee may agree (within 12 months in the event of death). In the event of change of control, the following 3 years' awards will vest on a pro-rata time apportionment and assessment of achievement of performance conditions as a minimum. Any award above this level will be at the committee's discretion. For the initial awards under the LTIP there are transitional provisions applicable. In the event of a change of control, awards may alternatively be exchanged for new equivalent awards in the acquirer by mutual agreement where appropriate.

A Good leaver is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, retirement, or any other reason that the Committee determines in its absolute discretion.

Consideration of employment conditions elsewhere in the Group

The remuneration policy, which has been implemented for the current Executive Directors, is more weighted towards performance-related pay than for other employees. The reason for this is to establish a clear link between remuneration received by the Executive Directors and the creation of Shareholder value.

As mentioned on page 50 of this Annual Report and Accounts, when setting the policy, the Committee takes account of pay and employment conditions elsewhere in the Group, but has not used any remuneration comparison measures between the Executive Directors and other employees.

Consideration of Shareholder views

The Committee's policy is to receive updates on the views of Shareholders and their representative bodies on best practice and take these into account. It seeks the views of key Shareholders on matters of remuneration in which it believes they would be interested.

Adoption of the refreshed policy for 2021

In addition to reviewing and refreshing the policy to adopt best practice, the committee has reviewed the Executive remuneration for the coming year. The results of this review have been set out in this report.

(i) Executive remuneration

The previous full salary and benefit review took effect from 1 April 2017 an interim salary review was completed during 2018/19, as a result it was appropriate that a full review of salaries and performance bonuses should be completed ahead of the end of financial year ended 31 March 2020. This review has taken into account the refreshed Policy, the Group performance, individual performance and internal relativities in addition to independently reviewing remuneration against appropriate benchmarking.

The impact of the review of salaries and bonuses was as follows:

31 March 2020	1 April 2018 to 31 March 2019 Salary pa (£'000)	1 April 2019 to 31 March 2020 Salary pa (£'000)	From 1 April 2020 Salary pa (£'000)	1 April 2018 to 31 March 2019 Bonus (£'000)	1 April 2019 to 31 March 2020 **Bonus (£'000)**
G S Marsh	163	175	185	Nil	**149**
P O James	120	130	145	20	**111**
J L Macmichael	140	150	160	20	**128**
M T Richards	140	150	160	15	**128**

Directors' remuneration for the year ended 31 March 2020 is set out on page 58 of this document.

(ii) Chairman and Non-Executive Director remuneration

The Chairman and the Non-Executive Directors receive a fixed fee set out in the table below. The fixed fee covers preparation for and attendance at meetings of the full Board and committees thereof. Should there be any services provided in relation to "special projects" that may arise there may be an appropriate incremental fee agreed for these services.

The Executive Directors are responsible for setting the level of Non-Executive remuneration. The Non-Executive Directors are also reimbursed for all reasonable expenses incurred in attending meetings.

The Non-Executive Directors are not eligible to participate in the Company's performance related bonus plan or long term incentive plans. Full terms and conditions for each of the Non-Executive Directors are available at the Company's registered office during normal business hours and will be available upon request at the AGM for 15 minutes prior to the meeting and during the meeting.

(iii) Equity-based incentive schemes for 2020

The Committee strongly believes that equity-based incentive schemes increase the focus of employees in improving Group performance, whilst at the same time providing a strong incentive for retaining and attracting individuals of a high calibre.

Enterprise Management incentive scheme ('EMI')

The Solid State plc Enterprise Management Incentive Scheme ('EMI'), comprising conditional (performance-related) share awards (technically structured as nominal cost options pursuant to which participants must pay 0.1p per share on the exercise of their awards).

No EMI awards were made in 2018/19 or 2019/20. The last grant was made in June 2017.

All awards will lapse at the end of the applicable performance period to the extent that the applicable performance criteria conditions have not been satisfied with no opportunity for retesting. In the event of a good leaver event or a change of control of the Company, the EMI awards may vest early, but only to the extent that, in the opinion of the Committee, the performance conditions have been satisfied at that time. The awards will generally also be subject to a time pro-rated reduction to reflect the reduced period of time between the grant of the awards and the time of vesting, although this reduction may not be applied in certain cases.

There were 48,000 EMI options awarded to each Director in June 2017. These options vest in three equal tranches based on performance conditions in respect of each year ending 31 March 2018, 31 March 2019, and 31 March 2020.

The 2017 EMI awards are subject to two performance conditions. Firstly, the executive must remain in post at the vesting date, secondly the options fully vest based on exceeding the board approved budget by 25%. Vesting commences for performance in excess of the board approved budget with the options vesting pro-rata on a straight-line basis up to 25% above the board approved budget where the awards fully vest. The market value at the date of grant was £4.23.

Awards that do not vest as a result of not meeting the performance criteria in any particular year lapse.

New CSOP for 2021 and beyond

For 2021, normal CSOP awards of up to the HMRC tax approved levels of £30,000 may be made to senior staff and Executive Directors, as outlined in the Policy Table. For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant. 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.

New LTIP for 2021 and beyond

For 2021, normal LTIP awards of up to 125% of salary may be made to Executive Directors, as outlined in the Policy Table. For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant. 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.

For the first year of adoption of the refreshed remuneration policy the remuneration committee intends to make a share option award in the range of 50% to 75% of salary which will be granted subsequent to the AGM when the shareholders will vote on the adoption of the scheme, and participate in an advisory vote at the forthcoming AGM (resolutions 2, 10 and 11).

Once this revised policy has been put to the AGM in subsequent years the remuneration committee intend to make annual awards in accordance with the Policy principles at the beginning of the financial year.

Remuneration for 31 March 2020 – (Information subject to audit)

The value of all elements of remuneration received by each Director in the year was as follows:

31 March 2020	Salary/ Fees £'000	Consultant fees £'000	EMI share bonus*** £'000	Bonus **** £'000	Benefits in kind £'000	Pension Cont'n £'000	Single figure Total £'000
G S Marsh	175	-	61	149	35	7	**427**
P O James	130	-	61	111	25	5	**332**
J L Macmichael	150	-	61	128	31	6	**376**
M T Richards	150	-	61	128	22	6	**367**
A B Frere	12	51	-	-	-	-	**63**
N Rogers*	23	-	-	-	-	-	**23**
P Haining	12	13	-	-	-	-	**25**
J M Lavery**	5	5	-	-	-	-	**10**
Total	**657**	**69**	**244**	**516**	**113**	**24**	**1,623**

*Mr N Rogers was appointed on 1 July 2019 as such his annual fee of £30,000 has been charged pro-rata.

**Mr J M Lavery retired on 31 August 2019 as such his annual fee of £12,000 has been charged pro-rata.

*** 16,000 EMI share bonus options vested in relation to the financial year ended 31 March 2020 performance. The valuation of these options included in the single figure total remuneration above is based on the 31 March 2020 share price of £3.84.

**** All Bonuses including the Director bonuses have been accrued however payment was deferred until the end of Q1 where comfort had been obtained over the cash impact of COVID-19 had been assessed and it was appropriate to pay the bonuses earned in respect of FY19/20 performance.

31 March 2019	Salary/ Fees £'000	Consultant Fees £'000	EMI share bonus* £'000	Cash Bonus £'000	Benefits in kind £'000	Pension Cont'n £'000	Single figure total £'000
G S Marsh	163	-	61	-	35	8	**267**
P O James	120	-	61	20	27	2	**230**
J L Macmichael	140	-	61	20	29	4	**254**
M T Richards	140	-	61	15	34	3	**253**
A B Frere	12	51	n/a	n/a	-	-	**63**
P Haining	12	13	n/a	n/a	-	-	**25**
J M Lavery	12	13	n/a	n/a	1	-	**26**
Total	599	77	244	55	126	17	**1,118**

* 16,000 EMI share bonus options vested in relation to the financial year ended 31 March 2020 performance. The valuation of these options included in the single figure total remuneration above is based on the 31 March 2019 share price of £3.81

The principal benefits in kind relate to the provision of company cars, fuel, and private healthcare.

Of the current year share based payments charge £244k (2019: £241k) relates to the Directors.

In addition to the above consultancy fees, additional fees totalling £42k (2019: £26k) arose during the year in respect of accountancy services and out of pocket expenses provided by The Kings Mill Practice, a firm of which Mr P Haining is the proprietor. A balance of £9k (2019: £7k) was due to The Kings Mill Practice at 31 March 2020.

In addition to the above, fees totalling £1k (2019: £2k) arose during the year in respect of out of pocket expenses and services of Mr A B Frere provided by Condev Limited a company where Mr A B Frere is the shareholder. A balance of £5k (2019: £5k) was due to Condev Limited at 31 March 2020.

In addition to the above, fees totalling £nil (2019: £1k) arose during the year in respect of out of pocket expenses and services of Mr J M Lavery provided by John Lavery Consulting Limited a company where Mr J M Lavery is the shareholder. A balance of £nil (2019: £1k) was due to John Lavery Consulting Limited at 31 March 2020.

REMUNERATION COMMITTEE REPORT (continued)

The Directors' interest in the issued ordinary share capital of the Company at today's date, at 31 March 2020 and 31 March 2019 or date of appointment if later, were as follows:

	30 June 20	31 March 20	31 March 19
G S Marsh	280,849	280,849	280,862
J M Lavery*	n/a	n/a	118,393
P Haining	54,505	54,505	54,446
J L Macmichael	122,373	122,373	122,337
A B Frere**	n/a	13,430	13,006
M T Richards	7,475	7,475	4,800
P O James	684	684	684
N Rogers	4,400	4,400	-

*retired from the Board on 31 August 2019

** retired from the Board on 31 March 2020

Enterprise Management incentive scheme ('EMI')

Details of the options over the Company's shares granted under the Enterprise Management Incentives Scheme are as follows:

	Options held at 31.03.19	Granted	Exercised	Lapsed	Options held at 31.03.20	Exercise price	Date of grant	Exercise period
G S Marsh	32,000	-	16,000	-	16,000	0.1p	01.06.17	April 2018 to April 2027
P O James	32,000	-	-	-	32,000	0.1p	01.06.17	April 2018 to April 2027
M T Richards	32,000	-	-	-	32,000	0.1p	01.06.17	April 2018 to April 2027
J L Macmichael	32,000	-	-	-	32,000	0.1p	01.06.17	April 2018 to April 2027

During the year, the performance criteria for the final tranche of the options was met and as such 16,000 shares vested of each Director's options totalling 64,000 options. All the options held at the balance sheet date had vested, and none of these have been exercised post period end.

Mr G S Marsh exercised and sold 16,000 options with an exercise price of 0.01p on the 13 January 2020 and sold them on the 16 January 2020 at a price of £6.35 resulting in net proceeds of £101,584.

The market price of the shares at 31 March 2020 was £3.84 (2019: £3.81), with a quoted range during the year of £2.45 to £6.75 (2019:£2.42 to £4.24).

	Options held at 31.03.18	Granted	Exercised	Lapsed	Options held at 31.03.19	Exercise price	Date of grant	Exercise period
G S Marsh	32,000	-	-	-	32,000	0.01p	01.06.17	April 2018 to April 2027
P O James	32,000	-	-	-	32,000	0.01p	01.06.17	April 2018 to April 2027
M T Richards	32,000	-	-	-	32,000	0.01p	01.06.17	April 2018 to April 2027
J L Macmichael	32,000	-	-	-	32,000	0.01p	01.06.17	April 2018 to April 2027

During the year ended 31 March 2019 the performance criteria for the second tranche of the options was met and as such 16,000 shares vested of each Director's options totalling 64,000 options.

The remaining 16,000 options held by each Director have performance vesting criteria relating to the financial performance for the year ending 31 March 2020.

N Rogers
Remuneration Committee Chairman
30 June 2020

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group in respect of the year ended 31 March 2020.

Principal Activities, Review of the Business and Future Developments

The principal activities of the Group during the year continued to be those of the manufacturing of electronic equipment and the value added distribution of electronic components and materials.

The key performance indicators recognised by management are set out in the KPI section of the strategic report on page 19.

An overall review of the Group's trading performance and future developments is given in the Chairman's Statement and Strategic Report. Other than as reported in the corporate and social responsibility section of this report the Group does not comment on environmental matters.

