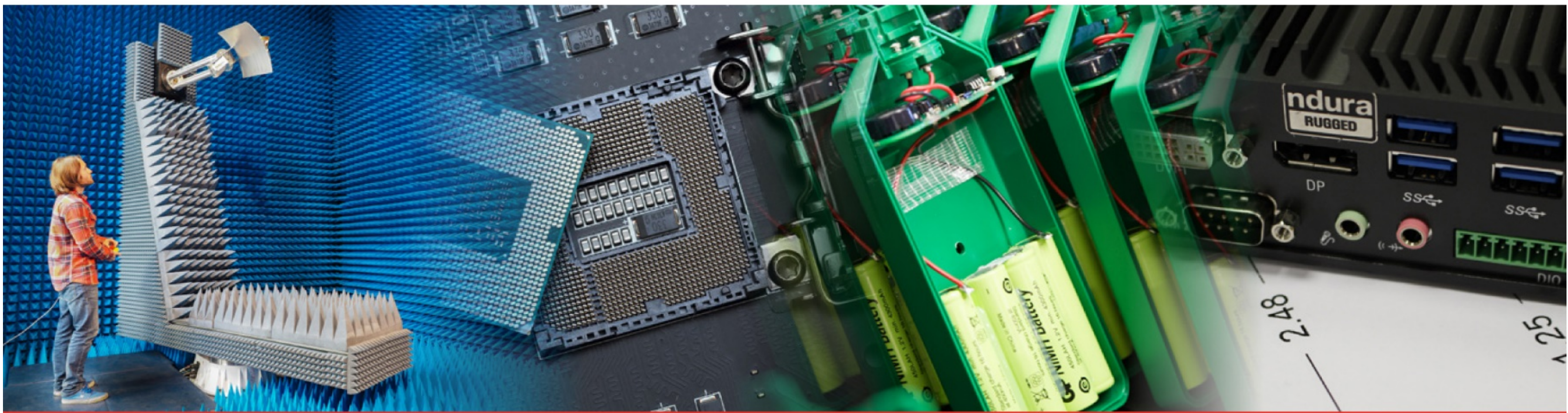
SOLID STATE PLC

DESIGN - MANUFACTURE - SUPPLY

Annual Report & Accounts
31st March 2021



TRUSTED TECHNOLOGY FOR
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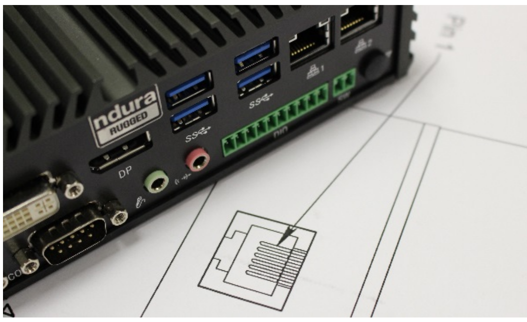

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Nigel Rogers, *Non-Executive Chairman* Gary Marsh, *Chief Executive Officer* Peter James, BSc FCA, *Chief Financial Officer* John Macmichael, *Executive Director* Matthew Richards, *Executive Director* Peter Magowan, *Non-Executive Director (Appointed 1 Jan 2021)* Peter Haining, FCA, *Non-Executive Director*
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Country of Incorporation of Parent Company:	England and Wales
Legal Form:	Public Limited Company
Domicile:	United Kingdom

CHAIRMAN'S STATEMENT

Introduction

I am pleased to report that the Group has delivered another year of record profits despite a challenging market environment. Group management continues to make good progress in the implementation of its strategy by investing in people and technology, and through the completion of two bolt-on acquisitions late in the year which significantly enhance the Group's capabilities.

Our business model has displayed resilience in the face of the global COVID-19 pandemic, demonstrating the benefits of our diverse geographical, industry sector coverage and our decentralised footprint. Whilst the acute impact of the pandemic is now receding, there are longer term effects on component availability, logistical disruption and inflationary pressures which are expected to endure into 2022. These are complex and can be difficult to navigate and call upon the full range of skills and experience of our well established team.

The Group also entered the current financial year with a strong balance sheet, and the addition of Willow Technologies Group (Willow) and Active Silicon Group (Active), providing further momentum to maintain our growth record.

Financial overview

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

KPI	2021	2020	Change
Reported Revenue	£66.3m	£67.4m	-1.6%
Reported operating profit margin	6.5%	6.1%	+40bps
Adjusted operating profit margin*	8.3%	7.2%	+110bps
Reported profit before taxation	£4.2m	£4.0m	+5.0%
Adjusted profit before taxation*	£5.4m	£4.7m	+14.9%
Reported EPS	46.4p	40.1p	+15.7%
Adjusted diluted EPS	54.7p	46.3p	+18.1%
Underlying cash flow from operations	£6.9m	£8.0m	-13.8%
Net cash/(net debt)**	(£4.4m)	£3.2m	-237.5%
Dividend	16.0p	12.5p	+28.0%
Open order book @ 31 May	£51.0m	£37.9m	+34.6%

* Adjusted performance metrics are reconciled in note 32, the adjustments relate to IFRS 3 acquisition amortisation, Share based payments charges, and non-recurring charges in respect of redundancies and acquisition costs and fair value adjustments.
** Net cash / debt includes net cash with banks £3.1m (2020: £3.2m), the fair value of deferred contingent consideration of £7.5m (2020: nil) and excludes the right of use lease liabilities of £2.5m (2020: £1.1m).

The Group has delivered:

- Stable revenue year on year at £66.3m (2020: £67.4m), reflecting diversified market sector exposure which has given the business resilience to the COVID-19 pandemic and Brexit challenges.
- Record profitability reflected in adjusted operating margins increasing 110bps to 8.3%, based on solid margins in both divisions and the improved operational efficiencies.
- Adjusted fully diluted EPS up 18% to 54.7p (2020: 46.3p).
- Consistently strong operating cash generation of £6.9m (2020: £8.0m) with reported cash conversion of 162% (2020: 195%).
- A dividend increased 28% on prior year reflecting record performance in the year.
- An open order book on 31 May 2021 of £51.0m - and £41.4m (2020: £37.9m) on like-for-like (excludes the companies acquired during the year) basis reflecting 9.2% organic growth in the open order book on 31 May 2021.

Strategic Achievements in 2020/21

Notable achievements in 2020/21 to advance our strategy included:

- Acquisitions of Willow Technologies and Active Silicon:
    - Enhanced technology adding a portfolio of own brand image processing products and electro-mechanical components (including component manufacturing capabilities in USA); and,
    - Enhanced the international sales capabilities and resources in the USA and Europe.
- Internal technology development of the Group's battery pack and Battery Management Systems (BMS) offering, own brand computing products and building the portfolio of communications products through the Group R&D programme.
- Established in-house Electromagnetic Compatibility (EMC) testing capabilities through the capital investment programme.

Strategy

The Group provides customers broad-based access to trusted electronic technology for demanding applications and extreme environments and has a commercial focus on high growth markets including security & defence, medical, green energy, transport, communications and industrial.

Our medium-term financial objective to double fully diluted adjusted earnings from 30 pence to 60 pence per share over a five year period to March 2022 is on track. The accelerated growth rate achieved in recent periods reflects the benefit of the foundations which have been laid and the significant opportunities for continued growth. The Directors are fully committed to continuous development of our capabilities to build on this success, further strengthen our partnership approach with major customers, and continue to share rewards equitably amongst all of our stakeholders.

Although there are acknowledged short term supply challenges for our industry, the demand outlook for customised electronic solutions offers exciting opportunities. Many ground breaking technologies are embedded within our current activities, and there is scope for further investment in specialist skills and knowledge to expand and differentiate our offering to customers, both through internal development and acquisition as we target international expansion.

We are building ever closer relationships with our customers, adding substantial value through early stage integration into their design and development road maps, and interlocking with their operational and logistics processes. This will be achieved by further strengthening channels of co-operation between Group entities, building cross-selling specialist teams to facilitate ease of customer access to our full range of products and services.

Governance and Accountability

The structure of the Board has continued to evolve with the appointment of Pete Magowan as Senior Independent Director in November 2020, at the same time as my own transition to become independent Non-Executive Chairman. The Non-Executive element of the Board is completed by Peter Haining, who also acted as Interim Chairman during the year prior to my appointment.

Following my appointment, a formal board effectiveness review was undertaken which identified some updating to board processes and documentation which have all now been actioned. There is further work underway to address the Environmental, Social and Governance (ESG) agenda which will form an increasingly important element of future reports as additional metrics are identified and progressed.

In communication with our shareholders and others, our primary aim is to provide timely, well balanced and succinct information about our business and its prospects to a wide audience on a regular basis. In addition to our Annual General Meeting and scheduled meetings with key institutional shareholders, we participate in periodic on-line presentations which are open to all by prior arrangement on the "Investor Meet Company" platform (www.investormeetcompany.com).

People

The wider impact of the COVID-19 pandemic has placed an extraordinary burden on all of our people in different ways. Group management has taken great care in leading initiatives to keep our workplaces and all of our staff safe and healthy, with focus on broader social welfare in addition to physical protection. With the worst effects now apparently receding and an element of normality returning, I take this opportunity to record the sincere thanks of the Board to everyone who has worked so diligently to ensure the continuity of our service to customers, and the welfare of all our people and their families.

Acquisitions

In early March 2021 we announced the acquisitions of Active Silicon Limited and Willow Technologies Limited, two companies which enhance our technology offering to customers as well as providing increased international coverage. These represent the eleventh and twelfth such transactions completed since 2002. We are delighted to welcome these companies and their staff into the Group fold and are very encouraged by the early successes they have achieved under Group ownership.

We continue to evaluate opportunities to expand our range of specialist applications and international reach through the acquisition of high-quality businesses as a key element of our strategy for future growth.

CHAIRMAN'S STATEMENT (continued)

Dividend

The Group has paid dividends in each of the twenty five years since joining AIM in 1996. The dividend policy is progressive, and payments are proposed by reference to dividend cover in the range 2.5 to 3.0 times over a medium-term cycle. In the prior year, the Board took account of the exceptional circumstances arising from the pandemic, and total dividend payments were maintained at 12.5 pence per share covered 3.2 times by earnings.

Whilst the inherent uncertainty surrounding the effects of the pandemic has abated since last year, the Directors continue to take a relatively prudent short term view and consider that some restraint in the dividend increase so as to remain at the upper end of the long term cover target continues to be appropriate. Accordingly, the Board is proposing a final dividend of 10.75 pence (2020: 7.25 pence) resulting in full year dividends of 16.0 pence (12.5 pence) which is covered 2.9 times by earnings (2020: 3.2 times).

Subject to approval of the final dividend by shareholders at the AGM on 8 September 2021, the final dividend will be paid on 24 September 2021 to shareholders on the register at the close of business on 3 September 2021, and the shares will be marked ex-dividend on 2 September 2021.

Opportunities and prospects for 2021/2022

Whilst the forthcoming period will no doubt be adversely affected by the effects of component shortages and the recovery from COVID-19, the Group is well placed to take advantage of the current challenges and emerge in a stronger position than many of its competitors. Although the Group is seeing record order intake in Q1 2021/22, 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 2000 clients, operating across multiple sectors, offering a broad product range with decentralised production. This diversification provides the Group with resilience when markets are challenging.

The Board believes two of the key technology areas where it expects to see significant growth in demand in the medium term are image capture, processing, and transmission, driven by increased adoption of industrial AI and the roll out of 5G, and power control and switching driven by the drive to reduce carbon emissions and EV. The Group's recent acquisition of Willow Technologies and Active Silicon are critical to ensuring that the Group is positioned to further penetrate these sectors and gain market share in addition to providing products which it can sell internationally.

Positively, the Group has seen initial signs of recovery from sectors which were significantly adversely impacted by COVID-19 such as oil & gas and commercial aviation, albeit not to historic levels. The Group continues to benefit from opportunities in these core areas, whilst also developing its presence in new and emerging growth markets. The Group has a strong position in the security and defence sector which is seeing significant investment in technology which the Group is well placed to deliver. Furthermore any shift by prime contractors away from a globalised supply chain to buying more of their vital electronics and services closer to home will be positive for the Group.

Solid State continues to focus on cross Group collaboration initiatives to drive organic sales. The capabilities added through the acquisitions further add scale and capability which the Group can provide to the enlarged customer base. We have been selected as a supplier on two programmes which are expected to start in FY21/22, 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 for our technology in robotics solutions and emerging green transport programmes are being targeted in varied market sectors across commercial, industrial and high reliability applications. The Group is taking care to select markets for its products and solutions that have not been commoditised.

Although the timing of supplies and programmes remains difficult to predict, the Board is confident that given its strong financial footing, technology, capabilities, niches and its sector penetration in areas which are political priorities, for example in transportation and medical, it is well placed to navigate these exceptional trading conditions.

N Rogers
Chairman
13 July 2021

STRATEGIC REPORT

Introduction to Solid State PLC

The Group supplies electronic products, technology, and solutions, primarily designed for demanding applications where safety, performance, reliability and quality are critical; enabling customers to focus on their core business with confidence by providing trusted technology for demanding applications.

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 Group's stated strategy to deliver this has three key elements:

1) Development of a portfolio of products, solutions and value-added services through the combination of developing own brand devices and systems and establishing strategic partnerships with suppliers within the electronics industry enabling the Group to add real value to existing and new customers;
2) Investment in the Group workforce, technical knowledge, and resources to ensure Solid State remains at the forefront of electronics technology. Constantly seeking opportunity to add value, satisfying the customers' unmet needs and establishing long term relationships as a trusted advisor and subject matter expert;
3) Supplement organic expansion from target structural growth markets with selective acquisitions within the electronics industry which complement the existing Group capabilities. Focussing on further extending technical knowhow, own brand product, geographic reach and capacity will facilitate the international expansion of the Group and accelerate progress in its target growth markets.

The Group is focused on the supply and support of specialist electronics equipment and solutions from components, sub-assemblies, products, and embedded systems, through to complete integrated electronic solutions.

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 extremes of humidity, temperature, pressure, vibration, and wind is vital.

The Group's organic growth strategy is based on targeting the structural growth markets of security & defence, medical, greentech, transport, energy, utilities, communications and industrial where there is significant Government and industry investment in technology aligned to the Group's strengths. In implementing this strategy, the Group will continue to focus on retaining its diverse, customer and sector exposure ensuring the Group maintains the resilience it has benefited from in recent times.

The Group actively targets markets with high barriers to entry, requiring accreditations and specialist test and measurement capabilities. This enables the business to differentiate its offering, develop long term symbiotic customer relationships where premium products and services are valued and reflected in the margins.

The Group holds multiple accreditations across its sites covering health and safety, environmental, international aerospace standards, Atex and others. Where necessary the facilities and personnel are cleared by the UK Government to allow secure work to be conducted. The Group continues its investment to increase the range and scope of accredited sites.

The Group has industry leading test & measurement and assembly capabilities, including a Class 7 clean room assembly facility, environmental and vibration testing capabilities, and a world class near-field RF test chamber.

In the current year, the Group has made significant investments further enhancing its manufacturing and assembly capabilities with new wire bonding capabilities and investment in an in-house EMC chamber commissioned during first quarter of FY21/22. These facilities combined with the technical and engineering expertise mean the Group has a differentiated offering, providing class leading test and measurement capabilities which are utilised across the Group.

A cornerstone of the Group's offering is its industry leading workforce. To ensure the Group builds on this, it invests significantly in the development of its technical staff and and other professional personnel, through a combination of internal and external training and development programmes to ensure they remain as industry experts at the forefront of their respective technology areas. Furthermore, the Group is constantly looking to broaden the talent pool through recruitment.

Solid State PLC operating structure

The Group has two operating divisions, Value Added Supplies (VAS) and Manufacturing, with a shared mission, strategy and consistent business values. Solid State thrives on a trusted advisor relationship with its customers.

The Group's principal operations are based in the UK with its head office in Redditch where its component supplies warehousing and computing product manufacturing are located. The Group's Power business unit (BU) battery pack manufacturing centre of excellence is in Crewkerne, with Leominster housing the Group's Communications BU. The recent acquisitions have added industry leading opto-electronic assembly capabilities in Weymouth, computing board level design and production and component warehousing facilities near to London Heathrow and Gatwick, respectively. Furthermore, the acquisitions have provided a more established sales function in the USA as well as a significant freehold R&D and manufacturing facility for some of the electromechanical products in Elkhart Indiana, which with further investment has significant capacity for growth.

Value Added Services

The VAS division primarily supplies designed-in products and solutions at the component and sub assembly level. It is a market leader, delivering innovative, designed-in technical solutions for customers. The division serves the needs of the original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities principally in the UK, albeit latterly the acquisition of Willow Technology Group (Willow Technologies Limited and AEC Inc) has accelerated the development of its international sales channels.

VAS represents a select number of suppliers who manufacture semiconductors, related electronic and opto-electronic components, modules, sensors, switches and displays as well as more recently developing a portfolio of own brand components with the acquisitions of Pacer (opto-electronic components) and Willow (electromechanical components). The team's depth of understanding of these products and components enables the Group to offer outstanding levels of commercial and "added value" technical support to its customers.

The products and components supplied are from globally recognised manufacturers and include those for 5G and the Internet of Things (IoT), embedded processing, control, wireless and wired communications, electromechanical, power management, optical emitters, and sensors, displays and LED lighting.

Manufacturing

Operating with three principal BUs; computing, power and communications, the Manufacturing division is a market leader with capabilities extending from the supply of simple electronics technology products and systems to the delivery of turnkey integrated solutions with significant engineering-based value-added content. Capabilities encompass design, production, testing, commissioning, and training.

