

**kromek**   
detect image identify



**Kromek Group plc**

Annual report and accounts for the  
year ended 30 April 2019

# Advancing CZT manufacture to target significant growth opportunities in medical imaging and wide area nuclear detection applications



**\$1bn+ opportunity in each sector over the next 10 years**

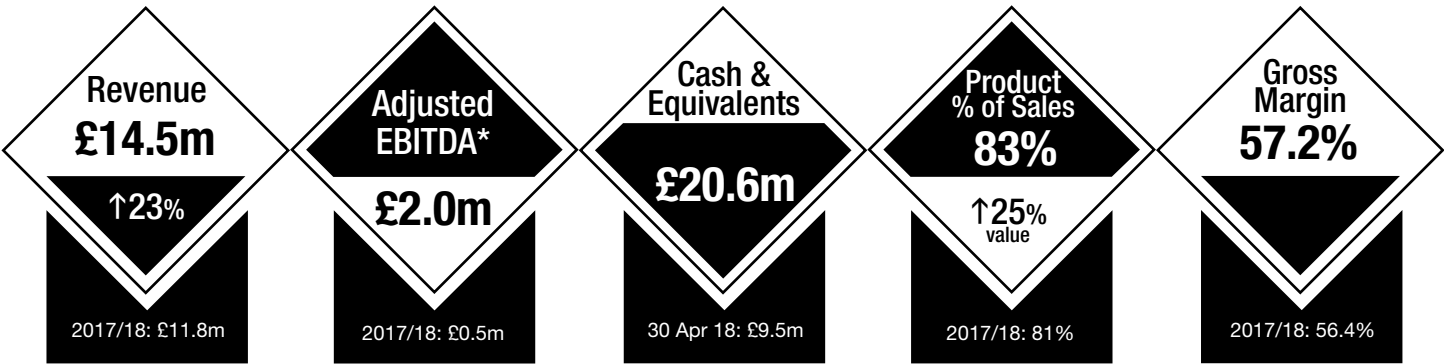
*Kromek's D3S is used to identify nuclear threats, such as dirty bombs, to protect civilians and key infrastructure in cities, including ports, borders and transport hubs.*

*Kromek's CZT-based detectors significantly advance the early identification of disease, such as cancer, Alzheimer's, Parkinson's and osteoporosis.*

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# Financial Highlights

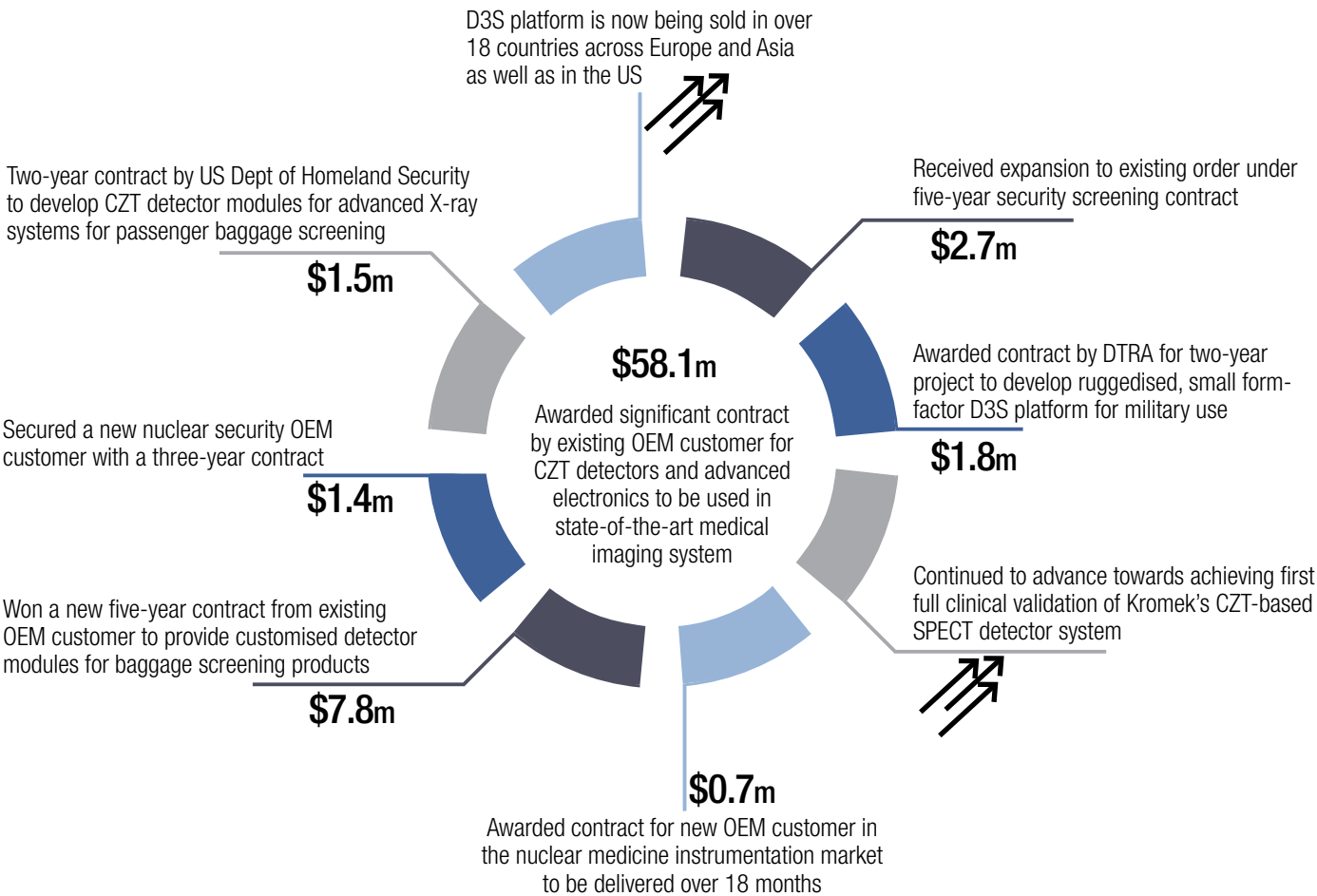


*\*Adjusted EBITDA defined as earnings before interest, taxation, depreciation, amortisation, other income and share-based payments. For a reconciliation, see the Chief Financial Officer's Review on page 9.*

*“Milestone year with growth driven by SPECT products in medical imaging and D3S platform in nuclear detection – and delivered key target of increasing adjusted EBITDA”*

*“Successfully commenced operations from new high-volume manufacturing facility in US following relocation to purpose-built premises in Pittsburgh to cater for increased demand in medical imaging”*

# Operational Highlights



*“Major progress was made in our Medical Imaging business by completing the integration of our CZT detector assemblies into a system capable of producing clinical grade images”*



Sir Peter Williams CBE

Chairman

26 June 2019

In the year ended 30 April 2019, Kromek took a number of significant steps towards its long-term growth goals. The progress of 2017/18 was sustained into the 2018/19 fiscal year as we remained at the forefront in developing solutions to combat some of the greatest security and health challenges faced by society today.

We continued to gain traction in all of our business segments with the award of high-value, multi-year contracts from our commercial and large government customers worldwide. Over the last three fiscal years, we have won more than \$80m of contracts, across all of our core sectors, demonstrating the strength of our technology base, the successful conversion of our growing order pipeline and the deep and long-lasting partnerships that we are continuing to build with our customers.

This year, Kromek continued to execute on previously-signed agreements, which in turn helped grow profit at the adjusted EBITDA level providing clear evidence of this progress. In addition, new customers, new contracts and repeat orders were won in all our target markets. These new awards, alongside customers increasingly moving from R&D programmes to full

commercialisation as cadmium zinc telluride (“CZT”) detection technology progressively replaces legacy systems, demonstrates the scale of opportunity in front of us.

