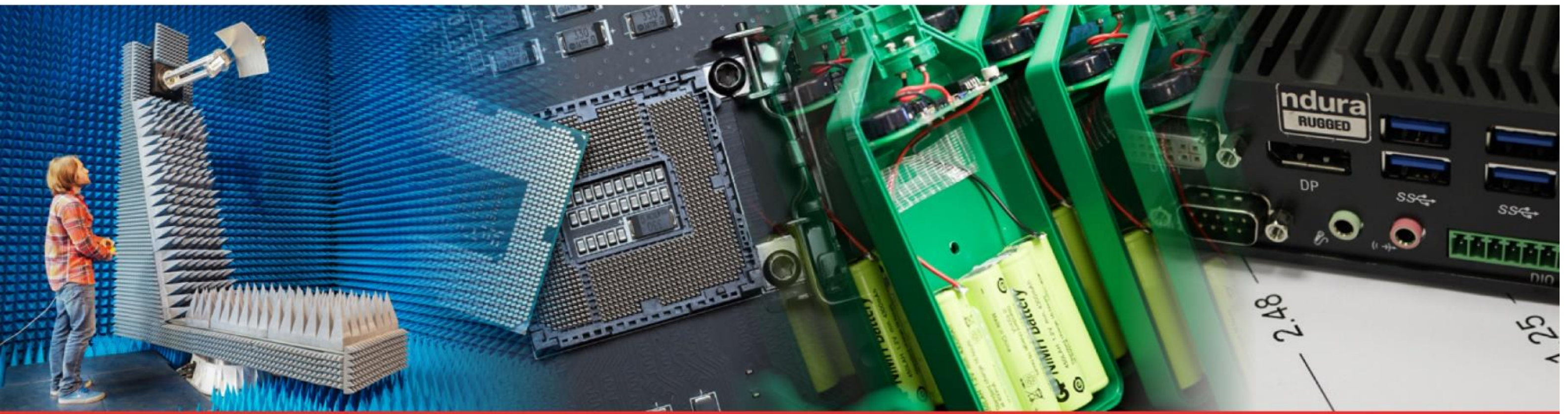
SOLID STATE PLC

DESIGN - MANUFACTURE - DISTRIBUTION

ANNUAL REPORT & ACCOUNTS
31st MARCH 2019



TRUSTED TECHNOLOGY FOR DEMANDING APPLICATIONS

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DIRECTORS, SECRETARY AND ADVISERS

Directors:	Anthony Brian Frere, *Non-Executive Chairman* Gary Stephen Marsh, *Chief Executive Officer* Peter Haining, FCA, *Non-Executive Director* Peter Owen James, BSc FCA*, Executive Director* John Michael Lavery, *Non-Executive Director* John Lawford Macmichael, *Executive Director* Matthew Thomas Richards, *Executive Director* *Nigel Foster Rogers, Non Executive Director (Appointed 1 July 2019)*
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Country of Incorporation of Parent Company:	England and Wales
Legal Form:	Public Limited Company
Domicile:	United Kingdom

CHAIRMAN'S STATEMENT

Overview of the year

The financial year ended 31 March 2019 has seen the Group deliver its best ever performance in terms of both revenue and profit from the core business and make significant progress against its strategic objectives. Our strategy is to deliver growth both organically and through acquisition. These results illustrate our continued commitment to deliver on this strategy.

In addition to the acquisition in November 2018 of Pacer Technologies Limited ('Pacer'), the holding company for the Pacer Group of companies, our Value Added Distribution ('VAD') division contributed record organic growth in revenues and profits. This complemented the significant improvements seen in the Manufacturing division's operating margins, which have been delivered by refocusing into three key business units and concentrating on adding value to the products and services offered. The business units are aligned with their customers and markets and serviced by centres of excellence in the respective physical locations. This progress against our strategy sets the foundations for the future growth of the Group.

Achievements in 2018/2019

Notable achievements in 2018/2019 to advance our strategy included:

- delivering significant increase in sales, with the Value Added Distribution division delivering close to 25% organic growth;
- successful completion of acquisition of the Pacer Group of companies taking the Group into the opto-electronics market, which is complementary to our existing product offering, enabling the enlarged Group to provide a more complete service to our customers in our diverse markets;
- re-focusing the Manufacturing division, to concentrate on higher 'added value' business, which has translated into a richer mix of business with better gross margins;
- new value added facility in Weymouth, facilitating the growth of higher margin products and services. Development of our value-added service offering and customer qualifications will support our margins going forward;
- continued investment in medium term research and development to deliver increased value-added services and manufacturing solutions such as battery packs for robotics and new security accredited computing products.

The Chief Executive's strategic report provides further details on these achievements and the progress we have made in executing our strategy.

Financial overview

Group revenue from continuing operations of £56.3m was up 22% on the prior year (2018: £46.3m). Our VAD division has gained market share, delivering 25% organic revenue growth over the prior year. As reported at the half year, Manufacturing revenues are marginally down on the prior year at £25.9m (2018: £26.6m), however, the focus on delivering higher value added activity has meant that the volume shortfall has been more than mitigated at a gross margin and PBT level with a 16% improvement in the gross margin to 35.6% (2018: 30.6%).

The Group achieved a gross margin of 29.1% in the year compared to 27.5% in 2018. This improvement reflects the impact of the changing mix of sales in the Manufacturing division, with a greater proportion of high value added projects more than offsetting the dilutive impact of the increased share of VAD revenues.

During the year we have continued to invest significantly in development activity within both the new value added services facility in Weymouth, following the acquisition of Pacer, and in the Manufacturing division capabilities. This has resulted in a strengthening mix of higher value added activity in the year and a strong open order book. We expect this will provide commercial opportunities for the Group in the coming financial year and beyond.

The reported and adjusted profit after tax reflect a record year at £2.7m (2018: £2.2m) and £3.1m (2018: £2.7m) respectively. This translates into fully diluted reported earnings per share from continuing operations and adjusted earnings per share from continuing operations of 30.7p (2018: 26.0p) and 35.9p (2018: 30.9p) respectively.

The Group balance sheet has continued to strengthen and shows net assets of £19.9m (2018: £18.0m) with net debt of £2.0m (2018: net cash £0.6m). Given that we took on £6m of term debt to fund the Pacer acquisition and the expansion of our value added capabilities during the year, we are very pleased with the cash generation in the last quarter of the year. Our underlying operating cash conversion for the year was 109% (2018: 122%) and reported operating cash conversion was 168% (2018: 54%).

CHAIRMAN'S STATEMENT (continued)

As reported previously, we have continued to make strategic investments in inventory (in particular battery cells and processors) to exploit commercial opportunities and to mitigate the risks associated with extending lead times, Brexit and the US, China trade dispute. The investments made have enabled the Group to pursue commercial opportunities and continue to ship products to customers despite lengthening lead times. This was critical to delivering the organic growth and securing a number of higher value added programmes. We closed the year with inventories at £9.6m (2018: £6.8m), reflecting the stock taken on with the Pacer acquisition and in part holding some contingency stock ahead of the originally proposed Brexit date of 29 March 2019.

Solid State PLC has paid a dividend every year since it joined AIM in 1996. The Board is recommending a final dividend of 8.3p, which added to the interim dividend of 4.2p per share paid on 15 February 2019, gives a total dividend for the year of 12.5p per share (2018: 12p) an increase of 4.2%. The total dividend is 2.9 times covered in 2019, based on adjusted profit after tax from continuing operations (2018: 2.6 times). The final dividend will be paid, subject to shareholder approval at the Annual General Meeting to be held on 4 September 2019, on 19 September 2019 to shareholders on the register at the close of business on 30 August 2019. The shares will be marked ex-dividend on 29 August 2019.

The Board has agreed to continue with its dividend policy whereby it will look to increase the dividend as growth in profitability is delivered whilst targeting a dividend cover in the region of 2.50-3.00 times adjusted earnings.

Senior management and corporate governance

The Board was very pleased to welcome Nigel Rogers to the Board as a new independent Non-Executive Director, Nigel, brings a wealth of experience and will add a fresh perspective driving the continued progress of the Group. In addition, Nigel will chair the remuneration committee. Further details are included on page 25 of the Corporate Governance report.

Opportunities and prospects for 2019/2020

The Group is well positioned for growth in 2019/2020 across its business units with well diversified revenue streams.

Having completed the re-organisation and re-focusing of the Manufacturing division, the division is well placed to deliver revenue growth and improved operating margins, leveraging the hard work which has been done in the last two years.

The supply chain challenges we have seen with certain extending lead times, and cell manufacturers limiting supply to approved pack manufacturers, only present higher barriers to entry in our markets. Our strong established relationship with our supply chains positions our Group well for future growth.

The macro economic environment from the US China trade war to the ongoing Brexit negotiations present a level of risk and uncertainty to the business environment in which we operate. However, our breadth of technical knowledge, service levels from our specialist teams, scale of our operations, strong balance sheet, governance and quality standards gives the Board confidence that the Group is well positioned to respond quickly to the challenges and opportunities that lie ahead. The Board consider that the Group's diversified structure gives it resilience and places it in a far stronger position than our smaller unlisted competitors within our customers' supply chains.

Acquisitions remain a key part of our strategy, and following the successful completion of the acquisition of Pacer during the second half of the financial year, we continue to actively seek further acquisitions through our pipeline of opportunities. However, we will only make acquisitions where they are fully aligned with the Group's strategy. The focus when looking at acquisitions is to ensure they develop our product offering; broaden the market sectors we serve and underpin or enhance our gross profit margins.

Current year trading has been ahead of the corresponding period last year, although the order intake during the first quarter of our new financial year has been softer than expected, we believe as a result of the unwind of Brexit stocking. However, as the open order book remains solid this gives the Board confidence that the Group remains on track to deliver in-line with our expectations. The Group open order book at 31 May 2019 was £35.9m (31 May 2018: £23.0m) up 56% on the prior year primarily due to the acquisition of Pacer. The like for like proforma open order book is up 20%.

Finally, on behalf of the Board, I would like to welcome the Pacer team to the Solid State PLC group, acknowledge the significant contribution of all our staff to the Group's continued progress and thank them accordingly. This is a people business which relies on the dedication of our colleagues across the Group; this is acknowledged and appreciated.

A B Frere
Chairman
2 July 2019

CHIEF EXECUTIVE'S STRATEGIC REPORT

Introduction to Solid State PLC

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

Our mission and strategy to deliver growth

Our 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.*"

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

Our strategy to deliver this has three key elements:

1) investment in our people, our technical knowledge and resources to ensure we remain at the forefront of electronics technology. To constantly seek opportunity to add value meeting our customers' unmet needs and as such maintaining long term relationships as the trusted advisor and subject matter experts.
2) targeting strategic acquisitions which are aligned with our core capabilities and provide access to new markets or deepen our knowledge, ability and enhance the value we can add to our customers; and,
3) continue to develop our strategic partnerships with customers and suppliers within the electronics industry, building our portfolio of value added services.

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

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

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

Value Added Distribution ('VAD') division

The Group's traditional VAD division is focused on serving the needs of the electronics original equipment manufacturing (OEM) and the contract electronics manufacturing (CEM) communities in the UK, principally from its base in Redditch.

During the year we completed the acquisition of the Pacer Group of companies ('Pacer'). Pacer is a leading value added distributor of opto-electronic components which complements the existing VAD product portfolio. During the year Pacer invested in a new value added services facility in Weymouth which includes a Class 7 clean room giving the Group an industry leading capability.

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

CHIEF EXECUTIVE'S STRATEGIC REPORT (continued)

Value Added Distribution ('VAD') division – cont'

The products offered are from globally recognised manufacturers and include those for the I.O.T (internet of things), embedded processing, control, wireless and wired communications, power management, optical emitters and sensors, and LED lighting.

The division has expertise in high-reliability components for Military and Aerospace applications. The division's quality management system is accredited to the International Aerospace standard AS9120.

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

Manufacturing division – Computing, Power and Communications business units

Our Manufacturing division operates from sites in Redditch, Crewkerne and Leominster. It's a market leader in the design, development and supply of rugged and industrial computers, portable power and energy storage solutions, advanced communication systems, including wideband antennas and high-performance video transmission products, where necessary our facilities and personnel are cleared by the UK Government to allow secure work.

The facility in Crewkerne, is the Group's centre of excellence for Power products; the facility in Redditch, focuses primarily on the delivery of Computing products; and the facility in Leominster houses the Communications business unit, which includes our antenna design, production and test facilities.

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

Computing business unit

The Computing business unit designs, manufactures and tests rugged and industrial computing solutions, serving a wide range of markets including Industrial, Military, Transportation, Surveillance and Broadcasting. Success has been achieved through specialisation in industrial computer design and integration, custom chassis builds, production, test and certification and customisation of Windows Embedded IoT and related software products.

Our product offering includes computers and displays, time and positioning solutions, motherboards and modules. Our capabilities extend from the provision of single board computer modules to turnkey integrated systems with significant value added content in the design, production, testing and commissioning.

The business unit has strong and long standing commercial relationships directly with key suppliers in Asia and the USA. Sustained digital marketing initiatives are leading to increased demand from diverse markets with emphasis on driving the level of value added content.

Power business unit

The Power business unit provides portable power and energy storage solutions. This includes battery pack assembly, power control, electronic design, and advanced battery testing. Working from initial design through qualification and United Nations (UN) certified testing, production, support and disposal at end of life, the business unit is well positioned to respond to an increasing demand for mobile and static power solutions where there is a specific requirement for high reliability, harsh environment and, above all else, safe systems.

The business unit has over 30 years' experience in the supply of batteries and mobile power solutions into some of the world's most demanding environments. Its battery packs are used in a range of sectors including: Oil and Gas, Military and Security, Aerospace, Environmental and Oceanographic, Safety and Industrial OEMs.