Directors

The Directors of the Company during the year were:
P Haining, FCA
G S Marsh
J L Macmichael
M T Richards
P O James, BSc FCA
N F Rogers (appointed 1 July 2019)
A B Frere (resigned 31 March 2020)
J M Lavery (resigned 31 August 2019)

Details of the interests of Directors in the shares of the Company and Directors' service contracts are stated in the Remuneration Committee Report on pages 46 to 59.

Corporate Governance

The Board confirms that the Group has had regard, throughout the accounting period, with the provisions set out in the Quoted Companies Alliance (QCA) Code and the UK Corporate Governance Code which was issued by the Financial Reporting Council in April 2016.

Details of how the Group has adopted the QCA Code and corporate governance principles are set out in the corporate governance report on pages 25 to 40

Internal Control

Details of how the board has implemented its internal control framework and processes are set out in the corporate governance report on pages 25 to 40.

Board of Directors

The structure and operation of the Board of Directors is set out in the corporate governance report on pages 25 to 40.

Principal risks and uncertainties

Details of the principal risks and uncertainties of the Group are set out in the strategic report on pages 12 to 16.

Financial Instruments

Details of the use of financial instruments by the Group are contained in note 21 of the financial statements.

Purchase of Own Shares

At the year end the Company had in place authority to purchase up to 15% of the issued ordinary shares under authority given by a resolution at the Annual General Meeting on 4 September 2019. This authority expires on 4 March 2021.

Dividends

Details of the dividends are disclosed in note 9 and in the Chairman's Statement on page 4.

DIRECTORS' REPORT (continued)

Research and Development

During the year the Group has continued to invest in research and development in partnership with some of its customers to develop technical electronic solutions to address the demand of our customers in their core markets of electronic communications, mobile battery power and rugged and industrial computing. During the year we invested in excess of £1.3m (2019: £1.7m) in research and development. The Company continues to claim R&D tax credits where eligible.

Share options award

On 1 June 2017 the company granted options to the Executive Directors (who previously had no outstanding options) under the Company's EMI Share bonus Plan, as detailed in the remuneration report on pages 46 to 59, note 28.

Employee engagement

Further details are set out in the corporate governance report on pages 25 to 40.

Business relationships

Further details are set out in the corporate governance report on pages 25 to 40.

Going Concern

Further details are set out in the corporate governance report on pages 25 to 40.

Renewal of authority to purchase the Company's shares and authorities to issue shares

Last year, a resolution was passed at the Annual General Meeting to give the Company the authority to purchase its own Ordinary shares on the Stock Exchange. This authority would expire after a period of eighteen months from the passing of the resolution. In order to avoid this authority expiring during the next year and the need to call an extraordinary general meeting to renew the authority, a resolution to renew the authority is set out in the notice of the Annual General Meeting at the end of this document.

Under the terms of the resolution to be proposed at the Annual General Meeting, the maximum number of shares which may be purchased is 15% of the issued Ordinary share capital of the Company. The minimum price payable by the Company for its Ordinary shares will be 5p and the maximum price will be determined by reference to current market prices. The authority will automatically expire after a period of eighteen months from the passing of the resolution unless renewed.

It is not the Directors' current intention to exercise the power to purchase the Company's Ordinary shares, but they believe that under certain circumstances it would be in the Company's best interests to do so.

Resolutions are also being proposed at the Annual General Meeting to issue further shares. One resolution will authorise the company to issue new shares up to a third of the current issued share capital by way of a rights issue and the second resolution will authorise the company to issue new shares up to 10% of the current issued share capital without rights of pre-emption for existing shareholders, and to the extent that new shares are issued under the second resolution the limit on the first resolution will be reduced such that the total number of new shares issued cannot exceed one third of the current share capital.

Your Directors consider that the resolutions to be proposed at the meeting are in the best interests of the Company and its shareholders. They unanimously recommend that all Ordinary shareholders vote in favour of the resolution at the Annual General Meeting as they intend to do in respect of their beneficial holdings.

DIRECTORS' REPORT (continued)

Peter Haining FCA, (dob: September 1956), Interim Chairman, Non-Executive Director and Company Secretary
Peter Haining qualified as a chartered accountant in 1980 and later worked at Binder Hamlyn. He left Binder Hamlyn in 1992, together with three colleagues, to establish The Kings Mill Partnership.

Gary Marsh, (dob: April 1966), Chief Executive Officer
Gary joined the Company in 1986 having gained an HND in Business and Finance Studies. He has held various positions within the Group including that of Operations Director of Solid State Supplies prior to his appointment as its Managing Director in 1997. In addition to this role, Gary was appointed Group Managing Director in 2002 following the acquisition of Steatite. In 2011 following the acquisition of Rugged Systems he was appointed as Group Chief Executive Officer.

Peter James, (dob: June 1979), Director
Peter qualified as a Chartered Accountant with PricewaterhouseCoopers LLP (PwC) in 2003. He was appointed to the Board of Solid State PLC in February 2017. Before joining Solid State PLC, Peter was Group Financial Controller at IQE plc where he was a key member of the senior leadership team successfully completing two significant transactions, funded through an equity fund raising and a global refinancing. Subsequently he led the integration project, aligning the enlarged Group with its customer markets serviced by manufacturing sites, delivering efficiency and material savings. At PwC Peter gained a wide range of experience in Audit and Financial Due Diligence advising a broad range of companies in a variety of sectors, including multinational main market and AIM listed companies. In addition, on a voluntary basis Peter is a Non-Executive Director for the British Water Ski and Wakeboard Federation Limited providing independent financial oversight as Chair of the Audit and Finance Committee.

John Macmichael, (dob: April 1961), Director
John is an electronics and communications graduate whose career has encompassed design and development through applications engineering, sales, sales management and general business management. John has gained extensive management experience of multiple sales channels with distributors and OEMs both here in the UK and worldwide through his international sales management role whilst living in the USA. Formerly managing Director of Breckenridge Technologies Limited, John joined Solid State Supplies Limited in 2006 before being appointed managing Director in April 2011. He presently runs the Value Added Distribution division on behalf of Solid State PLC.

Matthew Richards, (dob: October 1963), Director
Matthew was appointed as Managing Director of Steatite Limited in April 2016. Matthew comes to the Board with 30 years of experience in the defence electronics industry. He has a track record of success in both private and public companies, most recently as Senior Vice President and Managing Director at API Technologies Corp running operations in the UK, Canada and USA, specialising in RF and Security solutions with a focus on high reliability and harsh environment applications. Prior to that, Matthew held business development and sales leadership roles with the L3 Corporation. He has extensive experience dealing with the Government customers at home and abroad having travelled extensively in Europe, the Middle East and Asia. Matthew started his career installing and commissioning terrestrial and satellite antennas systems for broadcast and military users before moving into sales in the early 1980s.

Nigel Rogers (dob: April 1961), Non-Executive Director (appointed 01 July 2019)
Nigel qualified as a Chartered Accountant in 1983 with PwC. He became Group Finance Director of Stadium Group plc in 1996, before progressing to Group Chief Executive Officer in 2001. He joined 600 Group plc as Group Chief Executive Officer in 2012 and led the turnaround of the AIM-quoted global machine tool business, increasing strategic focus on the growth of its laser marking business until leaving in April 2015 to begin a plural career. Nigel is also Chairman of Transense Technologies plc and Chairman of Surgical Innovations Group plc.

DIRECTORS' REPORT (continued)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the corporate and financial information on the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein. The work carried out by the auditors does not include consideration of the maintenance and the integrity of the website and accordingly the auditor accepts no responsibility for any changes that have occurred to the financial statements when they are presented on the website.

Auditors

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

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

A resolution to re-appoint RSM UK Audit LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

P Haining FCA
Secretary
30 June 2020

Registered Office: 2 Ravensbank Business Park, Hedera Road, Redditch, B98 9EY

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC

Opinion

We have audited the financial statements of Solid State plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Summary of our audit approach	
Key audit matters	Group • Revenue recognition • Inventory valuation and provisioning • Disclosures in relation to going concern
	Parent Company • No key audit matters

Summary of our audit approach	
Materiality	Group • Overall materiality: £350,000 (2019: £350,000) • Performance materiality: £263,000 (2019: £263,000)
	Parent Company • Overall materiality: £348,000 (2019: £348,000) • Performance materiality: £261,000 (2019: £261,000)
Scope	Our audit procedures covered 95% of revenue, 95% of total assets and 96% of profit before tax.

Key audit matters

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

Group key audit matters	
Revenue recognition	
Key audit matter description	**The risk - revenue recognition** Refer to accounting policies and critical accounting judgements in Note 1 to the group financial statements and note 3. The group's revenue comprises sales of electronic equipment to its customers after deductions for discounts and anticipated returns. There are also certain contracts where retentions have been received or where obligations are satisfied in stages. Revenue underpins the key measures of performance of the group. There is a risk that revenue could be misstated through: • inappropriate application of the group's revenue recognition policies; • recognition of revenue in the wrong period; or • inaccurate estimates for returns or where revenue is recognised over time.
How the matter was addressed in the audit	**Our response** We assessed whether revenue was recognised in line with the Group's revenue recognition policies, and IFRS15. Our procedures included a combination of controls and substantive tests. We selected a sample of items to check that revenue was recognised on shipment and that the cut-off of revenue transactions around the year end was appropriate. We critically assessed the revenue recognition for specific contracts where revenue is recognised over the course of the agreement and resulted in deferred income. We also reviewed the provision for returns by assessment of the level and nature of post year end credit notes.

Group key audit matters

Inventory valuation and provisioning	
Key audit matter description	**The risk – stock valuation and provisioning** Refer to accounting policies and critical accounting judgements in note 1, and note 15. The group holds a combination of finished goods and good for re-sale, together with work in progress. Finished goods and good for re-sale comprise a range of bought in and manufactured specialist electronic equipment. Work in progress is substantially the material cost of assemblies and manufactured products at varying stages of completion at the year end. The valuation of inventory, which by its nature is specialist, involves judgement relating to the potential obsolescence of inventory including net realisable value (NRV). The group has in place a policy for addressing this risk and recognises provisions accordingly.
How the matter was addressed in the audit	**Our response** We attended and undertook physical inventory counts at key locations prior to lock down across the group, validating that inventory held was accurately recorded and was in good physical condition. We reviewed and tested the year-end inventory provisioning calculations prepared by management, including their arithmetic integrity. We have obtained justification from management on the assumptions adopted within the provisioning calculations and assessed any specific areas where a provision was considered necessary. We performed testing to ensure that the valuation of inventory is stated at the lower of cost or NRV by comparing the sales value of the products to their actual cost.
Disclosures in relation to going concern	
Key audit matter description	**The Risk – Going Concern disclosure** Refer to the basis of preparation – going concern The going concern assessment of the Group, which considers the impact of the current COVID-19 pandemic on the expected performance of the business, may not be appropriately disclosed in the financial statements.
How the matter was addressed in the audit	**Our Response** We have assessed the cash flow forecasts, together with expected headroom and challenged the assumptions used by management. We have considered management's sensitivities against current trading performance and the resulting potential impact on headroom. We have reviewed the disclosures within the financial statements in respect of the impact of Covid-19, the recent trading performance and the financial resources available to the group. We are satisfied with the adequacy of the going concern disclosures within the financial statements.

Parent company key audit matters

We have determined that there are no key audit matters to communicate in our report.

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC (continued)

Our application of materiality

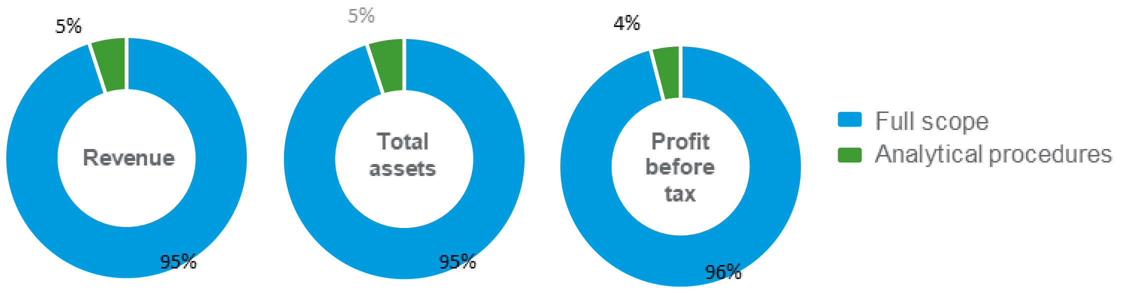
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£350,000 (2019: £350,000)	£348,000 (2019: £348,000)
Basis for determining overall materiality	7.5% of adjusted profit before tax	5% of net assets
Rationale for benchmark applied	Adjusted result before tax chosen as the Group is profit oriented	Net assets chosen as the parent is a holding company
Performance materiality	£263,000 (2019: 263,000)	£261,000 (2019: £261,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £20,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £20,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 6 components, located in the United Kingdom, USA and Ireland.