It also provides us with greater visibility over revenue for the coming years and confidence in our growth prospects. Overall, we have achieved significant milestones in commercialising our technology this year and remain confident of furthering our strategy of becoming the preferred sub-systems supplier to major OEMs through existing and new relationships.

Arnab Basu, our Chief Executive Officer, provides a detailed review of our operational achievements for the year and the progress made in our two key growth areas of single photon emission computed tomography (“SPECT”) products in medical imaging and our D3S platform in nuclear detection. The superior detail in SPECT images means this technology will improve early stage diagnosis of diseases such as cancer and Parkinson’s, ensuring better patient outcomes. This is recognised by major healthcare OEMs, which are driving market adoption.

*“We remain at the forefront in developing solutions to combat some of the greatest security and health challenges faced by society today”*

For our D3S platform, we believe that US government agencies (DoD and DHS) continue to represent a significant radiation detection opportunity for Kromek and expect to expand our work with them. However, the threat of a “dirty” bomb is global and government agencies around the world are gearing up to guard against it. Our D3S platform is already involved in deployments across Europe and Asia, and, while the potential of the US market remains substantial, the demand for portable advanced radiation detectors for nuclear safeguarding is a significant global market opportunity.

### **Strengthened Global Base – New Facilities in US**

Given the strategic importance of the US markets, last year we laid the foundations to support future growth there and relocated our US operations to new premises near Pittsburgh, Pennsylvania. The new purpose-built facility serves as the focus of our medical imaging business, providing world-class manufacturing of CZT-based SPECT products. The new facility is fully operational and has significantly increased capacity and efficiency of the manufacturing process.

In the last quarter of the year, we raised £21m from new and existing shareholders to strengthen the balance sheet and to enable us to capitalise on the significant growth opportunities for our flagship medical imaging products and the D3S platform. This included investing in our manufacturing facilities in the US and UK to both expand future capacity and drive efficiencies.

We continually monitor the political environment and keep under review the potential impact of Brexit. However, we are strategically well-placed to navigate whatever will be the outcome of the Brexit process because we operate from both the UK and the US, with significant manufacturing facilities in both locations, and sell to an international customer base through a combination of distributors and direct to OEMs.

### **Employees and Partners**

As we look to the future, I would also like to express gratitude to those who have enabled us to reach this point. In particular, on behalf of the Board, I would like to thank the senior management team and all of our staff for their efforts and commitment and our shareholders for their loyal on-going support. We also give special thanks to Dr Graeme Speirs, who stepped down as a Non-executive Director during the year, for his tremendous support and guidance over the years, and we wish him all the best for the future.

Kromek has the market opportunities, the technology and the products to excel, and so, with the strengthening of our foundations and with sustained long-term growth drivers, we look forward to delivering significant shareholder value in the years to come.

*“Over the last three fiscal years, we have won more than \$80m of contracts, across all of our core sectors, demonstrating the strength of our technology base, the successful conversion of our growing order pipeline and the deep and long-lasting partnerships that we are continuing to build with our customers”*



## Strategic Report

*“This was a milestone year for Kromek...we increased our revenue by 23% to £14.5m...adjusted EBITDA to £2.0m...and, successfully delivered our largest second half revenue in the Group’s history”*



**Dr Arnab Basu MBE**  
**Chief Executive Officer**  
 26 June 2019

This was a milestone year for Kromek as we delivered on all of our objectives, including our key target of growing adjusted EBITDA. For the full year, we increased our revenue by 23% to £14.5m (2017/18: £11.8m) and adjusted EBITDA fourfold to £2.0m (2017/18: £0.5m). In particular, we successfully delivered our largest second half revenue in the Group’s history, which was in excess of £10m. This progress was based on Kromek continuing to execute on previously-signed agreements as well as winning new customers, new contracts and repeat orders across our target markets, with growth driven by increasing adoption of our next-generation molecular imaging single photon emission computed tomography (“SPECT”) products in medical imaging and our D3S family of products in nuclear detection. It also reflects the increasing commercialisation of our technology, with product sales accounting for 83% of total revenue (2017/18: 81%), representing growth in value of 25%. We were also awarded one of our most significant contracts to date, expected to be worth a minimum of \$58.1m over a seven-year period, to provide cadmium zinc telluride (“CZT”) detectors and associated advanced electronics to be used in state-of-the-art medical imaging systems.

During the year, we significantly strengthened the foundations of our business and ability to deliver on future growth with the successful relocation of our US

operations to a new facility that has been purpose-built for high-volume manufacturing of world-class medical imaging products. This was furthered in the second half of the year via a placing and open offer raising £21m to support the growth of the medical imaging business and sales and marketing of the D3S platform. In addition, the fundraise strengthens the balance sheet to provide flexibility to address and capitalise on identified and future opportunities as they emerge.

### **Medical Imaging**

We made significant commercial progress in the medical imaging markets during the year: delivering on previously-won orders, receiving repeat orders from existing customers as well as securing new contracts with new customers across our key segments of SPECT, bone mineral densitometry (“BMD”) and gamma probes.

As noted, during the year, we secured one of our most significant contracts to date, both from a strategic and monetary perspective. The contract, which is from an existing OEM customer, is expected to be worth a minimum of \$58.1m over a seven-year period. We will provide the customer with CZT detectors and associated advanced electronics to be used in its state-of-the-art medical imaging systems.

We are receiving significant interest in our SPECT products as the market continues to grow. The

*“We significantly strengthened the foundations of our business and ability to deliver on future growth with the successful relocation of our US operations to a new facility that has been purpose-built for high-volume manufacturing of world-class medical imaging products”*

generational change in the detector technology is led by GE Healthcare, championing nuclear medical imaging and recognising CZT as key to their next-generation systems. During the year, we advanced towards achieving clinical validation of our CZT-based SPECT detector system under the contract signed in 2014 with an established manufacturer of X-ray diagnostics and analysis equipment. We believe that our CZT-based SPECT detectors will significantly enhance the identification and management of diseases such as cancer and Parkinson's. We were also awarded a \$700k order from a new OEM customer, to be delivered over 18 months, to supply our CZT detectors to be used to build next-generation nuclear medical instrumentation.

In the BMD segment, which is used for the detection of osteoporosis, we were awarded a repeat contract by an existing OEM customer to provide CZT-based detectors for the customer's existing product line. The contract, which was worth \$340k, was delivered during the year.

In the gamma probes segment, which are used for radio guided surgery, we secured a long-term repeat order from an existing medical customer for the supply of gamma detector modules for incorporation in the customer's products. The contract, which covers a five-year period, is worth \$1.2m.

### **Nuclear Detection**

Our flagship D3S platform consists of a family of products designed to cater for the varying demands of homeland security. The D3S-ID is a wearable and concealable Radioisotope Identification Device (RIID) gamma neutron detector for immediate area detection. The D3S-NET builds on the features of the D3S-ID by adding a networked solution, with each device acting as a building block for wide area mapping on a remotely-hosted server. The recently launched D3S-PRD has the same hardware as the D3S-ID, but is a more cost-effective device without some of the specialised reporting functionality of the D3S-ID and is designed for first-line users. The D3S Drone uses an unmodified D3S gamma neutron radiation detector plugged into a custom-built transmission unit, which allows it to communicate at up to ten kilometres to a base station.

During the year, we continued to increase sales of our D3S products. This was supported by the expansion, following the successful fundraise, of our D3S distribution network and sales team. As a result, the D3S family of products is sold in 18 countries worldwide.

The D3S platform was used in active deployments and field-tests in multiple locations of strategic importance and high risk across the US, Asia and Europe. With some of these multi-year trials approaching a successful conclusion, we anticipate this activity translating to product and system-level sales in the future.