The operation has seen the successful integration of the latest ISO 9001-2015 standard that is complemented by the 18001 health and safety accreditation and approval to build equipment intended for use in potentially explosive atmospheres under the ATEX directive. These are all key considerations for our business to business customers operating in various markets such as Aerospace, and the Oil and Gas (O&G) markets.

Communications business unit

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

The radios are in service primarily with Special Forces users for ground based and increasingly unmanned platforms both aerial and maritime providing situational awareness solutions. We constantly seek opportunity to enhance the base line radio product with customised packaging for harsh environments and leveraging our in house antennas capabilities.

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

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

Group trading overview

The Solid State Group has delivered significant organic growth in revenues which have been augmented by the acquisition of Pacer. The combination of the two has resulted in the delivery of record profits in the period.

The Pacer acquisition takes the Value Added Distribution division into the parallel market of opto-electronics which complements the established electronics product offering, giving the VAD division significant scale, market reach and penetration which it has not had previously.

The Manufacturing division has consolidated its activities, establishing technical centres of excellence with an appropriate cost base to service our core sectors of Computing, Power and Communications. This underpins the business. Refocusing its efforts where we have the expertise and product offerings that add real value to our customers has delivered the recovery to double digit operating returns.

As noted in the principle risk and uncertainties section above, business risks have been considered and, where practical, mitigated. However, the macro economic risk associated with Brexit uncertainty, the Chinese economy and related US/China trading relations and the associated impact on foreign exchange is very difficult to predict and therefore mitigate fully. Whilst we sell predominately to the UK, our customers do sell into the global markets including Europe and Asia and some have reported challenges on new project awards.

In addition to the above we continue to see shortages and very long lead times on certain critical components, in particular battery cells and computer processors. The strength of our balance sheet together with smart purchasing actions have enabled us to successfully mitigate lead times and shortages. However, this continues to be a challenge requiring active management and necessitates increased stock levels.

Divisional business review

Value Added Distribution division

The financial year 2018/19 saw the completion of a significant acquisition of the Pacer Group and exceptional organic growth in the existing business.

This is the second year that the team has delivered exceptional organic growth in the VAD division with revenues up 25% (2018: 19%) on a like for like basis, albeit that we believe we benefitted from some Brexit stocking in the last quarter of the year and the previously reported one-off order for circa £1.0m. Pleasingly gross margins have been maintained.

The growth in revenue and profits demonstrate the success of the strategic plan and its tactical implementation, with initiatives such as the sourcing and obsolescence business now making a significant contribution to the VAD division.

The addition of the VPT Franchise to the VAD division's product portfolio in Q1 had a major impact on the year with sales well ahead of budget. This product line represents a continuing major opportunity for the division with the leading edge indicator of design-in activity showing high levels of activity.

Following the acquisition of Microsemi by Microchip, our distribution franchise with Microsemi has been extended to include all Microchip products post year end. This provides significant new product lines and opens up an opportunity to sell the extended offering to our customers and targets.

The acquisition of the Pacer business brings with it, new markets and expertise, particularly in the areas of opto-electronics and value added assembly, whilst the significant display expertise enhances that already available in the Group. As part of the integration of Pacer in to the VAD division, a clear strategy has been defined and communicated to all Pacer staff to ensure that it embarks on a high growth path over the coming years.

The VAD division is benefiting from access to an enlarged and wider customer base than had been previously available. Cross selling initiatives are already bearing fruit, and efficiencies through integration have been put in place where practical.

Marketing activity increased towards the end of the financial year to promote the broader product offering of the enlarged VAD division, supporting the need for an enlarged design-in pipeline to feed the future sales growth.

The VAD division continues to recognise the value of, and to invest in, its staff with various ongoing professional development initiatives. The business has been successful in attracting several specialist and highly skilled engineers into its design-in and field based customer support function enhancing the prospects of it winning further franchises.

Operational metrics remain well controlled with underlying stock turn exceeding 5 times per annum and the VAD open order book at 31 May 2019 at a record level £23.6m (2018: £11.3m) following the pacer acquisition. The senior management team of the VAD division remain optimistic about the prospects for the 2019/20 financial year and expect it to be another strong year.

Manufacturing division and business unit summaries

The Manufacturing division has focused on premium work, adding value when opportunity has allowed to drive improved operating performance, and put in place a foundation for future sustainable profitable growth.

We focused the division to meet customer needs, establishing three business unit centres of excellence in; Computing (in our Redditch facility), Power (in our Crewkerne facility) and Communications (in our Leominster facility).

At the beginning of the financial year, as part of the implementation of re-focusing of the division, we consolidated some of the division's engineering and computing sales teams, realising some operational efficiencies which, in conjunction with a more strategic approach to supply chain management, and continued careful control and review of our fixed cost base, has enabled the operating margins to be improved by 16% in the year to 11% (2018: 9.5%).

We continue to make strategic capital investments in a number of areas of the business with focus on technology to provide enhanced efficiencies and technical capabilities and improve productivity. This includes automation within our Power business unit, software tools for our Communications business unit, and EMC & environmental testing capabilities that will serve all areas of the business, enhancing our 'in-house' capabilities, building our competitive advantage and delivering value for our customers.

We have focussed on building the quantity and quality of our order book to position the business for future growth. The open order book at 31 May 2019 has increased to £12.3m (2018: 11.8m).

Computing business unit

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

The business unit remains well diversified across market sectors and technologies. In-line with our strategy to seek new markets for our offering we have secured an important order for a new security accredited product for a UK Government client that will deliver revenue in the 2019/2020 financial year with additional associated prospects, demonstrating the progress against our strategy of investment in our technical value added capabilities.

Computing business unit -cont'

TEMPEST is a National Security Agency specification and a NATO certification referring to a cyber security accreditation on information systems through preventing leaking emanations, including unintentional radio or electrical signals, sounds, and vibrations. The business is seeing and responding to increased demand for TEMPEST compliant computing solutions leveraging the in house computing, mechanical and domain knowledge at the Redditch facility.

During the year the business unit introduced a new series of own brand 19" rack mount servers including entry level and high end chassis solutions with respective features and pricing competitively matched. These new own branded products and a well defined product road map that will see further releases in the coming 18 months to position our computer business for future growth.

In addition, we have resolved and delivered some long standing technically challenging military projects that we were committed to deliver. We have met our obligations and delivered against the customers' requirements maintaining a strong relationship that will bode well for future co-operation with these 'blue chip' defence prime contractors.

Power business unit

In our Power business we are agnostic of cell chemistries, giving us the freedom to be the subject matter expert, as a 'trusted advisor' to our customers, selecting the most appropriate chemistry for the customers' requirements. Likewise, in our selection of the optimum battery management solution. This has enabled us to make headway in designing higher value added solutions while diversifying our markets and customer base. This is demonstrated with initial sales into the retail technology and medical sectors where we have not traditionally been strong, to complement the Oil and Gas and Aerospace & Defence sectors which are areas of traditional strength.

Battery cell manufacturers continue to limit the supply of product to approved third party pack providers and are extending lead times across the industry in order that they can service the needs of the electric vehicle (EV) market. This means that our longstanding and trusted relationships with the leading cell manufacturers are even more important and this, together with the barriers to entry that also exist, mean we are well positioned to leverage opportunities in this market place.

The focus for future growth remains on high reliability, harsh environment applications where we can add value. New applications in robotics solutions are being targeted in varied market sectors including land based, sea and subsea. The business unit is taking care to select markets for portable power and energy storage solutions that have not been commoditised as a result of the EV market's demand's for ever diminishing pricing on the cell chemistries.

Communications business unit

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

While the absolute level of business has fallen over the prior year, as expected, the Communications business unit has made significant progress in developing a portfolio of more standard 'off the shelf' / 'run rate' antenna products which are underpinning more sustainable revenues to augment the bespoke programmes which the business has traditionally undertaken. This includes provision of antennas for test and measurement applications within the burgeoning 5G market.

The Radio team has established business relationships with complementary companies providing mission planning computers, digital mapping solutions and optical sensors positioning the business as a subsystem provider of both the data links and situational awareness product. This will allow this part of the Communications business unit to move up the value chain, generating larger contracts and increased contribution to the division. This year we have made progress in the early stages of developing the pipeline of international opportunities to overlay the traditional domestic demand for an integrated communications solution where we are expanding our product offering and looking to gain market share.

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;
- approving appetite for risk;
- determining the principal risks;
- ensuring that these are communicated effectively to the businesses; and,
- setting the overall policies for risk management and control.

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

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

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

The principal risks identified below are listed in order of severity. Mitigation, where possible, is shown for each identified risk area.

1. **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

   - Rigorous due diligence to ensure that acquisitions can be effectively integrated and all the relevant stakeholders are engaged, supportive and aligned.
   - Pro-active and early engagement with:
     - key customers and suppliers; and,
     - employees through the on-site presence of Solid State PLC management.
   - Preparation and execution of a cross functional integration plan.
   - Continued invest in development of technology in the acquired businesses.
   - Integration into existing internal control frameworks, processes and reporting systems.

CHIEF EXECUTIVE'S STRATEGIC REPORT (continued)

2. Product / Technology change – (Commercial risk)

Business risk

- Failure to maintain our leading technical capabilities and knowledge which allows us to develop electronic solutions in partnership with our customers.
- Failure to manufacture solutions that meet the agreed specification.
- Failure of key distribution franchises to innovate and introduce new products.

Mitigation

- Continued investment in the technical training and development of our sales, engineering and operations staff, building our capabilities.
- Investment in joint R&D programmes with partners to ensure we are at the forefront of technical electronic solutions.
- Maintain rigorous quality and engineering control processes to ensure that our products meet the required specifications.
- Perform all necessary detailed product testing to ensure that products are fit for purpose.
- Continuously seek new franchises and partners at the forefront of electronics technology.

3. Supply chain interruption – (Operational risk)

Business risk

- Dependency on significant suppliers or dependency on a qualified supplier within a controlled supply chain.

Mitigation

- Active programme to maintain cross qualified second sources of supply.
- Rigorous supplier quality management processes.
- Maintain close relationships with key suppliers in order to be aware of potential supply issues.
- Appropriate levels of buffer stock holding to minimise the effects of extended lead times.

4. 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

- Setting a commercial strategy:
  - Focused 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.

5. Legislative environment and compliance – (Strategic risk)

Business risk

- On-going Brexit negotiations and USA / China trade dispute causing an increased level of uncertainty in the legislative and trading environment in which we operate
- Overseas competitors are favoured in their domestic markets
- Failure to comply with applicable legislation, to include but not limited to:
    - Export Control and International Traffic in Arms (ITAR);
    - Bribery Act;
    - General Data protection regulation (GDPR); and,
    - Employment legislation and company legislation.

Mitigation

- The on-going Brexit negotiations present a level of risk and uncertainty to the business environment in which we operate, however given our level of trade with the EU is modest our exposure is lower than some other companies. However, our breadth of technical knowledge, service levels from our specialist sales teams, scale of our operations, structure, strong balance sheet, governance, and quality standards mean the Board believes the Group is well positioned to respond quickly. The Board believes that the Group's diversified structure gives it resilience, and places it in a far stronger position than our smaller unlisted competitors within our customers' supply chains.
- Regular reporting of export / ITAR compliance, and detailed internal control processes and procedures.
- Continuing education of our employees on the legislative developments and requirements.
- Internal reviews and external audits.
- Adopt suitable software systems where appropriate to aid export control procedures and assist with other compliance issues.
- The individual operating companies maintain operating procedures and are certified to internationally recognised standards, e.g. ISO 9001-2015, AS9100, AS9120, SC21.

6. Retention of key employees – (Operational risk)

Business risk

- Loss of key people and critical skills.
- Insufficient skilled employees.
- Poor engagement and morale.

Mitigation

- Retention and development of our workforce is critical to the long term success of the Group.
- Low staff turnover, with many employees having been with the Group for in excess of ten years.
- The Group encourages and invests in continuous professional development and training in core skills and competencies as appropriate.
- The Group pro-actively looks to develop its own talent and makes use of the government apprenticeship schemes.
- The Group pro-actively communicates with its employees.
- The Group reviews & benchmarks employee rewards to ensure we are fairly rewarding our employees.

7. 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

- 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.
- 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 2019, the Group had an undrawn revolving credit facility of £3.5m and the Group had net debt of £2.0m.
- Operate a clearly defined delegation of authority matrix and contract review / contract risk register.

8. 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

The Group:

- Has been certified as meeting the "Cyber Essentials" standards.
- Runs automated daily back-ups of all business critical data.
- Operates off site storage of business critical data.
- Has established, documented and tested disaster recovery plans.

9. Natural disasters – (Operational risk)

Business risk

- Natural disaster disrupts production capability, supply of materials or customer demand.

Mitigation

- The Group has a documented and tested disaster recovery plan for each site. In addition, the Group has business interruption insurance.

Financial Review

In order to provide a fuller understanding of the Group's ongoing underlying performance, we have included a number of adjusted profit measures as supplementary information, on a consistent basis with that reported by the financial analysts that review our business. As detailed in note 32, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues

Group revenues from continuing operations of £56.3m were up 22% on the prior year (2018: £46.3m) delivered from a combination of organic growth of £4.3m or ~10% and acquisitive growth of £5.7m or ~12%.

During the year the Value Added Distribution division delivered organic revenue growth in excess of 25% which when added to the £5.7m of revenue from the acquisition of Pacer results in the division now representing £30.4m / 54% (2018: £19.7m / 43%) of Group revenue.

The Manufacturing division reported revenue of £25.9m (2018: £26.6m) which was marginally down on prior year. This reduction in revenue was as a result of some re-scheduling of orders in the Power business unit from Q4 2018/19 to Q1 2019/20. Deliveries to these customers have now resumed at expected levels. The focus this year has been on quality of value added activity which has meant that this marginal reduction in revenue was more than mitigated at a gross margin and profit before tax level.

Gross profit

Gross profit for the year is up £3.7m to £16.4m (2018: £12.7m) reflecting margins recovering to 29.1% (2018: 27.5%) driven by improved margins in the Manufacturing division.