The coverage achieved by our audit procedures was:



Full scope audits were performed for 4 components and analytical procedures at group level for the remaining 2 components.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	4	95%	95%	96%
Total	4	95%	95%	96%

Analytical procedures at group level were performed for the remaining 2 components.

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC (continued)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT OF THE INDEPENDENT AUDITORS
TO THE SHAREHOLDERS OF SOLID STATE PLC (continued)

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

Use of our report

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

IAN WALL (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF
Date
30 June 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

Continuing Operations	Notes	2020 £'000	2019 £'000
Revenue	3, 31	67,417	56,299
Cost of sales		(46,614)	(39,927)
Gross profit		20,803	16,372
Sales, general and administration expenses		(16,681)	(13,452)
Profit from operations	4	4,122	2,920
Finance expense	6	(120)	(109)
Profit before taxation		4,002	2,811
Tax expense	7	(588)	(153)
Adjusted profit after taxation		4,002	3,108
Adjustments to profit	32	(588)	(450)
Profit after taxation		3,414	2,658
Profit attributable to equity holders of the parent		3,414	2,658
Other comprehensive income		-	-
Total comprehensive income for the year		3,414	2,658

Earnings per share		2020	2019
Basic EPS from profit for the year	8	40.1p	31.3p
Diluted EPS from profit for the year	8	39.5p	30.7p

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

The notes on pages 76 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2020

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2019	427	3,627	(5)	5	16,021	(172)	19,903
IFRS16 Leases adjustment on adoption	-	-	-	-	(14)	-	(14)
Total comprehensive income for the year ended 31 March 2020	-	-	-	-	3,414	-	3,414
Shares issued	1	(1)	-	-	-	-	-
Foreign exchange	-	-	(2)	-	-	-	(2)
Rounding	(1)	-	-	-	1	-	-
Transfer of treasury shares to AESP	-	-	-	-	(129)	129	-
Dividends	-	-	-	-	(1,153)	-	(1,153)
Share based payment credit	-	-	-	-	381	-	381
Balance at 31 March 2020	427	3,626	(7)	5	18,521	(43)	22,529

The notes on pages 76 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Share Capital £'000	Share Premium Reserve £'000	Foreign Exchange Reserve £'000	Capital Redemption Reserve £'000	Retained Earnings £'000	Shares held in Treasury £'000	Total Equity £'000
Balance at 31 March 2018	425	3,629	-	5	14,204	(243)	18,020
Total comprehensive income for the year ended 31 March 2019	-	-	-	-	2,658	-	2,658
Shares issued	2	(2)		-	-	-	-
Foreign exchange	-	-	(5)	-	-	-	(5)
Purchase of treasury shares	-	-	-	-	-	(34)	(34)
Transfer of treasury shares to AESP	-	-	-	-	(105)	105	-
Dividends	-	-		-	(1,036)	-	(1,036)
Share based payment credit	-	-		-	300	-	300
Balance at 31 March 2019	427	3,627	(5)	5	16,021	(172)	19,903

The notes on pages 76 to 117 form part of these financial statements.

Company Number: 00771335

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 March 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	10	2,286		2,425	
Right of use lease asset	11	1,055		-	
Intangible assets	12	8,213		8,892	
TOTAL NON-CURRENT ASSETS			11,554		11,317
CURRENT ASSETS					
Inventories	15	9,662		9,648	
Trade and other receivables	16	13,859		13,389	
Deferred tax asset	23	86		105	
Cash and cash equivalents	22	3,517		3,692	
TOTAL CURRENT ASSETS			27,124		26,834
TOTAL ASSETS			38,678		38,151
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	10,597		8,725	
Contract liabilities	18	2,486		2,511	
Current borrowings	19,21,22	333		1,333	
Corporation tax liabilities		774		519	
Right of use lease liabilities	20	471		-	
TOTAL CURRENT LIABILITIES			14,661		13,088
NON CURRENT LIABILITIES					
Non current borrowings	19,21,22	-		4,334	
Right of use lease liabilities	20	677		-	
Provisions	24	304		250	
Deferred tax liability	23	507		576	
TOTAL NON-CURRENT LIABILITIES			1,488		5,160
TOTAL LIABILITIES			16,149		18,248
NET ASSETS			22,529		19,903
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital	25		427		427
Share premium reserve	26		3,626		3,627
Capital redemption reserve	26		5		5
Foreign exchange reserve	26		(7)		(5)
Retained earnings	26		18,521		16,021
Shares held in treasury	27		(43)		(172)
TOTAL EQUITY			22,529		19,903

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2020 and were signed on its behalf by:

G S Marsh, *Director*

P O James, *Director*

The notes on pages 76 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020		2019	
	£'000	£'000	£'000	£'000
OPERATING ACTIVITIES				
Profit before taxation		4,002		2,811
Adjustments for:				
Depreciation		1,114		698
Amortisation		960		732
Impairment of right of use lease asset		84		
(Profit)/Loss on disposal of property, plant and equipment		(31)		6
Share based payment expense		381		300
Finance costs		120		109
Profit from operations before changes in working capital and provisions		6,630		4,656
Decrease/(Increase) in inventories	1		(1,198)	
Increase in trade and other receivables	(444)		(1,071)	
Increase in trade and other payables	1,801		2,540	
Increase/(decrease) in provisions	54		(10)	
		1,412		261
Cash generated from operations		8,042		4,917
Income taxes paid	(385)		(243)	
Income taxes recovered	-		-	
		(385)		(243)
Net cash flow from operating activities		7,657		4,674
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(579)		(600)	
Capitalised own costs and purchase of intangible assets	(281)		(300)	
Proceeds of sales from property, plant and equipment	103		113	
Consideration paid on acquisition of subsidiaries	-		(3,812)	
Net cash flow from investing activities		(757)		(4,599)
FINANCING ACTIVITIES				
Issue of ordinary shares	-		(34)	
Borrowings drawn	-		6,000	
Borrowings repaid	(5,334)		(1,776)	
Payment obligations for right of use assets	(513)		-	
Interest paid	(80)		(109)	
Dividend paid to equity shareholders	(1,153)		(1,036)	
Net cash flow from financing activities		(7,080)		3,045
(Decrease)/Increase in cash and cash equivalents		(180)		3,120

The notes on pages 76 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Translational foreign exchange on opening cash	5	(3)
Net (decrease)/ increase in cash and cash equivalents	(180)	3,120
Cash and cash equivalents at beginning of year	3,692	575
Cash and cash equivalents at end of year	3,517	3,692

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

	2020 £'000	2019 £'000
Cash available on demand	3,517	3,692

The notes on pages 76 to 117 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

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

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, except for the impact of the implementation of IFRS 16 Leases.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board as adopted by the European Union ("IFRSs") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRSs.

As allowed by IFRS 1, we have elected not to apply IFRS retrospectively for business combinations computed prior to 1 April 2006 and have used the carrying value of goodwill resulting from business combinations occurring before the date of transition as deemed costs, subjecting this to impairment reviews at the date of transition (1 April 2006) and at the end of each financial year thereafter.

The Group financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

Going concern

Basis of preparation

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2020, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2020, the Group had cash balances of £3.5 million, a drawn term loan of £0.3m (which was repaid post year end in May 2020) and undrawn revolving credit facility (RCF) of £7.5 million.

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 Boards in making the assessment of going concern.

In assessing going concern the Directors have given careful consideration of the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the Group over the next 12 month period.

COVID-19 has meant that the Group is facing uncertainty in customer demand and potential for operational disruption, albeit to date the Group has avoided material operational impact, and has continued to trade without significant interruption. The assessment of the impact of COVID-19 has taken in to account the current measures that have been put in place by the Group to preserve cash, which include; deferring non-essential capital expenditure, pausing acquisition activity and reducing discretionary expenditure.

In preparing the going concern assessment the Directors considered the principal risks and uncertainties that the business faced which have been disclosed on pages 12 to 16. The appraisal identified that the impact of the COVID-19 disruption was the most significant uncertainty facing the business. The assessment identified three areas of potentially significant impact: supply chain disruption; operational disruption; and, downturn in customer demand because of the global business disruption caused by COVID-19. The board concluded that the two areas of the risk which remained the most uncertain were the impact of potential operational disruption and the length of downturn in demand from customers.

1. ACCOUNTING POLICIES (continued)

Whilst the Group has seen an apparent decline in new programme design-ins and related bookings, the post balance sheet period has provided some reassurance as to the level of customer demand which the Group has seen in the post lock down period. Q1 is expected to be the period most significantly impacted by the disruption as a result of the full lock down. However, it remains uncertain as to the profile of how and when the demand will recover as the lockdown is eased.

The Directors have prepared revised “stressed” forecasts taking account of the results to date, current expected demand, and mitigating actions taken, together with an assessment of the liquidity headroom against the cash and bank facilities.

The bank facilities are subject to financial covenants requiring the business to be EBITDA positive therefore this facility is available to fund investment in working capital, capital investment or acquisition activities. Should the business face such a significant downturn that it was loss making the facility would not be available to be drawn to fund additional losses without a covenant waiver or amendment. As a result, in evaluating a stressed forecast model the Board have not included the RCF in the headroom.

This financial modelling is based on applying various sensitivity scenarios to a 12 month base case to 30 June 2021 which has been prepared based on an extension of the budget. The budget was set before the severity of the COVID-19 impact was known.

In the period since the balance sheet date Group bookings were down circa 15% over the average for the prior period, however, due to the nature of the business where the Group has orders placed on schedules and significant projects, bookings in any given month can see material variations. In preparing a worst case downside scenario with no overhead mitigation, it assumes a shortfall in Group revenue of ~23% over 12 months period with no cost mitigation. This results in EBITDA reducing by ~88% compared to the Board’s base case expectations prior to development of the COVID-19 pandemic. Even with this level of Group EBITDA reductions, when combined with the modest investment mitigation that are within the Group’s control, the Directors currently believe the Group would retain a reasonable cash surplus thus maintaining sufficient liquidity to meet its liabilities as they fall due.

The Directors have also assessed the impact of an even more severe effect on the Group where the Group faced revenue reduction across the 12 month period of ~33%. In this scenario more mitigation is required in terms of modest overhead reductions, reduced capital investment to “critical investment only” and making no distributions. In this scenario the Group remains cash positive and therefore can maintain sufficient liquidity to meet its liabilities as they fall due without looking to additional sources of liquidity.

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 Group has prudently taken actions to conserve cash which have increased the cash reserves post year end improving the liquidity position.

The actions taken included: deferrals of FY19/20 Director and staff pay raises; limiting discretionary expenditure; pausing acquisition opportunities; delaying all capital investment other than safety / required maintenance investment; adoption of available deferrals on PAYE and VAT from HMRC; and, utilisation of the job retention support announcements by the UK Government. At the peak the Group furloughed approximately 30% of the staff to align the level of staff resources with reduced Q1 business demand. Given our relationship with the Groups primary bankers and the cash and facilities the Group has available the Board has not felt it was necessary or appropriate to apply for government backed loans.

The Directors have concluded that the potential impact of the COVID-19 pandemic 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 forecasted level of financial performance for the coming year. As a result, the board has not issued guidance to analysts and shareholders.

1. ACCOUNTING POLICIES (continued)

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 the 1 April 2019:

- IFRS16 "Leases"
- Annual improvements 2015-2017 cycle (effective for accounting periods beginning or after 1 January 2019)
- Amendment to IAS 28 Investments in associates and joint ventures' which clarifies the accounting for long term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 "Financial Instruments which clarifies the treatment of financial assets with prepayment features with negative compensation.
- IFRIC 23 Uncertainty over tax treatments which explains how to recognise, and measure deferred and current tax where there is uncertainty over the tax treatment.

The adoption of these standards and amendments has not had a material impact on the Group's consolidated financial statements, except for the adoption of IFRS 16 where the impact of adoption of this new standard is set out in note 29.

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 2020 or later periods and which the Group has decided not to adopt early are listed below. The Group intends to adopt these standards when they become effective.