The Division manufactures high specification industrial computers, sophisticated custom battery packs and advanced communication systems, including specialist antennas and high-performance video transmission products. Latterly the acquisition of Active Silicon, has enhanced the Division's computing offering to include board level design and manufacturing capabilities primarily for image capture, processing, and transmission. It is the technical knowhow, design skills, production and testing resources, product quality and customer service levels combined with over 30 years of experience of supplying products into the most demanding of environments that provides significant differentiation from the Group's competitors across the three BUs.

Consistent with the VAS division, the strong and established partnerships with key suppliers in Asia and the USA are critical (including industry leading technology partners) and include Nvidia, IEI, Intel, Innodisk, Tadiran, Panasonic, LG, Cisco and Persistent Systems.

Competitive Advantage

The Group is the subject matter expert for its customers, with deep industry knowledge and longstanding key supplier relationships. In designing-in solutions to address the customer needs, the Group selects the most appropriate component, module, computing technology, battery chemistry, or communications solution which ensures Solid State is a trusted partner.

The Group constantly seeks to add value for its customers, who are typically looking to embrace the adoption of the enabling technologies where Solid State has industry leading component and manufacturing expertise, such as electronic and optoelectronic component design-in, image processing, Artificial Intelligence (AI), IOT, fossil fuel replacement, switching, cordless & portable power, and leading-edge communications / antenna solutions.

Chief Executive's Review

Given the macro-economic backdrop (with the COVID-19 pandemic and latterly Brexit and semiconductor supply shortages), this reporting period was undoubtedly one of the most challenging in the Group's 50 year history. As a result, I am very pleased to report 18% growth in adjusted earnings per share over the prior year's record result and revenue broadly comparable year on year at £66.3m (2019/20: £67.4m). The Group benefitted from one month of revenue from the two acquisitions and some pull ins of demand at the end of the year as its customers looked to mitigate the well-publicised electronics supply chain issues. Despite these challenges, the Group has been able to make significant strides in delivering on its growth strategy in the current year.

Solid State reports a strong year-end balance sheet with net assets of £25.5m and net cash at the bank of £3.2m (excluding lease and deferred contingent consideration obligations). The balance sheet strength means the Group is well placed to gain a competitive advantage when managing the challenging market conditions. Building on last year's record performance we look forward to delivering further strategic progress.

The scale and broader portfolio of products now offered by the Group's VAS division, has enabled VAS revenues to be broadly maintained year on year, significantly outperforming a market which saw a decline across 'all electronic components' of 4% and a 12% decline for 'semiconductor' sales. The reduction in revenues from the Manufacturing Division was more than mitigated by improved margins and lower operating costs which resulted in a significant improvement in profitability.

Managing the COVID-19 pandemic

During the initial few months of the pandemic, the Group faced some reductions in demand. In managing this, the Group utilised the Government's Coronavirus Job Retention Scheme (CJRS). At the half year, resources were adjusted to align with ongoing demand resulting in a small number of redundancies. The CJRS grants received of £0.3m allowed the Group to retain its skilled work force while it evaluated how demand would stabilise and then recover, minimising redundancies. Had the CJRS not been available the level of redundancies would have been more significant at the start of the pandemic.

The Group's sector diversity has enabled it to substantially mitigate the COVID-19 challenges faced in the oil and gas and commercial aerospace sectors with strong demand in other markets including security and defence, medical and transportation.

The Group's operational response to the COVID-19 pandemic was pro-active and swift which has meant the business has faced no significant operational disruption. Solid State's adoption of Office 365 ahead of the pandemic was timely meaning the workforce was largely set up for home working. The production workforce was engaged and integral in establishing the Group's COVID safe protocols from the outset to ensure that the business could continue to operate safely as a nominated critical supplier continuing to fulfil customer demand.

Key stakeholder engagement

Solid State's pro-active approach to managing both customer and supplier stakeholders during the year has been recognised positively with many providing positive feedback about how the Group has supported their businesses in these very difficult times. This is evidenced by the Group being awarded 4 formal supplier / customer awards recognising the Group's value to their businesses.

Through the pandemic the business has worked hard to ensure that it has maintained timely and relevant communication and engagement with all stakeholders. The teamwork, support, and commitment from and by the staff has been a real success factor. The workforce has recognised and valued the investment in enhancing the Group's staff welfare programmes to provide both physical and mental health support, resources and benefits which are available to all employees to provide some mitigation to the challenges presented by lockdown and remote working.

The Group continues to recognise the value of, and invest in, its staff with various ongoing professional development initiatives. This is critical to the Group continuing to both retain and attract exceptionally high calibre staff which is necessary to maintain its market position and retain its trusted business partner relationships.

Two of the initiatives instigated as part of the Group's staff and communities engagement activities were particularly rewarding and were highlights of the year; being the Solid State lockdown charity walk, where as a team the staff walked the equivalent length of England raising in excess of £10,000 for NHS Charities Together, and the support for a local Redditch school where the Group was able to supply much needed IT equipment supporting families who did not have access to these resources at home.

Delivery of the strategy

In FY20/21 Solid State has continued to execute on its strategy, delivering improved financial performance with important strategic steps being taken across both operating divisions.

VAS broadening complementary component offering

The VAS division has continued to broaden its component product lines through a new relationship with TT Electronics. Additionally, the VAS division continues to enter into value-added partnerships including Wireless Logic (Europe's leading provider of SIM connectivity and Routers for M2M and IoT connectivity) and InVMA (a leading provider of IoT asset management systems). These new relationships adding to the Group's existing product suppliers, combined with a partnership with ByteSnap Design Ltd (leading IOT design solutions consultants), mean the Group has a leading-edge end to end IoT offering which is a key technology growth driver in the market.

VAS development of own brand component manufacturing

The acquisition of Willow brought a portfolio of electro-mechanical products including a range of sensors and switches with key electronics manufacturers such as Rohm and Teledyne. These products are particularly well suited to the green energy and power markets. The enhanced scale, capabilities, and market position ideally places the Group to target growth opportunities which would not have been previously attainable.

Furthermore, the acquisition of Willow provided a step change in the portfolio of own brand components with the Hermaseal® and Durakool® brands as well as a small number of patented contactor products which may provide significant opportunities in the mid-term for the EV charging market.

Willow has an established component manufacturing, R&D, and sales capability in Elkhart, Indiana, USA which with its European sales and technical resources mean approximately 70% of Willow's sales are from outside the UK. This provides a platform, establishing the foundations for the Group's international offering which is a strategic priority.

Manufacturing portfolio of own brand modular products

Within the Manufacturing division, the Group has made significant progress in developing its portfolio of own brand products in all three BUs, with the introduction of new 1, 2 and 4U (rack mounted) servers and PCs based on latest Intel CPUs, high density rack-mount edge servers, ideal for high performance computing applications. A range of 24V and 48V modular battery packs have been designed for reliable continuous daily usage in harsh environments where shock, vibration, and varying temperatures are likely to be experienced. The products are tailored to in-house battery management systems and software. These are critical to the development of the Group's greentech power solutions and fossil fuel replacement products. The Communications BU has seen additional standard design antennas introduced including solutions for use with the Group's radio products in addition to an integrated mobile command system interfacing to the Persistent Systems mesh communications nodes.

Enhancing our technical manufacturing expertise

The acquisition of Active Silicon ("Active") into the computing BU adds board level design and manufacturing capability in addition to a portfolio of machine vision products and solutions. It provides a significant technology enhancement and reflects a strategic step forward from a relatively small acquisition.

Active's imaging products and embedded vision systems provide; high margin, differentiated, technology driven solutions for niche industrial applications. Active's products and solutions are complementary to the Group's existing computing offering. There is virtually no overlap in the customer base, and there are opportunities to provide combined solutions to the enlarged customer base. Furthermore, the joint capability enables the targeting of new opportunities in growth markets which the Group could not have competed for previously. Pleasingly, post year end a contract for a combined solution has been secured with a key customer in the transportation market ahead of management expectations.

Developing product range for strategic growth markets

Historically the Group's Power business was concentrated in oil and gas and aerospace. The strategy over recent years has been to target new markets such as robotics and medical to provide resilience. The trading conditions in the traditional markets caused by the pandemic validated the strategy where medical market demand was very strong, providing some revenue mitigation against those adversely impacted markets. In this period, the commercialisation of the new modular power products and solutions was delayed due to customers being cautious in making investments in new technology given the pandemic and supply chain uncertainties.

However, new design in projects and development programmes are restarting as we commence the new financial year, giving the Board confidence that the mid-term prospects and demand for these new products will be very strong.

The Group has developed its portfolio of semi standard antenna products providing stability to complement the traditional bespoke "one off" projects. The radio team is adding complementary communications and training products to the Persistent Systems radio solution which the Group distributes. The team has made good progress in implementing this strategy which has delivered a solid performance across both radios and antennas in the period. The strategy going forward into financial year 2021/22 is to target multi-year programmes for the Group's semi standard antenna solutions, together with training and support contracts for the Group's radio products. These income streams provide annuity revenue, whilst seeking additional sensor solutions from third parties to complement the datalinks.

The strength of the Group

Cross Group collaboration has been a key strategic focus to ensure the business maximises the commercial value of its extensive customer relationships. During the year, the Group wide "Senior Leadership team" was formalised in conjunction with the implementation of a Company Share Option Plan (CSOP) to align the incentives of those individuals with Group performance. The benefits of this are already starting to be seen with a step change in the cross Group engagement and collaboration.

The acquisitions of Active and Willow provide additional breadth and depth to the Group's product and technology offering. In addition, the enlarged Group's active customer base now exceeds 2000, presenting significant opportunities to sell more of the broadened product range to the enlarged customer base.

Managing and mitigating risk

The business risks have been considered and, where practical, mitigated. However, the macroeconomic and geopolitical risks including COVID-19, electronic component shortages, uncertainty in international trading relationships, and the associated impact on foreign exchange, means it is difficult to predict supply and demand and therefore mitigate fully.

As a result of the macro environment in the electronics industry, lead times have extended to unprecedented lengths of over 40 weeks for many critical components, such as semiconductors, computer processors, PCBs, some embedded processing modules, and battery cells. The Group is also seeing and managing fluctuations in freight costs and availability.

The strength of the balance sheet together with smart purchasing actions is enabling the business to manage these issues in the current financial year. Stocking orders were placed with suppliers in the first half of 2020 on some long lead time products before customers committed to additional order schedules. This action should help to mitigate some of the effects of the extending lead times seen across the electronics industry.

Despite buffer stock schedules and orders placed with suppliers, in Q4, customers recognised the electronics industry supply chain issues and several customers pulled forward demand which benefitted the FY20/21 out turn. However, these pull-ins, in conjunction with extended lead times due to the Suez Canal blockage and low air freight capacity, meant it reduced the open orderbook and depleted the Group's buffer stocks as it enters FY21/22. The Group stock holding was lower than expected at £10.6m (2020: £9.7m). This equates to approximately 2.5 months' stock.

Opportunity out of adversity

Order intake since the year end has been strong, with customers placing order schedules as post COVID confidence returns and to try to mitigate the supply chain issues. This provides increased confidence over customer demand albeit, the extended lead times and supply chain challenges, might limit the opportunity to accelerate deliveries and growth in the year ahead.

If the supply chain issues continue to deteriorate, the Group could face disruption and delays to programmes and projects in the middle to latter part of the financial year. However, in 2016 the VAS division extended its portfolio of services by recruiting a sourcing and obsolescence team. These services are now understandably in high demand and are proving to be of real value to the Group itself and to the Group's customer base in working to source product and mitigate the shortages.

The Group's diversity in suppliers, technology, markets, and latterly territory is a key strength. It provides resilience and some mitigation against the global headwinds and has enabled Solid State to deliver a record result. Looking forward to the current year, this diversity combined with the strength of the Group's balance sheet means the Group is well placed to weather the impact of any short-term supply chain issues and take advantage of new opportunities.

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, the Group analyses 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** The Group recommenced its acquisition strategy completing two transactions just ahead of the year end. In managing these deals the following process was adopted: • 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: o key customers and suppliers; and, o 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.	**Year on year change in likelihood:** Increased **Potential impact:** Low **Effect:** Integration of acquired business is not effective

<table>
<tr><th colspan="3">Principal risks and uncertainties</th></tr>
<tr><th colspan="3">Legislative environment and compliance – (Strategic risk)</th></tr>
<tr>
<td>Business risk
• Restrictions on business because of regulatory lock down due to a pandemic.
• Brexit and the USA / China trade disputes have caused an increased level of complexity in the legislative and trading environment in which the Group operates
• Overseas competitors are favoured in their domestic markets
• Failure to comply with applicable legislation, to include but not limited to:
 o Export Control and International Traffic in Arms (ITAR);
 o Bribery Act;
 o General Data protection regulation (GDPR); and,
 o Employment legislation and company legislation.</td>
<td>Mitigation and Strategy
• Solid State PLC has continued to trade while being compliant with the government's COVID-19 restrictions. The business operates across seven independent operational sites, which have remained operational and adhered to best practice social distancing and hygiene protocols. Measures are in place to ensure that the risk of cross-contamination within the business is minimised. The Group has invested in technology and equipment to ensure that staff who can work from home do so when appropriate.
• Post Brexit international trading has become more challenging with a significant increase in the administrative burden. The Group's exposure is lower than some other companies due to modest levels of EU trade. However, it has increased the challenge to delivering on the strategy of growing international sales. The Group is exploring establishing operations within the mainland EU to support the Group's international growth ambitions. The Board believes that the Group's size and diversified structure gives it resilience, and places it in a far stronger position than smaller competitors within the customers' supply chains.
• Regular reporting of export / ITAR compliance, and detailed internal control processes and procedures.
• Continuing education of the Group's 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.</td>
<td>Year on year change in likelihood:
No change
Potential impact:
High
Effect:
Trading may be disrupted / restricted, reduced sales volumes and profitability.</td>
</tr>
</table>

<table>
<tr><th colspan="3">Principal risks and uncertainties</th></tr>
<tr><td colspan="3">Supply chain interruption – (Operational risk)</td></tr>
<tr><td>Business risk
The very significant electronics supply chain challenges caused by the perfect storm of factors:
Surge in technology demand (EV, Edge devices, 5G, work from home)
Natural disasters (COVID-19 disruption, Tohoko earthquake, Texas snowstorms, Renesas chip factory fire and Suez Canal blockage)
Political issues (Huawei stocking up chips against US boycott, US:China relations and North Korea Taiwan strait instability).
Resulting in demand outstripping supply resulting in long lead times and Industry wide component shortages.
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.
Place scheduled orders and hold buffer stock to minimise the effects of extended lead times.
The mitigation and strategy has meant that through FY2020/21 and Q1 FY21/22 the Group has been able to manage the disruption and extended lead times with limited impact. However if the disruption continues or worsens the Group may see delays in project / programmes in the middle to later part of the year.</td><td>Year on year change in likelihood:
Increase
Potential impact:
High
Effect:
Quality issues, costs, sales volumes and profitability</td></tr>
<tr><td colspan="3">Retention of key employees – (Operational risk)</td></tr>
<tr><td>Business risk
Loss of key people and critical skills.
Insufficient skilled employees.
Poor engagement and morale.</td><td>Mitigation and Strategy
COVID-19 meant some customers and market sectors faced significant challenges resulting in reduced demand. During the first half of 2020/21, the Group utilised the Government Furlough scheme to help ensure the Group retain its skilled work force while demand recovered.
Retention & development of talent is critical to the long term success of the Group.
Low staff turnover, many employees having been with the Group for more than ten years.
The Group encourages and invests in CPD 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 the Group is fairly rewarding its employees.</td><td>Year on year change in likelihood:
Increased
Potential impact:
Medium
Effect:
Quality and or service level issues rise, and costs increased</td></tr>
</table>

Principal risks and uncertainties		
Failure of or malicious damage to IT systems – (Operational risk)		
Business risk • The inability to access business critical data. • The inability to efficiently run the operating companies.	Mitigation and Strategy • The existing systems are reliable and functional the Group is looking to upgrade and standardise systems where appropriate which will offer improved functionality in due course supporting the development of the business. • Certified as meeting the "Cyber Essentials" standards and in the process of getting "Cyber Essentials Plus" or "IASME" where appropriate. • Where businesses are acquired, the Group implement the "Cyber Essentials" standards as a key priority if they do not already meet this standard and "Cyber Essentials Plus / IASME" in due course. • 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.	**Year on year change in likelihood:** no change **Potential impact:** Medium **Effect:** Costs, sales, profitability and reputational damage
Natural disasters – (Operational risk)		
Business risk • Natural disaster or medical epidemic / pandemic disrupts production capability, supply of materials or customer demand.	Mitigation and Strategy • The COVID-19 pandemic has impacted the world, resulting in restrictions on travel and social and business activities. 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. This ensures that the risk of cross-contamination within the business is minimised. Furthermore, as noted above home working has been adopted wherever possible and efficient. • The Group has a documented disaster recovery plan for each site. In addition, the Group has business interruption insurance, which subject to the terms of the cover purchased providing some insurance mitigation.	**Year on year change in likelihood:** No change **Potential impact:** Low **Effect:** Trading may be disrupted / restricted, reduced sales volumes and profitability
Competition risk – (Commercial risk)		
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.	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.	**Year on year change in likelihood:** no change **Potential impact:** High **Effect:** Loss of market share, reduced sales volumes and profitability

Principal risks and uncertainties		
Product / Technology change – (Commercial risk)		
Business risk • Failure to maintain the Group's leading technical capabilities and knowledge which allows us to develop electronic solutions in partnership with the Group's customers. • Failure to manufacture solutions that meet the agreed specification. • Failure of key distribution franchises to innovate and introduce new products.	Mitigation and Strategy • Continued investment in the technical training and development of sales, engineering and operations staff, building their capabilities. • Investment in joint R&D programmes with partners to ensure the Group is at the forefront of technical electronic solutions. • Maintain rigorous quality and engineering control processes to ensure that the Group's 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.	**Year on year change in likelihood:** No change **Potential impact:** Medium **Effect:** Sales volumes and profitability
Forecasting and financial liquidity – (Financial risk)		
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.	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. • Extensive disclosure has been provided in respect of going concern and longer term viability (see page 37, 38 and 75) • 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 2021, the Group had an revolving credit facility of £7.5m (£3.75m undrawn) and the Group had net cash (excluding deferred contingent consideration and lease obligations) of £3.16m (2020: £3.18m). • The Group has a defined delegation of authority matrix and contract risk register.	**Year on year change in likelihood:** Increased **Potential impact:** High **Effect:** Going concern / Financial loss and reputational damage

Chief Financial Officer's 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 together with the associated tax impact.