This included continued deployment and field-testing in major areas in the US by the Defense Advanced Research Projects Agency (“DARPA”), an agency of the US Department of Defense, under its SIGMA programme, and by other agencies. The D3S platform was also used by the Belgian Federal Police (Airport Unit), supported by the European Commission Counter Terrorism Unit of the Directorate General for Home Affairs, during the July 2018 NATO Summit in Brussels.

In addition, the D3S platform was selected by the European Commission's Directorate-General for Migration and Home Affairs, working alongside security authorities in Belgium, Luxembourg, The Netherlands and Spain, under a new initiative to allow the law enforcement authorities to validate new and emerging technologies for homeland protection. Deployment commenced post period and over the next 12 months, the European Commission will use our D3S-ID and D3S Drone radiation detectors for the protection of public spaces across multiple European locations covering high risk venues such as airports, train stations and other public areas.

We were awarded a \$1.8m contract by the Defense Threat Reduction Agency (“DTRA”), an agency of the US Department of Defense, to develop a next-generation, ruggedised small form factor D3S for use by the US military to identify radioactive threats in combat environments. The project, which is scheduled to be delivered over a two-year period, is progressing ahead of schedule as customer demand is accelerating development towards commercialisation.

Also during the year, we were awarded a contract by DARPA, as part of its new SIMGA+ initiative, to develop a proof-of-concept vehicle-mounted device capable of detecting and identifying pathogens used in a biological attack at significantly higher speeds compared with current systems. This represents our first contract for biological-threat detection, which expands on our existing capabilities in radiological and nuclear threat detection. We commenced development work under the contract, which is progressing on track. The contract is worth \$2.0m over a twelve-month period and could potentially be extended to a multi-year contract for the development of a fully-deployable system.

In the nuclear markets, our portfolio also includes a range of high resolution detectors and measurement systems used for civil nuclear applications, primarily in nuclear power plants and research. During the year, this area of business continued to grow as expected, as we won several new customers, including the Spanish Army and a new OEM customer. The contract with the new OEM customer, which is for the supply of CZT detectors, is worth at least \$1.4m and will be delivered over a three-year period, with minimum annual volumes for each year. We also added new distributors in Europe and Asia for our civil nuclear portfolio.

## Strategic Report (Continued)

*“We continued to develop and enhance products and platform technologies that form elements of our product roadmap and to enable us to maintain our leading market position”*

### Security Screening

In security screening, the regulatory framework in Europe regarding explosive detection systems for cabin baggage (EDSCB), overseen by the European Civil Aviation Conference, is focused on increasing safety as well as convenience and efficiency for passengers. This includes installing equipment that is sufficiently sophisticated to allow passengers to keep their liquids and laptops inside their cabin baggage when passing through security, which is driving OEMs to adopt technologies such as Kromek's to meet these higher performance standards. We also provide OEM components for hold luggage scanning.

During the year, we received an order expansion under our five-year contract that was awarded in 2017 by a US-based OEM customer that is an emerging global leader in homeland security. The order expansion increased the total value of the contract by at least 90% to a minimum of \$5.8m over the five years, with the additional \$2.7m relating to the orders for the third and fourth years of the contract.

An existing OEM customer that is a leading company in X-ray imaging systems awarded Kromek a new five-year supply contract worth a minimum of \$7.8m. The contract is for the customisation of current technologies and CZT detector modules and supply for the baggage security screening market.

We were also awarded a \$1.5m two-year contract by the US Department of Homeland Security to develop CZT detector modules for commercial off-the-shelf detectors for advanced X-ray systems for passenger baggage screening. This award reflects our established relationship with the US government for developing next-generation radiation detection solutions for national defence and security applications.

### Manufacturing Facilities and R&D

During the year, we relocated our US operations to a new purpose-built premises near Pittsburgh, Pennsylvania. The facility offers a world-class platform upon which to build next-generation CZT-based molecular imaging SPECT detector assemblies and other medical imaging products. The building, under a 20-year lease, also provides a significantly more efficient facility, is in a preferable location for attracting talent and enhances transport connectivity. It also allows for further capacity expansion, which, combined with our fundraising, means that we can deliver on the anticipated growth in medical imaging – which has already been evidenced by the award of the significant seven-year \$58.1m contract – and provides a strong basis on which to strengthen this part of the business.

Following the fundraising, we have also invested in expanding our capacity at our UK manufacturing facility as well as significantly increasing process automation in both the UK and US. With greater automation, we will expand our throughput capacity as well as improve efficiencies. We intend to implement these improvements in a phased manner over the course of this current financial year.

Our R&D efforts focused on two key areas. We continued to develop and enhance products and platform technologies that form elements of our product roadmap and to enable us to maintain our leading market position. Importantly, we also focused on value engineering to increase cost efficiencies to enable us to offer competitively priced products whilst maintaining our margins. During the year, 11 new patents were filed and 16 patents were granted.

We worked on both externally and internally funded R&D activities, with the proportion continuing to transition away from externally funded R&D projects as our technologies are increasingly commercialised. We expect investment in R&D to remain at a steady level over the next few years as we seek to maintain our commercial advantage.



*Our US operations were relocated to a new, purpose-built premises near Pittsburgh, Pennsylvania. The facility offers a world-class platform upon which to build next-generation CZT-based molecular imaging SPECT detector assemblies and other medical imaging products.*

*The building allows for further capacity expansion, which, combined with the fundraising, means that we can deliver on the anticipated growth in medical imaging – which has already been evidenced by the award of the significant seven-year \$58.1m contract – and provides a strong basis on which to strengthen this part of the business.*



## Outlook

Kromek entered 2019/20 in a stronger position than ever before. We are delivering on existing customer product contracts as well as continuing to gain traction in all of our business segments with the award of high-value, multi-year contracts from commercial and large government customers worldwide. This has given us strong visibility over revenues for the next six to 24 months. As a result, we are confident of delivering growth for full year 2019/20, in line with market expectations.

Looking further ahead, with the increasing market

adoption of our customers' next-generation products that incorporate Kromek's radiation detection solutions, we are receiving increasing demand from existing customers as well as interest from potential customers. As a result of our new high-volume manufacturing facility in the US for medical imaging products, combined with the fundraising completed in the second half of 2018/19 to support growth across the business, we are well-placed to capitalise on these expanding opportunities. Consequently, we continue to look to the future with confidence.

Strategic Report (Continued)

*“£1.5m improvement in adjusted EBITDA in 2018/19 compared with 2017/18 is substantially a result of additional gross margin generated from higher revenues”*



Mr Derek Bulmer  
Chief Financial Officer  
26 June 2019

Kromek achieved year-on-year revenue growth of 23% and a fourfold increase in adjusted EBITDA resulting in loss before tax being reduced to £1.3m (2017/18: £2.5m loss). The balance sheet has been strengthened following the placing and open offer in February 2019 where the Group raised funds of £19.8m net of expenses.

During the year, three new accounting standards were adopted: IFRS 15 ‘Revenue from Contracts with Customers’; IFRS 16 ‘Leases’ (early adopted); and IFRS 9 ‘Financial instruments’. The impact of these standards is described below.

Revenue

The Group achieved total revenue growth of 23% to £14.5m (2017/18: £11.8m), which was driven by higher sales across both product and R&D revenue activities. Product sales grew by 25% to £12.1m (2017/18: £9.6m), which accounted for 83% of total revenue (2017/18: 81%) and revenue from R&D contracts grew by 14% to £2.5m (2017/18: £2.2m), as detailed in the table below:

| Revenue Mix | 2018/19 |         | 2017/18 |         |
|-------------|---------|---------|---------|---------|
|             | £'000   | % share | £'000   | % share |
| Product     | 12,060  | 83%     | 9,611   | 81%     |
| R&D         | 2,457   | 17%     | 2,234   | 19%     |
| Total       | 14,517  |         | 11,845  |         |

The continued year-on-year growth in product sales reflects further traction with the D3S, SPECT and BMD products as we delivered on the supply of multi-year contracts that have been announced over recent months and years.