- IFRS 17 Insurance contracts which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IFRS 10 Consolidated financial statements and IAS 28 investments in associates and joint ventures which clarifies the accounting treatment for sales or contribution of assets between an investor and its associate or joint venture.
- Amendments to IFRS 3 business combinations which clarifies the definition of a business
- Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies changes in accounting estimates and errors which are intended to make the definition of material easier to understand.
- Amendments to references to the Conceptual framework in IFRS Standards.

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

1. ACCOUNTING POLICIES (continued)

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

Business combinations

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.

1. ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Non financial assets that have an indefinite useful life (e.g. Goodwill) or other intangible assets which are not ready to use and therefore not subject to amortisation (e.g. on going 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 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 is relates. Any impairment identified is charged directly to 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, which typically range between 1 and 5 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.

1. ACCOUNTING POLICIES (continued)

Intangible Assets – cont'

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 3 to 5 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 IFRS 3 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 5 to 10 years. This includes customer relationships, the fair value of which has been evaluated using the multi period excess earnings method "MEEM".

The MEEM model valuation was cross checked to the cost of product development and customer qualification to which the relationships relate.

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 5 and 10 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 IFRS 1 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
Computers- 20% 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.

1. ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 "Leases"

IFRS 16 "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. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces the existing standards and interpretations in respect of leases.

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.

Implementation of IFRS 16 'Leases' requires the Group to recognise new right of use assets and lease liabilities for certain operating leases that principally relate to the Group's manufacturing facilities.

The nature of expenses related to these leases has changed in the year ended 31 March 2020 because the Group now recognises a depreciation charge for the right of use assets and an interest expense on lease liabilities.

Previously, for non-variable lease expenses, the Group recognised operating lease costs on a straight-line basis over the lease term and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

This change results in the recognition of a liability on the balance sheet for all leases which convey a right to use the asset for the period of the contract.

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.

Solid State PLC has adopted IFRS16 using the modified retrospective transition approach, with the cumulative effect of adopting the new standard being recognised in equity as an adjustment to the opening balance of retained earnings for the current period.

On adoption of IFRS 16 the group has used the following practical expedients permitted by the standards:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- excluding initial direct costs for the measurement of the right of use asset at the date of initial adoption
- accounting for leases with a term ending within 12 months of the date of initial application in the same way as short-term leases.

On adoption of IFRS 16, the group has recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 leases. These liabilities were measured at the present value of the remaining unavoidable lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 1 April 2019 was 3%.

Included in note 29 are the disclosures in respect of the impact of adoption of IFRS 16 on the financial statements.

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.

1. ACCOUNTING POLICIES (continued)

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.

Financial assets

The Group classifies its financial assets as subsequently measured at amortised cost under IFRS 9 if it meets both of the following criteria:

- Hold to collect business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- Solely payments of principal and interest (SPPI) contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding on a specified date.

Financial assets include:

- Trade and other receivables
- Cash and cash equivalents

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.

1. ACCOUNTING POLICIES (continued)

Impairment of financial assets

IFRS 9 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 aging 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).

All financial liabilities are measured at amortised cost and include:

- Trade and other payables
- Contract liabilities
- Borrowings

1. ACCOUNTING POLICIES (continued)

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 noncurrent 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.

Exceptional items

Exceptional items 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 exceptional 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.

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.

1. ACCOUNTING POLICIES (continued)

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.

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.

Pensions

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

1. ACCOUNTING POLICIES (continued)

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. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong.

Expected credit losses

In accordance with IFRS 9 the Group is required to make an assessment of the expected credit loss occurring over the life of its trade receivables. As a result of the COVID-19 disruption to businesses across the globe the Directors expect that the risk of credit default has significantly increased over historical norms.

As a result, the Directors have made a judgemental assessment of the potential increase in credit losses in the current business environment. In these financial statements the Directors have provided full disclosures of the provisions for credit default in note 21.

The increase in the provision based on the Directors judgemental assessment of expected credit loss reflects an increase of £305k to £496k. The increase in the year is significant but not considered material to the financial statements as a whole.

Estimated useful life of research and development and intangible assets arising on acquisitions

The periods of amortisation adopted to write down capitalised product and process development requires estimates to be made in respect of the useful economic lives of the intangible assets to determine an appropriate amortisation rate.

Capitalised development costs are amortised over the period during which economic benefits are expected to be received which is typically 1 – 5 years. Intangible assets arising on acquisitions are amortised straight line over the period during which economic benefits are expected to be received which is typically 5 – 10 years.

The amortisation charge for capitalised development costs in the current year is £367k; if the lives were reduced by one year across all the projects which are being amortised the charge would increase by circa £100k.

The amortisation charge for intangible assets arising on acquisitions in the current year is £505k; if the lives were reduced by one year the charge would increase by £51k.

Estimated goodwill impairment

Goodwill is not amortised; however, it is reviewed for 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 (CGU) to which it relates.

The impairment assessment is made based on the discounted future cashflows of the CGU. Forecasting the future cashflows requires judgement. The key assumptions made in preparing the discounted future cashflows and the sensitivities are set out in note 13.

Recognition criteria for capitalisation of development expenditure

The Group capitalises R&D in accordance with IAS 38. There is judgement in respect of when 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 and the amounts involved.

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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – (Continued)

Estimation of level of R&D expenditure which is eligible for R&D tax credits under the SME and large company scheme.

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.

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.

Our judgement at year end assumed that the level of eligible spend was comparable with prior years. At 31 March 2020 there are current and deferred tax provisions totalling approximately £1.2m.

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

Provisions for returns

The Group provides for an estimate of sales returns at the year end, which reduces product sales and accounts receivable, and increases stock. This provision is estimated by management based on historical experience and judgement on current contract sales.

The estimation process used to determine the provision has been applied on a consistent basis with previous years and no material adjustments have been necessary to increase or decrease these reserves as a result of a significant change in underlying estimates.

Due to the significant value of sales in the Group, the difference between the actual and estimated returns could impact operating results both positively and negatively.

Provisions for slow moving or obsolete inventories

Inventories are carried at the lower of cost and net realisable value (NRV). NRV is reviewed in detail on an on going basis and provision for obsolete inventory is made based on a number of factors including age of inventories, the risk of technical obsolescence and the expected future usage.

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. See note 15 for details of the inventory provisions and the amounts written off to consolidated statement of comprehensive income in the year.

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:

	2020 £'000	2019 £'000
United Kingdom	48,596	44,989
Rest of Europe	6,885	5,230
Asia	4,416	2,540
North America	7,235	3,426
Rest of World	285	114
Total revenue	67,417	56,299

	2020 £'000	2019 £'000
Computing products	10,267	12,063
Communications products	5,292	3,650
Power products	12,611	10,184
Opto electronic and electronic components and modules	39,247	30,402
Total revenue	67,417	56,299

See further segmental disclosures in note 31.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020 (continued)

4. PROFIT FROM OPERATIONS

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

	2020 £'000	2019 £'000
Continuing charges /(credits)		
Staff costs (see note 5)	11,386	8,753
Share based payment expenses	381	300
Depreciation of property, plant and equipment	646	698
Depreciation of right of use lease asset	468	-
Impairment of right of use lease asset	84	-
Amortisation of intangible assets	960	732
Profit on disposal of property, plant and equipment	31	7
Auditors' remuneration:		
Audit fees	75	63
Audit of accounts of associates of the company	-	17
Other assurance fees	1	-
Non audit fees:		
Corporate finance services	9	-
Other advisory services	18	54
Operating lease rentals:		
Plant and machinery	-	36
Other	-	440
Research and development costs (includes relevant staff costs)	1,350	1,785
Foreign exchange differences	(277)	(144)
Stock write (backs)/downs	(111)	680

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.

Details of transactions with businesses associated with the Directors are included within the Directors' remuneration report on page 46 to 59.

As set out in the audit committee report the 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.

5. STAFF COSTS

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

	2020 £'000	2019 £'000
Wages and salaries	9,344	7,421
Social security costs	1,223	829
Other pension costs	819	503
Share based payment charges	381	300
Total staff costs	11,767	9,053

Wages and salaries include termination costs of £47k (2019: £93k)

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

	2020 Number	2019 Number
Selling and distribution	114	112
Manufacturing and assembly	104	98
Management and administration	38	33
	256	243

Key management is considered to be Group Board Directors. Therefore, the key compensation is disclosed in the Remuneration Committee Report on page 46 to 59 which includes Directors emoluments, interests, and services contracts. The total key management compensation including employers NI is £1,495k (2019: £905k).

6. FINANCE EXPENSE

	2020 £'000	2019 £'000
Bank borrowings	80	109
Interest on lease liabilities	40	-
Total finance expense	120	109

7. TAX EXPENSE

	2020 £'000	2019 £'000
Analysis of continuing total tax expense		
Total tax charge from continuing operations	588	153
	588	153
Current tax expense		
UK corporation tax on profits or losses for the year	616	376
Adjustment in respect of prior periods	22	(67)
	638	309
Deferred tax credit	(50)	(156)
Total tax charge	588	153

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020 (continued)

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:

	2020 £'000	2019 £'000
Profit before tax including discontinued operations	4,002	2,811
	________	________
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018 19%)	760	534
Effect of:		
Expenses not deductible for tax purposes	24	25
Difference between depreciation for the year and capital allowances	42	25
Tax relief on exercise of share options exercised	4	(52)
Enhanced relief on research and development expenditure	(338)	(359)
Overseas tax rate differences	10	(27)
Deferred tax asset (recognised)/not recognised	(5)	74
Change in rate in respect of deferred tax recognition	69	-
Adjustments in respect of prior years	22	(67)
	________	________
Total tax charge	588	153
	________	________

The UK corporation tax rate is 19% (effective from 1 April 2017). As a result of the amendment in 2020 which was substantially enacted on 17 March 2020 the rate of corporation tax is set to remain at 19%. The deferred tax liabilities at 31 March 2019 have been calculated based on this rate.

R&D tax credits

The Group recognised a credit of £24k (2019: £nil) within operating profit in relation to claims made under the Research and Development expenditure credit scheme (RDEC). There were also claims made under the SME scheme which are recognised within the tax expense.

8. EARNINGS PER SHARE

The earnings per share is based on the following:

	2020 £'000	2019 £'000
Adjusted continuing earnings post tax	4,002	3,108
Reported continuing earnings post tax	3,414	2,658
Weighted average number of shares	8,510,074	8,488,675
Diluted number of shares	8,635,331	8,648,719
Reported EPS		
Basic EPS from profit for the year	40.1p	31.3p
Diluted EPS from profit for the year	39.5p	30.7p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	47.0p	36.6p
Adjusted Diluted EPS from profit for the year	46.3p	35.9p

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 8,510,074 (2019: 8,488,675) net of the treasury shares disclosed in note 27.

The diluted earnings per share is based on 8,635,331 (2019: 8,648,719) 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 32.

9. DIVIDENDS

	2020 £'000	2019 £'000
Prior year final dividend paid of 8.3p per share (2019: 8p)	708	682
Current year interim dividend paid of 5.25p per share (2019: 4.2p)	448	358
Cancelled dividends on shares held in treasury	(3)	(4)
	1,153	1,036
Final dividend proposed for the year 7.25p per share (2019: 8.3p)	620	708

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 2020	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost				
1 April 2019	1,453	1,074	2,743	5,270
Additions	65	115	399	579
Disposals	-	(342)	-	(342)
31 March 2020	1,518	847	3,142	5,507
Depreciation and impairment				
1 April 2019	494	568	1,783	2,845
Charge for the year	233	142	271	646
On disposal	-	(270)	-	(270)
31 March 2020	727	440	2,054	3,221
Net book value				
31 March 2020	791	407	1,088	2,286

Year ended 31 March 2019	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost				
1 April 2018	1,439	1,107	2,010	4,556
Additions	14	243	343	600
Acquisitions	-	-	390	390
Disposals	-	(276)	-	(276)
31 March 2019	1,453	1,074	2,743	5,270
Depreciation and impairment				
1 April 2018	348	433	1,522	2,303
Charge for the year	146	291	261	698
On disposal	-	(156)	-	(156)
31 March 2019	494	568	1,783	2,845
Net book value				
31 March 2019	959	506	960	2,425

11. RIGHT OF USE LEASE ASSETS

Year ended 31 March 2020	Land and buildings £'000	Motor vehicles / other £'000	Total £'000
Cost			
1 April 2019	1,712	-	1,712
Additions	182	120	302
31 March 2020	1,894	120	2,014
Amortisation			
1 April 2019	407	-	407
Charge for the year	453	15	468
Impairment	84	-	84
31 March 2020	944	15	959
Net book value			
31 March 2020	950	105	1,055

The impairment relates to the impairment of the right of use asset relating to space at the Group's legacy Pangbourne site which has been exited with the warehousing consolidated into the Groups Redditch facility. As the legacy Pangbourne facility is no longer being utilised the right of use asset has been impaired.