Revenues

Group revenues from continuing operations of £66.3m were comparable with the prior year (2020: £67.4m) despite the adverse impact of COVID-19. The results included one month of revenue from the two acquisitions totalling £1.3m and the benefit of customer demand being pulled forward as a result of the well publicised supply chain challenges. Like-for-like revenue adjusted to exclude the impact of the two acquisitions was down 3.6% at £65.0m (2020: £67.4m).

As reported above, the UK electronics distribution and semiconductor components industry faced a declining market of circa 12% over the period (source ECSN). Despite this, the VAS division significantly outperformed the market and as a whole performed well, delivering broadly comparable revenue at £39.0m with like-for-like revenues marginally down on the prior year at £38.1m (2020: £39.2m).

The Manufacturing division reported revenue of £27.3m, with like-for-like revenue of £26.9m (2020: £28.2m) down 4.6%, however, improved operating margins mitigate the profit impact. The resilient performance in FY20/21 against a very challenging macro-economic backdrop reflects the successful scaling of resources to deliver the production demand. This has improved the efficiency of the Group which combined with stable margins and cost mitigation has delivered a record profit before tax in spite of the small reduction in revenues.

Gross profit

Reported gross margins of £19.9m (2020: £20.8m) are down £0.9m. There is an adverse impact of acquisition accounting charges in the year and the benefit of the sale of some legacy fully written down manufacturing inventory in the prior year which have been excluded in the adjusted underlying gross margins (see note 32).

Underlying gross profit for the year is down £0.6m to £20.0m (2020: £20.6m), reflecting a slight margin decrease to 30.2% (2020: 30.6%) driven by a slightly lower margin within the VAS division at 24.2% (2020: 24.8%) due to a change in the mix of component sales albeit individual component margins are being maintained. The acquisition of Willow is expected to be margin accretive to the VAS division as they have a higher proportion of own brand manufactured components. Pleasingly, year on year the manufacturing margins continued to be strong at 38.7% (2020: 38.7%).

VAS contributed gross margin of £9.4m (2020: £9.7m), Manufacturing division contributed £10.6m (2020: £10.9m) both down 3% on the prior year, which given the tough trading environment is a resilient result.

Sales, general and administration expenses

Sales, general and administration (SG&A) expenses of £15.6m (2020: £16.7m) decreased by £1.1m.

The decrease is primarily due to savings made primarily because of the COVID-19 restrictions on business activities such as travel, marketing, and events. In addition, because of the reduced customer demand when COVID-19 hit we utilised the Coronavirus Job Retention Scheme (CJRS) in the first half of the year where we received £0.3m of grant income which enabled the Group to retain its skilled work force while it evaluated how demand would stabilise and then recover, minimising redundancies.

Furthermore, within the SG&A is Depreciation & Amortisation (D&A) and Share Based Payment (SBP) charges of £2.1m (2020: £2.2m) and £0.2m (2020: £0.4m) respectively.

Adjusted SG&A expenses from continuing operations decreased by £1.1m to £14.5m (2020: £15.8m) reflecting the exclusion of £0.3m of one-off deal related expenses compared to the reported variance above.

Operating profit

Adjusted operating margins increased to 8.3% (2020: 7.2%) with adjusted operating profit from continuing operations up 14.6% to £5.5m (2020: £4.8m) reflecting the overhead savings while limiting the reduction in margins. Reported operating profit was up 4.9% to £4.3m (2020: £4.1m). The adjustments to operating profit are set out in further detail in note 32.

Operating profit – cont'

We have recognised £0.01m (2020: £0.02m) 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 14.9% to £5.4m (2020: £4.7m). Reported profit before tax was up 5.0% to £4.2m (2020: £4.0m). This is reported after a share based payments charge of £0.2m (2020: £0.4m), amortisation of acquisition intangibles of £0.7m (2020: £0.5m) and exceptional items of £0.3m (2020: £0.2m credit).

Profit after tax

The Group benefits from the R&D tax credit scheme which reduces the underlying effective tax rate for the year to 12% (2020: 15%) from the standard rate of 19%. As the Group grows, and profitability increases the benefit of R&D tax credits diminishes and it will also no longer be eligible for the SME scheme.

Adjusted profit after tax was up 17.5% to £4.7m (2020: £4.0m). Reported profit after tax was up 17.6% to £4.0m (2020: £3.4m), as we benefitted from an additional £0.2m of R&D tax credits which are not expected to be recurring.

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2021 is up 18.1% at 54.7p (2020: 46.3p). Reported fully diluted earnings per share from continuing operations is up 15.7% at 45.7p (2020: 39.5p).

Cash flow from operations

Cash inflow from operations for the year of £6.9m is down from £8.0m in 2020 primarily due to a reduction in the working capital inflow to £0.4m (2020: £1.4m). This delivers an underlying operating cash conversion percentage of 127% (2020: 165%) and a reported operating cash conversion percentage of 162% (2020: 197%).

There was a working capital cash inflow in the period of £0.4m due to a decrease in receivables and inventories of £1.9m each offset in part by a decrease in payables of £3.4m. The reduction in inventories reflects the pull forward in demand and delays we have faced in receiving scheduled orders despite placing extended order cover with our suppliers.

Investing activities

During the year, the Group invested £0.4m (2020: £0.6m) in property plant and equipment, and £0.3m (2020: £0.3m) in software and research and development intangibles.

The capital expenditure reflects significant investment in IT hardware across the Group of £0.3m. This aside, the investment has been minimised due to COVID-19 albeit the capital expenditure recommenced towards the end of the year which is reflected in year end capital commitments of £0.4m.

Financing activities

The Group has entered or extended leases during the year which has resulted in the recognition of £1.2m 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 £0.6m.

The financing activities reflect the final repayment of the last £0.3m of the term loan which was repaid in May 2020 and the drawdown of £3.75m of the revolving credit facility (RCF) to fund the acquisition of Willow Technologies Group and Active Silicon Group at the end of the year. Solid State continues to have a strong relationship with Lloyds Bank and, having repaid the term loan early, Lloyds has extended the term of the £7.5m (2020: £7.5m) revolving credit facility which is now committed until the 30 November 2022. At the 31 March 2021 £3.75m of the facility was drawn.

Pleasingly, as a result of the strong cash generation on 31 March 2021 the Group had net cash (excluding deferred and contingent considerations and IFRS16 lease obligations) of £3.2m (2020: £3.2m) which, in conjunction with the unutilised bank facilities, provides significant funding headroom to pay the deferred consideration.

Financing activities – cont'

The Group has deferred contingent consideration liabilities where at the 31 March 2021 the fair value has been estimated to be £7.5m, of which £2.6m was paid in Q1 2021/22. Subject to the acquired businesses meeting the earn out performance targets it is expected that approximately £4.25m will be payable in Q1 2022/23 and the remainder payable in Q1 2023/24.

The Group paid out £1.2m (2020: £1.2m) in respect of dividends and purchase of own shares.

Statement of financial position

During the year, the Group has continued to strengthen its balance sheet position. The Group's net assets have increased to £25.5m (2020: £22.5m) reflecting the retained profits in the year. Furthermore, excluding deferred and contingent considerations and IFRS16 lease obligations the Group has maintained a net cash position with £3.2m at the year end (2020: £3.2m) having paid £4.1m (net of cash acquired) initial consideration for the acquisitions of the Active Silicon and Willow Technologies Groups.

Primarily as a result of the acquisitions of Active Silicon and Willow Technologies, the Group has seen a significant increase in non-current assets totalling £10.4m. Property plant and equipment net book value has increased by £0.7m which includes the Group's first freehold building in Elkhart Indiana USA. Intangible assets net book value has increased £8.3m which primarily reflects the recognition of acquisition intangibles at fair value of £5.4m and goodwill of £3.6m.

Dividend

The Board is proposing a final dividend of 10.75p (2020: 7.25p), giving a full year dividend of 16.0p (2020: 12.5p) as set out in the Chairman's statement on page 5.

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 16 to 18. Non-financial KPIs are not disclosed other than in the environmental CO2e reporting on page 20.

Outlook

During the financial year customer order schedules shortened significantly, resulting in a reduction in the legacy Group like-for-like open orderbook of £33.7m (2020: £39.9m). Positively, post year end the Group has seen record order intake which has increased the enlarged Group open order book at the 31 May 2021 to £51.0m which is up 23% from £41.3m on 31 March 2021. This provides confidence over customer demand for the coming year.

As Solid State looks forward to FY21/22, the well-publicised supply chain issues within the electronics and particularly semiconductor sector mean the Group continues to face inconsistencies in the traditional supply and order fulfilment balance which may result in some projects being delayed. Solid State has faced these challenges before, and the strength of the Group's balance sheet means the Group is better placed to manage the working capital demands than some of its smaller competitors, which is presenting new customer opportunities.

In delivering on Solid State's acquisition strategy the Group completed two important strategic bolt-on acquisitions towards the end of the year which are performing well and are enabling the Group to target new customer opportunities in growth markets. The Group continues to evaluate future acquisition opportunities albeit these are at an early stage. These opportunities are primarily focused on deepening the product offering in the business units of the Group and further expansion of its international footprint. Progress on these potentially international M&A opportunities will be limited while travel restrictions remain. The Group will continue to look to be opportunistic should a strategically aligned acquisition target arise as we exit the COVID-19 pandemic.

The continued margin improvement, in conjunction with technology developments both from internal R&D and acquisitions across all key sectors of components, computing, power and communications place the Group in a strong position. Having completed the acquisition of Active Silicon, the Manufacturing division is in a strong competitive position to deliver profitable growth in the mid-term. The introduction of more own brand components from the acquisition of Willow Technologies presents exciting opportunities for development in the VAS division.

STRATEGIC REPORT (continued)

Outlook – cont'

The Group's capital expenditure programme saw investment in state-of-the-art assembly equipment in Value Added Supplies and the on-going installation of the new EMC test and measurement capability in Manufacturing in the second half. In FY21/22 the Group intends to invest in upgrading the production capabilities primarily semi-automation of some of the battery production and upgrading some production equipment inherited from the Willow Technologies acquisition to improve productivity.

Having appointed a new Chairman and Senior Independent Director and completed two acquisitions which have significantly enhanced the scale of the Group, during FY21/22 the Board will update and refocus Solid State's five-year plan for the period 2022 to 2027.

The Group remains focused on securing quality orders as it strives to achieve the goal set in 2017 to double adjusted EPS from 30p to 60p by FY21/22. The Board is confident that the achievements of the last year and the post period end growth in open orders demonstrate that Solid State is making good progress towards achieving its goals and that the mid-term prospects for the Group remain very positive and there are several significant opportunities which the Group is currently bidding on which could provide upsides for FY21/22.

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 19 has been approved by the Board of Directors and signed on its behalf by:

G.S. Marsh

G S Marsh
Chief Executive Officer
13 July 2021

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

Environmental

The Group's activities can be summarised as largely supply, 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 most significant impact on the environment, over which the Group has some control, is the sourcing of products and materials (primarily from Asia and USA) and the supply of finished product to customers (Scope 3 carbon impact). To date the Group has not been able to capture and assess the level of Scope 3 Carbon it has consumed to meet additional voluntary disclosure requirements, however the Group does capture its scope 1 and 2 carbon consumption data.

As part of the current year activities, we have started to evaluate "what and how" we might approach capturing the data from our scope 3 emissions. This is an important step in continuing to deliver on reducing the Group's carbon footprint and part of integrating the Group's ESG strategy within the 2022-2027 Group strategy review which is underway.

The most significant component of the Group's scope 3 emissions is expected to be the impact of third-party carriers the Group utilises to receive and deliver their products to customers. The Group's ability to control the environmental impact of its logistics partners is not absolute. However, we can and do look to use preferred suppliers who are positively engaged with a carbon reduction commitment to align with our ambitions. The first potential step change that we are exploring is to move where possible our inbound freight to sea freight rather than air freight given the significant environmental benefit of sea freight vs air freight.

In terms of the Scope 1 and 2 emissions, the operations consume normal business energy sources such as heating and power, which the Group aims to minimise by focusing on minimising energy consumption through the efficient operating practices and 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.

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.

The Group has a fleet of company cars which have been included in the Group's carbon reporting. The Group is actively moving the company owned cars to be low CO_2, Hybrid or Electric vehicles as they are replaced. All Group facilities participate in recycling paper, plastic and cardboard. Local management teams are committed to good environmental practices and are responsible for implementing appropriate programmes to meet their local obligations.

As a company quoted on AIM the Group is required to report its scope 1 and scope 2 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.

This is year 2 of collecting the data which can be compared to the 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 2020 conversion factors (2020: 2019 conversion factors) to obtain a figure for the CO_2 consumption of the Group compared to the baseline reported last year.

In 2019/20 our baseline was 434 tonnes of CO_2e which equates to 1,843,758 kwh. We have seen a significant reduction in 2020/21 as a result of the reduction in travel and activity as a result of the COVID-19 restrictions to 226 tonnes of CO_2e which equates to 1,015,162 kwh, which is positive however we do not expect to sustain this as returning to a new normal will reintroduce some of the travel and extra CO_2e from our facilities with increased office activities.

CORPORATE AND SOCIAL RESPONSIBILITY REPORT (continued)

Environmental – cont'

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 in the current year, we also saw a significant reduction to 11.3 Tonnes per £1m of value added. The reduction seen in 2021 is positive however we anticipate a return towards the levels seen in 2020 in 2022 albeit we expect to see a reduction from the actions we continue to take to reduce our carbon consumption.

Code of business conduct, ethics, and anti-corruption

The Group's 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 the Group.

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 the Group works 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 Anti-corruption & Bribery Policy, and a copy of the policy is readily available to all employees.

Bribery Act

The Group implements and enforces effective systems to uphold a zero tolerance approach to bribery and corruption. To ensure it only works with third parties whose standards are consistent with the Group's, 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 Group's Anti-corruption & Bribery Policy.

Commercial business practices

The Group is 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;

The semiconductor shortages which the industry is facing has meant we are 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 by making the supply chain as efficient as possible. We are actively looking to improve the efficiency of the supply chain and stock utilisation to meet customer demand wherever possible.

In our relationships with employees and other stakeholders

The Group ensures employment practices throughout the Group are fair and in full compliance with employment legislation. The team are encouraged to volunteer and support community activities and the Group is supportive of initiatives and projects which enable our staff to make a positive contribution in their communities.

During the current year we have been able to provide support to a local academic establishment through providing IT equipment to the school to help to alleviate "digital poverty" which has become a real issue during the COVID-19 pandemic where families were forced to embrace home and on-line schooling.

Furthermore, the Group continue to support employees participating in voluntary mentoring and business advisory services via professional bodies and educational institutions which provide fantastic development opportunities for all.

How we invest in our people

The Group's success depends on its people. The Group recognises the important role its employees play, and that effective teamwork is critical to achieving its corporate goals.

The Group is committed to making Solid State a "great place to work" where the teams' actions and behaviours demonstrate this commitment each and every day. This is aimed at providing an environment of teamwork and collaborative respect, where the staff are all valued for their contribution, and everyone is proud to be part of "the Solid State team".

The Group maintains 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 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.

CORPORATE AND SOCIAL RESPONSIBILITY REPORT (continued)

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).

Confidentiality

The Group's policies 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 the Group conducts work for customers including government agencies where specific confidentiality requirements exist such as The Official Secrets Act, process and procedures are in place to ensure Group complies with these requirements.

G S Marsh
Chief Executive Officer
13 July 2021

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 Group and company adopts the ten principles of the Code in a manner that is considered appropriate for the 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 2021, 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 its size and structure.

How the corporate governance principles are adopted at Solid State PLC

The Board considers that throughout 2020/21, 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 6 to 19.
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 27 to 28 and page 35 of this report and pages 21 to 23 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 its business activities on all key stakeholder groups.	See further reporting on the stakeholder engagement provided on page 27 to 28 of this report and pages 21 to 23 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 principal and emerging risks identified and the mitigation and the report on its risk management processes on pages 36 to 38 of this report and on pages 11 to 15 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 Non-Executive Chairman; Mr N Rogers, the Chief Executive Officer; Mr G S Marsh, three Executive Directors and two Non-Executive Directors.	See the Board and its sub committees' section in this report on page 32 to 35.
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 Rogers as Chairman and Mr P Magowan as Senior Independent Director.	See the Board section in this report on pages 32 to 35.
Principle 7: - "Evaluate board performance based on clear and relevant objectives, seeking continuous improvement"	Fully compliant	The Board has completed an internal evaluation of performance which is led by the 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 35.

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 32 to 35 and the corporate and social responsibility report on pages 21 to 23.
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 32 to 35 and the audit committee report on pages 39 to 43.
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 24 to 38, the corporate and social responsibility report on pages 20 to 23 and the Remuneration Committee report on pages 44 to 57.