The new revenue standard IFRS 15 ‘Revenue from Contracts with Customers’ came into mandatory effect for the Group during 2018/19. However, following a comprehensive review, this mandatory change in the Group’s revenue recognition policy has not materially impacted the value of revenue that would have been recognised under the former revenue standards, IAS 18 Revenue and IAS 11 Construction Contracts, in 2018/19 or during 2017/18.

Gross Margin

The year-on-year increase in revenue resulted in growth of gross profit to £8.3m (2017/18: £6.7m). Due to a similar revenue mix, the margin remained relatively static year-on-year, with a slight improvement to 57.2% (2017/18: 56.4%).

Administration Costs

Administration costs and operating expenses increased by £0.2m to £9.0m (2017/18: £8.8m). This increase is the net result of:

- £0.8m additional costs resulting from the impact of foreign exchange fluctuations on consolidation and revaluations of working capital balances (a weaker average Pound to US Dollar ratio during 2018/19 compared with 2017/18);



- £0.2m costs being reallocated from administration costs to finance costs as required under the new accounting standard IFRS 16 ‘Leases’ (see note 2 in the consolidated financial statements below); and
- general cost savings of £0.4m made throughout 2018/19.

IFRS 16

As detailed in the Group’s Interim Results announcement on 14 January 2019, the Group has adopted the new accounting standard, IFRS 16 ‘Leases’, and is accounting for its existing leases in accordance with this standard.

Mandatory adoption of IFRS 16 comes into effect for the Group for the accounting period ending 30 April 2020, and, therefore, the Group has decided to early adopt this standard to best reflect the new 20-year lease for the US facility. This adoption applies to the accounting of all four existing property leases of the Group.

In accordance with IFRS 16, right of use (ROU) assets representing the present value of future lease payments have been recognised on the face of the balance sheet at 30 April 2019 totalling £4.0m (30 April 2018: nil). Corresponding liabilities have also been recognised on the face of the balance sheet, which are split between amounts due within one year and amounts due after more than one year: at 30 April 2019 these liabilities totalled £4.2m (30 April 2018: nil). For more information on IFRS 16, see notes 1 to 37 to the consolidated financial statements below.

Adjusted EBITDA\* and Result from Operations

Primarily due to increased revenues, which resulted in a £1.6m increase in gross profit, adjusted EBITDA for 2018/19 was £2.0m compared with £0.5m for the prior year as set out in the table below:

|                            | 2018/19<br>£’000 | 2017/18<br>£’000 |
|----------------------------|------------------|------------------|
| Revenue                    | 14,517           | 11,845           |
| Gross margin (%)           | 57.2%            | 56.4%            |
| Loss Before Tax            | (1,270)          | (2,533)          |
| <b>EBITDA Adjustments:</b> |                  |                  |
| Net interest               | 364              | 192              |
| Depreciation               | 879              | 785              |
| Amortisation               | 1,806            | 1,907            |
| Share-based payments       | 195              | 131              |
| <b>Adjusted EBITDA</b>     | <b>1,974</b>     | <b>482</b>       |

*\*Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, other income and share-based payments. Adjusted EBITDA is considered a key metric to the users of the financial statements as it represents a useful milestone that is reflective of the performance of the business as a result of revenue growth. Share-based payments are added back when calculating the Group’s adjusted EBITDA as this is currently an expense with a zero direct cash impact on financial performance.*

The £1.5m improvement in adjusted EBITDA in 2018/19 compared with 2017/18 is substantially a result of additional gross margin generated from higher revenues. This reflects the operational gearing of the Group, supported by the control over administration costs noted above.

Loss before tax for the year was reduced by 48% to £1.3m (2017/18: £2.5m loss), largely driven by the £1.5m increase

in adjusted EBITDA and partially offset by higher interest, depreciation and share-based payments that were largely due to the impact of IFRS 16.

During 2018/19, the Group recognised other comprehensive income of £1.2m (2017/18: £1.0m loss) that arose in respect of exchange differences on a net investment in a foreign operation as described in note 3 to the financial statements. Unlike the £0.8m additional costs resulting from foreign exchange on consolidation and revaluations of working capital balances noted above that were expensed to the profit and loss account, this gain has been treated as effectively a reserve movement only.

Tax

The Group continues to benefit from the UK Research and Development Tax Credit resulting from the investment in developments of technology and recorded a credit of £1.0m for the year (2017/18: £1.4m). The Group’s deferred tax provision movement remained static at £nil (2017/18: £nil) due to the distribution of losses between the UK and US operations. These two elements led to an overall tax credit to the income statement for the Group of £1.0m (2017/18: £1.4m).

Earnings per Share (“EPS”)

Due to the £0.8m reduction in loss after tax for the year, the EPS is recorded in the year on a basic and diluted basis as 0.1p loss per share (2017/18: 0.4p loss per share).

R&D

The Group invested £2.7m in the year (2017/18: £3.4m) in near-term product developments that were capitalised on the balance sheet, reflecting the continued commitment to invest for the future growth of the business with new and enhanced products. This capitalisation is lower in the current year because of the facility move in the US during the first half of 2018/19. Development work was temporarily suspended in Kromek US to accommodate the shutdown of the old facility and transfer to the new facility. Based upon the existing portfolio of development projects that are currently in operation primarily regarding SPECT and D3S, such amounts capitalised are likely to increase in future financial years as the Group continues with product development, unaffected by one-off events such as a facility relocation.

This investment was offset by further amortisation of development costs in 2018/19 of £1.2m (2017/18: £1.2m). Hence, the net development cost capitalisation in 2018/19 was £0.7m lower at £1.5m compared with £2.2m in 2017/18. A further £5.3m (2017/18: £4.0m) was incurred in research relating to the core technology platform and manufacturing capabilities and expensed through the income statement.

Key areas of development continue to be the expansion in the D3S suite of products and the SPECT and BMD platforms linked to existing and expanding contract deliverables and of significant future revenue opportunities. The Group continues to undertake this investment in order to advance its commercial advantage.

## Strategic Report (Continued)

During the year, the Group undertook expenditure on patents and trademarks of £0.2m (2017/18: £0.6m) with 11 new patents filed and 16 patents granted (2017/18: seven new patents filed and 29 patents granted).

### Capital Expenditure

Capital expenditure in the year amounted to £3.6m (2017/18: £0.3m). This increase consisted of:

- £2.5m relating to the enhancements required for medical imaging (including SPECT) manufacturing capabilities at the new US facility. These additions were financed in full by a corresponding loan with the Group's landlord
- £0.5m relating to assets under construction – primarily the required increase in production capacity following the award of the \$58.1m seven-year supply contract with a key medical OEM. The Group expects to spend up to a further £8m-£10m over the next 18 months in respect of such assets; and
- £0.6m relating to modest capital expenditure across IT and general fixtures and fittings.