The total depreciation expense of £468k has been charged to operating expenses. There are no material capital commitments at the balance sheet date.

12. INTANGIBLE ASSETS

Year ended 31 March 2020	Development Costs £'000	Computer Software £'000	Goodwill on Consolidation £'000	Acquisition Intangible Assets £'000	Total £'000
Cost					
1 April 2019	983	321	6,300	3,378	10,982
Additions	200	81	-	-	281
Acquisitions	-	-	-	-	-
31 March 2020	1183	402	6,300	3,378	11,263
Amortisation					
1 April 2019	716	214	-	1,160	2,090
Charge for the year	367	88	-	505	960
31 March 2020	1,083	302	-	1,665	3,050
Net book value					
31 March 2020	100	100	6,300	1,713	8,213

The cost of acquisition intangible assets comprises the estimated net present value of customer relationships identified on acquisitions. 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 2020 - Acquisition intangible assets	Cost £'000	Net book value £'000
Manufacturing division commercial relationships	675	65
Value Added Distribution division commercial relationships	2,703	1,648
Total	3,378	1,713

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12. INTANGIBLE ASSETS – (continued)

Year ended 31 March 2019	Development Costs £'000	Computer Software £'000	Goodwill on Consolidation £'000	Acquisition Intangible Assets £'000	Total £'000
Cost					
1 April 2018	683	321	4,543	1,978	7,525
Additions	300	-	-	-	300
Acquisitions	-	-	1,757	1,400	3,157
31 March 2019	983	321	6,300	3,378	10,982
Amortisation					
1 April 2018	300	182	-	876	1,358
Charge for the year	416	32	-	284	732
31 March 2019	716	214	-	1,160	2,090
Net book value					
31 March 2019	267	107	6,300	2,218	8,892

The cost of acquisition intangible assets comprises the estimated net present value of customer relationships identified on acquisitions. 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 2019 - Acquisition intangible assets	Cost £'000	Net book value £'000
Manufacturing division commercial relationships	675	240
Value Added Distribution division commercial relationships	2,703	1,978
Total	3,378	2,218

13. GOODWILL AND IMPAIRMENT

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

Goodwill carrying amount	2020 £'000	2019 £'000
Manufacturing division	3,011	3,011
Value Added Distribution division	3,289	3,289
	_______	_______
Total	6,300	6,300
	_______	_______

The recoverable amounts of all the above CGUs have been determined from a review of the current and anticipated performance of these units. In preparing the projection, a discount rate of 10% (2019: 10%) has been used based on the Group's estimated weighted average cost of capital.

A future growth rate of 2.5% (2019: 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 investment in capital equipment will equate to depreciation over this period.

The recoverable amount exceeds the carrying amount by £40,492k (2019: £54,241k).

The headroom within the Manufacturing division is very significant the more sensitive CGU is the VAD division. If the following changes were made to the above key assumptions in respect of the VAD division, the carrying amount would still exceed the recoverable amount.

Discount rate: Increase from 10% to 13%
Growth rate: Reduction from 2.5% to nil%

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%	Distribution of electronic components.
Steatite Limited	UK	100%	Distribution of electronic components and manufacture of electronic equipment.
Pacer Technologies Limited	UK	100%	Non trading entity
Pacer Components Limited	UK	100%*	Distribution of opto-electronic components.
Pacer LLC	USA	100%*	Distribution of opto-electronic components.
Solid State Supplies Electronics Limited	Ireland	100%	Sales office
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
Creasefield Crewkerne Limited	UK	100%	Non trading entity

*Indirect holdings. All other holdings are direct.

During the financial year Q-Par Angus (Hedera) Limited and Ginsbury Electronics (Hedera) Limited have been dissolved. The non-trading entities are exempt from filing audited accounts with the registrar under section 479a of the Companies Act 2006.

Aside from the operations in the USA and Ireland identified above the country of operation and of incorporation is England and Wales, with the same registered office as Solid State PLC.

All 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

	2020 £'000	2019 £'000
Finished goods and goods for resale	8,583	8,712
Work in progress	1,079	936
	_______	_______
Total inventories	9,662	9,648
	_______	_______

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 £1,444k (2019: £1,666k).

An impairment (credit) / loss of (£111k) (2019: £680k) was recognised in 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 £43,769k (2019: £37,168k).

16. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Trade receivables	11,111	11,428
Other receivables	28	280
Prepayments	2,720	1,681
	_______	_______
	13,859	13,389
	_______	_______

Impairment losses against trade receivables of £313k were recognised within operating costs during the year (2019: £152k).

17. TRADE AND OTHER PAYABLES (CURRENT)

	2020 £'000	2019 £'000
Trade payables	5,750	5,052
Other taxes and social security taxes	1,320	1,084
Other payables	14	14
Accruals	3,513	2,575
	_______	_______
	10,597	8,725
	_______	_______

18. CONTRACT LIABILITIES

	2020 £'000	2019 £'000
Contract liabilities	2,486	2,511
	_______	_______

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 of these contract liabilities are expected to be recognised in the subsequent financial year.

19. BANK BORROWINGS AND FACILITIES

	2020 £'000	2019 £'000
Current borrowings		
Bank borrowings	333	1,333
Non current borrowings		
Bank borrowings	-	4,334
	_______	_______
Total borrowings	333	5,667
	_______	_______

	2020 £'000	2019 £'000
Within one year	333	1,333
Between one and two year	-	1,333
Between two and five years	-	3,001
	_______	_______
Total borrowings	333	5,667
	_______	_______

The bank facility is 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:

- £4.0m Acquisition term loan tranche B of which £0.3m remained drawn at the balance sheet date and was repaid in May 2020.
- Revolving credit facility of £7.5m which was undrawn at the balance sheet date. This is a committed facility until Nov 2021 when it is due for renewal.
- In addition the group has a multi-currency overdraft facility of £1,000k (2019: £1,000k) which was undrawn at both year ends.

The multi currency overdraft facility is in place to facilitate flexibility in managing currency payment. However, the Group cannot exceed a maximum utilised facilities of £7.8m.

The groups banking facilities are subject to three financial covenants, being: 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

	2020 £'000	2019 £'000
Current right of use lease liabilities	471	-
Non-current right of use lease liabilities	677	-
	_______	_______
Total right of use lease liabilities	1,148	-
	_______	_______

	2020 £'000	2019 £'000
Within one year	471	-
Between one and two year	328	-
Between two and five years	349	-
	_______	_______
Total right of use lease liabilities	1,148	-
	_______	_______

On adoption of IFRS 16 a right of use lease liability has been recognised at 1 April 2019. Further disclosure of the impact of the adoption of IFRS 16 has been given in note 29.

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.

There have been no substantive changes in the Group's exposure to financial instrument risks and consequently the objectives, policies and processes are unchanged from the previous period.

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.

21. FINANCIAL INSTRUMENTS (continued)

It is Group policy, implemented locally, to assess the credit risk of each new customer before entering into 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 in the statement of financial position 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 a bank 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. The use of forward currency contracts are not used speculatively and are considered where the Group has a demand for foreign currency that it can reliably forecast.

Liquidity risk

The Group operates a Group overdraft facility common to all its trading companies.

The Group has approximately a three month visibility in its trading and runs a rolling 3 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 into the future 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 eliminates fully 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.

21. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

Loans and Receivables	2020 £'000	2019 £'000
Current financial assets		
Trade and other receivables	11,139	11,708
Cash and cash equivalents	3,517	3,692
	_______	_______
	14,656	15,400
	_______	_______

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

Carrying value	2020 £'000	2019 £'000
UK	8,235	9,088
Non UK	2,876	2,340
	_______	_______
	11,111	11,428
	_______	_______

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 £313k (2019: £152k) which re-presented 0.5% (2019: 0.3%) of revenue. This provision is included within the sales, general and administration expenses in the Consolidated Statement of Comprehensive Income.

21. FINANCIAL INSTRUMENTS (continued)

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
2020					
UK	8,576	7,414	878	124	160
Non UK	3,031	2,265	641	31	94
Total	11,607	9,679	1,519	155	254
UK	(341)	(54)	(94)	(33)	(160)
Non UK	(155)	(31)	(25)	(9)	(90)
Total provisions	(496)	(85)	(119)	(42)	(250)
Total	11,111	9,594	1,400	113	4
IFRS 9					
UK expected loss rate	4.0%	0.7%	10.7%	26.6%	100.0%
Non UK expected loss rate	5.1%	1.3%	3.9%	29.0%	95.7%

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2019					
UK	9,188	8,036	842	126	184
Non UK	2,431	2,018	222	68	123
Total	11,619	10,054	1,064	194	307
UK	(97)	-	-	-	(97)
Non UK	(94)	-	(2)	(1)	(91)
Total provisions	(191)	-	(2)	(1)	(188)
Total	11,428	10,054	1,062	193	119
IFRS 9					
UK expected loss rate	1.1%	0.0%	0.0%	0.0%	52.7%
Non UK expected loss rate	3.9%	0.0%	0.9%	1.5%	74.0%

21. FINANCIAL INSTRUMENTS (continued)

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:

	2020 £'000	2019 £'000
Opening balance	191	34
Acquisition of subsidiaries	-	79
Increase / (decrease) in provisions	313	152
Written off against provisions	(8)	(72)
Foreign exchange	-	(2)
Closing balance	496	191

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 2020 trade receivables of £1,517k which were past their due date were not impaired (2019: £1,565k).

Liquidity risk

The following are maturities of financial liabilities, including estimated contracted interest payments.

	Carrying Amount	Contractual cash flow	12 months or less	1 – 2 Years	2 – 5 Years	5+ Years
2020						
Trade and other payables	10,597	10,597	10,597	-	-	-
Borrowings	333	333	333	-	-	-
Right of use lease liabilities	1,148	1,220	492	340	388	-
Provisions	304	304	11	11	32	250
	12,382	12,454	11,433	351	420	250
2019						
Trade and other payables	8,725	8,725	8,725	-	-	-
Borrowings	5,667	5,952	1473	1,436	3,043	3,043
Provisions	250	250	-	-		250
	14,642	14,927	10,198	1,436	3,043	250

21. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Group finances its business through a Revolving credit facility and two term loans. During the year the Group utilised this facility at a floating rate of interest.

The Groups banking facilities with Lloyds Bank plc incurs interest at the rate of between 2.0% and 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 financial instruments 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 £67k (2019: £44k) higher and if 1% lower throughout the year the level of interest payable would have been lower by the same amount.

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 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 with the exception of the following items which were denominated in US dollars, and 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 table shows the net assets/(liabilities) exposed to US dollar exchange rate risk that the Group has at 31 March 2020:

	2020 £'000	2019 £'000
Trade receivables	5,223	6,078
Cash and cash equivalents	1,342	243
Trade payables and accruals	(1,439)	(1,246)
	5,126	5,075

There were also net assets of £112k in euros (2019: £163k).

The Group is exposed to currency risk because it undertakes trading transactions in US dollars and euros. 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 2020 (2019: £nil) with £nil net exposure (2019: £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 £582k (2019: £582k) and 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 £476k (2019: £476k).

21. FINANCIAL INSTRUMENTS (continued)

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 2020 was £19,345k (2019: £21,878k).

The Group defines net (cash)/leverage as net (cash)/debt plus deferred consideration which totals (£3,184k) (2019: £1,975k). In calculating net (cash)/debt the Group has excluded the right of use lease liabilities of £1,148k (2019: £1,319k) from its definition and calculation.

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

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 2020 the gearing ratio was (16.5%) (2019: 9.0%).

The Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain sufficient funding to enable the Group to meet its working capital and strategic investment need 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 2020 is shown below:

	2020 £'000	2019 £'000
Cash and cash equivalents	(3,517)	(3,692)
Borrowings / bank overdrafts	333	5,667
Net (cash)/leverage	(3,184)	1,975
Share capital	427	427
Share premium account	3,626	3,627
Retained earnings	18,520	16,021
Capital redemption reserve	5	5
Foreign exchange reserve	(7)	(5)
Shares held in treasury	(43)	(172)
Equity	22,529	19,903
Gearing ratio (net leverage / equity + net leverage/(cash))	(16.5%)	9.02%

22. NET DEBT

Year ended 31 March 2020 (£'000)	At 1 April 2019	Cash flow	Other non-cash movement	At 31 March 2020
Bank borrowing due within one year	(1,333)	1,333	(333)	(333)
Bank borrowing due after one year	(4,334)	4,001	333	-
	_______	_______	_______	_______
Total borrowings	(5,667)	5,334	-	(333)
Cash and cash equivalents	3,692	(180)	5	3,517
	_______	_______	_______	_______
(Net debt) / net cash	(1,975)	5,154	5	3,184
	_______	_______	_______	_______

	2020 £'000	2019 £'000
Increase / (decrease) in cash in the year	(180)	3,120
Increase in borrowings in the year	-	(6,000)
Repayment of borrowings in the year	5,334	1,776
	_______	_______
Net movement resulting from cashflows	5,154	(1,104)
	_______	_______

	2020 £'000	2019 £'000
Net cash at 1 April	(1,975)	575
Net movement resulting from cashflows	5,154	(1,104)
Borrowings acquired in the year	-	(1,443)
Other non-cash movements	5	(3)
	_______	_______
Net cash/(net debt) at 31 March	3,184	(1,975)
	_______	_______

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:

	2020 £'000	2019 £'000
At 1 April	(471)	(426)
Deferred tax arising on acquisition of subsidiaries	-	(201)
Credit for the year	119	129
Deferred tax adjustment in respect of prior periods		-
Effect of tax rate change	(69)	27
Net deferred tax at 31 March	(421)	(471)
Deferred tax (liabilities)/assets in relation to:		
Accelerated capital allowances on property plant and equipment	(193)	(108)
Short term timing differences on intangible assets	(369)	(481)
Share based payments	81	57
Short term timing differences	60	29
Losses carried forward	-	31
Net deferred tax at 31 March	(421)	(472)
Deferred tax assets	86	105
Deferred tax liabilities	(507)	(576)
Net deferred tax at 31 March	(421)	(471)

The UK corporation tax rate is 19% (effective from 1 April 2017) as a result of the amendment in 2020 which was substantially enacted on 17 March 2020 the rate of corporation tax is set to remain at 19%. The deferred tax liabilities at 31 March 2020 have been calculated based on this rate.

The amount of the net reversal of deferred tax expected to occur next year is approximately £141k (2019: £117k) relating to the timing differences identified above.

There is an unrecognised deferred tax asset of £17k (2019: £1k) 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. If this deferred tax asset had been recognised it would have been credited to other comprehensive income.

This was not recognised given it is immaterial and the share bonus being exercised post year end when the share price was lower than at the balance sheet date therefore this deferred tax asset is not expected to be 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 £52k has not been recognised due to the uncertainty over the recoverability combined with the fact it is immaterial.

24. PROVISIONS

	2020 £'000	2019 £'000
At 1 April	250	-
Provision for dilapidations acquired	-	260
Provisions utilised during the year	-	(10)
Charged to statement of comprehensive income	54	-
Provisions at 31 March	304	250

The Group has provided for property related provisions which includes obligations in respect of exited legacy premises and dilapidations provisions it expects to exit within the next 5 years. Based on using a risk-free discount rate of 2.5% the Group has assessed the impact of discounting to be immaterial and has not therefore discounted the provisions.

25. SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted issued and fully paid 8,548,878 (2019: 8,532,878) ordinary shares of 5p	427	427

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

Details of options granted are set out in the Remuneration Committee Report on page 46 to 59. At 31 March 2020 the number of shares covered by option agreements amounted to nil (2019: 64,000). At the balance sheet date there were 112,000 (2019: 64,000) share options which had vested and remained unexercised.

Share options exercised in the prior year by the Directors are disclosed in the Directors remuneration report on page 35 to 38.

An Enterprise Management Incentive Scheme was adopted by the company in September 2000 and formally approved at an Extraordinary General Meeting on 12 December 2000.

26. RESERVES

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 70.

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

27. TREASURY SHARES

At 31 March 2020 the Group held 7,374 (2019: 29,374) shares in treasury with a cost of £43k (2019: £172k). No shares have been cancelled.

	2020 shares	2019 Shares
At 1 April	29,374	37,394
Purchase of shares into treasury	-	10,000
Transfer of shares to the All Employee Share Plan (AESP)	(22,000)	(18,020)
	_______	_______
At 31 March	7,374	29,374
	_______	_______

28. SHARE BASED PAYMENT

On 1 June 2017 the company granted nil cost EMI options to each of the following Directors (who prior to this had no outstanding options) under the Company's Long Term Incentivisation Plan, as follows:

Name	Number of options granted	Grant Price	Exercise price
Mr G S Marsh	48,000	£4.23	0.1p
Mr M T Richards	48,000	£4.23	0.1p
Mr J L Macmichael	48,000	£4.23	0.1p
Mr P O James	48,000	£4.23	0.1p

The share price at the date of Grant was £4.23 as the options are effectively £nil cost options the fair value is determined to equal to the share price at the date of grant under the Black Scholes model.

The options are subject to performance criteria determined by the Remuneration Committee linked to the pre tax profit performance of the Group in each year of a three year vesting period from the date of grant. The performance period runs from 1 April 2017 to 31 March 2020.

The performance conditions attached to the options are identical for all the Directors. Performance is measured on an annual basis over the three year period with a maximum of 16,000 options available in each of years one, two and three.

In each year, 10% of the maximum award vests for Group performance in-line with the Board approved budgeted pre tax profit with a scale such that the maximum award only vests in the event that the Group budgeted pre tax profit is exceeded by 25%.

The Remuneration Committee retains the ability to pay at its discretion additional cash and share bonuses in exceptional circumstances.

In January 2020, 21,400 shares were awarded under the All Employee Share Plan. The share price at the date of award was £6.43 resulting in a £137k share based payment charge recognised in the year as part of the 2020 share based payment expense of £381k.

In January 2019, 17,600 shares were awarded under the All Employee Share Plan. The share price at the date of award was £3.34 resulting in a £59k share based payment charge recognised in the year as part of the 2019 share based payment expense of £300k.

64,000 of the Executive Directors' options vested as the performance criteria for full vesting were achieved in the year ended 31 March 2020. (In the year ended 31 March 2019 64,000 options vested as the performance criteria were achieved).

There was no other long term share based incentive plan in place for the year ended 31 March 2020. Further disclosure of the LTIP for 2021 and beyond is disclosed in the remuneration committee report on pages 46 to 59.

29. LEASES UNDER IFRS 16 "LEASES"

The implementation of IFRS 16 at 1 April 2019, which had no material impact on total net assets or cash, is summarised in the narrative and table set out below:

	Reported 31 March 2019	Adoption of IFRS16	1 April 19
ASSETS	£'000	£'000	£'000
NON-CURRENT ASSETS			
Non current assets previously reported	11,317	-	11,317
Right of use lease assets	-	1,305	1,305
TOTAL NON-CURRENT ASSETS	11,317	1,305	12,622
Total current assets previously reported	26,834	-	26,834
TOTAL CURRENT ASSETS	26,834	-	26,834
TOTAL ASSETS	38,151	1,305	39,456
LIABILITIES			
CURRENT LIABILITIES			
Current liabilities previously reported	(13,088)	-	(13,088)
Right of use lease liabilities	-	(448)	(448)
TOTAL CURRENT LIABILITIES	(13,088)	(448)	(13,536)
NON-CURRENT LIABILITIES			
Non current liabilities previously reported	(5,160)	-	(5,160)
Non current right of use lease liabilities	-	(871)	(871)
TOTAL NON-CURRENT LIABILITIES	(5,160)	(871)	(6,031)
TOTAL LIABILITIES	(18,248)	(1,319)	(19,567)
TOTAL NET ASSETS	19,903	(14)	19,889
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Retained earnings	16,021	(14)	16,007
Other reserves as previously reported	3,882	-	3,882
TOTAL EQUITY	19,903	(14)	19,889

Differences between the operating lease commitments disclosed at 31 March 2019 under IAS 17 discounted at the incremental borrowing rate at 1 April 2019 and lease liabilities recognised at 1 April 2019 are explained below:

	£'000
Minimum operating leases commitments disclosed at 31 March 2019	1,409
Include break clauses included under IFRS 16	39
Exclude operating leases not treated under IFRS 16	(33)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(96)
Lease liability recognised as at 1 April 2019	1,319

30. CAPITAL COMMITMENTS

At 31 March 2020 and 31 March 2019 there were no capital commitments.

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 Value Added Distribution division comprises Solid State Supplies Ltd, Pacer LLC and Pacer Components Ltd companies. The Manufacturing division includes Steatite Ltd.

Year ended 31 March 2020

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	39,247	28,170	-	67,417
Profit before tax	2,252	4,439	(2,689)	4,002
Taxation	(510)	(538)	460	(588)
Profit after taxation	1,742	3,901	(2,229)	3,414
Consolidated statement of financial position				
Assets	18,649	11,890	8,139	38,678
Liabilities	(6,521)	(7,845)	(1,783)	(16,149)
Net assets	12,128	4,045	6,356	22,529
Other				
Capital expenditure:				
Tangible fixed assets	565	316	-	881
Intangible assets	2	279	-	281
Depreciation	545	569	-	1,114
Impairment	84	-	-	84
Amortisation	51	404	505	960
Share based payments	-	-	381	381
Interest	21	19	80	120

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2020 or the prior year.

31. SEGMENT INFORMATION (continued)

Year ended 31 March 2019

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	30,402	25,897	-	56,299
Profit before tax	1,677	2,707	(1,573)	2,811
Taxation	(349)	(86)	282	(153)
Profit after taxation	1,328	2,621	(1,291)	2,658
Consolidated statement of financial position				
Assets	17,387	12,137	8,627	38,151
Liabilities	(5,665)	(6,227)	(6,356)	(18,248)
Net assets	11,722	5,910	2,271	19,903
Other				
Capital expenditure:				
Tangible fixed assets	62	538	-	600
Intangible assets	-	300	-	300
Depreciation	417	281	-	698
Amortisation	18	430	284	732
Share based payments	-	-	300	300
Interest	7	2	100	109

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
United Kingdom	48,596	44,989	36,919	37,406	881	600
Rest of Europe	6,885	5,230	1	-	-	-
Asia	4,416	2,540	-	-	-	-
North America	7,235	3,426	1,758	745		-
Other	285	114	-	-	-	-
	67,417	56,299	38,678	38,151	881	600

All the above relate to continuing operations.

32. ADJUSTMENTS TO PROFIT

The Group's results are reported after a number of 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 on-going cash basis before imputed non-cash accounting charges 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 cash costs relating to the re-organisation of the Manufacturing division and acquisition costs.
- Non-recurring profit from the sale of fully written down stock.
- Non-recurring tax credits arising primarily from prior year R&D claims and tax deductions on share options.

	2020 £'000	2019 £'000
Acquisition and re-organisation costs	-	149
Non recurring profit from sale of full written down stock	(160)	-
Amortisation of acquisition intangibles	505	284
Share based payments	381	300
Adjustment to profit before tax	726	733
Current and deferred taxation effect	(138)	(142)
Non recurring tax credits	-	(141)
Adjustments to profit after tax	588	450

	2020 £'000	2019 £'000
Reported gross profit	20,803	16,372
Adjustments to gross profit	(160)	-
Adjusted gross profit	20,643	16,372
Reported operated profit	4,122	2,920
Adjustments to operating profit	726	733
Adjusted operating profit	4,848	3,653
Reported operating margin percentage	6.1%	5.2%
Operating margin percentage impact of adjustments	1.1%	1.3%
Adjusted operating margin percentage	7.2%	6.5%
Reported profit before tax	4,002	2,811
Adjustments to profit before tax	726	733
Adjusted profit before tax	4,728	3,544
Reported profit after tax	3,414	2,658
Adjustments to profit after tax	588	450
Adjusted profit after tax	4,002	3,108

Company Number: 00771335

COMPANY STATEMENT OF FINANCIAL POSITION
at 31 March 2020

	Notes	2020 £'000	2020 £'000	2019 £'000	2019 £'000
FIXED ASSETS					
Investments	4		13,255		13,320
CURRENT ASSETS					
Debtors	5	4,370		6,205	
Deferred tax asset		86		67	
Cash at bank and in hand		28		31	
		4,484		6,303	
CREDITORS: Amounts falling due within one year	6	(10,903)		(8,397)	
NET CURRENT LIABILITIES	7		(6,419)		(2,094)
CREDITORS: Amounts falling due after more than one year			-		(4,334)
NET ASSETS			6,836		6,892
CAPITAL AND RESERVES					
Called up share capital	8		427		427
Share premium account	9		3,626		3,627
Capital redemption reserve	9		5		5
Retained earnings	9		2,821		3,005
Shares held in treasury	10		(43)		(172)
SHAREHOLDERS' FUNDS			6,836		6,892

The company made a total comprehensive income in the year of £716k (2019: £765k).