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 2021 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 Group's bankers.

Stakeholder engagement

Stakeholder	Engagement method	Disclosure cross ref
Investors	The key investors identified are the shareholders and lenders. The major interests in the Group's shares are set out in page 36 of the corporate governance report. Key metrics for both the Group's bank and shareholders are the share price, adjusted profit before taxation, adjusted earnings per share, cash generation and net debt. Through the publication of half year and full year financial reports and the Group's engagement with shareholders and the bank it looks to provide insight where possible into the Group strategy and how the Group aims to create value for its shareholders by delivering strong and sustainable results that translate into earnings and cash. The Group seeks to promote an investor base that is interested in a long term holding in the company. Further disclosure of how management engage with the Group's Investors is set out in the corporate governance report.	Pages 24 – 38
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 the Group and the delivery of the strategy; maintaining and delivering on the high standards that the Group sets for itself. The Group has policies and procedures in place to look after the welfare of its employees. The Board is proud of the "Solid State family" culture which is friendly and supportive of all members of the team. Given the nature of the business, health and safety is taken extremely seriously and ensuring a best practice safe working environment is essential. Employee engagement is promoted from the top down, encouraging employees to share ideas and to help the Group deliver on its goal of continuous improvement. During the COVID-19 pandemic employees have been engaged to ensure that they share ideas on how the Group 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 the teams is a critical cornerstone of the Group's value. Therefore, the Group promotes, encourages, and offers training where it is considered beneficial to the employee and the company. Further disclosures are provided in the corporate and social responsibility report.	Pages 21 – 23

Stakeholder	Engagement method	Disclosure cross ref
Customers and Industrial Partners	The Group uses its teams knowledge and ability to work collaboratively with customers and industrial partners to provide a tailored component, product, or service to meet their specific requirements and add value. The Group always aims to design, manufacture, and supply products of the highest quality. This differentiates the Group's offering in terms of how the Group engages with its customers and the relationships it builds in providing a tailored solution. To meet these objectives the Group ensures that its teams have the knowledge and expertise to meet or exceed the expectations of its customers and industrial partners. During the year, the Group's customer engagements help to focus where the Group invests in R&D to enable the Group to deliver relevant and continuously evolving technical solutions. Further disclosures are provided in the corporate and social responsibility report.	Pages 21 – 23
Suppliers	The Group's extensive supply chain relationships with component manufacturers are critical to ensuring that the Group can meet the customers' technical requirements for their specific application. The Group's supplier relationships and partnerships are underpinned by the technical knowledge that its team has of the components which the Group distributes and designs into its manufactured solutions. As a result, the teams relationships with the Group's suppliers is a critical part of both the suppliers' and the Group's success. The Group regularly engage with the Group's suppliers to discuss performance, price and how to continue to improve the Group's supply chain relationships to deliver mutual benefit. While there are global shortages within the semiconductor electronics industry supply chain managing these relationships is critical, and the strength of engagement will help to ensure the Group manages the supply and demand in the times of shortage as effectively as possible. Key topics of engagement for the year were price and supply with the challenges that Brexit, COVID-19 and most significantly the global semiconductor material shortages are causing. Where possible the Group extended order schedules with suppliers early in 2020 even when customers were not providing the same scheduled visibility and plans were made with suppliers to look to minimise any supply chain disruption. Further disclosures are provided in the corporate and social responsibility report.	Pages 21 – 23

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 2021 the Board has seen significant commercial progress and have been able to upgrade the adjusted profit before tax expectations from £4.4m before guidance was withdrawn to £5.4m reported in this annual report. The annual financial budget for 2022 for the Group was approved in early March 2021, indicating a reasonable view that the results for the financial year would meet or exceed market expectation albeit there are risks associated with potential impact of electronics supply chain shortages. However, based on a solid start to the year with minimal adverse supply chain impacts to date the Board remained confident to continue to provide investor guidance for the year ahead which is reflected in the notes published by the analyst and shared on the Group's website.	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 took over as Chairman on a permanent basis from Mr P Haining who was appointed as interim Chairman following the retirement of Mr A B Frere. Furthermore, Mr P Magowan joined the Board on the 1 January 2021 as an Independent Non-Executive Director and took the role of Senior Independent Director and Chair of the Remuneration Committee.	Shareholders, employees
Acquire Active Silicon Group	Technology development within our manufacturing division is an integral part of continuing to deliver sustainable value for our stakeholders. One of the key areas where the Group was looking to complement its existing capabilities in Image capture, Image processing and custom base board design. The Board explored the risks and rewards of two strategic options: a) acquire a business which had the capabilities, IP and know how 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 various potential acquisition targets and evaluated a development appraisal put forward from the engineering team. The conclusion was that acquisition was the appropriate strategy given Active Silicon's capabilities, reputation and existing customer base enabling the Group to make a step change with lower risk compared to developing the capability in house.	Employees, Customers and commercial partners

Principal decision	Basis of the decision and conclusion	Primary Stakeholder
Acquire Willow Technology Group	Broadening the component product portfolio is a critical part of the Group's strategy to build scale and resilience within the Value Added Supplies division. The Board has evaluated several potential acquisitions opportunities and decided not to proceed. However, Willow Technologies Group (WTG) provided an opportunity to take a significant step forward in executing on the Supplies strategy. WTG is a highly regarded supplier of electro-mechanical (E-mech) products both in the UK and internationally where the Group's existing supplies business has very limited product offering. WTG offered an opportunity to further increase the customer base within the Value Added Supplies business. WTG has a portfolio of own brand products under the Durakool® and HermaSeal® ranges, with manufacturing in the USA, in addition to the established core E-mech product supplies business. This combined with its international sales channels in the USA and EU meant that this acquisition opportunity was clearly a good strategic fit enabling the enlarged Group to better service the enlarged customer base.	Employees, Customers and commercial partners
Banking facilities	The Group has a proactive and constructive relationship with its bankers, Lloyds Bank PLC. As part of the acquisition of Active Silicon and Willow Technologies, Lloyds have agreed to extend the term of the Group's £7.5m revolving credit facility to 30 November 2022 to maintain funding flexibility. The facility is subject to financial covenants which are assessed 6 monthly.	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 during the year, due to the restrictions on mobility and social distancing guidance issued by the government to reduce the risk of the virus spreading. During the year the Group established COVID safe protocols across all the Group's facilities and complied with government guidance and best practice. This meant the Group was able to continue to operate throughout the year with minimal disruption. The Group reported in detail the actions that were taken at the start of the Pandemic in the 31 March 2020 financial report. During the year demand stabilised and recovered from the initial drop. At the half year some small adjustments to the overhead base were made to align the resources with the stabilised demand. During the second half the Group recommenced its Capital investment and acquisition programmes to progress the Group's strategy. As the Group enters the financial year 2021/22 and exits lockdown the Group is working with its staff to ensure it maintains best practice COVID safe protocols while establishing a "new normal" way of working. The Group is aiming to retain the best practices arising from COVID-19 while returning to more face to face and on site working where it efficient, effective, and valuable.	All
Mitigation of component shortages	As the half year approached it became clear that component supply shortages were going to become a global issue in the semiconductor electronics sector. The board evaluated the options available to try to manage and mitigate the issues wherever possible. The Board concluded that the Group was well positioned to make strategic investments by placing scheduled orders. In many cases these were non-cancellable, non-refundable orders to secure inventories. Given the scale of the shortages which have developed over the course of the last nine months this has proved to be an invaluable decision. As the shortages continue into the latter part of the financial year 2021/22 the risk does have the potential to adversely impact performance. While it does not mitigate the risk fully it has significantly reduced the risk in the second half of the year ended 31 March 2021 and into the first half of 2021/22. The component sourcing team is currently a particularly valuable resource for the Group and its customers as product becomes difficult to source their expertise are helping to secure product for the Group's customers albeit in some cases at premium prices.	Employees, Customers and commercial partners

The Board

During 2020/21 the Group has completed refreshing the Board to take the business through to the next phase of its development.

Following the retirement of Mr A B Frere as Chairman on the 31 March 2020, Mr P Haining assumed the role of interim Chairman due to the recruitment process for the new Non-Executive Director and the appointment of a full time Chairman being hindered by COVID-19 distancing protocols. During 2020 The Board completed the recruitment process for a new Non-Executive director which resulted in Mr P Magowan joining the board on 1 January 2021 as senior independent director following Mr N F Rogers, stepping up to take the role of Chairman on a permanent basis on 18 November 2020.

The Board has acknowledged that two of its Non-Executive Directors are 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 of "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 60. 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, this 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 P Magowan 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.

Following the appointment of Mr P Magowan the members of the Committee are: Mr G March, Mr P Magowan; Mr N Rogers and, Mr P Haining.

Audit Committee

The Audit Committee consists of the Non-Executive Directors; Mr P Haining, Mr P Magowan 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 P Magowan, Mr N Rogers and Mr P Haining. The Committee meets at least twice a year under the Chairmanship of Mr P Magowan.

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 44 to 57.

CORPORATE GOVERNANCE REPORT (continued)

Attendance at meetings

	Board	Nominations Committee	Audit Committee	Remuneration Committee
Number of meetings in 2020/21	10	2	2	5
Attendance				
Executive				
Mr G Marsh	10	2	n/a	n/a
Mr J Macmichael	10	n/a	n/a	n/a
Mr M Richards	10	n/a	n/a	n/a
Mr P James	10	n/a	2	n/a
Non-executive				
Mr N Rogers	10	n/a	2	5
Mr P Haining	10	2	2	5
Mr P Magowan (appointed 1 Jan 2021)	3	n/a	-	2

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.

Following the appointment of Mr N Rogers as Chairman and Mr P Magowan as Non-Executive, the Board completed an internal Board performance evaluation led by the newly appointed Chairman.

The appraisal covered: composition; processes; behaviours; and activities.

The review was open, honest with very constructive conclusions. The process identified that the development of the Board was good, with no major issues, gaps or critical items which needed immediate action. The exercise helped focus the opportunities to continue to develop the board and the individuals on the Board which will further add to the Boards effectiveness going forward in developing and implementing the Group's strategy.

The current year has seen very positive 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' bonuses and salary increases were awarded to the Executive Board Members. Further details are provided in the remuneration report on pages 44 to 57.

Shareholder relations

The Board regards regular communications with shareholders as one of its key responsibilities. During 2020/21, 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, 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 Senior Independent Directors may be contacted through the Company Secretary.

Shareholder relations cont'

Interim and full year-end shareholder roadshows are held by the Executive Directors together with on-line investor meetings on the "Investor Meet Company" platform (www.investormeetcompany.com). Traditionally the Company arranges investor site visits typically twice a year which will restart once the COVID-19 restrictions allow. 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 the Group's 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	10.71%
Mrs B Marsh	7.60%
Seguro Nominees Limited	7.46%
Charles Stanley & Co	6.16%
BGF Investment Management Limited	5.88%
Canaccord Genuity Group Inc	4.56%
Mrs J Comben	4.27%
Mr G Comben	4.27%
Mr G Marsh	3.28%

**Significant shareholders that the board has been notified of as at 27 April 2021 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 Committee's views of areas of increased risk.

Audit and Accountability – cont'

The system of internal control comprises those controls established 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. 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. 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. 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 11 to 15.

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 39 to 43.

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 2021, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 March 2021, the Group had cash balances of £6.9m, a drawn term revolving credit facility (RCF) of £3.75m and £3.75m of undrawn (RCF) which totalled £7.5m.

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 of amendment. As a result, in evaluating a stressed model the Board have only included the RCF in the headroom to the extent it would be available within the covenants.

Going Concern – Cont'

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 pages 75 and 76 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 set out in the Going Concern assessment above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation 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 September 2022.

The Directors have determined that a two year period to 31 March 2023 is an appropriate period over which to assess its viability statement. This is based on the significant amount of change that can arise over two years in the electronic and optoelectronics market; the Group's business; and, in the macro-economic environment. This has been validated by the impact that electronic component shortages have had on the Group's business, the electronics industry across the World.

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 component shortages might have on future performance. The outputs from these reviews were then used to perform liquidity analysis on the strategic plan, the downside sensitivity reviews that were based on principal risks.

The impact of component shortages 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 component shortages is management's key focus at this time, the Directors consider the mid and longer term opportunity in the UK manufacturing and Value Added Supplies businesses will remain very strong.

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 the Group provides 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 semiconductor component shortages and the COVID-19 pandemic is overcome.

G.S. Marsh

G S Marsh
Chief Executive Officer
13 July 2021

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 two 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 normally visit each of the Group's major business units across the year to review and challenge the local management on their draft financial results however given the COVID-19 Pandemic this year this has been conducted through a combination of face-to-face meetings and remotely via MS Teams.

The Chairman reports his observations from these reviews 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 2020/21 were as follows:

AUDIT COMMITTEE REPORT (continued)

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 is appropriate, balanced and enables the users of the accounts to understand the underlying and on-going performance of the business.

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 component shortages and COVID-19. Based on this as disclosed on pages 37, 38, 75 and 76 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 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 Acquisition accounting.

Following review of reports from management and discussion with the CFO, which set out the basis of recognition of the fair value of acquisition intangibles and the assessment of the fair value of deferred contingent consideration the Committee concurred that the judgements within the acquisition accounting, and that the treatment was in accordance with IFRS3.

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 two areas of more significant judgment are provisions for credit defaults based on the expected loss rate in accordance with IFRS 9, and provisions for obsolete inventories. The Committee concurred that the provisioning policy had been applied consistently and the level of provisions remains appropriate.

Annual report

At the request of the Board the Committee considered whether the 2020/21 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.

Following the completion of last year's audit by RSM UK Audit LLP 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 2020/21 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.

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 due diligence 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.

Non-audit services

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

	31 March 21 £'000	31 March 20 £'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	123	75
Fees payable to company's auditor and its associates for other services:		
• Other assurance services	-	1
• Taxation services	-	-
• Services relating to corporate finance transactions	48	9
• Other non-audit services	3	18
	_______	_______
Total fees payable to the Group auditors	**174**	**103**
	_______	_______

The audit scope for the year ended 31 March 2021 relates to the audit of the Consolidated Group Accounts and that of the parent company. In addition to the Dormant non trading companies several 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. (see note 14)

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, 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. It has been identified that the capacity within financial resources needs to be reviewed post acquisitions.

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 11 to 15.

AUDIT COMMITTEE REPORT (continued)

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.

Pete Haining

P Haining FCA
Audit Committee Chairman
13 July 2021

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 2021. I succeeded Mr N Rogers as Chair of the Remuneration Committee in January 2021 when I joined the Board. As we announced previously Nigel took over the role of Chairman of the Board and therefore relinquished the role of Chairman of the Remuneration Committee.

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.

In this report I have set out the policy incorporating some minor updates from the previous policy, in order to continue 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 2021;
- 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 appropriate however it did need to be refined to ensure that it remained fit for purpose going forward. The refinements 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 Group Remuneration Policy.

Basic salary increases for the forthcoming year have been determined by reference to a peer Group of UK listed technology companies, an understanding of the general rate of salary inflation and a desire to ensure a competitive level of pay.

Accordingly, increases have been determined as follows:

- Group Chief Executive – 8.1%
- Group Chief Financial Officer – 13.8%
- Divisional Managing Directors – 3.1%

In addition to basic pay, the Committee 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:

- no bonus accrues until the company meets or exceeds expectation (after bonus cost);
- the cost of the scheme would not normally exceed one third of the excess profits; and,
- aggregate allocations from the pool (set at the discretion of the Committee at the end of each year) would not normally exceed 60% of aggregate basic salaries.

Business performance and resulting remuneration outcomes for the year ending 31 March 2021

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 2021 was strong across both divisions and the Group has delivered full-year earnings which are 23% 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 19 but some of the highlights are summarised below:

- Resilient performance against unprecedented macro-economic backdrop
- Further good progress on key strategic and performance targets
- Completion of two important strategic acquisitions and good progress in integrating those businesses into the Group
- Strong growth orders, profits, and earnings (Adj diluted EPS 2 year CAGR of 23.4%)
- Earnings and cash generation supporting significant increase in dividend to 16p (2 year CAGR of 13.1%)

Considering this performance, the Committee decided to allocate a discretionary annual bonus pool for the Executive Directors which in total was equivalent to 60% of the Executive Group's total basic salary. Subsequent payments to each director were then allocated on an individual basis. The level of bonus is towards the top of the long term limits set under the new scheme. This reflects the view of the Committee that the current year performance has indeed been exceptionally strong in challenging times. While there was no LTIP in place to vest for the financial years 2021 and 2022, the Remuneration Committee put in place a LTIP in the prior year with the first grant being made during the financial year. Further details of bonus and LTIP awards can be found on page 57 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.

During the year the 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, were implemented. The first award made to the senior leadership team following the ratification at the AGM. These plans 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. Awards under these plans are typically expected to be made annually following the AGM as the first award was this year.

Other key activities in the year ending 31 March 2021

During the year under review, the Committee held five 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 2021 and determined the bonuses payable;
- Determined salary increases for Executive Directors for the year ending 31 March 2022;
- Approved the LTIP Awards to be made in the year ending 31 March 2022 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 change of company cars to hybrid or electric cars;
- Awarded the first grant of 36,750 shares under the HMRC approved CSOP plan to senior staff;
- Awarded the first grant of 42,800 shares under the new LTIP plan to the executives;
- Implemented a deferred bonus scheme, in line with the Company' remuneration policy; and
- Updated the terms of reference of the Committee.