VAD margins have been maintained at 23.5% on revenues which are up 54%, which when combined with the significant improvement in the Manufacturing margins to 35.6% (2018: 30.6%) result in Group margins improving 1.6% in spite of the potentially dilutive impact of the increased share of VAD activity.

VAD contributed £7.2m (2018: £4.6m) of gross margins which was up 57% over the prior year. The increase reflects our success in growing revenue through the acquisition of Pacer and winning larger volume contracts. In addition the investments we have made in developing our added value services at the Weymouth facility, and our obsolescence sourcing and long term storage offerings which add tangible value to our customers mitigating the margin pressure. We now have the class leading value added services capability which, looking forward, are expected to increase the product portfolio and enable the VAD division to enhance its margins as these services develop.

The Manufacturing division contributed £9.2m (2018: £8.1m) of gross margin which is up 14% on the prior year. The gross margin percentage has recovered to 35.6% (2018: 30.6%) primarily as a result of a change in mix of sales with the higher sales of high value added product being achieved across all the business units. The focus on higher value added activity has resulted in some extended commercial negotiations but now positions us well for profitable future growth.

Sales and general administration expenses

Sales and general administration expenses of £13.5m increased by £3.3m from £10.2m in 2018. This increase primarily reflects £2.5m increase in operating costs, £1.5m of which are a result of the Pacer acquisition plus overhead inflation of ~ £0.25m plus investment in staff and third party sales resources of ~ £0.75m.

The remaining overhead increase reflects additional share based payments charges £0.2m and additional depreciation and amortisation of £0.6m.

Adjusted sales and general administration expenses from continuing operations increased by £3.0m to £12.7m (2018: £9.7m).

As reported last year, the VAD division invested in additional resources in order to deliver the organic growth in 2018/19 which combined with the Pacer overheads has resulted in the division's adjusted sales and general administration expenses increasing from £3.3m to £5.5m.

The Manufacturing division's adjusted sales and general administration expenses have increased to £6.3m from £5.6m. This reflects the full year impact of the amortisation of intangibles in conjunction with cost inflation.

Adjusted Head Office sales and general administration costs have remained relatively stable at £0.9m (2018: £0.8m).

CHIEF EXECUTIVE'S STRATEGIC REPORT (continued)

Within sales, general and administrative expenses the reported depreciation and amortisation from continuing operations in the year was £1.4m which is up £0.5m from £0.9m in 2018 primarily due to the additional depreciation post the Pacer acquisition, increased amortisation of capitalised R&D and the amortisation of the Pacer acquisition intangibles. Adjusted depreciation and amortisation from continuing operations (excludes the amortisation of acquisition intangibles) has increased to £1.2m (2018: £0.7m).

Operating profit

Adjusted operating margins are stable year on year at 6.5% with reported operating profit from continuing operations up 16% to £2.9m (2018: £2.5m). Adjusted operating profit is up in excess of 20% to £3.7m (2018: £3.0m) reflecting the growth in revenue and the improved margins. The adjustments to operating profit are set out in further detail in note 32.

We have recognised no net credit within operating profit in respect of Research and Development Expenditure Credit (RDEC) (2018: £0.1m) however we have recognised credits 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.

EPS

Adjusted fully diluted earnings per share from continuing operations for the year ended 31 March 2019 are up 16% at 35.9p (2018: 30.9p). Reported fully diluted earnings per share from continuing operations are up 18% at 30.7p (2018: 26.0p).

Cash flow from operations

Cash inflow from continuing operations for the year of £4.9m is up from £1.4m in 2018 primarily due to a cash inflow of circa £0.3m from working capital compared to an outflow of £2.2m in the prior year. Underlying cash flow from operations was up £0.5m at £4.0m (2018: £3.5m) after excluding the net cash benefit from advanced customer payments. This delivers underlying operating cash conversion percentage of 109% (2018: 122%) and reported operating cash conversion percentage of 168% (2018: 54%)

There was a working capital cash outflow in the period due to increased receivables and inventories resulting from increased revenues and investment in inventory. Inventories have increased due to increased lead times on cells and various electronic components and the positioning of customer requested inventory to mitigate the potential Brexit risk at the end of March offset in part by one off customer cash advances which are excluded when calculating underlying cash conversion.

Investing activities

During the year the Group invested £0.6m (2018: £0.4m) in property plant and equipment and £0.3m (2018: £0.3m) in software and research and development intangibles. The increase in capital expenditure reflects investment in the new value added services facility in Weymouth amounting to circa £0.25m investment. This aside the investment has been maintained at the historical run rate level for capital expenditure.

Investment in subsidiaries

The acquisition of 100% of the share capital of Pacer Technologies Limited, the holding company for the Pacer Group of companies, resulted in a cash outflow of £3.8m. The acquisition was financed through new bank facilities provided by the Lloyds (see below financing activities) further details on the acquisition are provided in note 31.

Financing activities

The financing activities reflect the drawdown of £6.0m of acquisition facilities put in place to fund the acquisition of Pacer. We have subsequently repaid £1.8m of borrowings which included the first repayment of the term loan and the repayment in full of the Pacer invoice discounting facility acquired.

As a result of the strong cash generation, post year end in April 2019, the Group has made an early repayment of £2.0m of the highest price element of the term loans taken out in respect of the acquisition of Pacer. Having done this, the Group has been able to extend the undrawn revolving credit facility by £2.0m, maintaining the Group's overall funding flexibility.

Dividend

The Board is proposing to increase the final dividend to 8.3p (2018: 8.0p), giving a full year dividend of 12.5p (2018: 12p). The dividend is 2.9 times covered based on the adjusted profit after tax.

Subject to approval of the final dividend by the shareholders at the AGM on 4 September 2019, the final dividend will be paid on 19 September 2019 to shareholders on the register at the close of business on the 30 August 2019. The shares will be marked ex-dividend on 29 August 2019.

KPIs

In addition to the 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 14 to 16. Non-financial KPIs are not disclosed.

KPI	2019	2018
Sales from continuing operations	£56.3m	£46.3m
Adjusted operating profit from continuing operations	£3.7m	£3.0m
Adjusted profit before taxation from continuing operations	£3.5m	£3.0m
Adjusted diluted EPS from continuing operations	35.9p	30.9p
Underlying cash flow from continuing operating activities	£4.0m	£3.5m
(Net debt) / net cash	(£2.0m)	£0.6m
Open order book @ 31 May	£35.9m	£23.0m

Outlook

The margin improvement achieved by refocusing the Manufacturing division, in conjunction with a significantly stronger open order book puts the Group in a strong position as we start the new financial year, albeit the macroeconomic headwinds continue to be a challenge.

Investment in the Power business unit is positioning the business to win and deliver more complex, higher margin solutions whilst automation is improving productivity. Likewise, the Computing team are targeting opportunities with increased levels of added value to leverage our engineering and production capability. When combined these initiatives place the Manufacturing division in a strong competitive position to deliver profitable growth.

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

Over the next three years of our five year plan, we will remain focused on securing quality orders as we drive to achieve our goal we set at the beginning of 2017 to double the size of the business through a combination of organic growth and strategic acquisitions. The Board is confident that the achievements of the last year and the growth in our open order book demonstrate that Solid State is making good progress towards achieving its goals and that the prospects for the Group remain very positive.

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, 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 5 to 17 has been approved by the Board of Directors and signed on its behalf by:

G S Marsh
Chief Executive Officer

2 July 2019

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

Code of business conduct, ethics and anti-corruption

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

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

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

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

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

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

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

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

Commercial business practices

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

In our dealings with customers

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

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

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

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

In our dealings with suppliers

Working with our suppliers to help us improve the value of the products and services we offer to customers with the benefit of the access to the supply chain that we have;

Identifying and selecting suppliers to work in partnership with using fair and reasonable methodologies;

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

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

In our relationships with employees and other stakeholders

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

Encouraging volunteer work in community activities;

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

Confidentiality

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

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

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

Bribery Act

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

Human rights

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

Modern slavery

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

How we invest in our people

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

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

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

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).

G S Marsh
Chief Executive Officer
2 July 2019

CORPORATE GOVERNANCE REPORT

Statement of compliance against the UK Corporate Governance Guidance

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

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

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

This statement describes how the Group is applying the relevant principles of governance, as set out in the Code. Throughout the year ended 31 March 2019, the Group has applied the principles of the Code. In adopting the Code the board has also been cognisant of the guidance issued from other regulatory bodies in respect of best practice corporate governance such as the FRC to ensure that the governance framework adopted at Solid State PLC is rigorous, robust and appropriate for our size and structure.

How the corporate governance principles are adopted at Solid State PLC

The Board considers that throughout 2018/19, 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	Explaination	Further disclosure(s)
Delivering growth			
Principle 1: -"Establish a strategy and business model which promote long-term value for shareholders"	Fully compliant	Group business strategy is set out in the Chairman's statement and the Strategic Review above. Strategic issues, and the appropriate business model to exploit opportunities and mitigate risks, are under continuous review by the board.	See the Chairman's Statement on pages 3 to 4 and Strategic review on pages 5 to 17.
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 of this report and pages 18 to 19 of the corporate and social responsibility report.
Principle 3: - "Take into account wider stakeholder and social responsibilities and their implications for long-term success"	Fully compliant	Directors and the management team adopt a broad view during decision making to take meaningful account of the impact of our business on all key stakeholder groups.	See further reporting on the stakeholder engagement provided on page 27 of this report and pages 18 to 19 of the corporate and social responsibility report.

CORPORATE GOVERNANCE REPORT (continued)

Principle	Compliance status	Explaination	Further disclosure(s)
Principle 4: - “Embed effective risk management, considering both opportunities and threats, throughout the organisation”	Fully compliant	The group operates a system of internal controls to safeguard group assets and protect the business from identified risks. These controls are subject to examination during the annual external audit process.	See the risks identified and the mitigation and the report our risk management processes on pages 27 to 28 of this report and on pages 10 to 13 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 A B Frere, 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 23 to 26.
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. It was identified last year that a new independent director would add value and fresh perspective to the Board resulting in the post year end appointment of Nigel Rogers.	See the Board section in this report on pages 23 to 26.
Principle 7: - “Evaluate board performance based on clear and relevant objectives, seeking continuous improvement”	Partially compliant	The Board has completed an internal evaluation of performance which is led by the 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 26.

CORPORATE GOVERNANCE REPORT (continued)

Principle	Compliance status	Explaination	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 23 to 26 and the corporate and social responsibility report on pages 18 to 19.
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 23 to 26 and the audit committee report on pages 32 to 34.
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 20 to 29, the corporate and social responsibility report on pages 18 to 19 and the remuneration committee report on pages 35 to 38.

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 2019 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).

The Board

The Board acknowledges that none of the Non-Executives would be independent in accordance with the FRC Code, 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 the Non-Executives are independent in terms of character and judgement in how they execute their role as Non-Executive Directors.

As we reported previously the Board feels that stability in the Non-Executive team over the last year has been very valuable especially as there has been two changes in the Executive team within the last 3 years. The value, the knowledge, and the experience of the industry and business held by Mr A B Frere, Mr P Haining and Mr J M Lavery out-weighs the short term potential lack of perceived independence.

During the year Mr J M Lavery announced his intention to retire from the board as part of the planned succession and development of the Board. The Board has completed a nomination process to appoint a replacement independent non-executive Director who will also take on the responsibility of chairing the remuneration committee going forward. Post year end the Board announced that Nigel Rogers will be appointed to the Board from 1 July 2019. Further details of the nominations and appointment process is provided on page 24.

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 41. 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.

CORPORATE GOVERNANCE REPORT (continued)

How the Board operates

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

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

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

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

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

Examples of such items include but are not limited to:

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

Committees of the Board

Executive Committee

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

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

Nominations Committee

The Nominations Committee is formed when required as a sub-committee of the Board. The Nominations committee was formed and oversaw the recruitment process to appoint Nigel Rogers as a non executive director which was completed in the current financial period.

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

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

Audit Committee

The Audit Committee consists of the Non-Executive Directors; Mr P Haining, Mr J M Lavery and Mr A B Frere. 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 A B Frere, Mr J M Lavery and Mr P Haining. The Committee meets at least twice a year under the Chairmanship of Mr A B Frere.

While the Corporate Governance code suggests the Chairman of the Group should not also be Chairman of the Remuneration Committee, as Mr A B Frere is the only Non-Executive Director not to have held an Executive position, it is felt that it is appropriate that Mr A B Frere chairs this committee. However, going forward Mr N Rogers, as the new independent Non-Executive Director, will chair this committee following his appointment post year end.

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 35 to 38.

Attendance at meetings

	Board	Audit Committee	Remuneration Committee
Number of meetings in 2018/19	10	3	2
Attendance			
Executive			
Mr G S Marsh	10	n/a	n/a
Mr J L Macmichael	10	n/a	n/a
Mr M T Richards	10	n/a	n/a
Mr P O James	10	3	n/a
Non-executive			
Mr A B Frere	9	3	2
Mr P Haining	10	3	2
Mr J M Lavery	8	3	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.

During 2018/19 the Board and the Remuneration Committee evaluated the Board performance, including but not limited to Board balance, Board skills and remuneration, to ensure that the Board structure is fit for purpose and is appropriate for the next phase of the Group's development and growth.

This review identified that the Board continued to make progress against its strategy with the current trading performance ahead of the Board's expectations. As a result of the pleasing performance in the current year the Executive Directors' share bonus options vested, modest cash bonuses and salary increases were awarded to the Executive Board Members. Further details are provided in the remuneration report on pages 35 to 38.

The evaluation identified that while the Board's skills and balance were appropriate, and the Non-Executives remained independent in terms of character and judgement in how they execute their role as Non-Executive Directors, the current non executives had all been on the board for in excess of nine year.