### Cash Balance

Cash and cash equivalents were £20.6m at 30 April 2019 (30 April 2018: £9.5m). The £11.1m increase in cash during 2018/19 was a combination of the following:

- Adjusted EBITDA profit for the year of £2.0m, less net finance costs of £0.3m
- Increase in working capital of £7.5m (see below for more detail)
- R&D Tax Credit receipts of £1.2m
- Investment in product development and other intangibles, with capitalised development costs of £2.7m and IP additions of £0.2m
- Net proceeds raised from the issue of shares of £19.8m
- Capital expenditure net of financing loans of £1.2m

The £7.5m increase in key working capital balances is analysed as follows:

- A £0.2m increase in inventories held at 30 April 2019 to £3.2m (30 April 2018: £3.0m). Following the \$58.1m medical imaging contract awarded in January 2019, the Group is holding more component stock. This is an indicative feature of a contract that is centred around product supply rather than R&D
- An £8.7m increase in trade and other receivables owed to the Group at 30 April 2019 to £20.0m (30 April 2018: £11.3m):
  - o The majority (55%) of this overall increase is directly due to an expansion of amounts recoverable on contract ("AROC"). In line with IFRS 15, the Group recognises revenue associated with the performance obligations of such contracts "over time", which best reflects the transfer of control. There has been an increase in the value of the AROC over the last 12-24 months. The reason for this increase is because of the lead time to build on a number of long-term contracts. This position has been augmented due to the relocation of the US facility; to some extent, forward build was undertaken by the Group to mitigate any risk of delays that may have resulted from the relocation. This ensures that through a critical time of growth, the Group has sufficient product to deliver on these contracts in line with delivery requirements and expectations of customers. The Group expects shipment of products and a corresponding conversion of this AROC balance into invoices and then cash over the next 6 to 18 months. This timing will coincide with the beneficial impact that the new US facility will bring to the organisation

*"The Group invested £2.7m in near-term product developments...reflecting the continued commitment to invest for the future growth of the business with new and enhanced products"*

- o Other increases in trade and other receivables relate to the timing of invoicing around the financial year end and the overall 23% increase in revenue for the year. The Group was also impacted by the recent furlough of the US Government during the second half of the year, which effectively delayed the invoicing of some contracted revenues into months 11 and 12
- A £1.4m increase in current liabilities to £8.3m (2017/18: £6.9m). This increase is a feature of additional capital expenditure in the year relating to the continuation of the assets under construction and the timing of invoicing around the year end
- During March 2019, the Group renewed its existing revolving credit facility with HSBC. The facility has been extended from £3.0m to £5.0m and the renewal period has increased to a minimum of 3 years, with an additional option for up to 5 years. Further, up to £2.0m of the facility can be used to fund plant and machinery as well as supporting working capital expansion. This is a continuation of a strong relationship with HSBC and provides the Group with additional funding capacity and options as it grows over the coming years. At 30 April 2019, £3.0m of the facility was drawn (30 April 2018: £3.0m).



## Strategic Report (Continued)

The Board has carried out a robust assessment of the principal risks to achieving its strategic objectives. Risks are reviewed on a regular basis by the Board to identify any changes in risk profiles and to consider the optimal range of mitigation strategies.

| Risk   | Description  | Mitigation  |
|--|--|---|
| <b>Risks associated with competition</b>                               | The Group faces competition from two types of competitor: specialised companies targeting discrete markets and divisions of large integrated device manufacturers. The Group’s current and future competitors may develop superior technology or offer superior products, sell products at a lower price or achieve greater market acceptance in the Group’s target markets. Competitors may have longer operating histories, greater name recognition, access to larger customer bases and more resources. As such, they could be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than the Group. | To the extent possible, the Group carefully monitors competing technologies and product offerings. The Group intends to continue to make commercially-driven investments in developing new technologies and products to maintain a strong technology position, and is investing in further and more specialised marketing and sales resources. Group IP gives some additional protection and Kromek has invested in new IP management systems and processes in the last financial year.   |
| <b>Risks associated with management of the Group’s growth strategy</b> | The ability of the Group to implement its strategy in rapidly evolving and competitive markets will require effective management planning and operational controls. Significant expansion will be required to respond to market opportunities and the Group’s future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational and financial performance, whilst at the same time maintaining effective cost controls and working capital.   | The Group’s experienced management team is well versed in the current markets available to the Group and well positioned to adapt to any changes in those markets. The Group also has detailed control systems including R&D cost control and extensive project management criteria. The Group has demonstrated its ability to identify, execute and integrate M&A opportunities with its two successful US acquisitions. The Group has also relocated one of the US subsidiary companies to a custom-built facility that specialises in the production of CZT gamma detector assemblies used for single-photon emission computed tomography (SPECT). |
| <b>Risks associated with product and technology adoption rates</b>     | The rate of market acceptance of the Group’s products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users’ habits and business systems and product pricing.  | With a widely applicable technology base, the Group only chooses opportunities in which it believes there is a good match between its rare or unique capabilities and strong adoption drivers in large growing markets. The use of common technology platforms across multiple markets and applications reduces the investment risk in any given market segment and diversifies overall adoption risk.  |

| Risk  | Description  | Mitigation  |
|---|--|---|
| <b>Risks associated with timing of customer or third-party projects</b> | The Group's strategy includes co-development with, or licensing its technologies to, large OEM partners for additional development, manufacturing or subsequent marketing. Consequently, the Group will be increasingly reliant on securing and retaining such partners, and delays in the progress of the development, manufacturing or marketing of the end product, as a result of a partner's action or inaction, may delay the receipt of product-related revenues.   | The Group has a diversified customer base and operates in a carefully selected portfolio of markets with different adoption risks and cycles. As part of its business model, it also more directly controls a certain proportion of its revenues via the sale of complete end-user products in three different markets.   |
| <b>Risks associated with exchange rate fluctuations</b>                 | As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency exchange rates on both sales and operations. The Group is headquartered in the UK and presents its financial statements in pounds sterling. However, its subsidiaries eV Products, Inc. and NOVA R&D, Inc., operate in the US and earn revenues and incur costs in US dollars. A growing proportion of the Group's future revenues are expected to be denominated in currencies other than pounds sterling. Exchange rate variations between currencies in which the Group operates could have a significant impact on the Group's reported financial results. | The Group is predominantly exposed to currency risk on sales and purchases made from customers and suppliers. Sales and purchases from customers and suppliers are made on a central basis and the risk is monitored centrally but not hedged utilising any forward exchange contracts. Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.               |
| <b>Risks associated with Brexit</b>                                     | As a consequence of the UK's decision to leave the European Union, there is international uncertainty around the impact this will have on business and trade. The Group will continue to monitor Brexit and other macroeconomics factors such as US and China relations.   | The Group has significant operations and market presence in non-EU territories such as the US and Asia, as well as a portfolio of products that are market leaders because of the technological capabilities offered. As a result, the Group is strategically well-placed to navigate whatever will be the outcome of the Brexit process. However, management continually monitors the political environment and keeps the potential impact of Brexit under review and other global economic events such as the existing relationship between the US and China. |

**Dr Arnab Basu MBE**  
Chief Executive Officer  
26 June 2019



*"Using CZT for medical imaging*

*is like jumping straight from VHS to HD DVD*

*in terms of image quality"*

*GE Healthcare website 'The Pulse'*



# CZT SPECT - A brilliant leap in medical imaging

Gamma detector technology was first introduced in the late 1950s, a technological wonder comparable with the introduction of the first colour TVs. Television has changed beyond recognition since then, but SPECT gamma detector technology has remained largely the same, which has set limits on the performance that can be obtained.

Now, in the same way as photography and television have gone from analogue and black and white to digital and colour, medical imaging is going digital and colour too, and CZT is an enabling technology.

SPECT (single photon emission computed tomography) is a nuclear medicine diagnostic imaging modality where the patient is injected with a radio-pharmaceutical tracer which concentrates at sites signifying diseases like cancer, Alzheimer's or Parkinson's.

Long-term health concerns regarding exposing patients to radiation have driven the development of more innovative detector assemblies with features such as CZT solid-state digital detectors to take a more precise image of the examination area.

The main advantages of using CZT are:

- Exceptional image resolution with superior specificity
- Reduced patient dose to a fraction of historical levels
- Detector sensitivity up to 10-times that of conventional gamma detectors
- Shorter scan time reduces the frequency with that examinations are likely to be compromised because of patient movement, and leads to a better patient experience
- Enables images of several tracers at once, further reducing scan time
- Improved image quality

Perhaps the most important thing is that, despite the dramatic reduction in imaging time and radiation dose, it achieves this without compromising diagnostic accuracy.

Because the CZT detector set-up is significantly lighter and smaller than previous assemblies, the architecture can be optimised. For example with breast imaging, the active area of the detector can be placed closer to the chest during examination.