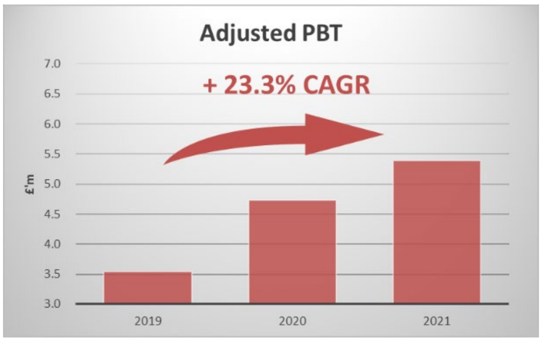
Further detail on the above can be found in the Annual Report on Remuneration. During 2021/22, the Committee will continue to review the reward arrangements appropriate to Executive Directors.

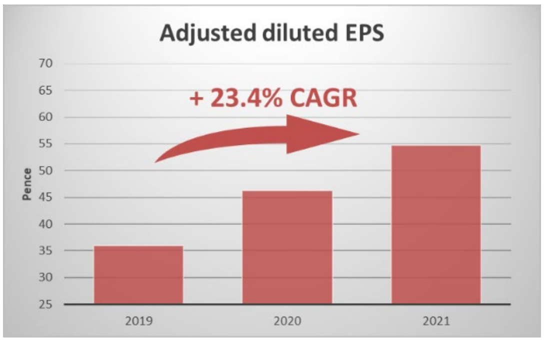
The Annual Report on Remuneration explains how our policy has been updated and implemented during the year and, along with this letter, will be subject to an advisory vote at our AGM (resolution 2). We hope that you will support this resolution.

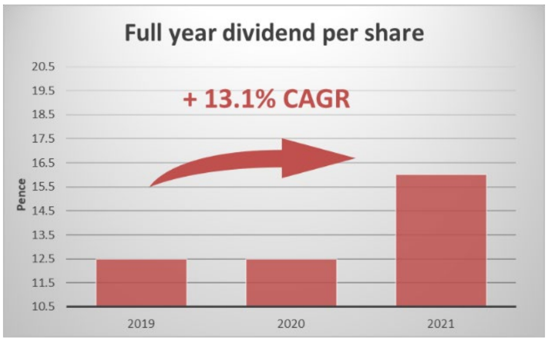
P Magowan
Remuneration Committee Chairman
13 July 2021

Single page remuneration summary

Corporate performance for the year



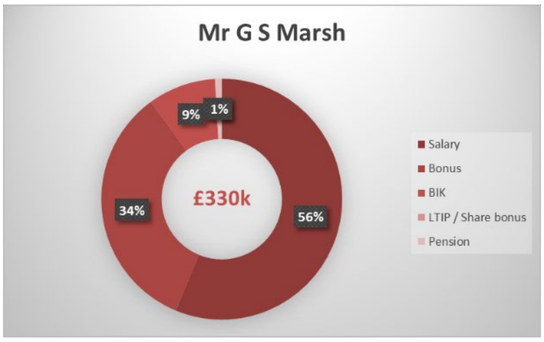


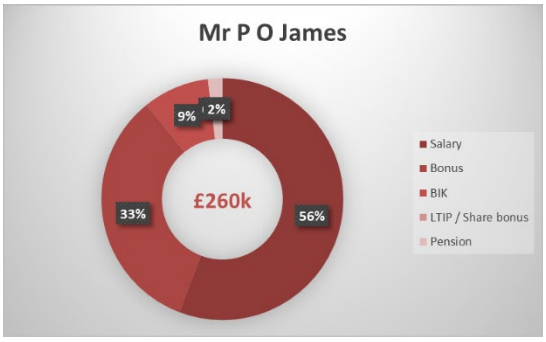


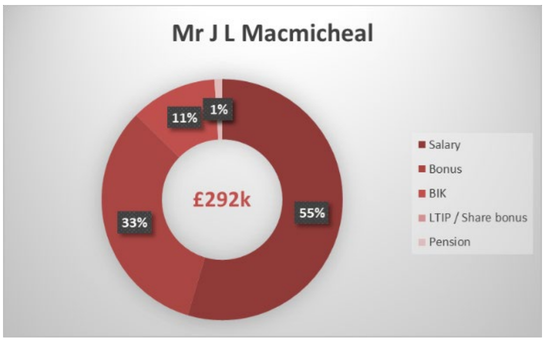
Remuneration principles

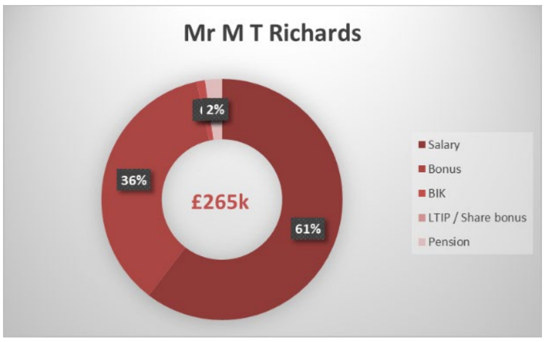
The key principles of our approach to executive remuneration are to attract, retain and motive high calibre executives with the skills, experience, and vision to deliver outstanding company performance, while recognising the need to be cost effective. The aim is to incentivise the executives to deliver 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 P Magowan (Chairman); Mr N Rogers and, Mr P Haining.

The Rem Co, which is required to meet at least twice a year, met 5 times during the year ended 31 March 2021. 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.

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. Salaries will be 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 an electric or hybrid company car or car allowance, life assurance, and family medical insurance. (note BIK are expected to drop as executives transition to electric or hybrid vehicles which attract lower BIK.)	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 60% 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.

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 FY20/21.

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 57 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.

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
N Rogers	Non-Executive Chairman	19/06/2019	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 Supplies MD	26/05/2010	12 months by either party
P Haining	Non-Executive Director	31/10/2017	September 2022
P Magowan	Non-Executive Director	17/11/2020	6 months by either party

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 2021, 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 and is a Director of Bradley Drive Management Company Ltd.

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 48 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 refined policy for 2021/22

In addition to reviewing and refining the policy to adopt last year to move towards 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 2020, as a result it was appropriate to complete an annual review of salaries and performance bonuses should be completed ahead of the end of financial year ended 31 March 2021. 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 2019 to 31 March 2020 Salary pa (£'000)	1 April 2020 to 31 March 2021 Salary pa (£'000)	From 1 April 2021 Salary pa (£'000)	1 April 2019 to 31 March 2020 Bonus (£'000)	1 April 2020 to 31 March 2021 **Bonus (£'000)**
G S Marsh	175	185	**200**	149	**111**
P O James	130	145	**165**	111	**87**
J L Macmichael	150	160	**165**	128	**96**
M T Richards	150	160	**165**	128	**96**

Directors' remuneration for the year ended 31 March 2021 is set out on page 56 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 2021

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).

The last grant was made in June 2017. 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.

Company Share Option Plan (CSOP)

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.

Long Term Incentive Plan (LTIP)

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 year ahead the Remuneration Committee intends to make a share option award in the range of 45% to 75% of salary which will be granted subsequent to the AGM when the shareholders will participate in an advisory vote at the forthcoming AGM (resolution 2).

The Remuneration Committee intend to make annual awards in accordance with the Policy principles following the AGM where they have had the results of the shareholders advisory vote.

REMUNERATION COMMITTEE REPORT (continued)

Remuneration for 31 March 2021

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

31 March 2021	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	185	-	-	111	31	3	**330**
P O James	145	-	-	87	23	5	**260**
J L Macmichael	160	-	-	96	34	3	**293**
M T Richards	160	-	-	96	3	6	**265**
N Rogers*	42	-	-	-	-	-	**42**
P Haining	12	13	-	-	-	1	**26**
P J Magowan**	7	-	-	-	-	-	**7**
Total	711	13	-	390	91	18	**1,223**

*Mr N Rogers was appointed on 17 November 2020 as Chairman and his annual fee of £62,000 has been charged pro-rata.

**Mr P Magowan was appointed on 1 January 2021 as such his annual fee of £30,000 has been charged pro-rata.

*** There was no LTIP or EMI shares granted which were due to vest in the period.

**** All Bonuses including the Director bonuses have been accrued however payment was deferred until the end of Q1 when the audited results had been signed off.

31 March 2020	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	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.

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

Of the current year share based payments charge £77k (2020: £244k) relates to the Directors.

In addition to the above consultancy fees, additional fees totalling £25k (2020: £42k) 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 (2020: £9k) was due to The Kings Mill Practice at 31 March 2021.

REMUNERATION COMMITTEE REPORT (continued)

The Directors' interest in the issued ordinary share capital of the Company at today's date, at 31 March 2021 and 31 March 2020 or date of appointment if later, were as follows:

	13 July 21	31 March 21	31 March 20
G S Marsh	280,906	280,906	280,849
M T Richards	10,375	10,375	7,475
P O James	3,204	3,204	684
J L Macmichael	122,430	122,430	122,373
N Rogers	4,400	4,400	4,400
P Haining	54,564	54,564	54,505
P J Magowan*	4,000	4,000	n/a

*appointed to the Board on 1 January 2021

Long Term Incentive Plan and Enterprise Management Incentive scheme ('EMI')

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

	Options held at 31.03.20	Granted	Exercised	Lapsed	Options held at 31.03.21	Exercise Price	Date of grant	Exercise period
G S Marsh	16,000	10,700	-	-	26,700	0.1p – 5p	28.10.20	April 2018 to April 2030
P O James	32,000	10,700	-	-	42,700	0.1p – 5p	28.10.20	April 2018 to April 2030
M T Richards	32,000	10,700	-	-	42,700	0.1p – 5p	28.10.20	April 2018 to April 2030
J L Macmichael	32,000	10,700	16,000	-	26,700	0.1p – 5p	28.10.20	April 2018 to April 2030

During the year to 31 March 2021, the Board Granted an award of 10,700 shares to each of the Executive Directors which subject to the performance criteria will be eligible to vest in 2023.

Mr J L Macmichael exercised 16,000 share options with an exercise price of 0.01p on the 2 July 2020 and sold an equivalent 16,000 shares which he already held on the 1 July 2020 at a price of £5.20 resulting in net proceeds and a gain of £83,200.

The market price of the shares on 31 March 2021 was £8.30 (2020: £3.84), with a quoted range during the year of £3.51 to £9.00 (2020: £2.45 to £6.75).

	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	0.01p	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 to 31 March 2020, 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 16,000 of these have been exercised post period end as noted above.

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.

P J Magowan
Remuneration Committee Chairman
13 July 2021

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group in respect of the year ended 31 March 2021.

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 supplier 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 18.

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:
N F Rogers
G S Marsh
P O James, BSc FCA
J L Macmichael
M T Richards
P Haining, FCA
P Magowan (appointed 1 January 2021)

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 44 to 57.

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 24 to 38.

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 24 to 38.

Board of Directors

The structure and operation of the Board of Directors is set out in the corporate governance report on pages 24 to 38 .

Principal risks and uncertainties

Details of the principal risks and uncertainties of the Group are set out in the strategic report on pages 11 to 15.

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 9 September 2020. This authority expires on 9 March 2022. During the year the company repurchased 15,000 shares with a nominal value of £750 at market value of £95k in to treasury shares which get used for the all employee share scheme.

Dividends

Details of the dividends are disclosed in note 9 and in the Chairman's Statement on page 5.

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 £1.5m (2020: £1.3m) in research and development. The Company continues to claim R&D tax credits where eligible.

Share options award

On 30 September 2020 and 28 October 2020, the company granted options to the Senior Leadership team and the Executive Directors under the Company's CSOP and LTIP respectively, further details are provided in the remuneration report on pages 44 to 57 and note 28.

Employee engagement

Further details are set out in the corporate governance report on pages 24 to 38.

Insurance

The Group has in place appropriate Directors' and Officers' indemnity insurance for all Group companies.

Business relationships

Further details are set out in the corporate governance report on pages 24 to 38.

Going Concern

Further details are set out in the corporate governance report on pages 24 to 38 .

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.

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.

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 Supplies 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.

Pete Magowan, (dob August 1967), Senior Independent Non-Executive Director (appointed Jan 2021).
Pete holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Manchester Institute of Science and Technology and a Diploma in Marketing from the University of Bristol Business School. Pete started his career in marketing with STMicroelectronics before becoming an early employee and main board member of ARM Holdings plc. Pete then went on to become a General Partner at Alta Berkeley Ventures and an Executive at Fidelity International. Pete is also a Non Executive director of Filtronics plc.

Peter Haining FCA, (dob: September 1956), 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.

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. The Directors have elected under company law to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected under company law to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position and performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the profit or loss of the Group 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 requirements of the Companies Act 2006. 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 Solid State plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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
13 July 2021

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 2021 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 significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- understanding how the cash flow forecasts for the going concern period had been prepared and the assumptions used by management;
- challenging the assumptions used by management in the forecasts;
- considering management's sensitivities against current trading performance and the resulting potential impact on headroom.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

Summary of our audit approach

Key audit matters	Group • Revenue recognition • Acquisition accounting • Inventory valuation and provisioning
	Parent Company • No key audit matters
Materiality	Group • Overall materiality: £375,000 (2020: £350,000) • Performance materiality: £281,000 (2020: £263,000)
	Parent Company • Overall materiality: £321,000 (2020: £348,000) • Performance materiality: £240,000 (2020: £261,000)
Scope	Our audit procedures covered 93% of revenue, 85% of total assets and 93% 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 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 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 notes 1 and 2 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.
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 IFRS 15. Our procedures included a combination of controls, data analytics and substantive testing. 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 assess 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. Transactions posted to nominal ledger codes outside of the normal revenue cycle were identified using a data analytic tool and investigated.

Group key audit matters

Acquisition accounting

Key audit matter description	**The risk – acquisition accounting** Refer to accounting policies and critical accounting judgements in notes 1 and 2 to the group financial statements and note 31. During the year the Group acquired the Willow Technologies Limited and Active Silicon Limited groups. There is a risk that the acquisition was not accounted for in accordance with IFRS 3 Business Combinations. There were a number of judgements and estimates involved in accounting for the acquisition, most notably in relation to fair value adjustments to the acquired balance sheet, valuation of contingent consideration and the recognition of acquisition intangible assets and goodwill.
How the matter was addressed in the audit	**Our response** We considered the completeness of assets and liabilities identified on acquisition. We reviewed and challenged management's judgements and estimates for the fair value of assets, liabilities and contingent liabilities acquired. This included reperforming the calculations and assessing the assumptions used in separating brand and customer lists. We applied sensitivities to the key assumptions and considered the impact on the valuation. We reviewed and challenged the assumptions used by management in determining the fair value of the variable consideration in line with the acquisition agreement, including considering post year-end and forecast trading performance of the acquired entities. Our procedures also considered management's rationalisation of the residual goodwill value. The disclosures included in the financial statements were compared against the requirements of IFRS 3.

Inventory valuation and provisioning

Key audit matter description	**The risk – inventory valuation and provisioning** Refer to accounting policies and critical accounting judgements in notes 1, 2 and 15. The group holds a combination of finished goods and goods for re-sale, together with work in progress. Finished goods and goods 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 across the group, including those acquired during the year, 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. 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

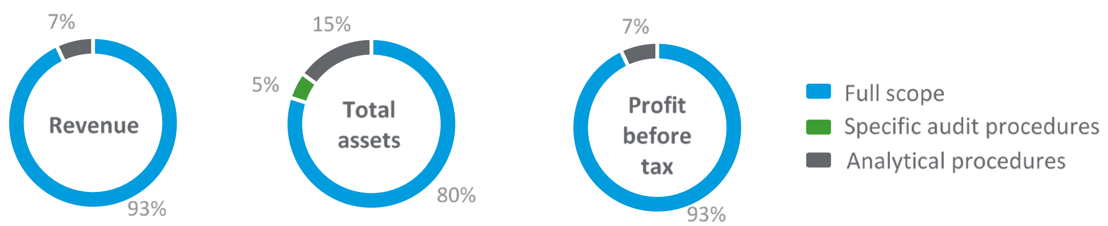
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the 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	£375,000 (2020: £350,000)	£321,000 (2020: £348,000)
Basis for determining overall materiality	7% 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	£281,000 (2020: £263,000)	£240,000 (2020: £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 10 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, specific audit procedures for 3 components and analytical procedures at group level for the remaining 3 components.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	4	93%	80%	93%
Specific audit procedures	3	-%	5%	-%
Total	**7**	**93%**	**85%**	**93%**

Analytical procedures at Group level were performed for the remaining 3 components.