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2020.

G S Marsh, *Director*

P O James, *Director*

The notes on pages 120 to 122 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Share Capital £'000	Share Premium reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Shares Held in Treasury £'000	Share-holders Funds £'000
Balance at 1 April 2019	427	3,627	5	3,005	(172)	6,892
Issue of new shares	1	(1)	-	-	-	-
Rounding	(1)	-	-	1	-	-
Total comprehensive income For the year ended 31 March 2020	-	-	-	716	-	716
Share based payment credit	-	-	-	381	-	381
Shares transfer to the AESP	-	-	-	(129)	129	-
Dividends	-	-	-	(1,153)	-	(1,153)
Balance at 31 March 2020	427	3,626	5	2,821	(43)	6,836

	Share Capital £'000	Share Premium reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Shares Held in Treasury £'000	Share-holders Funds £'000
Balance at 1 April 2018	425	3,629	5	3,081	(243)	6,897
Issue of new shares	2	(2)	-	-	-	-
Total comprehensive income For the year ended 31 March 2019	-	-	-	765	-	765
Share based payment expense	-	-	-	300	-	300
Treasury shares purchased	-	-	-	-	(34)	(34)
Shares transfer to the AESP	-	-	-	(105)	105	-
Dividends	-	-	-	(1,036)	-	(1,036)
Balance at 31 March 2019	427	3,627	5	3,005	(172)	6,892

The notes on pages 120 to 122 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2020

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom Accounting standards, including Financial Reporting Standard 102 -The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and with the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The financial statements are prepared in sterling rounded to the nearest thousand pounds (£'000).

The company has taken advantage of the exemption from disclosing the following information in its company only accounts, as permitted by the reduced disclosure regime within FRS 102:

- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures

Profit and loss account

Under section 408(4) of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss/profit for the year ended 31 March 2020 is disclosed in the Statement of Changes in Equity.

Going concern

The going concern basis of accounting has been used in the preparation of these financial statements. The Directors have not identified any material uncertainties in this regard.

Foreign currencies

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the statement of financial position date. Any differences are taken to the statement of comprehensive income.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less amounts provided for impairment. When the trade and assets of a subsidiary are consolidated / re-organised the investment is re-allocated based on the cost method where the commercial substance and economic reality is that the Investment carrying value remains intact. The carrying value of the revised investments are evaluated for impairment in accordance with FRS102.

Other financial liabilities

Other financial liabilities are accounted for on the same basis as in the consolidated accounts see accounting policy on page 84 as there is no material difference between FRS102 and IFRS.

Share based payment

Share based payments are accounted for on the same basis as in the consolidated accounts see accounting policy on page 87 as there is no material difference between FRS102 and IFRS.

Treasury Shares

Treasury shares are accounted for on the same basis as in the consolidated accounts see accounting policy on page 85 as there is no material difference between FRS102 and IFRS.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2020

2. STAFF COSTS

Staff costs amounted £1,952k (2019: £925k) and comprised the share based payment expense of £381k (2019: £300k) provision for employer's national insurance on exercise of share options of £52k (2019: £41k).

Included within the Company Staff costs are the salary and related costs in respect of Mr A B Frere, Mr G S Marsh, Mr P O James, Mr J Lavery (retired 31 August 2019), Mr N F Rogers (appointed 1 July 2019) and Mr P Haining. No other Directors remuneration was paid by the Company. Details of the Directors whose emoluments were paid by other Group companies are given in the Remuneration Committee Report on page 46 to 59.

3. SHARE BASED PAYMENT

See Group share based payments disclosures in note 28 to the Group accounts.

4. INVESTMENTS

Subsidiary undertakings	2020 £'000	2019 £'000
Cost		
1 April	13,320	9,508
Additions	(65)	3,812
	_______	_______
31 March	13,255	13,320
	_______	_______
Net book value		
31 March	13,255	13,320
	_______	_______

The movement in the period relates to an immaterial true up of the investment value in respect of the acquisition of the Pacer Group which was completed in the prior year.

Subsidiary undertakings	2020 £'000	2019 £'000
Net book value of investment in:		
Steatite limited	5,307	5,307
Solid State Supplies Limited	4,201	4,201
Pacer Technologies Limited	3,747	3,812
	_______	_______
Total investments at 31 March	13,255	13,320
	_______	_______

Subsidiary undertakings

See Group subsidiary undertakings disclosures in note 14 to the Group accounts.

5. DEBTORS

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	4,351	6,193
Other debtors	7	2
Prepayments	12	10
	_______	_______
	4,370	6,205
	_______	_______

6. CREDITORS – Amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owed to Group undertakings	9,434	6,756
Other taxes and social security costs	227	88
Trade and other creditors	47	33
Accruals	862	187
Bank borrowings	333	1,333
	10,903	8,397

The Company has guaranteed bank borrowings of all its subsidiary undertakings, the main trading subsidiaries are Solid State Supplies Limited, Steatite Limited, Pacer Components Limited and Pacer LLC. At the year end the liabilities covered by those guarantees amounted to £nil (2019: £nil). The Company accounts for guarantees provided to Group companies as insurance contracts, recognising a liability only to the extent that it is probable the guarantees will be called upon.

7. CREDITORS – Amounts falling due after more than one year

	2020 £'000	2019 £'000
Bank borrowings	-	4,334
	-	4,334

8. SHARE CAPITAL

See Group share capital disclosures in note 25 to the Group accounts.

9. RESERVES

See Group reserves disclosures in note 26 to the Group accounts.

10. OWN SHARES HELD IN TREASURY

See Group treasury shares disclosures in note 27 to the Group accounts.

11. LEASING COMMITMENTS

The company's future minimum payments under operating leases are as follows:

	2020 £'000	2019 £'000
Within one year	-	-
Between one and five years	-	-
Later than five years	-	-

EXPLANATION OF AGM RESOLUTION

SOLID STATE PLC LONG TERM INCENTIVE PLAN 2020 – SHAREHOLDER SUMMARY AND EXPLANATION OF THE PLAN TO BE ADOPTED VIA RESOLUTION (10)

The Directors of Solid State Plc (the **Company**) would like to incentivise certain senior employees with nominal cost equity awards. The Board is therefore proposing to adopt the Solid State Plc Long Term Incentive Plan 2020 (**LTIP**) to allow employees to be granted the right (**Awards**) to acquire Ordinary Shares in the Company (**Shares**) subject, to the LTIP Rules. The LTIP is not subject to any HMRC qualifying conditions and is not expected to confer any tax advantages.

The Awards are subject to time and performance-based vesting conditions.

The principal terms of the LTIP are summarised below:

Eligibility and Grant of LTIP Awards

The Board (acting through the remuneration committee) may grant LTIP Awards to selected employees. The Awards may be granted during:

a) the period of 42 days after the date of Award of the LTIP;

b) any period of 42 days immediately following the end of a closed period; or

c) in any other prior that the Board decides due to exceptional circumstances that justify such a decision.

No Awards may be granted more than 10 years after the date of Award of the LTIP or when otherwise prohibited by law or regulation.

No Awards may be granted that do not comply with the Directors' remuneration policy.

Exercise Price

The price payable to acquire Shares on the exercise of the Awards will be the nominal value (5p per share). The LTIP permits the grant of Nil-cost or Market Value Awards but neither are proposed.

Performance Conditions

The Awards will be subject to achieving performance conditions which are set out when the Awards are granted.

The Board may vary of waive performance conditions provided such variation or waiver is reasonable and it:

a) is a fairer measure of performance than the original performance condition;

b) is no more difficult to satisfy than the original performance condition; and

c) is not materially easier to satisfy than the original performance condition was at the date of grant of the Award.

Clawback and malus provisions will apply in certain circumstances as set out in the Rules and if determined by the Board.

Exercise and lapse of Awards

Subject to the satisfaction of the relevant performance conditions, LTIP Awards normally vest from the third anniversary of the grant of the Award but will be subject to a retention until the fifth anniversary.

For certain Award Holders who are not 'good leavers' and who cease to be employed by the Group before the Options vest (except for special reasons mentioned below) before their CSOP Options become exercisable, a time based proportion will normally lapse and the remaining options can be exercised before they lapse 90 days following cessation.

SOLID STATE PLC LONG TERM INCENTIVE PLAN 2020 – SHAREHOLDER SUMMARY AND EXPLANATION OF THE PLAN TO BE ADOPTED VIA RESOLUTION (10)

Special rules apply if cessation is due to injury, ill health, disability, retirement, redundancy, and/or the employing company/business being transferred out of the group, so that participants may exercise Awards, to the extent performance conditions have been achieved or, in the case of death, disability or injury, to the extent the Board determines they have been achieved.

On a takeover, change of control, liquidation or similar event, the Awards will be exercisable during a limited period subject to determination of the achievement of performance conditions and will then lapse. For initial Awards in the first 2 years made following approval of the LTIP, it is proposed that such Awards will vest and become exercisable if there is a takeover, liquidation, change of control (or similar event) within five years of grant even if performance conditions have not been satisfied.

Limits

The value of shares subject to annual Awards shall exceed 100% of annual basic salary per participant but the Board may increase this to 300% in exceptional circumstances.

The Company may not grant an LTIP Award if that grant would result in the total number of Shares to be issued when added to any other Awards/awards granted in the preceding 10 years under any share incentive scheme, including the LTIP, but excluding any share plan available to all employees, to exceed 10% of the issued share capital of the Company from time to time.

It is proposed that no more than 5% shall be made available for LTIP Awards.

Tax Liabilities

For the proposed Award grants, any secondary Class 1 NIC (employer) liability that arises in respect of the LTIP shall be met by the employer of the Award holder. There is power to pass this liability to participants for future awards.

Variation of Share Capital

On an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction, or other alteration, the Board shall adjust the number of shares subject to or the Award price may be adjusted by the Board in such manner as the auditors or other valuers confirm to be fair and reasonable. The Exercise Price may not be reduced below the nominal value per share (5p).

If there is an extraordinary distribution to shareholders (including a demerger or special dividend), the Board may determine that a number of shares may be released under the Award as is reasonable.

Amendment

The Board may amend the Plan however there are restrictions on the amendments which can be made. More significant amendments will require the prior approval of the Company in general meeting.

Voting, Dividend and Other Rights

On exercise, shares issued are ranked pari passu but, until then, Award holders have no voting or dividend rights. The rights under the LTIP Awards are not pensionable.

A full copy of the rules of the LTIP will be available at the place of the general meeting for at least 15 minutes before and during the meeting and, from the date of this notice, at the offices of Solid State Plc.

EXPLANATION OF AGM RESOLUTION

SOLID STATE PLC COMPANY SHARE OPTION PLAN 2020 – SHAREHOLDER SUMMARY AND EXPLANATION OF THE PLAN TO BE ADOPTED VIA RESOLUTION (11)

The Directors of Solid State Plc (the **Company**) would like to incentivise the Company's employees with equity awards. Therefore, the Board is proposing to adopt the Solid State Plc Company Share Option Plan 2020 (**CSOP**) to allow employees to be granted the right (**CSOP Options**) to acquire Ordinary Shares in the Company (**Shares**) subject, to the CSOP Rules.

The CSOP is split into two parts: Part A is intended to meet the requirements Schedule 4 of Income Tax (Earnings and Pensions) Act 2003 (**ITEPA**) and benefit from statutory tax advantages. Part B is not subject to statutory qualifying restrictions and is not intended to confer any tax benefits.

The CSOP Options will be subject to time-based vesting conditions and performance conditions to be applied at the time options are granted.

The principal terms of the Plan are summarised below: Part A and Part B are identical except as noted.