As a result, the Board acknowledged that the appointment of a truly independent replacement Non-Executive Director post year end would bring a fresh perspective which would be a significant benefit as the Board continues to develop and drive progress against its strategic objectives and Goals.

Shareholder relations

The Board regards regular communications with shareholders as one of its key responsibilities. During 2018/19, the Chief Executive Officer and Group Finance Director met with institutional investors on a regular basis to discuss the Group's performance, the shareholder's views, and to ensure that the strategies and objectives of the Group are well understood.

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

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

Interim and full year-end shareholder roadshows are held by the Executive Directors together with a Capital Markets Lunch. The Company also arranges investor site visits typically twice a year. These events enable shareholders and potential shareholders to understand first-hand the business, visit the operations and meet the wider team. Furthermore, shareholders attending the AGM are invited to ask the Directors questions about the business. 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.

Audit and Accountability

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

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

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

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

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

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

Risk Management

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

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

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

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

In addition to day-to-day risk management the Executive Directors formally assess the major business risks and evaluate their potential impact on the Group. These risks and the reporting of the risk assessment is included in the strategic report on pages 10 to 13.

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 30.

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

The Directors, after making enquiries, considering the available resources, the financial forecast together with available cash and committed borrowing facilities, have formed a judgement that there is a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these financial statements.

In reaching this conclusion the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

Long term viability statement

The Directors have considered the viability of the Group over a three year period to 31 March 2022, taking account of the Group's current position and the potential impact of the principal risks and uncertainties documented in the Strategic Report.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

The Directors have determined that the three-year period to 31 March 2022 is an appropriate period over which to provide its viability statement. In making their assessment the Directors have taken account of the Group's current funding headroom (see note 18), its ability to raise new finance in most market conditions and other potential mitigating actions.

Based on this assessment the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2022.

G S Marsh
Chief Executive Officer
2 July 2019

AUDIT COMMITTEE REPORT

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

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

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

Primary responsibilities of the audit committee:

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

Activities during the year:

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

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

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

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

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

Financial reporting

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

The main areas of focus considered by the Committee during 2018/19 were as follows:

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

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

Review of the impact of the acquisition accounting for the Pacer acquisition under IFRS 3.

The Committee reviewed the reports prepared by management which set out the judgments adopted in accounting for the acquisition of the Pacer Group of companies in accordance with IFRS 3. The committee reviewed the detailed assumptions which supported the material judgements relating to acquisition accounting as a whole with specific focus on the dilapidation provisions and the fair value of acquired intangibles. The committee noted that the impact of any change in the assumptions would be to increase or decrease goodwill accordingly. As such they also considered the value that has been attributed to the Goodwill. Based on the review the committee concluded that the judgements adopted were reasonable and appropriate. In finalising the accounts the committee noted that the external auditors materially concurred with management and the committee's conclusions.

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

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

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

On adoption of the new standard the opening balance sheet which will be 31 March 2018, and the comparative period, which will be the financial year ended 31 March 2019 will need to be restated.

The standard requires that material leases are recognised on balance sheet within property plant and equipment as a "right to use asset" which will be depreciated. A right of use liability recognised in respect of future payment obligations.

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

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

The Committee reviewed and challenged the key assumptions, judgements and sensitivities in the report from management. The Committee concurred that the expected future cash flows of the group support the carrying value of goodwill and other intangible assets, and that there were no triggering events which suggested any potential impairment of goodwill and other intangible assets. In finalising the accounts the committee noted that the external auditors materially concurred with management and the committee's conclusions.

Review of product development costs capitalised.

Following review of reports from management and discussion with the Head of Manufacturing Engineering and Operations, the Committee concurred that the product development costs were capital in nature, and that the treatment was in accordance with IAS 38. In finalising the accounts the committee noted that the external auditors materially concurred with management and the committee's conclusions.

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. In finalising the accounts the committee noted that the external auditors materially concurred with management and the committee's conclusions.

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

Following review of reports from management the Committee concurred that the provisioning policy had been applied consistently and the level of provisions remains appropriate. In finalising the accounts the committee noted that the external auditors materially concurred with management and the committee's conclusions.

AUDIT COMMITTEE REPORT (continued)

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. Based on this as disclosed on page 28 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.

Annual report

At the request of the Board the Committee considered whether the 2018/19 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.

haysmacintyre had been the Company's external auditors for 9 years. The Committee considers the reappointment of the external auditor and their independence on an annual basis. As part of this year's evaluation it was considered appropriate that we should seek to appoint alternative independent auditors to ensure that independence and the perception of independence was maintained.

As a result of this an audit tender process was conducted where the audit committee in conjunction with the Group Finance Director met with three audit firms who prepared and completed a comprehensive a proposal. This appointment process included an assessment of the control procedures that the potential audit firms have in place to ensure audit quality and maintain its independence, including the regular rotation of the audit partner.

In addition, the proposal process evaluated the risk identification and assessment process and the resulting approach to the proposed scope of work which is then aligned to ensuring the proposed fees are fair and reasonable and represent value for the services provided. As a result of the rigorous proposal process the Audit Committee concluded that RSM UK Audit LLP ("RSM") should be appointed as independent auditors to the Group.

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.

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.

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 proposal process and references sought from other clients of RSM and the review completed of this year's services delivered in respect of the 2018/19 audit of Solid State PLC both management and the audit committee were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and they assessed the quality of the audit process as good.

AUDIT COMMITTEE REPORT (continued)

Non-audit services

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

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

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.

To ensure compliance with this policy the Audit Committee reviewed and approved the remuneration received by both haysmacintyre and RSM for audit services, audit-related services and non-audit work in this year of transition.

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

	31 March 19 £'000	31 March 18 £'000
RSM UK audit LLP (2019) (group auditors)		
Fees payable to company's auditors for the audit of the parent company accounts and consolidated financial statements	63	-
Fees payable to company's auditor and its associates for other services:		
• The audit of the company's subsidiaries	17	-
• Other assurance services	-	-
• Taxation services	-	-
	_______	_______
Total fees payable to the Group auditors	**80**	**-**
	_______	_______

	31 March 19 £'000	31 March 18 £'000
haysmacintyre (2018) (group auditors)		
Fees payable to company's auditors for the audit of the parent company accounts and consolidated financial statements	-	56
Fees payable to company's auditor and its associates for other services:		
• The audit of the company's subsidiaries	-	-
• Other assurance services – Financial Due Diligence	54	1
• Taxation services	-	-
	_______	_______
Total fees payable to haysmacintyre	**54**	**57**
	_______	_______

The audit scope for the year ended 31 March 2019 relates to the audit of the Consolidated Group Accounts and that of the parent company. For the first time in 2018 all 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.

AUDIT COMMITTEE REPORT (continued)

Internal Audit

The Board asks the Audit Committee to annually review 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 consider there was no requirement for an internal audit function at this time.

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

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

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

Risk management activities are dealt with in more detail in the Strategic Report on pages 10 to 13.

Internal control

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

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

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

P Haining FCA
Audit Committee Chairman
2 July 2019

REMUNERATION COMMITTEE REPORT

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: A B Frere (Chairman); Mr P Haining; and, Mr J M Lavery. Mr J M Lavery has announced his intention to resign as a Director during 2019 once a suitable replacement is appointed. Post year end it has been announced that Mr N Rogers will be joining the board as the new independent Non-Executive Director and will join the Rem Co in place of Mr J M Lavery and take over as Chairman of the Rem Co from Mr A B Frere who will remain as a member of the committee.

The Rem Co, which is required to meet at least twice a year, met twice during the year ended 31 March 2019. The Chief Executive Officer and certain executives may be invited to attend meetings of the Committee to assist it with its deliberations, but no executive is present when his or her own remuneration is discussed.

During the year the Committee has not sought independent advice however as set out in the terms of reference the committee are able to seek independent advice when it is required at the companies' expense.

Remuneration policy

(i) Executive remuneration

The Committee has a duty to establish a remuneration policy which will enable it to attract and retain individuals of the highest calibre to run the Group.

Its policy is to ensure that the executive remuneration packages of executive directors and the fee of the Chairman are appropriate given performance, scale of responsibility, experience and consideration of the remuneration packages for similar executive positions in companies it considers to be comparable.

A high performing executive team is critical to delivering shareholder value. Packages are intended to motivate executives to achieve the highest level of performance.

An element of the total remuneration package, in the form of cash bonus and Enterprise Management Incentive scheme ('EMI') awards, is performance driven.

Executive remuneration currently comprises a base salary, an annual performance-related bonus, EMI participation, a pension contribution to the executive director's individual money purchase scheme at 2% of base salary for the year ended 31 March 2019 (increasing to 4% for the year ending 31 March 2020), family private health cover, company car or car allowance and life assurance.

The previous salary and benefit review took effect from 1 April 2017 and there was no review during 2017/18.

There has been an interim review of salaries and performance bonuses completed at the end of financial year ended 31 March 2019, taking into account Group, individual performance and internal relativities. However, with the appointment of a new independent non-executive director who is taking on the responsibility of being Chair of the Remuneration committee going forward a full detailed review will be completed as part of taking on this role.

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

31 March 2019	1 April 2017 to 31 March 2018 Salary pa (£'000)	1 April 2018 to 31 March 2019 Salary pa (£'000)	From 1 April 2019 Salary pa (£'000)	1 April 2017 to 31 March 2018 Cash bonus (£'000)	1 April 2018 to 31 March 2019 Cash bonus (£'000)
G S Marsh	163	163	175	Nil	Nil
P O James	120	120	130	Nil	20
J L Macmichael	140	140	150	Nil	20
M T Richards	140	140	150	Nil	15
	_____	_____	_____	_____	_____

Directors' remuneration for the year ended 31 March 2019 is set out on page 37 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 Chairman and 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 Chairman is not involved in setting his own remuneration.

(iii) Annual bonus plan
The Company operates a discretionary bonus scheme for executive directors for delivery of exceptional performance against pre-set relevant corporate objectives.

Bonuses, representing up to 16.6% of annual salary, were awarded for the year ended 31 March 2019 having regards to the combination of performance measures both personal performance and company performance which included operational, financial performance and progress against strategic objectives.

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

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

No EMI awards were made in 2018/19. The last grant was made in June 2017 and the Committee intends to complete a full review and overhaul of the Executive remuneration. Following this review, the remuneration committee will make any changes that are appropriate to the Executive remuneration packages which will include full disclosure of any changes in the share incentives and the associated performance conditions.

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

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

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

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

(v) 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.

During the year ended 31 March 2019, 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.

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.

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

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

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

Of the current year share based payments charge £241k (2018: £57k) relates to the Directors.

31 March 2018	Salary/ Fees £'000	Consultant fees £'000	EMI share bonus** £'000	Cash Bonus £'000	Benefits in kind £'000	Pension Cont'n £'000	Single figure Total £'000
G S Marsh	163	n/a	-	-	44	7	214
P O James	120	n/a	-	-	51*	1	172
J L Macmichael	140	n/a	-	-	26	2	168
M T Richards	140	n/a	-	-	31	1	172
A B Frere	12	51	n/a	n/a	-	-	63
P Haining	12	13	n/a	n/a	-	-	25
J M Lavery	12	13	n/a	n/a	2	-	27
Total	599	77	-	-	154	11	841

* benefits in kind in the year for Mr P O James included a relocation allowance of £25k.
** None of the EMI share bonus options vested in the period.

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

In addition to the above consultancy fees, additional fees totalling £26k (2018: £33k) arose during the year in respect of accountancy services provided by The Kings Mill Practice, a firm of which Mr P Haining is the proprietor. A balance of £7k (2018: £3k) was due to The Kings Mill Practice at 31 March 2019.

In addition to the above, fees totalling £2k (2018: £1k) arose during the year in respect of out of pocket expenses and services of Mr A B Frere provided by Condev Limited. A balance of £5k (2018: £5k) was due to Condev Limited at 31 March 2019.

In addition to the above, fees totalling £1k (2018: £nil) arose during the year in respect of out of pocket expenses and services of Mr J M Lavery provided by John Lavery Consulting Limited. A balance of £1k (2018: £1k) was due to John Lavery Consulting Limited at 31 March 2019.

The Executive Directors have service contracts with the Company which are terminable by the Company, or the relevant Director, on one year's notice, with the exception of Mr M T Richards and Mr P O James whose period of notice is currently three months.

REMUNERATION COMMITTEE REPORT (continued)

The Directors of the Company on 2 July 2019 and at the statement of financial position date, and their interest in the issued ordinary share capital of the Company at that date, at 31 March 2019 and 31 March 2018 or date of appointment if later, were as follows:

	02.07.19	31.03.19	31.03.18
G S Marsh	280,862	280,862	481,894
J M Lavery	118,393	118,393	118,281
P Haining	54,443	54,443	52,501
J L Macmichael	122,337	122,337	120,222
A B Frere	13,006	13,006	8,004
M T Richards	4,800	4,800	2,400
P O James	684	684	-
N Rogers	-	-	-

Enterprise Management incentive scheme ('EMI')

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

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

During the year the performance criteria for the second tranche of the options was met and as such 16,000 shares vested of each Director's options totalling 64,000 options. None of the vested options were exercised at the balance sheet date.

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

The market price of the shares at 31 March 2019 was £3.81 (2018: £3.84), with a quoted range during the year of £2.42 to £4.24 (2018: £3.78 to £5.21).

	Options held at 01.04.17	Granted	Exercised	Lapsed	Options held at 31.03.18	Exercise price	Date of grant	Exercise period
G S Marsh	-	48,000	-	(16,000)	32,000	0.01p	01.06.17	April 2018 to April 2027
P O James	-	48,000	-	(16,000)	32,000	0.01p	01.06.17	April 2018 to April 2027
M T Richards	-	48,000	-	(16,000)	32,000	0.01p	01.06.17	April 2018 to April 2027
J L Macmichael	-	48,000	-	(16,000)	32,000	0.01p	01.06.17	April 2018 to April 2027

During the prior year the performance criteria for the first tranche of the options were not met therefore on the 31 March 2018 16,000 of each Director's options lapsed totalling 64,000 options.