Some studies with CZT-based gamma detectors show improved patient experience with up to four-times lower injected dose, and provided shorter, more bearable examinations with greater patient comfort because scans last only a few minutes.

The impacts and benefits of using CZT are vast. For example, if you can see a cancer when it's smaller and you can see it earlier then you get a more effective diagnosis. From this you are able to develop a more effective patient treatment strategy and, together with faster patient throughput and faster treatment cycle, it dramatically lowers the cost of care.

As we enter a new era in nuclear medicine, transitioning from analogue to digital, CZT-based detectors are coming of age. Kromek provides simple turn-key product solutions and a robust supply chain for OEMs to integrate CZTbased detector assemblies into their new systems or fit into their existing system architecture.



*Small field of view gamma detector assembly*

## Kromek Strengths

Achieved detector solution at acceptable price premium over conventional detector technology

Offer plug-and-play solution providing fast route-to-market and a stable and low technical risk solution to the OEMs

Able to offer OEMs performance differentiation vs competing OEMs through detector assembly customisation and application optimisation

Partnership with Chinese OEMs to target emerging market opportunity within China

A close-up, low-angle shot of a police car on a wet city street at night. The car's roof-mounted lights are flashing, and the wet pavement reflects the ambient light. In the background, a pedestrian bridge and city buildings are visible under a dark sky.

# Protecting Civilians and Infrastructure Against Nuclear Threats

*Background image: Josh Hild*



# Catering for the unpredictable demands of homeland security

Kromek's flagship D3S platform is a family of products that cater for the varying and unpredictable demands of homeland security. Small but powerful, wearable yet discreet, it is one of the fastest and most accurate isotope ID devices on the market that enables users to carry out wide area searches for nuclear threats.

At just five inches tall, it's smaller than your average smartphone. The ID App rapidly detects very low levels of radiation, even if they pose no significant risk.

There are several variants:

- D3S-ID is a powerful device with extended detection capabilities that enable safe monitoring in potentially high dose environments. It is a complete dual RIID (radioisotope identification device) and PRD (personal radiation device) packaged in a single compact device yet has all the features needed by CBRN experts. Results can be reported back discreetly and instantly using the industry standard 'Reachback Report' on the Android app.
- D3S-PRD (personal radiation device) is a recent addition to the family and is the only commercially available PRD that detects the presence of radiation and displays the isotope ID in seconds. Designed for first-line users, it shares the D3S-ID hardware but is a more cost-effective device without some of the

specialised reporting functionality, providing non-expert users with a cutting-edge capability.

- D3S-NET builds on D3S-ID features by adding a networked solution, with thousands of devices working together, each device acting as a building block for wide area mapping on a remotely hosted server.

D3S-PRD can be easily upgraded to a D3S-ID via a simple online software upgrade, creating a single device with two modes of operation: PRD and RIID at the press of a button, giving greater flexibility to meet challenges without having to carry any additional (heavier) equipment or call in specialist help.

The D3S Drone uses an D3S gamma neutron radiation detector plugged into a custom-built transmission unit, which allows it to communicate at up to ten kilometres to a base station.

The D3S platform has been used in active deployments and field-tests in multiple locations of strategic importance and high risk across the US, Asia and Europe. With some of these multi-year trials approaching a successful conclusion, we anticipate this activity translating to product and system-level sales in the future.

## From PRD to RIID at the touch of a button




**PRD**

**RIID**

**One detector  
One smartphone  
Two modes of operation**





# Chernobyl's 'Red Forest' - one of the most radioactive locations on Earth - has just been surveyed by UK scientists using a fleet of drones equipped with Kromek detectors

*Aerial drones incorporating Kromek's radiation detectors*

*can be deployed at any nuclear incident to give real-time monitoring of*

*the radiation intensity and its distribution*

*Background image: Hugh Mitton*



# First Drone Survey of Chernobyl's 'Red Forest' Reveals Unknown Radioactive Hotspots

Just 500m from the Chernobyl nuclear complex, the 'Red Forest' is one of the most radioactive locations on Earth. In the aftermath of the 1986 Chernobyl Power Plant reactor meltdown, the amount of radiation contaminating the area killed many of the forest's trees and turned them a deep reddish orange - leaving many areas still strictly out of bounds to humans.

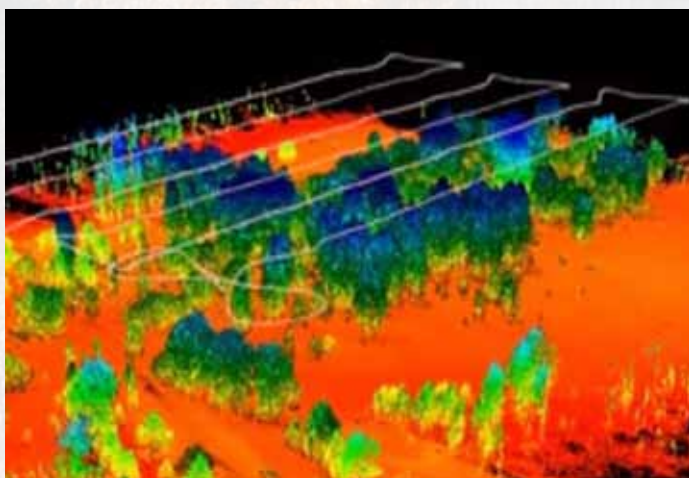
Everyone expected the forest to be contaminated but how could such a large area be mapped for radiation effectively? The answer has now been provided by a team of British scientists who surveyed the area using a fleet of drones equipped with Kromek radiation detectors.

The mission was undertaken by Professor Tom Scott with a team from Bristol University and the National Centre for Nuclear Robotics (NCCR). The NCCR is a consortium of UK research experts tasked with developing the next generation of technologies for use in cleaning up Britain's 4.9 million tonnes of nuclear waste.

The NCCR has developed a drone-mapping system that allows scientists to investigate hazardous places from a safe distance. Fixed wing drones are used to make a general radiation map by flying at about 40mph (65km/h) just above the treetops, in a grid pattern. Fixed wing drones provide several advantages over rotary drones: they can fly for longer, they can fly faster and they typically can carry a heavier payload.

In this case, a fixed-wing drone was equipped with two Kromek Sigma 50 radiation detectors. The Sigma 50 is a scintillation detector using CsI(Tl), which is designed to be robust and can survive hazardous conditions. The Sigma 50s is also integrated in rotary drones that are used to scan places of interest following the initial survey.

These can hover and use their sensors to acquire high-resolution data and reconstruct in 3D format. The survey, conducted in April 2019, confirmed the current understanding of the radiation distribution in the forest, but in far greater detail than has previously been available, and also identified a few unexpected hotspots local authorities had no idea existed. Kromek continues to work with customers and partners to provide unique detection solutions for applications that previously had been impossible to address.



Images: Bristol University



**Sir Peter Williams**  
Chairman

Sir Peter Williams, CBE, FREng, FRS, completed his degree and PhD at Cambridge University, and then taught at Selwyn College. He then moved into industry, working at VG Instruments where he became Deputy Chief Executive and at Oxford Instruments, the first spin out from Oxford University, where he held the positions of CEO and Chairman. He also chaired Isis Innovation Ltd, the technology transfer arm of Oxford University. He received a CBE in 1992 and was knighted in the Queen's Birthday Honours list of 1998. He was formerly Chairman of the National Physical Laboratory, and VP and Treasurer of the Royal Society. He is currently Chairman of the Daiwa Anglo Japanese Foundation.



**Dr Arnab Basu**  
Chief Executive Officer

Dr Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials. He held senior management positions in his family business, serving over 250 major telecommunications and consumer electronics manufacturers, including Siemens and GEC. He also worked in commercial product development for Elmwood Sensors Ltd (Honeywell Group, UK). A prominent figure within the business community, Dr Basu was awarded EY 'Entrepreneur of the Year' (2009) and received an MBE for services to regional development and international trade (2014).