Eligibility and Grant of CSOP Options

The Board (normally through the remuneration committee) may grant CSOP Options to selected employees but only Directors who work at least 25 hours per week for the Group and individuals. Under Part B there is no limit on Director's hours and non-employees may be considered at the discretion of the Board.

The Options may be granted during:

a) the period of 42 days after the date of adoption of the CSOP;

b) any period of 42 days immediately following the end of a closed period; or

c) in any other prior that the Board decides due to exceptional circumstances that justify such a decision.

No Options may be granted more than 10 years after the date of adoption of the CSOP or when otherwise prohibited by law or regulation.

Exercise Price

The price payable to acquire Shares on the exercise of the CSOP Options will be not materially less than the market value (or nominal value if higher) of the Shares at the date of grant.

Market value will be determined in accordance with the relevant tax legislation and the methodology agreed with HMRC: this is usually the mid-market closing price of the Shares on the trading day immediately before the grant or as agreed with HMRC.

Exercise and lapse of Options

CSOP Options are exercisable during the period fixed by the Board and this is intended to be at any time from between the third and tenth anniversary of the grant of the option, subject to the satisfaction of an objective performance condition imposed by the Board at grant. Performance conditions may be varied so long as they are not more difficult or materially easier to satisfy than the original performance condition.

SOLID STATE PLC COMPANY SHARE OPTION PLAN 2020 – SHAREHOLDER SUMMARY AND EXPLANATION OF THE PLAN TO BE ADOPTED VIA RESOLUTION (11)

For Option Holders who cease to be employed by the Group (except for special reasons mentioned below) before their CSOP Options become exercisable, a time based proportion will normally lapse and the remaining options can be exercised before they lapse 90 days following cessation.

If the employee leaves before their CSOP Options become exercisable for reasons of injury, ill health, disability, or death there is no apportionment but performance conditions must be satisfied.

If the employee leaves before their CSOP Options become exercisable for reasons of injury, ill health, disability, retirement, redundancy, and/or the employing company/business being transferred out of the group, then all options which have not otherwise lapsed or been exercised can be exercised within six months following the cessation.

If the Option Holder leaves after the CSOP Option becomes exercisable for any reason other than summary dismissal, they may exercise the entirety of their option during the 90 days after cessation of employment.

If the Option Holder dies, the Option will lapse one the first anniversary of death (in which case options are exercisable by personal representatives of the option holder).

CSOP Options are exercisable in limited circumstances following a change of control of the Company, on commencement of a winding up, or on a court sanctioned reconstruction or amalgamation and will thereafter lapse.

CSOP Options are personal and will lapse on assignment or other transfer by the eligible employee, except to a personal representative.

Limits

The individual limit for CSOP Option under Part A is the statutory limit, currently, £30,000 (being the market value of Shares under option at the date of grant) or such other limit as the legislation permits. There is no limit under Part B.

The Company may not grant a CSOP Option if that grant would result in the total number of Shares to be issued when added to any other options/awards granted in the preceding 10 years under any share incentive scheme, including the Plan but excluding any share plan available to all employees, to exceed 10% of the issued share capital of the Company from time to time.

Tax Liabilities

For the proposed option grants, any secondary Class 1 NIC (employer) liability that arises in respect of the options under Part A and Part B shall be met by the employer of the option holder. There is power to pass this liability to participants for future awards.

Variation of Share Capital

On an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction, or other alteration, the number of shares subject to or the option price may be adjusted by the Board in such manner as the auditors or other valuers confirm to be fair and reasonable and, for CSOP Options granted under Part A, satisfies the statutory requirements.

EXPLANATION OF AGM RESOLUTION

SOLID STATE PLC COMPANY SHARE OPTION PLAN 2020 – SHAREHOLDER SUMMARY AND EXPLANATION OF THE PLAN TO BE ADOPTED VIA RESOLUTION (11)

Amendment

The Board may amend the Plan however there are restrictions on the amendments which can be made.

For Part A, no amendment may be made to a key feature of the CSOP if the CSOP qualifying status will be lost.

Material amendments are subject to the consent of the affected Option Holder.

The prior approval of the Company in general meeting is required to increase limits, to make the CSOP Options materially more generous, to expand the participants or to alter the rule on the relationship with employment contracts, unless it is minor to benefit the administration of the CSOP, takes account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Company or a member of its group.

Voting, Dividend and Other Rights

On exercise, shares issued are ranked pari passu but, until then, option holders have no voting or dividend rights. The rights under the CSOP Options are not pensionable.

A full copy of the rules of the CSOP will be available at the place of the general meeting for at least 15 minutes before and during the meeting and, from the date of this notice, at the offices of Solid State Plc.

EXPLANATION OF AGM RESOLUTION

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION WHICH ARE PROPOSED TO BE ADOPTED IN RESOLUTION (12)

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be amended in the New Articles to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of the resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2. Form of resolution

The Current Articles contain provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

3. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to confirm to new provisions in the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. References to Extraordinary General meetings have been removed as all meetings other than Annual General Meetings are just referred to as General Meetings in the Companies Act 2006.

4. Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

5 Conflicts of Interest

The Companies Act 2006 sets out Directors' general duties which largely codify the existing law but with some changes. Under the Companies Act, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The Companies Act 2006 allows Directors of public companies to authorise conflicts and provided conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Firstly, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a Director being in breach of duty if a conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

EXPLANATION OF AGM RESOLUTION

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

6. Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The Company passed a resolution allowing electronic communications. The New Articles codify this by allowing communications to members in electronic form and they also permit the Company to take advantage of the new provisions relating to website communications.

7. General

Generally, the opportunity has been taken to bring clearer language.

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting is being held at the registered office of the company in the usual way and in accordance with the current Articles of Association. However, in order to comply with Government public health guidance and rules, the venue is subject to social distancing rules which limit the number of people who can be accommodated in the room.

We would therefore request that shareholders do not attend the meeting in person but instead appoint the Chairman of the meeting as a proxy by completing the proxy card and indicating how they wish to vote on the card.

However, if any shareholders are intending to attend the meeting in person, we would request that they register this intention at least 48 hours in advance of the meeting at (investor.information@solidstateplc.com). This will ensure that adequate precautions can be taken to ensure that the social distancing guidelines are followed.

Notice is hereby given that the annual general meeting of Solid State PLC will be held at 2, Ravensbank Business Park, Hedera Road Redditch B98 9EY, on 9 September 2020 at 9.30am for the following purposes:

ORDINARY RESOLUTIONS

(1) To receive the accounts for the year ended 31 March 2020, together with the reports of the Directors and auditors thereon. (Resolution 1)

(2) To approve the Directors' Annual Report on Remuneration (this is an advisory vote). (Resolution 2)

(3) To declare a final dividend of 7.25p per share. (Resolution 3)

(4) To reappoint Mr Gary Marsh, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association. (Resolution 4)

(5) To reappoint Mr Peter James, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association. (Resolution 5)

(6) To reappoint Mr Nigel Foster Rogers, being a Director of the Company appointed since the last annual general meeting, in accordance with the Company's Articles of Association. (Resolution 6)

(7) To reappoint RSM UK Audit LLP as auditors of the Company. (Resolution 7)

(8) To authorise the Directors to fix the auditors' remuneration. (Resolution 8)

(9) To pass the following resolution:

That the Directors be generally and unconditionally authorised to allot shares in the Company (**Relevant Securities**):

i) comprising equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal amount of £141,056.52 (which is 33% of the issued share capital) (such amount to be reduced by the nominal amount of any Relevant Securities allotted under paragraph (ii) below) in connection with an offer by way of a rights issue:

(a) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

(b) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

ii) in any other case, up to an aggregate nominal amount of £85,488.80 (which is 20% of the issued share capital) (such amount to be reduced by the nominal amount of any equity securities allotted under paragraph i) above, provided that this authority shall, unless renewed, varied or revoked by the Company, expire after a period of 18 months from the passing of this resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities. (Resolution 9)

(10) To pass the following resolution:

That the Solid State plc Long-term Incentive Plan, (LTIP) be and is hereby approved in the form of the rules initialled by the Chairman for identification purposes and summarised in the Letter to Shareholders dated 30 June 2020 be and is hereby approved and that the Board of Directors of the Company be and is authorised to adopt the LTIP and to grant awards under the LTIP in accordance with those rules. (Resolution 10)

(11) To pass the following resolution:

That the Solid State plc Company Share Option Plan 2020, Part A and Part B, (Plan) be and is hereby approved in the form of the rules initialled by the Chairman for identification purposes and summarised in the explanatory note above be and is hereby approved and that the Board of Directors of the Company be and is authorised to adopt the Plan and to grant options under the Plan in accordance with those rules. (Resolution 11)

SPECIAL RESOLUTIONS

(12) Adoption of new articles of association:

The principal changes introduced in the New Articles are summarised in the Appendix. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in the Explanatory notes above. The New Articles are available for inspection as per note 13 below. (Resolution 12)

(13) To pass the following resolution:

That the Company is authorised to allot equity securities pursuant to resolution 9 above up to an aggregate nominal amount of £42,744.40, which is 10% of the issued share capital, as if Section 561 of the Companies Act 2006 (existing shareholders – right of pre-emption):

i) did not apply to the allotment; or

ii) applied to the allotment with such modifications as the Directors may determine provided that this authority shall, unless renewed, varied or revoked by the company, expire after a period of 18 months from the passing of this resolution save that the company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted and the Directors may allot equity securities in pursuance of such offer or agreement not withstanding that the authority conferred by the resolution has expired. (Resolution 13)

NOTICE OF ANNUAL GENERAL MEETING (continued)

(14) To pass the following resolution:

That the Company is, pursuant to Section 701 of the Companies Act 2006, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693 of the Companies Act 2006) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") provided that:-

i) the minimum price which may be paid for the ordinary shares is 5p per ordinary share;

ii) the maximum price that may be paid for such shares is, in respect of a share contracted to be purchased on any day, an amount (exclusive of all expenses) equal to 105 per cent of the average middle market quotations of the ordinary shares of the company as derived from the Daily Official List of the London Stock Exchange on the 10 dealing days immediately preceding the day on which the shares are contracted to be purchased;

iii) the authority hereby conferred shall expire after a period of 18 months from the passing of this resolution unless such authority is renewed prior to such expiry;

iv) the authority hereby conferred is in substitution for any existing authority to purchase ordinary shares under the said Section 701;

v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will be executed wholly or partly after the expiry of such authority and may make a purchase or purchases of ordinary shares in pursuance of any such contract; and

vi) the maximum number of ordinary shares hereby authorised to be purchased by the Company does not exceed 15 per cent of the issued ordinary share capital of the Company at the date of the passing of this resolution. (Resolution 14)

BY ORDER OF THE BOARD

P Haining FCA
Secretary
30 June 2010

Registered office: 2 Ravensbank Business Park, Hedera Road, Redditch, B98 9EY

NOTICE OF ANNUAL GENERAL MEETING (continued)

NOTES:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business 2 days before the time appointed for the meeting, or if this meeting is adjourned, at close of business on the day two days prior to the adjourned meeting shall be entitled to attend and vote at this meeting.

Attending in person

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

Appointment of proxies

3. If you are a member of the company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. If you are not a member of the company but you have been nominated by a member of the company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section.

5. A proxy does not need to be a member of the company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

7. A vote withheld is not a vote in law, which means that the vote will not be counted in the circulation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed and sent or delivered to Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD, not later than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the Meeting.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included with the proxy form.

Appointment of proxy joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted, Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

NOTES:

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; and amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction, you will need to inform the Company using one of the following methods:

    a. By sending a signed hard copy notice clearly stating your intention to revoke your proxy appoint to Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD.

    b. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice.

    In either case, the revocation notice must be received by the Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD, not later than 48 hours before the time appointed for the Meeting.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

12. As at 30 June 2020 the Company's issued share capital comprised of 8,548,878 ordinary shares of 5p each which includes 7,374 shares held in treasury. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 2 July 2019 8,541,504.

Documents on display

13. The following documents will be available for inspection at the place of the Annual General Meeting prior to the meeting until the time of the Meeting and for at least 15 minutes prior to the meeting:

    a. The register of Directors' interests in the share capital and debentures of the Company; and

    b. Copies of service agreements under which Directors of the Company are employed

    c. The full rules of the LTIP

    d. The full rules of the CSOP

    e. Copies of the new Articles of Association of Solid State PLC Company No 00771335.

SOLID STATE PLC

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