A B Frere
Remuneration Committee Chairman
2 July 2019

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group in respect of the year ended 31 March 2019.

Principal Activities, Review of the Business and Future Developments

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

The key performance indicators recognised by management are set out in the KPI section of the strategic report on page 16.

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:
A B Frere
G S Marsh
J L Macmichael
J M Lavery
P Haining, FCA
M T Richards
P O James, BSc FCA

Details of the interests of Directors in the shares of the Company and Directors' service contracts are stated in the Directors remuneration report on pages 35 to 38.

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 20 to 29

Internal Control

Details of the use of the board has implemented its internal control framework and processes are set out in the corporate governance report on pages 20 to 29.

Board of Directors

The structure and operation of the Board of Directors is set out in the corporate governance report on pages 20 to 29.

Principal risks and uncertainties

Details of the principal risks and uncertainties of the Group are set out in the strategic report on pages 10 to 13.

Financial Instruments

Details of the use of financial instruments by the Group are contained in note 19 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 6 September 2018. This authority expires on 6 March 2020.

Dividends

Details of the dividends are disclosed in note 9 and in the chief executives strategic report on page 16.

DIRECTORS' REPORT (continued)

Research and Development

During the year the Group has continued to invest in research and development in partnership with some of its customers to develop technical electronic solutions to address the demand of our customers in its core markets of Electronic communications, Mobile Battery Power and Rugged and industrial computing. During the year we invested in excess of £1.7m (2018: £1.6m) in research and development. The Company continues to claim R&D tax credits where eligible.

Share options award

On 1 June 2017 the company granted options to the Executive Directors (who previously had no outstanding options) under the Company's EMI Share bonus Plan, as detailed in the remuneration report on pages 35 to 38, note 27.

Going Concern

Further details are set out in the corporate governance report on pages 20 to 29.

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.

Anthony Frere (dob: October 1947), Chairman
Tony has been in the Electronics Industry for 40 years, 30 of which serving the component distribution sector. Former directorships include Managing Director of DT Electronics and Nu Horizons Electronics. Tony currently sits on the executive council of the ECSN (the Electronic Component Supply Network trade association), and in 2013 was appointed as Deputy Chairman, and was appointed as Chairman in April 2014.

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 operations of Solid State Supplies Limited 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.

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.

Nigel Rogers (dob: April 1961), Non-Executive Director (appointed 01 July 2019)
Nigel qualified as a Chartered Accountant in 1983 with PwC. He managed the flotation of Stadium Group plc ("Stadium") as Group Finance Director, 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 (Colchester-Harrison), increasing strategic focus on the growth of its laser marking business (Electrox) until April 2015. Nigel has been Non-Executive Deputy Chairman of Transense Technologies plc, since July 2015. Nigel was appointed Executive Chairman of Surgical Innovations Group plc in October 2015 and has transitioned to Non executive chairman on 1 March 2019.

John Lavery, (dob May 1961), Non-Executive Director
John Lavery is an apprenticed trained engineer in Electronics Communications. He moved into Sales in the 1980's with Steatite before being appointed to The Board of Directors at the age of 28. He has held positions of Director of Sales and Marketing after a year's training with the Institute of Directors for Corporate Governance, before being appointed Managing Director of Steatite in 1999. Following the appointment of Matthew Richards with effect from 31 July 2016, John Lavery became a Non-Executive Director of the Group.

Statement of Directors' Responsibilities

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

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

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

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

Auditors

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

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

A resolution to 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
2 July 2019

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 2019 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

Group key audit matters

The risk - revenue recognition

Refer to accounting policies and critical accounting judgements in Note 1 to the group financial statements and note 3.

The group's revenue comprises sales of electronic equipment to its customers after deductions for discounts and anticipated returns. There are also certain contracts where retentions have been received or where obligations are satisfied in stages.

Revenue underpins the key measures of performance of the group.

There is a risk that revenue could be misstated through:

- inappropriate application of the group's revenue recognition policies;
- recognition of revenue in the wrong period; or
- inaccurate estimates for returns or where revenue is recognised over time.

Our response

We assessed whether revenue was recognised in line with the Group's revenue recognition policies, and IFRS15.

Our procedures included a combination of controls and substantive tests. We selected a sample of items to check that revenue was recognised on shipment and that the cut-off of revenue transactions around the year end was appropriate.

We critically assessed the revenue recognition for specific contracts where revenue is recognised over the course of the agreement and resulted in deferred income. We also reviewed the provision for returns by assessment of the level and nature of post year end credit notes.

The risk – acquisition accounting

Refer to accounting policies and critical accounting judgements in Note 1 to the group financial statements and note 31.

During the year the group acquired the Pacer group. There is a risk that the acquisition was not accounted for in accordance 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 and the recognition of acquisition intangible assets and goodwill.

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 values 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.

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.

The risk – stock valuation and provisioning

Refer to accounting policies and critical accounting judgements in note 1, and note 14.

The group holds a combination of finished goods and good for re-sale, together with work in progress. Finished goods and good for re-sale comprise a range of bought in and manufactured specialist electronic equipment. Work in progress is substantially the material cost of assemblies and manufactured products at varying stages of completion at the year end.

The valuation of inventory, which by its nature is specialist, involves judgement relating to the potential obsolescence of inventory including net realisable value (NRV).

The group has in place a policy for addressing this risk and recognises provisions accordingly.

Our response

We attended and undertook physical inventory counts at key locations across the group validating that inventory held was accurately recorded and was in good physical condition.

We reviewed and tested the year-end inventory provisioning calculations prepared by management, including their arithmetic integrity.

We have obtained justification from management on the assumptions adopted within the provisioning calculations and assessed any specific areas where a provision was considered necessary. We performed testing to ensure that the valuation of inventory is stated at the lower of cost or NRV by comparing the sales value of the products to their actual cost.

Parent company key audit matters

There were no parent company key audit matters.

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 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. During planning materiality for the group financial statements as a whole was calculated as £350,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £348,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £20,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our parent company and group audit approach included full scope audits of the:

- parent company;
- two main UK trading subsidiaries, Steatite Limited and Solid State Supplies Limited;
- Pacer group from the point of acquisition for the purposes of the consolidation; and
- consolidation process.

We also performed overall analytical procedures on the consolidated results and position.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 42, 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.

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

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.

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

2 July 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

Continuing Operations	Notes	2019 £'000	2018 £'000
Revenue	3, 30	56,299	46,268
Cost of sales		(39,927)	(33,525)
		_______	_______
Gross profit		16,372	12,743
Sales, general and administration expenses		(13,452)	(10,229)
		_______	_______
Profit from operations	4	2,920	2,514
Finance expense	6	(109)	(33)
		_______	_______
Profit before taxation		2,811	2,481
Tax expense	7	(153)	(238)
		_______	_______
Adjusted profit after taxation		3,108	2,663
Adjustments to profit	32	(450)	(420)
Profit after taxation		2,658	2,243
		_______	_______
Profit attributable to equity holders of the parent		2,658	2,243
		_______	_______
Other comprehensive income		-	-
		_______	_______
Total comprehensive income for the year		2,658	2,243
		_______	_______

Earnings per share		2019	2018
Basic EPS from profit for the year	8	31.3p	26.5p
Diluted EPS from profit for the year	8	30.7p	26.0p

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

The notes on pages 53 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

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

	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 2017	425	3,629	-	5	12,826	(243)	16,642
Total comprehensive income for the year ended 31 March 2018	-	-	-	-	2,243	-	2,243
Dividends	-	-	-	-	(1,015)	-	(1,015)
Share based payment credit	-	-	-	-	150	-	150
Balance at 31 March 2018	425	3,629	-	5	14,204	(243)	18,020

The notes on pages 53 to 91 form part of these financial statements.

Company Number: 00771335

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	10	2,425		2,253	
Intangible assets	11	8,892		6,167	
TOTAL NON-CURRENT ASSETS			11,317		8,420
CURRENT ASSETS					
Inventories	14	9,648		6,823	
Trade and other receivables	15	13,389		10,048	
Deferred tax asset	23	105		-	
Cash and cash equivalents	22	3,692		575	
TOTAL CURRENT ASSETS			26,834		17,446
TOTAL ASSETS			38,151		25,866
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	8,725		5,718	
Contract liabilities	17	2,511		1,317	
Current borrowings	21, 22	1,333		-	
Corporation tax liabilities		519		384	
TOTAL CURRENT LIABILITIES			13,088		7,419
NON CURRENT LIABILITIES					
Non current borrowings	21, 22	4,334		-	
Provisions	20	250		-	
Deferred tax liability	23	576		427	
TOTAL NON-CURRENT LIABILITIES			5,160		427
TOTAL LIABILITIES			18,248		7,846
NET ASSETS			19,903		18,020
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
Share capital	24		427		425
Share premium reserve	25		3,627		3,629
Capital redemption reserve	25		5		5
Foreign exchange reserve	25		(5)		-
Retained earnings	25		16,021		14,204
Shares held in treasury	26		(172)		(243)
TOTAL EQUITY			19,903		18,020

The financial statements were approved by the Board of Directors and authorised for issue on 2 July 2019 and were signed on its behalf by:

G S Marsh, *Director*

P O James, *Director*

The notes on pages 53 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2019

	2019		2018	
	£'000	£'000	£'000	£'000
OPERATING ACTIVITIES				
Profit before taxation		2,811		2,481
Adjustments for:				
Depreciation		698		489
Amortisation		732		406
Loss/(profit) on disposal of property, plant and equipment		6		(11)
Share based payment expense		300		150
Finance costs		109		33
		_______		_______
Profit from operations before changes in working capital and provisions		4,656		3,548
Increase in inventories	(1,198)		(1,246)	
Increase in trade and other receivables	(1,071)		(1,723)	
Increase in trade and other payables	2,540		779	
Decrease in provisions	(10)		-	
	_______		_______	
		261		(2,190)
		_______		_______
Cash generated from operations		4,917		1,358
Income taxes paid	(243)		(6)	
Income taxes recovered	-		39	
	_______		_______	
		(243)		33
Net cash flow from operating activities		4,674		1,391
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(600)		(402)	
Purchase of intangible assets	(300)		(349)	
Proceeds of sales from property, plant and equipment	113		77	
Consideration paid on acquisition of subsidiaries	(3,812)		-	
	_______		_______	
Net cash flow from investing activities		(4,599)		(674)
FINANCING ACTIVITIES				
Issue of ordinary shares	(34)		-	
Borrowings drawn	6,000		-	
Borrowings repaid	(1,776)		-	
Interest paid	(109)		(33)	
Dividend paid to equity shareholders	(1,036)		(1,018)	
	_______		_______	
Net cash flow from financing activities		3,045		(1,051)
		_______		_______
Increase/(decrease) in cash and cash equivalents		3,120		(334)
		_______		_______

The notes on pages 53 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2019 (continued)

	2019 £'000	2018 £'000
Translational foreign exchange on opening cash	(3)	-
Net increase/(decrease) in cash and cash equivalents	3,120	(334)
Cash and cash equivalents at beginning of year	575	909
	_______	_______
Cash and cash equivalents at end of year	3,692	575
	_______	_______

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

	2019 £'000	2018 £'000
Cash available on demand	3,692	575
	_______	_______

The notes on pages 53 to 91 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

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. The policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

Going concern

The Group meets its day to day working capital requirements through its bank facilities and available cash. The Group's forecasts and projections taking account of reasonable possible changes in trading performance show that the Group has adequate resources to continue as a operate for the foreseeable future. As such the going concern basis of accounting has been used in the preparation of these financial statements. The directors have not identified any material uncertainties in this regard.

Changes in accounting policy and disclosures

IFRS 15

In the prior year the Group chose to early adopt IFRS 15 as issued in May 2014; in accordance with the transition provisions in IFRS 15 therefore there is no change in accounting policy in the current year and disclosures are consistent with those adopted last year.

1. ACCOUNTING POLICIES (continued)

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 2018:

- IFRS 9 Financial Instruments (effective for accounting periods beginning or after 1 January 2018).
- Annual improvements 2014-2016 cycle (effective for accounting periods beginning or after 1 January 2018)
- Amendments to IFRS 2 Share-based Payment to clarify the classification and measurement of certain share based payment transactions (effective for accounting periods beginning or after 1 January 2018)
- IFRIC 22 Foreign currency translation of advanced consideration (effective for accounting periods beginning or after 1 January 2018)

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

IFRS 9

'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify 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 asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The Group has adopted IFRS 9 - Financial Instruments for the financial year starting 1 April 2018. The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. All financial assets and liabilities will continue to be measured at amortised cost. The Group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. The magnitude of this judgement is not considered material as the total provision is immaterial.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets. The Group has chosen not to restate comparatives on adoption of IFRS 9 as the impact of the changes on transition are immaterial, therefore, these changes have been processed in the current year. We have also adopted the new disclosure requirements and updated the relevant accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019 (continued)

1. ACCOUNTING POLICIES (continued)

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 2019 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 16 Leases (effective for accounting periods beginning on or after 1 January 2019)
- IFRIC 23 Uncertainty over income tax treatments (effective for accounting periods beginning or after 1 January 2019) this standard has not yet been endorsed by the EU.

Of the standards and interpretations in issue but not yet effective only IFRS 16 is expected to have any potentially material impact on the results and financial position of the Group. IFRS 16 will be effective from 1 January 2019 and in its current form requires all leases to be reflected on-balance sheet.

Under IFRS 16 'Leases', lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value, or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the financial statements as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. This depreciation and interest will replace the operating lease payments currently recognised as an expense. At 31 March 2019, operating lease commitments were £1,409k (see note 28) and operating lease payments for 2019 were £476k (see note 4).