**Mr Derek Bulmer**  
Chief Financial Officer and  
In-House Counsel

A qualified Chartered Accountant and Barrister, Mr Bulmer has worked with KPMG and undertaken a number of senior management roles with blue-chip public companies, including Bass plc, AWG plc and Ibstock plc. Additionally, and more recently, a number of roles as Finance Director of privately owned groups in both the IT and oil and gas industries have provided a wealth of experience in executing and managing business acquisitions plus significant aspects of the commercial and legal disciplines of corporate management.



Mr Kinet has over 40 years' experience in the medical device and bio-pharmaceutical industry in leadership positions, most recently as Group Chief Executive of LMA International NV and President of Smiths Medical, London. Mr Kinet has raised more than \$100m in funding for early stage companies, taking one through an IPO, and made over \$1bn worth of acquisitions. His career began at Baxter International, running a number of overseas operations and eventually becoming President of Baxter's International Division. He holds a BSc from the University of Birmingham (UK) and an MBA from the University of Chicago.



**Mr Lawrence Kinet**  
Non-Executive Director

Mr Whittingham has extensive experience in investor, operational and strategy roles with technology-rich companies, including Incuvest LLC, Generics Group plc, Durlacher plc, Amphion Innovations plc, INMARSAT and a number of start-ups. He was appointed to the Board of Kromek Group plc in September 2013 and also served on the Board of DSC Ltd, a predecessor company of the Group. Currently he combines NED and operational roles in technology growth companies. He also served as CEO and later Executive Chairman of Myconostica Ltd, a medical technology company spun out from a leading UK university.



**Mr Jerel Whittingham**  
Non-Executive Director  
Remuneration Committee Chair

Mr Wilks BSc, FCA, has considerable experience in both science and finance. He was formerly the Chief Financial Officer at Signum Technology, which he co-founded in 2012. Prior to this, he was Chief Financial Officer at Sondex plc where he successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post-IPO acquisitions. In 2007 Sondex was acquired by GE. After graduating from Durham University with a BSc in Applied Physics and Electronics, Christopher initially joined Marconi Space Systems designing power systems for space craft, and he then trained as a Chartered Accountant at Arthur Young (now EY). After qualifying as a Chartered Accountant in audit, he became a Manager in the Corporate Finance team at EY. His intimate understanding of the physics and financial worlds adds valuable insight and expertise to the Board of Kromek.



**Mr Christopher Wilks**  
Non-Executive Director  
Audit Committee Chair



The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 30 April 2019.

### Principal activities

Kromek Group plc is the leading developer of radiation detectors based on cadmium zinc telluride (CZT), providing improved detection and characterisation capabilities within the medical imaging, nuclear detection and security screening markets. The Group realises revenue primarily on the sale of radiation equipment, development of radiation technology and for leading research into different potential applications of its detection technology.

### Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 30 April 2019, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statements and the Chief Financial Officer's Review, on pages 8-11.

### Future developments

The Group's development objectives for 2019/20 are disclosed in the Strategic Report on pages 4-13.

The Directors continue to monitor the potential impacts of the UK's decision to leave the European Union (EU). As the Group's turnover is generated globally and the proportion of UK to EU trade is not a significant portion of this, and the Group has significant operations and manufacturing facilities in both the US and UK, the Directors believe the Group is strategically well-placed to navigate whatever will be the outcome of the Brexit process. However, the Directors continually monitor the political environment and keep the potential impact of Brexit under review and other global economic events such as the existing relationship between the US and China. The Directors will put in place plans to reduce or mitigate the risks arising once they have been firmly established.

### Capital structure

The capital structure is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities and cash flows.

No changes were made to these objectives, policies or processes during the year ended 30 April 2019.

### Results and dividends

The consolidated income statement is set out on page 40.

The Group's loss after taxation amounted to £0.3m (2017/18: £1.1m).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2019.

During the year ended 30 April 2019, the Group made political donations of £nil (2017/18: £nil) and charitable donations of £nil (2017/18: £nil).

### Directors

The Directors who served throughout the year and up to the date of signing this report (unless otherwise stated) were as follows:

Dr A Basu  
Mr D Bulmer  
Sir P Williams  
Mr L Kinet  
Mr J H Whittingham  
Mr C Wilks  
Dr G Speirs (resigned 1 October 2018)

The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration Committee Report.

Details of significant events since the balance sheet date are contained in note 16 to the parent company financial statements.

### Directors' indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

### Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Employees**

Kromek develops and manufactures products and systems that are designed to make the world a safer place. The Board and senior management value technological development in the Group's sector and actively support developments that lead to better scanning and detection systems. To this end, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations. All staff are encouraged to meet and participate in events and conferences that operate in their area of expertise. The Group's learning and development policy encourages employees to further their professional development. Operating a business that is fair and equitable for all is vital to the Group's success. Kromek's ethical values are outlined in its:

- Equal opportunity policy;
- Personal harassment policy;
- Family-friendly policy;
- Equality, inclusion and diversity policy; and
- Anti-bribery and corruption policy.

These policies are circulated to staff as part of the employee manual, and reminders sent on a regular basis as the manual is updated and changed.

The Group has several routes in place to reinforce ethical behaviour, which, depending upon the situation, could be resolved in the regular one-to-one meeting, personal improvement plan or in more severe action, including immediate dismissal.

The Group's current number of staff at the date of this report is 126 and the percentage of this number that is female is 27%.

**Auditor**

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

KMPG LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

**Substantial shareholders**

As at 30 April 2019, shareholders holding more than 3% of the share capital of Kromek Group plc were:

| Name of shareholder                  | Number of shares | % of voting rights |
|--------------------------------------|------------------|--------------------|
| Miton Asset Management Ltd           | 69,958,835       | 20.30              |
| Canaccord Genuity Wealth Management  | 26,234,615       | 7.61               |
| Polymer Holdings                     | 20,273,475       | 5.88               |
| Hargreaves Lansdown Asset Management | 19,180,103       | 5.57               |
| Kilik & Co                           | 18,985,559       | 5.51               |
| Herald Investment Management         | 17,747,059       | 5.15               |
| Interactive Investor Shareholding    | 10,725,634       | 3.11               |

By order of the Board

**Dr Arnab Basu MBE**

Chief Executive Officer  
26 June 2019

The Directors recognise the importance of sound corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the QCA Code). The QCA Code was developed by the QCA, in consultation with a number of significant institutional small company investors, as a corporate governance code applicable to companies with shares traded on AIM.

### The Board

The Board normally meets at least four times per year in person and four times per year telephonically. Its direct responsibilities include approving annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

### Board meetings

The Board met five times during the year ended 30 April 2019, including one AGM and one strategy away day. The following details the Board meetings during 2018/19 and the attendees:

| Date                         | Attendees   |
|------------------------------|---|
| 27/06/2018                   | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Graeme Speirs<br>Jerel Whittingham<br>Christopher Wilks |
| 25/09/2018<br>(Strategy day) | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Graeme Speirs<br>Jerel Whittingham<br>Christopher Wilks |
| 01/10/2018<br>(AGM)          | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks                  |
| 11/12/2018                   | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks                  |
| 26/02/2019                   | Sir Peter Williams<br>Arnab Basu<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks                  |

### Board effectiveness

The Board has set out, in the contract for Non-Executive Directors, the time commitment required and asked for confirmation that the Director can devote enough time to meet the expectations of the Board.

The Board currently anticipates a minimum time commitment of one day per month and further days if required for the satisfactory fulfilment of Directors' duties. This includes attendance at six Board meetings per annum, including attendance at four in person, the AGM, any general meeting, one annual Board away day and at least one site visit per year. During the year, the Board visited Kromek's US facilities, and it is likely that this will become an annual commitment. Also, Directors are expected to devote appropriate preparation time ahead of each meeting.