Specific audit procedures were carried out in respect of components acquired during the period which did not have a significant impact on revenue or profit before tax for the Group in the period. Specific procedures were carried out in respect of inventory at the period end.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 Statement of Directors' Responsibilities set out on page 61, 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the audit engagement team included:
IFRS, FRS102 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from external tax advisors; Audit of the calculation of the research and development tax allowances to ensure suitably supported and in line with legislation.
Export Control and International Traffic in Arms (ITAR)	ISAs limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of management and where appropriate, those charged with governance.
Health and safety legislation	ISAs limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of management and where appropriate, those charged with governance.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	See key audit matters above.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

13 July 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2021

Continuing Operations	Notes	2021 £'000	2020 £'000
Revenue	3, 30	66,281	67,417
Cost of sales		(46,362)	(46,614)
Gross profit		19,919	20,803
Sales, general and administration expenses		(15,634)	(16,681)
Profit from operations	4	4,285	4,122
Finance expense	6	(85)	(120)
Profit before taxation		4,200	4,002
Tax expense	7	(247)	(588)
Adjusted profit after taxation		4,733	4,002
Adjustments to profit	32	(780)	(588)
Profit after taxation		3,953	3,414
Profit attributable to equity holders of the parent		3,953	3,414
Other comprehensive income		-	-
Total comprehensive income for the year		3,953	3,414

Earnings per share		2021	2020
Basic EPS from profit for the year	8	46.4p	40.1p
Diluted EPS from profit for the year	8	45.7p	39.5p

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

The notes on pages 75 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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 2020	427	3,626	(7)	5	18,521	(43)	22,529
Total comprehensive income for the year ended 31 March 2021	-	-	-	-	3,953	-	3,953
Foreign exchange	-	-	13	-	-	-	13
Share based payment credit	-	-	-	-	171	-	171
Transactions with owners in their capacity as owners							
Purchase of treasury shares	-	-	-	-	-	(95)	(95)
Transfer of treasury shares to AESP	-	-	-	-	(68)	68	-
Dividends	-	-	-	-	(1,069)	-	(1,069)
Shares issued	1	(1)	-	-	-	-	-
Balance at 31 March 2021	428	3,625	6	5	21,508	(70)	25,502

The notes on pages 75 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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
Share based payment credit	-	-	-	-	381	-	381
Foreign exchange	-	-	(2)	-	-	-	(2)
Rounding	(1)	-	-	-	1	-	-
Transactions with owners in their capacity as owners							
Transfer of treasury shares to AESP	-	-	-	-	(129)	129	-
Dividends	-	-	-	-	(1,153)	-	(1,153)
Shares issued	1	(1)	-	-	-	-	-
Balance at 31 March 2020	427	3,626	(7)	5	18,521	(43)	22,529

The notes on pages 75 to 120 form part of these financial statements.

Company Number: 00771335

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2021

		2021		2020	
	Notes	£'000	£'000	£'000	£'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	10	2,981		2,286	
Right of use lease assets	11	2,476		1,055	
Intangible assets	12	16,557		8,213	
TOTAL NON-CURRENT ASSETS			22,014		11,554
CURRENT ASSETS					
Inventories	15	10,629		9,662	
Trade and other receivables	16	14,222		13,859	
Deferred tax asset	23	188		86	
Cash and cash equivalents	22	6,914		3,517	
TOTAL CURRENT ASSETS			31,953		27,124
TOTAL ASSETS			53,967		38,678
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	11,890		10,597	
Contract liabilities	18	2,299		2,486	
Current borrowings	19,21,22	-		333	
Corporation tax liabilities		801		774	
Right of use lease liabilities	20	741		471	
TOTAL CURRENT LIABILITIES			15,731		14,661
NON CURRENT LIABILITIES					
Non current borrowings	19,21,22	3,750		-	
Right of use lease liabilities	20	1,802		677	
Provisions	24	741		304	
Deferred tax liability	23	1,491		507	
Deferred consideration on acquisitions	22	4,950		-	
TOTAL NON-CURRENT LIABILITIES			12,734		1,488
TOTAL LIABILITIES			28,465		16,149
NET ASSETS			25,502		22,529
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital	25		428		427
Share premium reserve	26		3,625		3,626
Capital redemption reserve	26		5		5
Foreign exchange reserve	26		6		(7)
Retained earnings	26		21,508		18,521
Shares held in treasury	26, 27		(70)		(43)
TOTAL EQUITY			25,502		22,529

The financial statements were approved by the Board of Directors and authorised for issue on 13 July 2021 and were signed on its behalf by:

G.S. Marsh

G S Marsh, *Director*

P O James

P O James, *Director*

The notes on pages 75 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2021

		2021		2020	
		£'000	£'000	£'000	£'000
OPERATING ACTIVITIES					
Profit before taxation			4,200		4,002
Adjustments for:					
Property Plant and equipment depreciation			614		646
Right of use asset depreciation			497		468
Amortisation			978		960
Impairment of right of use asset			-		84
Profit on disposal of property, plant and equipment			(22)		(31)
Share based payment expense			171		381
Finance costs			85		120
Profit from operations before changes in working capital and provisions			6,523		6,630
Decrease in inventories		1,852		1	
Decrease/(increase) in trade and other receivables		1,925		(444)	
(Decrease)/increase in trade and other payables		(3,363)		1,801	
(Decrease)/Increase in provisions		(7)		54	
			407		1,412
Cash generated from operations			6,930		8,042
Income taxes paid		(432)		(385)	
			(432)		(385)
Net cash inflow from operating activities			6,498		7,657
INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(356)		(579)	
Capitalised own costs and purchase of intangible assets		(302)		(281)	
Proceeds of sales from property, plant and equipment		77		103	
Payments for acquisition of subsidiaries net of cash acquired	31	(4,119)		-	
Net cash outflow from investing activities			(4,700)		(757)
FINANCING ACTIVITIES					
Repurchase of ordinary shares into treasury		(95)		-	
Borrowings drawn		3,750		-	
Borrowings repaid		(333)		(5,334)	
Principal payment obligations for right of use assets		(575)		(513)	
Interest paid		(37)		(80)	
Dividend paid to equity shareholders		(1,069)		(1,153)	
Net cash inflow/(outflow) from financing activities			1,641		(7,080)
Increase/(decrease) in cash and cash equivalents			3,439		(180)

The notes on pages 75 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Translational foreign exchange on opening cash	(42)	5
Net increase/(decrease) in cash and cash equivalents	3,439	(180)
Cash and cash equivalents at beginning of year	3,517	3,692
	_______	_______
Cash and cash equivalents at end of year	6,914	3,517
	_______	_______

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

	2021 £'000	2020 £'000
Cash available on demand	6,914	3,517
	_______	_______

The notes on pages 75 to 120 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

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.

These financial statements have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS").

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

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 March 2021, the Directors have considered the Group's cash flows, liquidity and business activities.

At 31 March 2021, the Group had net cash at banks of £3.2m and an undrawn revolving credit facility (RCF) of £3.75m.

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 on-going COVID-19 pandemic and the global electronic component shortages on the cashflows and liquidity of the Group over the next 12 month period.

Throughout the COVID-19 pandemic, and the United Kingdom's exit from the EU, customer demand has remained solid and in recent months we have seen customers extending order cover to help to manage the Global electronics supply chain issues. The most significant impact on the Group future performance is the uncertainty arising from the extending electronic component lead times. Management have taken all possible actions to minimise and mitigate the potential impact of these shortage.

If the shortages continue into the later part of the financial year 2021/22 as expected the risk does have the potential to adversely impact performance. While the actions do not mitigate the risk fully it certainly has significantly reduced the risk in the first half of 2021/22 and positions the Group to manage the period beyond as effectively as possible.

In preparing the going concern assessment the Directors considered the principal risks and uncertainties that the business faced which have been disclosed on pages 11 to 15. Three areas have been identified as potentially more significant: direct supply chain disruption limiting our ability to supply; indirect supply chain disruption delaying customer programmes and demand; and a COVID-19 outbreak causing operational disruption. The board concluded that the two areas of risk which remained the most uncertain were the direct and indirect supply chain disruption risks.

1. ACCOUNTING POLICIES (continued)

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

The bank facilities are subject to financial covenants 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 base case to 30 September 2022 which has been prepared based on an extension of the budget for FY21/22.

In the period since the balance sheet date Group like-for-like order intake was up circa 82.5% over the average for the prior period albeit the prior period was adversely impacted by the start of the pandemic. The current year order intake is exceptionally strong and reflects a significant improvement in order cover which does help to manage extending component lead times.

In preparing a severe downside scenario with no overhead mitigation, it assumes a shortfall in Group revenue of ~25% over 12 months period with limited cost mitigation. This results in EBITDA reducing by ~89% compared to the Board's base case expectations. Even with this level of Group EBITDA reductions, when combined with the mitigating actions 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.

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's cash generation has been strong and the completion payments on the acquisitions of £2.6m have been funded out of cash generation in the period.

The Directors have concluded that the potential impact of the electronic component shortages and 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.

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.

1. ACCOUNTING POLICIES (continued)

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 2020:

- Amendments to IFRS 3, 'Business combinations', – 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 IFRS 9, IAS 39 and IFRS 17: – Interest rate benchmark reform.
- Amendment to IFRS16 in relation to COVID-19 related rent concessions beyond 30 June 2021.
- Amendments to the Conceptual framework.

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

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

A number of new standards, amendments and interpretations to existing standards have been published that will be mandatory for the Group's accounting periods beginning on or after 1 April 2021 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 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.

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.

1. **ACCOUNTING POLICIES (continued)**

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.

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.

1. ACCOUNTING POLICIES (continued)

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.

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.

1. ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

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 or a straight line basis over 3 to 5 years with an appropriate residual value as considered most appropriate
- Computers- between 20% and 33.3% per annum on a straight-line basis
- Motor vehicles- 25% per annum on a reducing balance basis

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

Leases

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.

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

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

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

1. ACCOUNTING POLICIES (continued)

Leases (continued)

Solid State PLC 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 previous period.

On adoption of IFRS 16 the Group 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.

Right-of-use assets

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

Right of use lease liabilities

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

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

Inventories

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

Financial Instruments

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

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

Trade and other receivables

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

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

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

1. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Impairment of financial assets

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.

1. ACCOUNTING POLICIES (continued)

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
- Lease liabilities

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.

1. ACCOUNTING POLICIES (continued)

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.

Revenue

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

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

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

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

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

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

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

Normal payment terms apply to the bill and hold arrangements.

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

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

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

1. ACCOUNTING POLICIES (continued)

Segmental reporting

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

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

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

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

Government Grants

Income received from government grants is recognised as 'Other Income' within operating profit in the Statement of Comprehensive Income in the same period as the staff costs to which the income relates. Government grant income is only recognised once there is reasonable assurance both that the Group will comply with any conditions and that the grant will be received. The Group utilised the UK Government's Coronavirus Job Retention Scheme, 'furlough scheme', during the COVID-19 pandemic.

Pensions

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

Current and deferred taxation

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

Current and deferred taxation (continued)

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.

Acquisition accounting

In accounting for the acquisitions in accordance with IFRS 3 the key judgements relate to the fair value of the deferred contingent consideration and the fair value of the intangible assets. The deferred contingent consideration has been recognised at £4.95m and the fair value of the intangible assets recognised is £5.4m. The intangible assets have been recognised based on a Multi-Period Excess Earnings Method (MEEM) model. See note 12 and note 31 for further detailed disclosures.

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 £0.15m to £0.65m. 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 £250k; 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 £680k; if the lives were reduced by one year the charge would increase by £51k.

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 2021 there are current and deferred tax provisions totalling approximately £2.1m.

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 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:

	2021 £'000	2020 £'000
United Kingdom	46,301	48,596
Rest of Europe	7,349	6,885
Asia	3,342	4,416
North America	9,148	7,235
Rest of World	141	285
Total revenue	66,281	67,417

	2021 £'000	2020 £'000
Computing products	10,643	10,267
Communications products	5,678	5,292
Power products	10,978	12,611
Opto electronic and electronic components and modules	38,982	39,247
Total revenue	66,281	67,417

See further segmental disclosures in note 30.

4. PROFIT FROM OPERATIONS

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

	2021 £'000	2020 £'000
Continuing charges /(credits)		
Staff costs excluding share based payments (see note 5)	11,656	11,386
Share based payment expenses	171	381
Depreciation of property, plant and equipment	614	646
Depreciation of right of use asset	497	468
Impairment of right of use asset	-	84
Amortisation of intangible assets	978	960
Profit on disposal of property, plant and equipment	(26)	31
Auditors' remuneration:		
Audit fees	123	75
Other assurance fees	-	1
Non audit fees:		
Corporate finance services	48	9
Other advisory services	3	18
Research and development costs (includes relevant staff costs)	1,664	1,350
Foreign exchange expense/ (credit)	564	(277)
Stock write (backs)/downs	(5)	(111)
Acquisition of subsidiaries legal and due diligence *	194	-
Other Income from government grants (furlough scheme)	(297)	-

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 pages 44 to 57.

As set out in the audit committee report the UK trading subsidiaries (excepting Active Silicon Limited and Willow Technologies Limited) 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.

* Includes the £48k corporate finance fees from the Group auditors as disclosed and £155k from other professional services firms.

5. STAFF COSTS

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

	2021 £'000	2020 £'000
Wages and salaries	9,751	9,344
Social security costs	1,012	1,223
Other pension costs	893	819
Share based payment charges	171	381
Total staff costs	11,827	11,767

Wages and salaries include termination costs of £69k (2020: £47k).

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

	2021 Number	2020 Number
Selling and distribution	112	114
Manufacturing and assembly	103	104
Management and administration	30	38
	245	256

Key management in the prior year was considered to be Group Board Directors. Therefore, the key compensation is disclosed in the Remuneration Committee Report on pages 44 to 57 which includes Director's emoluments, interests, and services contracts.

In the current year a formalised senior management team has been formed and included with the Company Share Option Plan. This senior management team is the key management team for 2021. The total key management compensation including employers NI totals £2,981k (2020: £1,495k).

6. FINANCE EXPENSE

	2021 £'000	2020 £'000
Bank borrowings	37	80
Interest on lease liabilities	48	40
Total finance expense	85	120

7. TAX EXPENSE

	2021 £'000	2020 £'000
Analysis of continuing total tax expense		
Total tax charge from continuing operations	247	588
	_______	_______
	247	588
	______	______
Current tax expense		
UK corporation tax on profits for the year	610	616
Adjustment in respect of prior periods	(182)	22
	_______	_______
	428	638
Deferred tax credit	(181)	(50)
	______	______
Total tax charge	247	588
	______	______

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:

	2021 £'000	2020 £'000
Profit before tax	4,200	4,002
	_______	_______
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2019: 19%)	798	760
Effect of:		
Expenses not deductible for tax purposes	20	24
Difference between depreciation for the year and capital allowances	(3)	42
Tax relief on exercise of share options exercised	(11)	4
Enhanced relief on research and development expenditure	(366)	(338)
Overseas tax rate differences	3	10
Deferred tax asset (recognised)	(10)	(5)
Change in rate in respect of deferred tax recognition	-	69
Adjustments in respect of prior years	(182)	22
Foreign exchange	(2)	-
	_______	_______
Total tax charge	247	588
	_______	_______

The UK corporation tax rate is 19% (effective from 1 April 2017) and amendments were substantively enacted on 17 March 2020, the rate of corporation tax was set to remain at 19%. The deferred tax liabilities on 31 March 2021 have been calculated based on this rate.

7. TAX EXPENSE (continued)

As announced in the budget on the 03 March 2021, the UK corporation tax rate is expected to increase to 25% with effect from 1 April 2023. This change was not substantively enacted at the balance sheet date and has not been reflected in the tax calculations.

R&D tax credits

The Group recognised a credit of £10k (2020: £24k) 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:

	2021 £'000	2020 £'000
Adjusted continuing earnings post tax	4,733	4,002
Reported continuing earnings post tax	3,953	3,414
Weighted average number of shares	8,524,883	8,510,074
Diluted number of shares	8,650,237	8,635,331
Reported EPS		
Basic EPS from profit for the year	46.4p	40.1p
Diluted EPS from profit for the year	45.7p	39.5p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	55.5p	47.0p
Adjusted Diluted EPS from profit for the year	54.7p	46.3p

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 8,524,883 (2020: 8,510,074) net of the treasury shares disclosed in note 27.

The diluted earnings per share is based on 8,650,237 (2020: 8,635,331) 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

	2021 £'000	2020 £'000
Prior year final dividend paid of 7.25p per share (2020: 8.3p)	620	708
Current year interim dividend paid of 5.25p per share (2020: 5.25p)	450	448
Cancelled dividends on shares held in treasury	(1)	(3)
	1,069	1,153
Final dividend proposed for the year 10.75p per share (2020: 7.25p)	919	620

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 2021	Land and Buildings £'000	Short leasehold property improvements £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost					
1 April 2020	-	1,518	847	3,142	5,507
Acquisitions (note 31)	446	31	-	126	603
Additions	-	402	51	303	756
Disposals	-	-	(220)	-	(220)
Foreign Exchange	-	-	-	(1)	(1)
31 March 2021	446	1,951	678	3,570	6,645
Depreciation and impairment					
1 April 2020	-	727	440	2,054	3,221
Charge for the year	-	169	100	345	614
On disposals	-	-	(169)	-	(169)
Foreign Exchange	-	-	-	(2)	(2)
31 March 2021	-	896	371	2,397	3,664
Net book value					
31 March 2021	446	1,055	307	1,173	2,981

Year ended 31 March 2020	Land and Buildings £'000	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

11. RIGHT OF USE ASSETS

Year ended 31 March 2021		Land and buildings £'000	Motor vehicles / other £'000	Total £'000
Cost				
1 April 2020		1,894	120	2,014
Additions		1,124	72	1,196
Acquisition additions (note 31)		726	-	726
Disposals		(140)	(4)	(144)
31 March 2021		3,604	188	3,792
Depreciation				
1 April 2020		944	15	959
Charge for the year		459	38	497
Disposals		(140)	-	(140)
31 March 2021		1,263	53	1,316
Net book value				
31 March 2021		2,341	135	2,476

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
Depreciation				
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 of the right of use asset in 2020 related to space at the Group's legacy Pangbourne site which has been exited with the warehousing consolidated into the Group's Redditch facility. This exit has been completed in the current financial year.