The Group expects to adopt this standard for the financial year ending 31 March 2020 and will restate the comparative period (financial year ended 31 March 2019) and the opening balance sheet (31 March 2018). The expected impact of the restatement on adoption is set out below.

The impact on the opening balance sheet as at 31 March 2018 is expected to result in the recognition of a right of use asset within property plant and equipment of £1,029k, the recognition of a right of use liability of £1,029k.

The impact on the restated comparative statement of comprehensive income for the year ended 31 March 2019 is expected to result in operating lease costs reducing by £433k offset by increased depreciation of right of use asset of £416k and recognition of an interest charge arising on the unwind of the discounting of the right of use liability of £31k. This will result in a net reduction in the reported profit before tax of £14k.

The impact on the restated comparative statement of financial position as at 31 March 2019 is expected to result in the recognition of a right of use asset within property plant and equipment with net book value of £953k, the recognition of a right of use liability of £967k and a reduction in reserves of £14k

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 2 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)

d) Other intangibles

Other intangible assets are those which arise on business combinations in accordance with IFRS 3 revised. These intangible assets form part of the identifiable net assets of an acquired business and are recognised at their fair value and amortised on a systematic basis over their useful economic life which is typically 5 to 10 years. This includes customer relationships, the fair value of which has been evaluated using the multi period excess earnings method “MEEM”.

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

Capitalised acquisition intangibles are amortised on a straight line basis over the period, during which the economic benefits are expected to be received, which typically range between 5 and 10 years. Amortisation expense is included within sales, general and administration expenses in the statement of comprehensive income.

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

Property, plant and equipment

Property, plant and equipment is stated at historical cost or deemed cost where IFRS 1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses.

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

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

Short leasehold property improvements- straight line over minimum life of lease
Fittings and equipment- 25% per annum on a reducing balance basis
Computers- 20% per annum on a straight line basis
Motor vehicles- 25% per annum on a reducing balance basis

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an “operating lease”), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term.

Where substantially all the risks and rewards of ownership have passed to the Group (a “finance lease”), the assets are capitalised as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future obligations under the leases are included as liabilities in the consolidated statement of financial position. The interest element of the rental obligation is charged to the consolidated statement of comprehensive income over the period of the lease and represents a constant proportion of the balance of the capital outstanding. Assets held under hire purchase agreements are treated as assets held under finance leases for accounting purposes.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. 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.

1. ACCOUNTING POLICIES (continued)

Financial Instruments

Classification and measurement of IFRS9 has changed to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial instrument.

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

Financial assets

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

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

Financial assets include:

- Trade and other receivables
- Cash and cash equivalents

The measurement of these financial assets held at amortised cost remains unchanged since the introduction of IFRS9 from the 1 April 2018.

Trade and other receivables

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

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

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

Cash and cash equivalents

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

Impairment of financial assets

IFRS9 introduces a new impairment model. Under IAS 39, an entity only considers those impairments that arise as a result of incurred loss events. The effects of possible future loss events cannot be considered, even when they are expected.

IFRS 9 introduces a new 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.

1. ACCOUNTING POLICIES (continued)

Impairment of trade receivables

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

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

Impairment of other receivables

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

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

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

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

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

Financial Liabilities and equity

The classification and measurement of financial liabilities in accordance with IFRS 9 Financial Instruments remains largely unchanged from IAS 39 Financial Instruments: Recognition and Measurement.

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

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 noncurrent liabilities.

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

1. ACCOUNTING POLICIES (continued)

Contract liabilities

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

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

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

Borrowings

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

Equity instruments and Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury Shares

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

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

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

Dividends

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

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. Transactions are classified as exceptional where they relate to an event that falls outside of the ordinary activities of the business and where individually or in aggregate, they have a material impact on the financial statements.

Foreign currency

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

1. ACCOUNTING POLICIES (continued)

Revenue

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

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

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

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

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

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

Normal payment terms apply to the bill and hold arrangements.

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

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

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

Segmental reporting

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

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

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

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

Pensions

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

1. ACCOUNTING POLICIES (continued)

Current and deferred taxation

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

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

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

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

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

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

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

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

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

Share based payment

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

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Acquisition accounting

In accordance with IFRS 3 and the Groups accounting policy, in preparing these accounts the two significant judgements relate to the recognition of a dilapidations provision of £260k at the date of acquisition in respect of leasehold premises and the key assumptions adopted in the MEEM model to assess the fair value of the identifiable intangible assets. The key assumptions in the model are the discount rate of 10%, customer attrition rate of 5% pa, and the growth rate of 5%. Based on the model the fair value of the intangibles is valued at £1.4m on acquisition which will be amortised over 7 years.

The results of the fair value assessment completed which included key judgements noted above results in goodwill arising on the acquisition to £1.8m. If there were any changes to the judgemental items noted above the corresponding impact would be to increase or reduce goodwill accordingly.

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 judgements to be made in respect of estimating 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 2 – 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 £416k; if the lives were reduced by one year across all the projects which are being amortised the charge would increase by circa £175k.

The amortisation charge for intangible assets arising on acquisitions in the current year is £284k; if the lives were reduced by one year the charge would increase by £36k.

Estimated goodwill impairment

Goodwill is not amortised; however, it is reviewed for impairment at least annually or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing Goodwill is allocated to each of the cash generating units (CGU) to which it relates.

The impairment assessment is made based on the discounted future cashflows of the CGU. Forecasting the future cashflows requires judgement. The key assumptions made in preparing the discounted future cashflows and the sensitivities are set out in note 12.

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 2019 there are current and deferred tax provisions totalling £1.0m.

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

Provisions for returns

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

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

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

Provisions for slow moving or obsolete inventories

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

Differences between such estimates and actual market conditions may have a material impact on the amount of the carrying value of inventories and may result in adjustments to cost of sales. See note 14 for details of the inventory provisions and the amounts written off to consolidated statement of comprehensive income in the year.

Share based payments expense

Non market performance and service conditions are included in the assumptions about the number of options that are expected to vest. At the end of each reporting period the Group revises its estimates of the number of options that are expected to vest based on the non market vesting conditions. It recognises the impact of the revision to the original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

This requires a judgement as to how many options will meet the future vesting criteria. None of the Director's options that were potentially available to vest at the end of the current financial year met performance criteria, therefore they have lapsed at year end.

The judgment adopted in calculating the current year charge is that 100% of the 2018/19 and 20% of the 2019/20 options will meet the non market vesting criteria. If 100% of the 2019/20 options were expected to vest the share based payments expense in the year would be £108k higher.

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:

	2019 £'000	2018 £'000
United Kingdom	44,989	36,001
Rest of Europe	5,230	5,013
Asia	2,540	1,972
North America	3,426	2,991
Rest of World	114	291
Total revenue	56,299	46,268

	2019 £'000	2018 £'000
Computing products	12,063	10,876
Communications products	3,650	4,690
Power products	10,184	11,017
Opto electronic and electronic components and modules	30,402	19,685
Total revenue	56,299	46,268

See further segmental disclosures in note 30.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019 (continued)

4. PROFIT FROM OPERATIONS

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

	2019 £'000	2018 £'000
Continuing charges /(credits)		
Staff costs (see note 5)	8,753	8,174
Depreciation of property, plant and equipment	698	489
Amortisation of intangible assets	732	406
Profit on disposal of property, plant and equipment	7	(11)
Auditors' remuneration*:		
Audit fees	63	56
Audit of accounts of associates of the company pursuant to	17	-
Non audit fees:		
Taxation advisory services	-	-
Other advisory services	54	1
Operating lease rentals:		
Plant and machinery	36	45
Other	440	371
Research and development costs (includes relevant staff costs)	1,785	1,670
Foreign exchange differences	(144)	171
Stock write downs	680	547

*During the year the company changed the firm who provide our audit services. As a result, we have analysed the auditor's remuneration between the respective firms on page 33.

The foreign exchange differences have been treated as an adjustment to cost of sales rather than as an overhead.

Details of transactions with businesses associated with the Directors remuneration report on page 35 to 38.

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

5. STAFF COSTS

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

	2019 £'000	2018 £'000
Wages and salaries	7,421	7,080
Social security costs	829	762
Other pension costs	503	332
Share based payment charges	300	150
Total staff costs	9,053	8,324

Wages and salaries include termination costs of £93k (2018: £75k)

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

	2019 Number	2018 Number
Selling and distribution	124	100
Manufacturing	86	90
Management and administration	33	26
	243	216

Key management is considered to be Group Board Directors. Therefore, the key compensation is disclosed in the director's remuneration report on page 35 to 38 which includes Directors emoluments, interests and services contracts.

6. FINANCE EXPENSE

	2019 £'000	2018 £'000
Bank borrowings	109	31
Other interest	-	2
	______	______
Total finance expense	109	33
	______	______

7. TAX EXPENSE

	2019 £'000	2018 £'000
Analysis of continuing and discontinuing total tax expense		
Total tax charge from continuing operations	153	238
	_______	_______
	153	238
	______	______
Current tax expense		
UK corporation tax on profits or losses for the year	376	468
Adjustment in respect of prior periods	(67)	(330)
	_______	_______
	309	138
Deferred tax (credit)/ charge	(156)	5
Deferred tax adjustment in respect of prior periods	-	95
	______	______
Total tax charge	153	238
	______	______

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:

	2019 £'000	2018 £'000
Profit before tax including discontinued operations	2,811	2,481
	_______	_______
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2018 19%)	534	471
Effect of:		
Expenses not deductible for tax purposes	25	6
Difference between depreciation for the year and capital allowances	25	7
Tax relief on exercise of share options exercised	(52)	-
Enhanced relief on research and development expenditure	(359)	(4)
Differences in current and deferred tax rates	(27)	-
Deferred tax asset not recognised	74	
Amortisation of intangibles	-	(7)
Adjustments in respect of prior years	(67)	(235)
	_______	_______
Total tax charge	153	238
	_______	_______

The UK corporation tax rate of 19% (effective from 1 April 2017) is reducing to 18% (effective 1 April 2020) which was substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liabilities at 31 March 2019 have been calculated based on these rates.

R&D tax credits

The Group recognised a credit of £nil (2018: £109k) 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:

	2019 £'000	2018 £'000
Adjusted continuing earnings post tax	3,108	2,663
Reported continuing earnings post tax	2,658	2,243
Weighted average number of shares	8,488,675	8,459,118
Diluted number of shares	8,648,719	8,618,468
Reported EPS		
Basic EPS from profit for the year	31.3p	26.5p
Diluted EPS from profit for the year	30.7p	26.0p
Adjusted EPS		
Adjusted Basic EPS from profit for the year	36.6p	31.5p
Adjusted Diluted EPS from profit for the year	35.9p	30.9p

Earnings per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 8,488,675 (2018: 8,459,118) net of the treasury shares disclosed in note 26.

The diluted earnings per share is based on 8,648,719 (2018: 8,618,468) 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

	2019 £'000	2018 £'000
Prior year final dividend paid of 8p per share (2018: 8p)	682	680
Current year interim dividend paid of 4.2p per share (2018: 4p)	358	340
Cancelled dividends on shares held in treasury	(4)	(5)
	________	________
	1,036	1,015
	________	________
Final dividend proposed for the year 8.3p per share (2018: 8p)	708	683
	________	________

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

Year ended 31 March 2018	Short leasehold property investments £'000	Motor vehicles £'000	Fittings, equipment and computers £'000	Total £'000
Cost				
1 April 2017	1,380	1,066	1,862	4,308
Additions	59	195	148	402
Disposals	-	(154)	-	(154)
31 March 2018	1,439	1,107	2,010	4,556
Depreciation and impairment				
1 April 2017	215	304	1,383	1,902
Charge for the year	133	217	139	489
On disposal	-	(88)	-	(88)
31 March 2018	348	433	1,522	2,303
Net book value				
31 March 2018	1,091	674	488	2,253

11. INTANGIBLE ASSETS

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

The cost of acquisition intangible assets comprises the estimated net present value of customer relationships identified on acquisitions. The development costs relate to the cost of developing new products and technology to enable the company to extend its operations into new growth areas. Any assets developed that are no longer deemed to meet the recognition criteria of development costs have been written down.

Year ended 31 March 2019 - Acquisition intangible assets	Cost £'000	Net book value £'000
Manufacturing division commercial relationships	675	240
Value Added Distribution division commercial relationships	2,703	1,978
	_______	_______
Total	3,378	2,218
	_______	_______

11. INTANGIBLE ASSETS – (continued)

Year ended 31 March 2018	Development Costs £'000	Computer Software £'000	Goodwill on Consolidation £'000	Acquisition Intangible Assets £'000	Total £'000
Cost					
1 April 2017	347	308	4,543	1,978	7,176
Additions	336	13	-	-	349
	_______	_______	_______	_______	_______
31 March 2018	683	321	4,543	1,978	7,525
	_______	_______	_______	_______	_______
Amortisation					
1 April 2017	140	155	-	657	952
Charge for the year	160	27	-	219	406
	_______	_______	_______	_______	_______
31 March 2018	300	182	-	876	1,358
	_______	_______	_______	_______	_______
Net book value					
31 March 2018	383	139	4,543	1,102	6,167
	_______	_______	_______	_______	_______

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 2018 - Acquisition intangible assets	Cost £'000	Net book value £'000
Manufacturing division commercial relationships	676	310
Value Added Distribution division commercial relationships	1,302	792
	_______	_______
Total	1,978	1,102
	_______	_______

12. GOODWILL AND IMPAIRMENT

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

Goodwill carrying amount	2019 £'000	2018 £'000
Manufacturing division	3,011	3,011
Value Added Distribution division	3,289	1,532
	_______	_______
Total	6,300	4,543
	_______	_______

The recoverable amounts of all the above CGUs have been determined from a review of the current and anticipated performance of these units. In preparing the projection, a discount rate of 10% (2018: 10%) has been used based on the Group's estimated weighted average cost of capital.