The total depreciation expense of £497k (2020: £552k) has been charged to operating expenses. There are no material capital commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021

12. INTANGIBLE ASSETS

Year ended 31 March 2021	Development Costs £'000	Computer Software £'000	Goodwill on Consolidation £'000	Acquisition Intangible Assets £'000	Total £'000
Cost					
1 April 2020	1,183	402	6,300	3,378	11,263
Additions	250	52	-	-	302
Acquisitions (note 31)	-	19	3,598	5,403	9,020
	_______	_______	_______	_______	_______
31 March 2021	1,433	473	9,898	8,781	20,585
	_______	_______	_______	_______	_______
Amortisation					
1 April 2020	1,083	302	-	1,665	3,050
Charge for the year	250	48	-	680	978
	_______	_______	_______	_______	_______
31 March 2021	1,333	350	-	2,345	4,028
	_______	_______	_______	_______	_______
Net book value					
31 March 2021	100	123	9,898	6,436	16,557
	_______	_______	_______	_______	_______

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 2021 - Acquisition intangible assets	Cost £'000	Net book value £'000
Manufacturing division commercial relationships	2,075	1,426
Value Added Supplies division commercial relationships	6,706	5,010
	_______	_______
Total	8,781	6,436
	_______	_______

A decision was taken to accelerate the amortisation of intangible assets related to the 2013 acquisition of '2001' commercial relationships within the VAS division from 10 years to 7 years based on a reassessment of the UEL of that asset . This is an additional charge of £264k to comprehensive income and takes the net book value to nil.

12. INTANGIBLE ASSETS (continued)

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	1,183	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 Supplies division commercial relationships	2,703	1,648
	_______	_______
Total	3,378	1,713
	_______	_______

SOLID STATE PLC
DESIGN - MANUFACTURE - SUPPLY

13. GOODWILL AND IMPAIRMENT

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

Goodwill carrying amount	2021 £'000	2020 £'000
Manufacturing division	3,946	3,011
Value Added Supplies division	5,952	3,289
	_______	_______
Total	9,898	6,300
	_______	_______

The increase in Goodwill arises as a result of the acquisitions completed during the year see note 31.

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 pre tax discount rate of 10% (2020: 10%) has been used based on the Group's estimated weighted average cost of capital.

A future growth and terminal growth rate of 2.5% (2020: 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 £64,382k (2020: £40,492k).

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

Discount rate: Increase from 10% to 19%
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%	Supply of electronic components.
Steatite Limited	UK	100%	Supply of electronic components and manufacture of electronic equipment.
Pacer Technologies Limited	UK	100%	Non trading entity
Pacer Components Limited*	UK	100%	Supply of opto-electronic components.
Pacer LLC*	USA	100%	Supply of opto-electronic components.
Willow Technologies Limited^	UK	100%	Supply of opto-electronic components.
American Electronic Components, Inc.*^	USA	100%	Supply of opto-electronic components.
Active Silicon Limited^	UK	100%	Digital image design and manufacturing.
Active Silicon, Inc.*^	USA	100%	Manufacturing sales facility
Solid State Supplies Electronics Limited	Ireland	100%	Sales office
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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2021

14. SUBSIDIARIES (continued)

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. The registered offices for operations in the US and Ireland are listed below.

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

As set out in the audit committee report the UK trading subsidiaries (excepting Active Silicon Limited and Willow Technologies Limited, the new acquisitions marked with^) 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

	2021 £'000	2020 £'000
Finished goods and goods for resale	9,056	8,583
Work in progress	1,573	1,079
	________	________
Total inventories	10,629	9,662
	________	________

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 £3,271k (2020: £1,444k).

An impairment loss of £418k (2020: £111k credit) 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 £43,061k (2020: £43,769k).

16. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Trade receivables	11,683	11,111
Other receivables	157	28
Prepayments	2,382	2,720
	________	________
	14,222	13,859
	________	________

Impairment losses against trade receivables of £608k were recognised within operating costs during the year (2020: £313k).

17. TRADE AND OTHER PAYABLES (CURRENT)

	2021 £'000	2020 £'000
Trade payables	4,192	5,750
Other taxes and social security taxes	1,301	1,320
Other payables	88	14
Accruals	3,737	3,513
Deferred consideration on acquisitions	2,572	-
	_______	_______
	11,890	10,597
	_______	_______

18. CONTRACT LIABILITIES

	2021 £'000	2020 £'000
Contract liabilities	2,299	2,486
	_______	_______

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

Revenue recognised within the year includes £2,161k (2020: £2,108k) which was included within contract liabilities in the prior year.

19. BANK BORROWINGS AND FACILITIES

	2021 £'000	2020 £'000
Current borrowings		
Bank borrowings	-	333
Non current borrowings		
Bank borrowings	3,750	-
	_______	_______
Total borrowings	3,750	333
	_______	_______

	2021 £'000	2020 £'000
Within one year	-	333
Between one and two years	3,750	-
Between two and five years	-	-
	_______	_______
Total borrowings	3,750	333
	_______	_______

19. BANK BORROWINGS AND FACILITIES (continued)

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

- Revolving credit facility of £7.5m (2020: £7.5m) of which £3.75m (2020: nil) was drawn at the balance sheet date. This is a committed facility until Nov 2022 when it is due for renewal.
- In addition, the Group has a multi-currency overdraft facility of £1.0m (2020: £1.0m) which was undrawn at both year ends. Post year end this has been extended to £3.0m.

At the 31 March 2020 £0.3m of the acquisition term loan remained drawn. This was repaid in full in May 2020.

The multi-currency overdraft facility is in place to provide flexibility in financing short term multi-currency working capital requirements.

The Group's 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

	2021 £'000	2020 £'000
Current right of use lease liabilities	741	471
Non-current right of use lease liabilities	1,802	677
	_______	_______
Total right of use lease liabilities	2,543	1,148
	_______	_______

	2021 £'000	2020 £'000
Within one year	741	471
Between one and two year	654	328
Between two and five years	1,148	349
	_______	_______
Total right of use lease liabilities	2,543	1,148
	_______	_______

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 carrying value of all financial instruments equal their fair values. 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, also considering the acquisitions in the period, 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.

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 of receivable 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. 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.

21. FINANCIAL INSTRUMENTS (continued)

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 the cash flow risk associated with interest payments. It considers, however, that by ensuring approval of borrowings is made by the Board the risk of borrowing at excessive interest rates is reduced. The Board considers that the rates being paid are in line with the most competitive rates it is possible for the Group to achieve.

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	2021 £'000	2020 £'000
Current financial assets		
Trade and other receivables	11,840	11,139
Cash and cash equivalents	6,914	3,517
	______	______
	18,754	14,656
	______	______

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

Carrying value	2021 £'000	2020 £'000
UK	7,700	8,235
Non UK	3,983	2,876
	______	______
	11,683	11,111
	______	______

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 £618k (2020: £313k) which represented 1.0% (2020: 0.5%) 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
2021					
UK	8,175	8,008	112	15	40
Non UK	4,168	3,907	216	5	40
Total	12,343	11,915	328	20	80
UK	(496)	(401)	(50)	(10)	(35)
Non UK	(164)	(100)	(22)	(2)	(40)
Total provisions	(660)	(501)	(72)	(12)	(75)
Total	11,683	11,414	256	8	5
IFRS 9					
UK expected loss rate	6.1%	5.0%	44.6%	66.7%	87.5%
Non UK expected loss rate	3.9%	2.6%	10.2%	40.0%	100.0%

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%

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:

	2021 £'000	2020 £'000
Opening balance	496	191
Acquisition of subsidiaries	19	-
Increase in provisions	618	313
Written off against provisions	(474)	(8)
Foreign exchange	(1)	-
Closing balance	658	496

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 2021 trade receivables of £269k which were past their due date were not impaired (2020: £1,517k).

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
2021						
Trade and other payables	9,318	9,318	9,318	-	-	-
Borrowings	3,750	3,750	-	3,750	-	-
Right of use lease liabilities	2,543	2,736	763	694	1,279	-
Provisions	741	741	71	20	650	-
Deferred consideration on acquisition	7,522	7,522	2,572	4,250	700	-
	23,874	24,067	12,724	8,714	2,629	-
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

21. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

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

All monetary assets and liabilities of the Group were denominated in sterling 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 tables show the net assets/(liabilities) exposed to US dollar and Euro exchange rate risk that the Group has at 31 March 2021:

USD	2021 £'000	2020 £'000
Trade receivables	5,727	5,223
Cash and cash equivalents	3,121	1,342
Trade payables	(930)	(1,439)
	_______	_______
	7,918	5,126
	_______	_______

EUR	2021 £'000	2020 £'000
Trade receivables	337	130
Cash and cash equivalents	942	63
Trade payables	(115)	(81)
	_______	_______
	1,164	112
	_______	_______

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 2021 (2020: £nil) with £nil net exposure (2020: £nil).

The effect of a strengthening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net increase in pre-tax profit for the year and an increase in net assets of approximately £1,009k (2020: £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 £826k (2020: £476k).

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 Group's 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 borrowings is not materially different to the book value.

In terms of sensitivity, if the ruling base rate had been 1% higher throughout the year the level of interest payable would have been £41k (2020: £67k) higher and if 1% lower throughout the year the level of interest payable would have been lower by the same amount.

Capital risk management

The Group defines total capital as equity in the consolidated statement of financial position plus net debt or less net funds plus deferred consideration. Total capital at 31 March 2021 was £29,860k (2020: £19,345k).

The Group defines net (cash)/leverage as net (cash)/debt plus deferred consideration which totals £4,358k (2020: (£3,184k)). In calculating net (cash)/debt the Group has excluded the right of use lease liabilities of £2,543k (2020: £1,148k) 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 2021 the gearing ratio was 14.6% (2020: (16.5%)).

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 2021 is shown below:

	2021 £'000	2020 £'000
Cash and cash equivalents	(6,914)	(3,517)
Borrowings / bank overdrafts	3,750	333
Deferred Consideration	7,522	-
Net (cash)/leverage	4,358	(3,184)
Share capital	428	427
Share premium account	3,625	3,626
Retained earnings	21,508	18,521
Capital redemption reserve	5	5
Foreign exchange reserve	6	(7)
Shares held in treasury	(70)	(43)
Equity	25,502	22,529
Gearing ratio (net leverage / (equity + net leverage)/cash))	14.6%	(16.5%)

22. NET DEBT

Year ended 31 March 2020 (£'000)	At 1 April 2020	Cash flow	Other non-cash movement	At 31 March 2021
Bank borrowing due within one year	(333)	333	-	-
Bank borrowing due after one year	-	(3,750)	-	(3,750)
	_______	_______	_______	_______
Total borrowings	(333)	(3,417)	-	(3,750)
Deferred consideration on acquisition of subsidiaries within one year	-	-	(2,572)	(2,572)
Deferred consideration on acquisition of subsidiaries after one year	-	-	(4,950)	(4,950)
Cash and cash equivalents	3,517	3,439	(42)	6,914
	_______	_______	_______	_______
(Net debt) / net cash	3,184	22	(7,564)	(4,358)
	_______	_______	_______	_______

	2021 £'000	2020 £'000
Increase / (decrease) in cash in the year	3,439	(180)
Increase in borrowings in the year	(3,750)	-
Repayment of borrowings in the year	333	5,334
	_______	_______
Net movement resulting from cashflows	22	5,154
	_______	_______

	2021 £'000	2020 £'000
Net cash at 1 April	3,184	(1,975)
Net movement resulting from cashflows	22	5,154
Contingent consideration recognised in year – short term (note 17)	(2,572)	-
Contingent consideration recognised in year – long term	(4,950)	-
Other non-cash movements	(42)	5
	_______	_______
(Net debt) / Net cash at 31 March	(4,358)	3,184
	_______	_______

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:

	2021 £'000	2020 £'000
At 1 April	(421)	(471)
Deferred tax arising on acquisition of subsidiaries (note 31)	(1,061)	-
Credit for the year	181	119
Effect of changes to foreign exchange rates	(2)	-
Deferred tax adjustment in respect of prior periods		
Effect of tax rate change	-	(69)
Net deferred tax at 31 March	(1,303)	(421)
Deferred tax (liabilities)/assets in relation to:		
Accelerated capital allowances on property plant and equipment	(331)	(193)
Short term timing differences on intangible assets	(1,266)	(369)
Share based payments	96	81
Short term timing differences	95	60
Losses carried forward	103	-
Net deferred tax at 31 March	(1,303)	(421)
Deferred tax assets	188	86
Deferred tax liabilities	(1,491)	(507)
Net deferred tax at 31 March	(1,303)	(421)

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

	Accelerated capital allowances	Short term timing differences on intangible assets	Share based Payments	Short term timing differences	Losses carried forward	Total
At 1 April	(193)	(369)	81	60	-	(421)
Additions	(142)	(897)	-	-	103	(936)
Recognised in statement of comprehensive income	4	-	14	36	-	54
At 31 March	(331)	(1,266)	95	96	103	(1,303)

23. DEFERRED TAX (continued)

The UK corporation tax rate is 19% (effective from 1 April 2017) which was last substantively enacted on 17 March 2020. The deferred tax liabilities at 31 March 2021 have been calculated based on this rate. As announced at the budget on 3 March 2021, the UK corporation tax rate is expected to increase to 25% with effect from 1 April 2023. This change was not substantively enacted at the balance sheet date. The impact of re-calculating the deferred tax at the 25% rate would increase the net deferred tax liability by approximately £370k.

The amount of the net reversal of deferred tax expected to occur next year is approximately £191k (2020: £141k) relating to the timing differences identified above.

There is an unrecognised deferred tax asset of £84k (2020: £17k) 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 exercise of the share price post year end when the shares are exercised may be lower than at the balance sheet date therefore this deferred tax asset may not 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

	2021 £'000	2020 £'000
At 1 April	304	250
Dilapidations acquired on acquisitions at FV (note 31)	43	-
Provisions utilised during the year	7	-
Recognition of dilapidation asset	400	-
Charged to statement of comprehensive income	-	54
Provisions at 31 March	741	304

The Group has provided for property related provisions which include obligations in respect of exited legacy premises and dilapidations provisions it expects to exit within the next 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

	2021 £'000	2020 £'000
Allotted issued and fully paid 8,564,878 (2020: 8,548,878) ordinary shares of 5p	428	427

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

Details of options granted are set out in the Remuneration Committee Report on pages 44 to 57. At 31 March 2021 the number of shares covered by option agreements amounted to 79,550 (2020: Nil). At the balance sheet date there were 96,000 (2020: 112,000) share options which had vested and remained unexercised.

Share options exercised in the prior year by the Directors are disclosed in the Remuneration Committee Report on pages 54 to 57.

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
Foreign exchange	Foreign exchange translation differences arising from the translation of the financial statements of foreign operations

27. TREASURY SHARES

At 31 March 2021 the Group held 11,374 (2020: 7,374) shares in treasury with a cost of £70k (2020: £43k). No shares have been cancelled.

	2021 shares	2020 Shares
At 1 April	7,374	29,374
Purchase of shares into treasury	15,000	-
Transfer of shares to the All Employee Share Plan (AESP)	(11,000)	(22,000)
At 31 March	11,374	7,374

28. SHARE BASED PAYMENT

The total amount charged to the income statement in 2021 in respect of share-based payments was £171,000 (2020: £381,000)

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

Long term incentive plan (LTIP):

For 2021, normal LTIP awards of up to 125% of salary may be made to Executive Directors and Senior management, as outlined in the Policy Table of the remuneration report on page 52.

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

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

28. SHARE BASED PAYMENT (continued)

On the 28 October 2020 42,800 (2020: nil) share options were granted to the Executive Directors under the LTIP.

Principal assumptions	2021	2020
Weighted average share price at grant date in pence	580	-
Weighted average exercise price in pence	5	-
Weighted average vesting period (years)	3	-
Option life (years)	10	-
Weighted average expected life (years)	3	-
Weighted average expected volatility factor	50%	-
Weighted average risk free rate	0.75%	-
Dividend yield	2.5%	-

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

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

Company Share Option Plan (CSOP):

CSOP awards of up to the HMRC tax approved levels of £30,000 may be made to senior staff and Executive Directors, as outlined in the Policy Table of the remuneration report on page 52. For all participants, awards will vest after three years in accordance with the performance conditions applicable to each grant.

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

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

On the 30 September 2020 36,750 (2020: nil) share options were granted to the senior management under CSOP.

Principal assumptions	2021	2020
Weighted average share price at grant date in pence	587	-
Weighted average exercise price in pence	592	-
Weighted average vesting period (years)	3	-
Option life (years)	10	-
Weighted average expected life (years)	3	-
Weighted average expected volatility factor	50%	-
Weighted average risk free rate	0.75%	-
Dividend yield	2.5%	-

28. SHARE BASED PAYMENT (continued)

Movement in share options during the year

In addition to the current CSOP and LTIP there are bought forward executive EMI options which have vested which remain unexercised at the balance sheet date.

	2021 Number of options	2021 average exercise	2021 Number of options	2021 average exercise
At 1 April	112,000	0.1	128,000	0.1
Granted	79,550	276	-	-
Exercised	16,000	0.1	16,000	0.1
Cancelled / lapsed	-	-	-	-
	_______	_______	_______	_______
At 31 March	175,550	125	112,000	0.1
	_______	_______	_______	_______

The weighted average share price at the date share options were exercised was 544p (2020: 637p).

As at 31 March 2021, the total number of long-term incentive awards and share options held by employees was 175,550 (2020: 112,000) as follows:

Option price pence/share	Option period ending	2021 Number of options	2020 Number of
0.1p	31 March 2027	96,000	112,000
5p – 592p	31 March 2030	79,550	-
		_______	_______
At 31 March		175,550	112,000
		_______	_______

No share options have vested in the period. (In the year ended 31 March 2020 64,000 options vested as the performance criteria were achieved).

All Employee Share plan (AESP)

AESP awards of up to the HMRC tax approved levels to all employees. These awards vest tax free from the AESP after at least three years but not more than five years from the date of grant subject to continued employment.

On the 21 January 2021 10,900 (2020: 21,400) share options were awarded to the employees under the AESP.

The share price at the date of award was 680p (2020: 643p) as the awards are effectively £nil cost awards the fair value is determined to equal to the share price at the date of grant under the Black Scholes model. This resulted in a share based payments charge of £74k (2020: £137k) as part of the total share based payments charge.

29. CAPITAL COMMITMENTS

At 31 March 2021 there were capital commitments of £371k (2020: £Nil).

30. 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 Supplies division comprises Solid State Supplies Ltd, Pacer LLC, Pacer Components Ltd, Willow Technologies Limited and American Electronic Components, Inc. companies. The Manufacturing division includes Steatite Ltd, Active Silicon Limited and Active Silicon Inc..

Year ended 31 March 2021

	Value Added Supplies division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	38,982	27,299	-	66,281
	______	______	______	______
Profit before tax	2,011	4,353	(2,164)	4,200
Taxation	(337)	(310)	400	(247)
	______	______	______	______
Profit after taxation	1,674	4,043	(1,764)	3,953
Consolidated statement of financial position				
Assets	22,631	14,852	16,484	53,967
Liabilities	(8,804)	(7,680)	(11,981)	(28,465)
	______	______	______	______
Net assets	13,827	7,172	4,503	25,502
Other				
Capital expenditure:				
Tangible fixed assets	413	343	-	756
Tangible fixed assets - acquisitions	504	99	-	603
Intangible assets	45	257	-	302
Intangible assets – acquisitions	3	19	8,998	9,020
Right of use assets	315	881	-	1,196
Right of use assets – acquisitions	27	699	-	726
Depreciation - PPE	379	235	-	614
Depreciation – right of use assets	207	290	-	497
Amortisation	19	279	680	978
Share based payments	-	-	171	171
Interest	35	14	36	85
	______	_____	______	______

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2021 or the prior year.

30. SEGMENT INFORMATION (continued)

Year ended 31 March 2020

	Value Added Supplies 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	384	196	-	580
Intangible assets	2	279	-	281
Right of use Assets	181	120	-	301
Depreciation - PPE	323	323	-	646
Depreciation – right of use assets	222	246	-	468
Impairment	84	-	-	84
Amortisation	51	404	505	960
Share based payments	-	-	381	381
Interest	21	19	80	120

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
United Kingdom	46,301	48,596	49,616	36,919	1,058	881
Rest of Europe	7,349	6,885	1	1	-	-
Asia	3,342	4,416	-	-	-	-
North America	9,148	7,235	4,151	1,758	-	
Other	141	285	-	-	-	-
	66,281	67,417	53,768	38,678	1,058	881

All the above relate to continuing operations.
Capital expenditure excludes acquisitions of assets as per note 31.

31. ACQUISITIONS DURING THE YEAR

Active Silicon Group

On the 26 February 2021, the Group acquired 100% of the share capital of Active Silicon Limited and its 100% subsidiary for an initial consideration of £6.15m which, when adjusted for the cash on the balance sheet, results in an effective net initial consideration of £2.15m.

In addition to the initial consideration there is a 25 month earn out period. The earn out consideration will be paid in two tranches based on the level of profit after tax generated in the periods ending 31 March 2022 and 31 March 2023 respectively. In aggregate, the fair value of the earn out consideration is estimated to be £1.45m under IFRS 3.

Active Silicon Limited is the UK trading entity and holds Active Silicon Inc., the US sales entity. Established in 1988, Active Silicon designs and manufactures imaging and embedded vision systems allowing the capture, processing, and transmission of image data in high performance and critical environments. World-class products include innovative embedded systems for IoT applications, pioneering autofocus-zoom cameras and high-speed acquisition cards allowing real-time, high-resolution image capture over long cable lengths. With a longstanding, global customer base, Active Silicon's products have applications in multiple areas of industry, science, and technology - including advanced manufacturing, life sciences, robotics, medical imaging, security and defence. Active Silicon is ISO9001: 2015 registered.

Active Silicon's headquarters and research & development centre are in Iver (west of London) with its production facility nearby in Langley. In addition, it has a US subsidiary, Active Silicon Inc., which operates from Severna Park, Maryland. This office provides sales, support, and operations for the North American market.

All hardware is designed in-house with some subcontract manufacturing taking place in Europe. Final assembly, inspection and testing is undertaken at the UK production facility.

Benefits of the Acquisition:

Solid State will combine Active Silicon's expertise and technology with the industrial computer product portfolio from its Steatite manufacturing division. This enables the enlarged Group to address the growing demand for 3D vision and robotic applications, as well as the increased requirements for embedded machine vision and edge AI computing products.

The enhanced in-house capability resulting from the addition of Active Silicon to the Group extends the scope for the design and manufacture of own brand products, with the resulting margin and customer retention benefits.

31. ACQUISITIONS DURING THE YEAR (continued)

Active Silicon Group

	Book value £'000	*Fair value Adjustment £'000*	*Fair value to Group £'000*
Intangible assets	19	1,400	1,419
Property plant and equipment	106	(7)	99
Right of use assets	-	699	699
Inventory	1,243	(17)	1,226
Trade and other receivables	821	(8)	813
Trade and other payables	(640)	(46)	(686)
Right of use lease liabilities	-	(699)	(699)
Provision for dilapidations	(18)	(15)	(33)
Cash and cash equivalents	4,008	-	4,008
Deferred tax asset / (liability)	84	(261)	(177)
	_______	_______	_______
Net assets on acquisition	5,623	1,046	6,669
Goodwill on acquisition	-	-	935
	_______	_______	_______
Consideration			7,604
			_______
Discharged by:			
Cash paid on acquisition			5,171
S-T Deferred contingent consideration – Completion Accounts			983
L-T Deferred contingent consideration – Earn Out			1,450
			_______
			7,604

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Active Silicon with those of the existing Computing BU within the manufacturing division, expected value from incremental sales arising across the combined operation that is not separately recognisable at the date of acquisition and the value of the work force not recognised as an intangible asset under IFRS 3 revised.

The revenue and profit after tax for the one month period post acquisition included in the Statement of Comprehensive Income arising from Active's operations were £415k and £39k respectively. The Group incurred acquisition related costs of £76k on legal fees and due diligence costs, included in sales, general and administration expenses.

As payment is due in under 2 years and the amount is an estimation, 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 contingent consideration.

Had the acquisition been completed on the 1 April 2020, Management estimate that that the revenue would have been circa £4.4m and pre-tax profit would be circa £0.2m.

31. ACQUISITIONS DURING THE YEAR (continued)

Willow Technology Group

On the 02 March 2021, the Group acquired 100% of the share capital of Willow Technology Limited and its 100% subsidiary for an initial consideration of £9.6m which, when adjusted for the cash on the balance sheet, results in an effective net initial consideration of £4.5m.

In addition to the initial consideration there is a 12 month earn out period. The earn out consideration will be calculated as a function of the post-tax profit of Willow Technologies for the period ended 31 March 2022, subject to a minimum profit threshold of £700,000. The maximum earn out consideration payable is £3.5m. Under IFRS 3 the Board has concluded that the fair value of the deferred contingent consideration is £3.5m.

Willow Technologies, founded in 1989, is a highly respected value added distributor of electro-mechanical components operating within the UK, Germany, Spain and the USA. Willow Technologies' specialisms are in switching, sensing, resistive devices and hermetic seal solutions, the company sells a wide portfolio of electromechanical technologies. Willow is ISO9001: 2015 registered.

American Electronic Components Inc. ("AEC"), founded as Durakool in 1935 and acquired by Willow Technologies in 2006, is based in Indiana USA. AEC specialises in the design, manufacture and supply of component level, electromechanical switching, sensing and glass to metal seal solutions. The company has over 85 years of applications experience with a well-established and loyal customer base. AEC is ISO9001: 2008 and ISO14001:2004 Registered.

Benefits of the Acquisition:

The acquisition of Willow and AEC into the Value Added Supplies division of Solid State meets a significant number of strategic priorities and offers the opportunity for future growth in multiple structural markets and geographic territories.

Furthermore, the Acquisition meets the objective of increasing the division's penetration of the strategically important, EV, EV charging, green tech and medical markets. The consequent acquisition of the Durakool® and Hermaseal® established brand names and associated patents brings further opportunity for growth through product development and the extension of the brand to potentially cover other products within the Group. The widening of the product offering within the Value Added Supplies division will bring greater resilience to the business, access to a wider customer base and increase the importance of the division to its existing customer base.

Whilst the Acquisition falls under the Value Added Supplies division it is expected that both Willow and AEC will operate as stand-alone companies throughout the earn out period. Both companies are however expected to benefit from access to the wider resources available in the Value Added Supplies business and in particular from access to the wider customer base. Post-acquisition a detailed strategic appraisal of non-core manufactured components will be undertaken to evaluate whether or not they should be discontinued with an appropriate last time buy process implemented in order to improve strategic focus and production efficiencies.

31. ACQUISITIONS DURING THE YEAR (continued)

Willow Technology Group

	Book value £'000	*Fair value Adjustment £'000*	Fair value to Group £'000
Intangible assets	3	4,000	4,003
Property plant and equipment	504	-	504
Right of use assets	-	27	27
Inventory	1,479	142	1,621
Trade and other receivables	1,559	(5)	1,554
Trade and other payables	(1,230)	(175)	(1,405)
Right of use lease liabilities	-	(28)	(28)
Provision for dilapidations	-	(10)	(10)
Cash and cash equivalents	5,099	-	5,099
Deferred tax	(123)	(761)	(884)
Net assets on acquisition	7,291	3,190	10,481
Goodwill on acquisition	-	-	2,663
Consideration			13,144
Discharged by:			
Cash paid on acquisition			8,055
S-T Deferred contingent consideration – Completion Accounts			1,589
L-T Deferred contingent consideration – Earn Out			3,500
			13,144

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Willow Technologies with those of the existing VAS division, expected value from incremental sales arising across the combined operation that is not separately recognisable at the date of acquisition and the value of the work force not recognised as an intangible asset under IFRS 3 revised.

The revenue and profit after tax for the one month period post acquisition included in the Statement of Comprehensive Income arising from Willow's operations were £906k and £152k respectively. The Group incurred acquisition related costs of £130k on legal fees and due diligence costs, included in sales, general and administration expenses.

As payment is due in just over 1 year and the amount is an estimation, 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 contingent consideration.

Had the acquisition been completed on the 1 April 2020 management estimate that that the revenue would have been circa £9.1m and pre-tax profit would be circa £0.8m.

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

- Non-cash charges arising from share-based payments and the amortisation of acquisition intangibles.
- Non-recurring 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.

	2021 £'000	2020 £'000
Acquisition and re-organisation costs	336	-
Non recurring profit from sale of full written down stock	-	(160)
Amortisation of acquisition intangibles	680	505
Share based payments	171	381
	________	________
Adjustment to profit before tax	1,187	726
Current and deferred taxation effect	(226)	(138)
Non recurring tax credits	(181)	-
	________	________
Adjustments to profit after tax	780	588

	2021 £'000	2020 £'000
Reported gross profit	19,919	20,803
Adjustments to gross profit	73	(160)
	________	________
Adjusted gross profit	19,992	20,643
	________	________
Reported operated profit	4,285	4,122
Adjustments to operating profit	1,187	726
	________	________
Adjusted operating profit	5,472	4,848
	________	________
Reported operating margin percentage	6.5%	6.1%
Operating margin percentage impact of adjustments	1.8%	1.1%
	________	________
Adjusted operating margin percentage	8.3%	7.2%
	________	________
Reported profit before tax	4,200	4,002
Adjustments to profit before tax	1,187	726
	________	________
Adjusted profit before tax	5,387	4,728
	________	________
Reported profit after tax	3,953	3,414
Adjustments to profit after tax	780	588
	________	________
Adjusted profit after tax	4,733	4,002
	________	________

Company Number: 00771335

COMPANY STATEMENT OF FINANCIAL POSITION
at 31 March 2021

		2021		2020	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	4		34,003		13,255
CURRENT ASSETS					
Trade and other receivables	5	3,223		4,370	
Deferred tax asset		96		86	
Cash and cash equivalents		16		28	
		3,335		4,484	
CREDITORS: Amounts falling due within one year	6	(22,511)		(10,903)	
NET CURRENT LIABILITIES			(19,176)		(6,419)
NON CURRENT LIABILITIES					
Non current borrowings	7	(3,750)		-	
Deferred consideration on acquisitions	7	(4,950)		-	
			(8,700)		-
NET ASSETS			6,127		6,836
CAPITAL AND RESERVES					
Called up share capital	8		428		427
Share premium account	9		3,625		3,626
Capital redemption reserve	9		5		5
Retained earnings	9		2,139		2,821
Shares held in treasury	10		(70)		(43)
SHAREHOLDERS' FUNDS			6,127		6,836

The company made a total comprehensive income in the year of £284k (2020: £716k).

The financial statements were approved by the Board of Directors and authorised for issue on 13 July 2021.

G S Marsh, *Director*

P O James, *Director*

The notes on pages 123 to 126 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	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 31 March 2020	427	3,626	5	2,821	(43)	6,836
Total comprehensive income for the year ended 31 March 2021	-	-	-	284	-	284
Shares issued	1	(1)	-	-	-	-
Purchase of treasury shares	-	-	-	-	(95)	(95)
Transfer of treasury shares to AESP	-	-	-	(68)	68	-
Dividends	-	-	-	(1,069)	-	(1,069)
Share based payment credit	-	-	-	171	-	171
Balance at 31 March 2021	428	3,625	5	2,139	(70)	6,127

	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

The notes on pages 123 to 126 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2021

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 profit for the year ended 31 March 2021 and 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 Solid State PLC entity balance sheet reflects £32k net current liabilities excluding group liabilities due to the recognition of the £2.6m of deferred consideration. The deferred consideration can be settled through the Groups bank facilities which are committed until Nov 2022 with £3.75m undrawn at the balance sheet date. 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 83 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 86 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 83 as there is no material difference between FRS102 and IFRS.

2. STAFF COSTS

	2021 £'000	2020 £'000
Wages and salaries	697	1,299
Social security costs	118	230
Other pension costs	40	42
Share based payment charges	171	381
	_______	_______
Total staff costs	1,026	1,952
	_______	_______

Staff costs amounted £1,026k (2020: £1,952k) and comprised the share based payment expense of £171k (2020: £381k) and provision for employer's national insurance on exercise of share options of £24k (2020: £52k).

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 N F Rogers (appointed 1 July 2019) and Mr P Haining. Mr J Lavery (retired 31 August 2019) was included in the 2020 comparative period. 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 44 to 57.

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

	2021 Number	2020 Number
Management and administration	12	15
	_______	_______
	12	15
	_______	_______

3. SHARE BASED PAYMENT

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

4. INVESTMENTS

Subsidiary undertakings	2021 £'000	2020 £'000
Cost		
1 April	13,255	13,320
Additions	20,748	(65)
	_______	_______
31 March	34,003	13,255
	_______	_______
Net book value		
31 March	34,003	13,255
	_______	_______

The movement in the period relates to the acquisitions of Willow Technologies Group and the Active Silicon Group as described in Note 31 to the Group accounts.

Subsidiary undertakings	2021 £'000	2020 £'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	3,747
Willow Technologies Group	13,144	-
Active Silicon Group	7,604	-
	_______	_______
Total investments at 31 March	34,003	13,255
	_______	_______

Subsidiary undertakings

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

5. DEBTORS

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	3,200	4,351
Other debtors	11	7
Prepayments	12	12
	_______	_______
	3,223	4,370
	_______	_______

6. CREDITORS – Amounts falling due within one year

	2021 £'000	2020 £'000
Amounts owed to Group undertakings	19,144	9,434
Other taxes and social security costs	107	227
Trade and other creditors	86	47
Accruals	602	862
Bank borrowings	-	333
Deferred consideration on acquisitions	2,572	-
	22,511	10,903

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, Willow Technologies Limited and Active Silicon Limited. At the year end the liabilities covered by those guarantees amounted to £nil (2020: £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.

The short-term deferred consideration on acquisitions is £1.6m for Willow Technologies Group and £1.0m for Active Silicon Group as disclosed in note 31 of the consolidated Group accounts.

All amounts owed to / from Group undertakings are payable / repayable on demand and not interest bearing.

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

	2021 £'000	2020 £'000
Bank borrowings	3,750	-
Deferred consideration on acquisitions	4,950	-
	8,700	-

The long-term deferred consideration on acquisitions is £3.5m for Willow Technologies Group and £1.45m for Active Silicon Group as disclosed in note 31 of the consolidated Group accounts. See note 19 to the Group accounts for borrowings disclosures.

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.

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, 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 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 8 September 2021 at 9.30am for the following purposes:

ORDINARY RESOLUTIONS

(1) To receive the accounts for the year ended 31 March 2021, 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 10.75p per share. (Resolution 3)

(4) To reappoint Mr Matthew T Richards, 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 J Magowan, being a Director of the Company appointed since the last annual general meeting, in accordance with the Company's Articles of Association. (Resolution 5)

(6) To reappoint RSM UK Audit LLP as auditors of the Company. (Resolution 6)

(7) To authorise the Directors to fix the auditors' remuneration. (Resolution 7)

(8) 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 £141,320.49 (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 £85,648.78 (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.

NOTICE OF ANNUAL GENERAL MEETING (continued)

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 8)

SPECIAL RESOLUTIONS

(9) To pass the following resolution:

That the Company is authorised to allot equity securities pursuant to resolution 8 above up to an aggregate nominal amount of £42,824.39, 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 9)

(10) 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 10)

BY ORDER OF THE BOARD

P Haining FCA
Secretary
13 July 2021
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).

NOTICE OF ANNUAL GENERAL MEETING (continued)

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 13 July 2021 the Company's issued share capital comprised of 8,564,878 ordinary shares of 5p each which includes 11,374 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 13 July 2021 8,553,504.

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.

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