A future growth rate of 2.5% (2018: 2.5%) has been assumed beyond the first year, for which the projection is based on the budget approved by the Board of Directors. The future growth rate has been applied for the next four years. It has been assumed investment in capital equipment will equate to depreciation over this period.

The recoverable amount exceeds the carrying amount by £54,241k (2018: £22,752k).

If the following changes were made to the above key assumptions, the carrying amount would still exceed the recoverable amount.

Discount rate: Increase from 10% to 15%
Growth rate: Reduction from 2.5% to nil%

13. SUBSIDIARIES

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

Subsidiary undertakings		Proportion of voting rights and Ordinary share capital held	Nature of business
Solid State Supplies Limited	UK	100%	Distribution of electronic components.
Steatite Limited	UK	100%	Distribution of electronic components and manufacture of electronic equipment.
Pacer Technologies Limited	UK	100%	Non trading entity
Pacer Components Limited	UK	100%	Distribution of opto-electronic components.
Pacer LLC	USA	100%	Distribution of opto-electronic components.
Creasefield Limited	UK	100%	Non trading entity
Q-Par Angus Limited	UK	100%	Non trading entity
Ginsbury Electronics Limited	UK	100%	Non trading entity
Q-Par Angus (Hedera) Limited	UK	100%	Non trading entity
Wordsworth Technology Kent Limited	UK	100%	Non trading entity
Ginsbury Electronics (Hedera) Limited	**UK**	100%	Non trading entity

During the year Rugged Systems Limited has been dissolved. The non trading entities are exempt from filing audited accounts with the registrar under section 479a of the Companies Act 2006.

In all cases the country of operation and of incorporation is England and Wales, with the same registered office as Solid State PLC.

All UK trading subsidiaries are exempt from the requirements to have an audit and file audited financial statements by virtue of section 479A of the Companies Act 2006. In adopting the exemption Solid State PLC has provided a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

14. INVENTORIES

	2019 £'000	2018 £'000
Finished goods and goods for resale	8,712	5,731
Work in progress	936	1,092
	_______	_______
Total inventories	9,648	6,823
	_______	_______

The Directors are of the opinion that the replacement value of inventories is not materially different to the carrying value stated above. These carrying values are stated net of provisions of £1,666k (2018: £931k).

An impairment loss of £680k (2018: £547k) 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 £37,168k (2018: £30,453k).

15. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Trade receivables	11,428	9,077
Other receivables	280	78
Prepayments	1,681	893
	_______	_______
	13,389	10,048
	_______	_______

Impairment losses against trade receivables of £53k were recognised during the year (2018: credit of £7k).

16. TRADE AND OTHER PAYABLES (CURRENT)

	2019 £'000	2018 £'000
Trade payables	5,052	3,568
Other taxes and social security taxes	1,084	862
Other payables	14	33
Accruals	2,575	1,255
	_______	_______
	8,725	5,718
	_______	_______

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019 (continued)

17. CONTRACT LIABILITIES

	2019 £'000	2018 £'000
Contract liabilities	2,511	1,317
	______	______

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

18. BANK FACILITIES

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

- £2.0m Acquisition term loan tranche A of which £2.0m remained drawn at the balance sheet date and was repayable in Nov 2021.
- £4.0m Acquisition term loan tranche B of which £3.7m remained drawn at the balance sheet date and is repayable in twelve quarterly instalment with the final repayment date of November 2021.
- Revolving credit facility of £3.5m which was undrawn at the balance sheet date. This is a committed facility until Nov 2020 when it is due for renewal.
- In addition the group has a multi-currency overdraft facility of £1,000k (2018: £2,000k) which was undrawn at both year ends.

The multi currency overdraft facility is in place to facilitate flexibility in managing currency payment. However, the Group cannot exceed a maximum utilised facilities of £9.5m.

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

19. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

19. FINANCIAL INSTRUMENTS (continued)

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 re-presented by the carrying value in the statement of financial position as shown in note 15 and in the statement of financial position. The amount of the exposure shown in note 15 is stated net of provisions for doubtful debts.

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

Foreign currency risk

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

Liquidity risk

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

The Group has approximately a three month visibility in its trading and runs a rolling 3 month cash flow forecast. If any part of the Group identifies a shortfall in its future cash position the Group has sufficient facilities that it can direct funds to the location where they are required. If this situation is forecast to continue into the future remedial action is taken.

Cash flow interest rate risk

External Group borrowings are approved centrally. The Board accepts that this neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments. It considers, however, that by ensuring approval of borrowings is made by the Board the risk of borrowing at excessive interest rates is reduced. The Board considers that the rates being paid are in line with the most competitive rates it is possible for the Group to achieve.

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	2019 £'000	2018 £'000
Current financial assets		
Trade and other receivables	11,708	9,155
Cash and cash equivalents	3,692	575
	_______	_______
	15,400	9,730
	_______	_______

19. FINANCIAL INSTRUMENTS (continued)

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

Carrying value	2019 £'000	2018 £'000
UK	9,088	7,542
Non UK	2,340	1,535
	11,428	9,077

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 £39k (2018: £7k) which re-presented 0.01% (2018: 0.01%) of revenue. This provision is included within the sales, general and administration expenses in the Consolidated Statement of Comprehensive Income.

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
2019					
UK	9,188	8,036	842	126	184
Non UK	2,431	2,018	222	68	123
Total	11,619	10,054	1,064	194	307
UK	(97)	-	-	-	(97)
Non UK	(94)	-	(2)	(1)	(91)
Total provisions	(191)	-	(2)	(1)	(188)
Total	11,428	10,054	1,062	193	119
IFRS 9					
UK expected loss rate	1.06%	0.00%	0.00%	0.00%	52.72%
Non UK expected loss rate	3.87%	0.00%	0.90%	1.47%	73.98%

Geographical area	Total £'000	Current £'000	30 days past due £'000	60 days past due £'000	90 days past due £'000
2018					
UK	7,553	7,183	280	10	80
Non UK	1,558	1,379	33	71	75
Total	9,111	8,562	313	81	155
Less: Provisions	(34)	-	-	(2)	(32)
Total	9,077	8,562	313	79	123

19. FINANCIAL INSTRUMENTS (continued)

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

	2019 £'000	2018 £'000
Opening balance	34	32
Acquisition of subsidiaries	79	-
Increase / (decrease) in provisions	152	7
Written off against provisions	(72)	(5)
Foreign exchange	(2)	-
	_______	_______
Closing balance	191	34
	_______	_______

The main factor used in assessing the impairment 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 2019 trade receivables of £1,565k which were past their due date were not impaired (2018: £515k).

Liquidity risk

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

	Carrying amount	Contractual cash flow	6 months or less	6-12 Months	1 or more years
2019					
Trade and other payables	8,725	8,725	8,725	-	-
Borrowings	5,667	5,952	741	732	4,479
Provisions	250	250	-	-	250
	_______	_______	_______	_______	_______
	14,642	14,927	9,466	732	4,729
	_______	_______	_______	_______	_______
2018					
Trade and other payables	5,718	5,718	5,718	-	-
	_______	_______	_______	_______	_______
	5,718	5,718	5,718	-	-
	_______	_______	_______	_______	_______

19. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

The Groups banking facilities with Lloyds Bank plc incurs interest at the rate of between 2.0% and 2.55% over LIBOR. The Group is affected by changes in the UK interest rate.

As the loans are all based on variable interest rates the fair value of the Group's financial instruments is not materially different to the book value.

In terms of sensitivity, if the ruling base rate had been 1% higher throughout the year the level of interest payable would have been £44k (2018: £13k) higher and if 1% lower throughout the year the level of interest payable would have been lower by the same amount.

Foreign currency risk

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

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

The following table shows the net assets/(liabilities) exposed to US dollar exchange rate risk that the Group has at 31 March 2018:

	2019 £'000	2018 £'000
Trade receivables	6,078	3,425
Cash and cash equivalents	243	411
Trade payables and accruals	(1,246)	(1,444)
	5,075	2,392

There were also net assets of £163k in euros (2018: £50k).

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 2019 (2018: £nil) with £nil net exposure (2018: £nil).

The effect of a strengthening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net increase in pre-tax profit for the year and an increase in net assets of approximately £582k (2018: £265k) and the effect of a weakening of 10% in the rate of exchange in the currencies against sterling at the statement of financial position date would have resulted in an estimated net decrease in pre-tax profit for the year and a decrease in net assets of approximately £476k (2018: £217k).

19. FINANCIAL INSTRUMENTS (continued)

Capital risk management

The Group defines total capital as equity in the consolidated statement of financial position plus net debt or less net funds plus deferred consideration. Total capital at 31 March 2019 was £21,878k (2018: £17,445k).

The Group defines leverage as net debt plus deferred consideration which totals £1,975k (2018: £575k net cash).

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 net debt plus deferred consideration divided by total capital. At 31 March 2019 the gearing ratio was 9.0% (2018 (3.3)%).

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 2019 is shown below:

	2019 £'000	2018 £'000
Cash and cash equivalents	(3,692)	(575)
Borrowings / bank overdrafts	5,667	-
Net (cash)/leverage	1,975	(575)
Share capital	427	425
Share premium account	3,627	3,629
Retained earnings	16,021	14,204
Capital redemption reserve	5	5
Foreign exchange reserve	(5)	-
Shares held in treasury	(172)	(243)
Equity	19,903	18,020
Gearing ratio (net leverage / equity + net leverage/(cash))	9.02%	(3.3)%

20. PROVISIONS

	2019 £'000	2018 £'000
At 1 April	-	-
Provision for dilapidations acquired	260	-
Provisions utilised during the year	10	
Charged / credited to statement of comprehensive income	-	-
	_______	_______
Provisions at 31 March	250	-
	_______	_______

The Group's has provided for dilapidations provisions for premises which 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.

21. BORROWINGS

	2019 £'000	2018 £'000
Current borrowings		
Bank borrowings	1,333	-
Non current borrowings		
Bank borrowings	4,334	-
	_______	_______
Total borrowings	5,667	-
	_______	_______

	2019 £'000	2018 £'000
Within one year	1,333	-
Between one and two year	1,333	-
Between two and five years	3,001	-
	_______	_______
Total borrowings	5,667	-
	_______	_______

22. NET DEBT

Year ended 31 March 2019 (£'000)	At 1 April 2018	Cash flow	Other non-cash movement	At 31 March
Bank borrowing due within one year	-	(1,333)	-	(1,333)
Bank borrowing due after one year	-	(2,891)	(1,443)	(4,334)
Total borrowings	-	(4,224)	(1,443)	(5,667)
Cash and cash equivalents	575	3,120	(3)	3,692
(Net debt) / net cash	575	(1,104)	(1,446)	(1,975)

	2019 £'000	2018 £'000
Increase / (decrease) in cash in the year	3,120	(334)
Increase in borrowings in the year	(6,000)	-
Repayment of borrowings in the year	1,776	-
Net movement resulting from cashflows	(1,104)	(334)

	2019 £'000	2018 £'000
Net cash at 1 April	575	909
Net movement resulting from cashflows	(1,104)	(334)
Borrowings acquired in the year	(1,443)	-
Other non-cash movements	(3)	-
(Net debt) / net cash at 31 March	(1,975)	575

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:

	2019 £'000	2018 £'000
At 1 April	427	327
Deferred tax arising on acquisition of subsidiaries	201	-
(Credit)/charge for the year	129	5
Deferred tax adjustment in respect of prior periods	-	95
Effect of tax rate change	(27)	-
	_______	_______
Net deferred tax at 31 March	472	427
	_______	_______
Deferred tax liabilities/(assets) in relation to:		
Accelerated capital allowances on property plant and equipment	108	102
Short term timing differences on intangible assets	481	354
Share based payments	(57)	(29)
Short term timing differences	(29)	-
Losses carried forward	(31)	-
	_______	_______
Net deferred tax at 31 March	472	427
	_______	_______
Deferred tax assets	104	-
Deferred tax liabilities	576	427
	_______	_______
Net deferred tax at 31 March	472	427
	_______	_______

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantially enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liabilities at 31 March 2019 have been calculated based on these rates.

The amount of the net reversal of deferred tax expected to occur next year is approximately £117k (2018: £51k) relating to the timing differences identified above.

There is an unrecognised deferred tax asset of £1k (2018: £20k) in respect of the future tax deduction that would be available based on the share price at the balance sheet date compared to the share price at the date of grant of the options and share bonus which is used to calculate the share based payments charge. If this deferred tax asset had been recognised it would have been credited to other comprehensive income.

This was not recognised given it is immaterial and the share bonus being exercised post year end when the share price was lower than at the balance sheet date therefore this deferred tax asset is not expected to be recoverable.

In addition, there is an unrecognised deferred tax asset in relation to losses carried forward. The losses carried forward are approximately £70k. The associated deferred tax asset of approximately £15k has not been recognised due to the uncertainty over the recoverability combined with the fact it is immaterial.

24. SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted issued and fully paid 8,532,878 (2018: 8,496,512) ordinary shares of 5p	427	425
	_______	_______

Details of options granted are set out in the Directors remuneration report on page 35 to 38. At 31 March 2019 the number of shares covered by option agreements amounted to 64,000 (2018: 128,000).

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

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

25. RESERVES

Full details of movements in reserves are set out in the consolidated statement of changes in equity on page 49.

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

26. TREASURY SHARES

At 31 March 2019 the Group held 29,374 (2018: 37,394) shares in treasury with a cost of £172k (2018: £234k). No shares have been cancelled.

	2019 shares	2018 shares
At 1 April	37,394	37,394
Purchase of shares into treasury	10,000	-
Transfer of shares to the All Employee Share Plan (AESP)	(18,020)	-
	_______	_______
At 31 March	29,374	37,394
	_______	_______

27. SHARE BASED PAYMENT

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

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

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

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

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

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

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

In January 2019, 17,600 (2018: nil) shares were awarded under the All Employee Share Plan. The share price at the date of award was £3.34 resulting in a £59k share based payment charge recognised in the year as part of the 2019 share based payment expense of £300k.

In respect of the financial year ended 31 March 2018 36,366 nil cost bonus share awards were made and vested for specific employees who have met the performance criteria for Bonus shares. The share price at the date of award of the bonus shares and therefore the fair value was £2.55 resulting in a £93k share based payment charge recognised in the year as part of the 2018 share based payment expense of £150k.

64,000 of the Executive Directors' options vested as the performance criteria for full vesting were acheivedin the year ended 31 March 2019. (In the year ended 31 March 2018 the 64,000 first year option lapsed as the performance criteria were not achieved).

There was no other long term share based incentive plan in place for the year ended 31 March 2019.

28. LEASING COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 £'000	2018 £'000
No later than 1 year	484	377
Later than 1 year and no later than 5 years	925	880
Later than 5 years	-	-
	_______	_______

29. CAPITAL COMMITMENTS

At 31 March 2019 and 31 March 2018 there were no capital commitments.

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

Year ended 31 March 2019

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

No individual customer contributed more than 10% of the Group's revenue in the financial year ended 31 March 2019 or the prior year.

30. SEGMENT INFORMATION (continued)

Year ended 31 March 2018

	Value Added Distribution division £'000	Manufacturing division £'000	Head office £'000	Continuing operations £'000
External revenue	19,685	26,583	-	46,268
	______	______	______	______
Profit before tax	1,295	2,375	(1,189)	2,481
Taxation	(251)	(213)	226	(238)
	______	______	______	______
Profit after taxation	1,044	2,162	(963)	2,243
Balance Sheet				
Assets	9,486	10,821	5,559	25,866
Liabilities	(3,052)	(4,273)	(521)	(7,846)
	______	______	______	______
Net assets	6,434	6,548	5,038	18,020
Other				
Capital expenditure:				
Tangible fixed assets	190	212	-	402
Intangible assets	12	337	-	349
Depreciation	180	309	-	489
Amortisation	21	165	220	406
Share based payments	-	-	150	150
Interest	6	3	24	33
	______	______	______	______

	External revenue by location of customer		Total assets by location of assets		Net tangible capital expenditure by location of assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
United Kingdom	44,989	36,001	38,151	25,866	600	402
Rest of Europe	5,230	5,013		-		-
Asia	2,540	1,972		-		-
North America	3,426	2,991		-		-
Other	114	291		-		-
	_______	_______	_______	_______	_______	_______
	56,299	46,268	38,151	25,866	600	402
	_______	_______	_______	_______	_______	_______

All the above relate to continuing operations.

31. ACQUISITIONS DURING THE YEAR

On the 9 November 2018 the Group acquired 100% of the share capital of Pacer Technologies and its 100% subsidiaries for a cash consideration of £3,812k.

Pacer Technologies is the holding company with two trading subsidiaries, Pacer Components Limited, the UK trading entity and Pacer LLC the US sales entity.

Pacer was established in 1989 to specialise in the distribution and custom design of optoelectronic components, lasers and displays to the OEM market in the medical, military, commercial, industrial and security sectors. Serving an international client base, Pacer has a reputation for supplying high quality components in a customer-centric manner, often involving custom design and manufacturing to address individual needs.

Pacer operates in two areas, Components and Displays, supplying world class blue chip companies. The Components business is distribution based with a smaller proportion of its sales derived from manufacturing, own brand and assembly based products. Products include industrial LEDs and light sources, lasers and laser range finders, photon detection and counting equipment. The Displays business complements and enhances that of Solid State Supplies. Products include industrial and commercial grade displays.

In the UK, Pacer operates from offices in Pangbourne and Weymouth, with a sales office in Crawley. Its US subsidiary is based in Florida.

	Book value £'000	*Fair value Adjustment £'000*	Fair value to Group £'000
Intangible assets	190	1,210	1,400
Property plant and equipment	419	(29)	390
Inventory	1,574	59	1,633
Trade and other receivables	2,306	(29)	2,277
Trade and other payables	(1,705)	(36)	(1,741)
Provision for dilapidations	(10)	(250)	(260)
Net Borrowings	(1,443)	-	(1,443)
Deferred tax	(16)	(185)	(201)
	_______	_______	_______
Net assets on acquisition	1,315	740	2,055
Goodwill on acquisition			1,757
	_______	_______	_______
Consideration			3,812
	_______	_______	_______
Discharged by:			
Cash paid on acquisition			3,812
	_______	_______	_______

The intangible assets are in relation to customer contacts and relationships. The goodwill recognised represents expected synergies from combining the operations of Pacer with those of the existing Value Added Distribution 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 five month period post acquisition included in the Statement of Comprehensive Income arising from Pacer's operations were £5,711k and £67k respectively.

Had the acquisition been completed on the 1 April 2018 management estimate that that the revenue would have been circa £15.0m and pre-tax profit would be circa £0.1m after the debt service costs.

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 an understanding and provide clarity over the Group's performance on an on-going cash basis before imputed non-cash accounting charges consistent with how analysts and investors tell us they review our business performance.

We have presented an adjusted profit metric adjusting for the following items:

- Non-cash accounting 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 tax credits arising primarily from prior year R&D claims and enhanced deductions on share issues.

	2019 £'000	2018 £'000
Acquisition and re-organisation costs	149	150
Amortisation of acquisition intangibles	284	219
Share based payments	300	150
	_______	_______
Adjustment to profit before tax	**733**	**519**
Current and deferred taxation effect	(142)	(99)
Non recurring tax credits	(141)	-
	_______	_______
Total	450	420

	2019 £'000	2018 £'000
Reported operated profit from continuing operations	2,920	2,514
Adjustments to operating profit from continuing operations	733	519
	_______	_______
Adjusted operating profit from continuing operations	3,653	3,033
	_______	_______
Reported operating margin percentage from continuing operations	5.2%	5.4%
Operating margin percentage impact of adjustments	1.3%	1.2%
Adjusted operating margin percentage from continuing operations	6.5%	6.6%
	_______	_______
Reported profit before tax from continuing operations	2,811	2,481
Adjustments to profit before tax	733	519
	_______	_______
Adjusted profit before tax from continuing operations	3,544	3,000
	_______	_______
Reported profit after tax from continuing operations	2,658	2,243
Adjustments to profit after tax	450	420
	_______	_______
Adjusted profit after tax from continuing operations	3,108	2,663
	_______	_______

Company Number: 00771335

COMPANY STATEMENT OF FINANCIAL POSITION
at 31 March 2019

		2019		2018	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	4		13,320		9,508
CURRENT ASSETS					
Debtors	5	6,205		2,979	
Deferred tax asset		67		-	
Cash at bank and in hand		31		-	
		6,303		2,979	
CREDITORS: Amounts falling due within one year	6	(7,064)		(5,590)	
Current borrowings		(1,333)			
NET CURRENT LIABILITIES			(2,094)		(2,611)
NON CURRENT LIABILITIES					
Non current borrowings			(4,334)		-
NET ASSETS			6,892		6,897
CAPITAL AND RESERVES					
Called up share capital	7		427		425
Share premium account	8		3,627		3,629
Capital redemption reserve	8		5		5
Retained earnings	8		3,005		3,081
Shares held in treasury	9		(172)		(243)
SHAREHOLDERS' FUNDS			6,892		6,897

The company made a total comprehensive income in the year of £765k (2018: loss £744k).

The financial statements were approved by the Board of Directors and authorised for issue on 2 July 2019.

G S Marsh, *Director*

P O James, *Director*

The notes on pages 95 to 97 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

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

	Share Capital	Share Premium reserve	Capital Redemption Reserve	Retained earnings	Shares Held in Treasury	Share-holders Funds
Balance at 1 April 2017	425	3,629	5	4,690	(243)	8,506
Total comprehensive loss For the year ended 31 March 2018	-	-	-	(744)	-	(744)
Share based payment expense	-	-	-	150	-	150
Dividends	-	-	-	(1,015)	-	(1,015)
Balance at 31 March 2018	425	3,629	5	3,081	(243)	6,897

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2019

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).

Profit and loss account

Under section 408(4) of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss/profit for the year ended 31 March 2018 is disclosed in the Statement of Changes in Equity.

Going concern

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

Foreign currencies

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

Investments in subsidiaries

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

Other financial liabilities

Other financial liabilities are accounted for on the same basis as in the consolidated accounts see accounting policy on page 60 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 63 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 61 as there is no material difference between FRS102 and IFRS.

2. STAFF COSTS

Staff costs amounted £925k (2018: £750k) and comprised the share based payment expense of £300k (2018: £150k) provision for employer's national insurance on exercise of share options of £41k (2018: £21k).

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 (appointed 20 February 2017), Mr J Lavery (Non-Executive Fees) and Mr P Haining. No other Directors remuneration was paid by the Company. Details of the Directors whose emoluments were paid by other Group companies are given in the Directors remuneration report on page 35 to 38.

3. SHARE BASED PAYMENT

See Group share based payments disclosures in note 27 to the Group accounts.

4. INVESTMENTS

Subsidiary undertakings	2019 £'000	2018 £'000
Cost		
1 April	9,508	9,508
Additions	3,812	-
	_______	_______
31 March	13,320	9,508
	_______	_______
Net book value		
31 March	13,320	9,508
	_______	_______

The additions in the period related to the Acquisition of the Pacer Group of companies disclosed in note 31.

Subsidiary undertakings	2019 £'000	2018 £'000
Net book value of investment in:		
Steatite limited	5,307	5,307
Solid State Supplies Limited	4,201	4,201
Pacer Technologies Limited	3,812	-
	_______	_______
Total investments at 31 March	13,320	9,508
	_______	_______

Subsidiary undertakings

See Group subsidiary undertakings disclosures in note 13 to the Group accounts.

5. DEBTORS

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	6,193	2,969
Other debtors	2	-
Prepayments	10	10
	_______	_______
	6,205	2,979
	_______	_______

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2019

6. CREDITORS

	2019 £'000	2018 £'000
Bank overdraft (secured)	-	336
Amounts owed to Group undertakings	6,756	5,144
Other taxes and social security costs	88	28
Trade and other creditors	33	35
Accruals	187	47
	_______	_______
	7,064	5,590
	_______	_______

The Company has guaranteed bank borrowings of all of its subsidiary undertakings, the main trading subsidiaries are Solid State Supplies Limited, Steatite Limited, Pacer Components Limited and Pacer LLC. At the year end the liabilities covered by those guarantees amounted to £nil (2018: £nil). The Company accounts for guarantees provided to Group companies as insurance contracts, recognising a liability only to the extent that it is probable the guarantees will be called upon.

7. SHARE CAPITAL

See Group share capital disclosures in note 24 to the Group accounts.

8. RESERVES

See Group reserves disclosures in note 25 to the Group accounts.

9. OWN SHARES HELD IN TREASURY

See Group treasury shares disclosures in note 26 to the Group accounts.

10. LEASING COMMITMENTS

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

	2019 £'000	2018 £'000
Within one year	-	2
Between one and five years	-	-
Later than five years	-	-
	_______	_______

NOTICE OF ANNUAL GENERAL MEETING

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 4 September 2019 at 9.30am for the following purposes:

ORDINARY RESOLUTIONS

(1) To receive and adopt the accounts for the year ended 31 March 2019, together with the reports of the Directors and auditors thereon. (Resolution 1)

(2) To declare a final dividend of 8.3p per share. (Resolution 2)

(3) To reappoint Mr John Lawford Macmichael, who retires by rotation, as a Director of the Company in accordance with the Company's Articles of Association. (Resolution 3)

(4) To reappoint Mr Peter Haining, 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 Nigel Foster Rogers, being a director of the Company appointed since the last annual general meeting, in accordance with the Company's Articles of Association. (Resolution 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 amend the company's articles of association and memorandum as follows:
i) delete clause 3 and replace with "do not use".
ii) delete the references to authorised share capital in the Company's memorandum
The Companies Act 2006 abolished the concept of authorised share capital of the company therefore this resolution updates the articles in accordance with the Companies Act 2006 in this regard. (Resolution 8)

(9) To pass the following resolution:
That the Directors be generally and unconditionally authorised to allot shares in the Company (**Relevant Securities**):

i) comprising equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal amount of £140,792.49 (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 £85,328.78 (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.

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)

NOTICE OF ANNUAL GENERAL MEETING (continued)

SPECIAL RESOLUTIONS

(10) To pass the following resolution:
That the Company is authorised to allot equity securities pursuant to resolution 9 above up to an aggregate nominal amount of £42,664.39, 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 10)

(11) 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 11)

BY ORDER OF THE BOARD

P Haining FCA
Secretary
2 July 2019

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

NOTICE OF ANNUAL GENERAL MEETING (continued)

NOTES:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business 2 days before the time appointed for the meeting, or if this meeting is adjourned, at close of business on the day two days prior to the adjourned meeting shall be entitled to attend and vote at this meeting.

Attending in person

2. If you wish to attend the meeting in person, please bring photographic identification with you to the meeting.

Appointment of proxies

3. If you are a member of the company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
4. If you are not a member of the company but you have been nominated by a member of the company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section.
5. A proxy does not need to be a member of the company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
7. A vote withheld is not a vote in law, which means that the vote will not be counted in the circulation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed and sent or delivered to Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD, not later than 48 hours before the time appointed for the Meeting. The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the Meeting.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included with the proxy form.

Appointment of proxy joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted, Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

NOTES:

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; and amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction, you will need to inform the Company using one of the following methods:

    a. By sending a signed hard copy notice clearly stating your intention to revoke your proxy appoint to Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD.

    b. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of authority) must be included with the revocation notice.

    In either case, the revocation notice must be received by the Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, B62 8HD, not later than 48 hours before the time appointed for the Meeting.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

12. As at 2 July 2019 the Company's issued share capital comprised of 8,532,878 ordinary shares of 5p each which includes 29,374 shares held in treasury. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 2 July 2019 8,503,504.

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

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