The Board requires the Directors to disclose any other significant time commitments and to obtain the agreement of the Chairman, or in the event that the Chairman has a conflict of interest in relation to such matter, obtain the agreement of one of the Company's independent Non-Executive Directors, before accepting additional commitments that might affect the time to devote to the role as a Non-Executive Director of the Company.

The Board is satisfied that, between the Directors, the executive team and senior management, the Group has an effective and appropriate balance of skills and experience. These include the areas of technology, business operation, finance, innovation, international trading and marketing. All Directors have extensive technical qualifications and experience relating to their area of operation.

The Board conducts half yearly reviews of the effectiveness of its performance as a unit and of the individual members, meeting with Board members to discuss their involvement with the Company to ensure that:

1. their contribution is relevant and effective;
2. that they are committed to Kromek and its values; and
3. where relevant, they have maintained their independence.

In order to measure the effectiveness of the Board against these three points, four areas of performance are considered:

1. Process and relationships
  - Effective in dispatching business in and between meetings.
  - Good internal board dynamics.
  - Good key relationships.
2. Coverage
  - Focuses on key issues and risks.
  - Initiative-taking, dealing with crises and identifying emerging issues.

- 3. Impact
  - Contributes to the Company's performance.
- 4. Sustainability
  - Aware of, and interested in, good practice.

The above forms a basis for discussion around performance in one-to-one discussions with Board members, CEO, CFO and Chairman to measure effectiveness. These occur after Board meetings and during other meetings with the senior team. The Board has not adopted any more mechanistic performance exercises, but this is always under consideration and may be adopted in the future.

Relations with stakeholders

Shareholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, regulatory announcements, the Annual General Meeting (AGM) and one-to-one meetings with existing and potential new shareholders. The Chairman aims to ensure that the Chairs of the audit and remuneration committees are available at the Annual General Meeting to answer questions. All regulatory announcements along with annual reports and notices of all general meetings over the last five years are available on the corporate website and are publicised through Kromek's social media channels and newsletters.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the CEO, CFO and the Company's brokers. The Company communicates with institutional investors frequently through briefings with management and, at a minimum, at the time of the publication of the half year and full year results.

Broader stakeholders

Kromek develops and manufactures products and systems that are designed to make the world a safer place. To support this goal, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations.

As noted in the Directors' Report above, the Group's learning and development policy encourages employees to further their professional development. The Group also has a number of policies to ensure the operation of a business that is fair and equitable for all.

Audit Committee

The Audit Committee is chaired by Christopher Wilks, an Independent Non-Executive Director. The other members are Sir Peter Williams, Lawrence Kinet and Jerel Whittingham, all Independent Non-Executive Directors. For the year under review, Dr Graeme Speirs was also a member of the Audit Committee until his retirement as a Non-executive Director on 1 October 2018. The committee meets at least two times a year.

The Audit Committee is responsible for reviewing the half-year and annual financial statements, interim management statements, preliminary results announcements and any other formal announcement or presentation relating to the Group's financial performance.

The Audit Committee reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The Audit Committee also reviews the effectiveness of the Group's internal control over financial reporting and considers key financial judgements made in the financial statements.

The Audit Committee advises the Board on the appointment of external auditors and on their remuneration (both for audit and non-audit work) and discusses the nature, scope and results of the audit with the auditors. The Audit Committee reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the Audit Committee reports the outcome of Audit Committee meetings to the Board and the Board receives minutes of the meetings.

The Audit Committee meets two times per year and the following details the Audit Committee meetings and attendees during the year ended 30 April 2019:

| Date       | Attendees   |
|------------|---|
| 27/06/2018 | Sir Peter Williams<br>Derek Bulmer<br>Lawrence Kinet<br>Graeme Speirs<br>Jerel Whittingham<br>Christopher Wilks |
| 14/12/2018 | Sir Peter Williams<br>Derek Bulmer<br>Lawrence Kinet<br>Jerel Whittingham<br>Christopher Wilks                  |

Remuneration Committee

The Remuneration Committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other member is Lawrence Kinet, an Independent Non-Executive Director. For the year under review, Dr Graeme Speirs was also a member of the Remuneration Committee until his resignation as a Non-Executive Director on 1 October 2018. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes and pension rights. Further details of the Group's policies on remuneration and service contracts are given in the Remuneration Committee Report on pages 29 to 31.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors have set out below some of the key aspects of the Group's internal control procedures.

An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by the senior leadership team of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Audit Committee if they need to raise matters of concerns other than via the Executive Directors and senior leadership team.

### Going concern

As at 30 April 2019, the Group had net assets of £61.2m (30 April 2018: £40.3m) and cash and cash equivalents of £20.6m (30 April 2018: £9.5m) as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's financial performance over the next five years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.



On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 30 April 2019.

Firstly, I would like to pass my gratitude and appreciation to Sir Peter Williams, who officially stepped down as Chair of the Audit Committee in June 2018. Sir Peter had been the Chair of the Audit Committee for the last three financial years and his work has seen the continued operation of an effective Audit Committee. I look forward to continuing this work as the Group continues to make technological, commercial and financial advances.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements, reviewing internal control and risk management systems, reviewing any changes to accounting policies, and reviewing and monitoring the extent of the non-audit services undertaken by external auditors outside the committee schedule to ensure there is full opportunity for discussion.

#### Members of the Audit Committee

The Committee consists of four Independent Non-Executive Directors: me (as Chair), Sir Peter Williams (as former Chair), Lawrence Kinet and Jerel Whittingham. During the year, Graeme Speirs was a member of the Audit Committee as a non-independent Non-Executive Director until he resigned from the Board on 1 October 2018.

The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I was formerly Chief Financial Officer at Signum Technology, which I co-founded in 2012. Prior to this, I was Chief Financial Officer at Sondex plc, where I successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post-IPO acquisitions. In 2007 Sondex was acquired by GE. After graduating from Durham University with a BSc in Applied Physics and Electronics, I initially joined Marconi Space Systems designing power systems for space craft, and then trained as a Chartered Accountant at Arthur Young (now EY).

#### Duties

The main duties of the Audit Committee are set out in its Terms of Reference, which are available on the Company's website ([www.kromek.com](http://www.kromek.com)) and are available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- review of the financial statements and annual report
- consideration of the external audit report and management representation letter;

- going concern review;
- review of the 2019 audit plan and audit engagement letter;
- review of suitability of the external auditors;
- review of the risk management and internal control systems;
- review and approval of the interim results;
- assessment of the need for an internal audit function;
- review of whistleblowing reports; and
- meeting with the external auditor without management present.

#### Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Audit Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 7 of the Group's financial statements. The non-audit fees related to tax advice for the Group.

The Audit Committee also assesses the auditor's independence and performance. The year ended 30 April 2019 represents the first year that David Mitchell, the KPMG LLP audit director and Responsible Individual (RI), has signed the accounts. He has replaced Nick Plumb as the RI in the year following staff rotation. The year ended 30 April 2019 represents the second year that KPMG LLP have acted as the external auditor of the Group, having replaced the Group's former external auditors, Deloitte LLP during the year ended 30 April 2018. Having reviewed the auditor's independence and performance, the Audit Committee recommends that KPMG LLP be re-appointed as the Group's auditor at the next AGM.

#### Audit process

The auditor prepares an audit plan for its review of the full year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee for discussion. No major areas of concern were highlighted by the auditor during the year; however, areas of significant risk and other matters of audit relevance are regularly communicated. The auditor currently calculates materiality using the Group's normalised loss before tax. As the Group's loss before tax has reduced to £1.3m during 2018/19 (2017/18: £2.5m), the materiality of the Group has consequently reduced by 16% to £150k (2017/18: £179k). Despite the reduction in materiality, there were no unadjusted material differences reported by the auditor to the Audit Committee.

## **Internal audit**

At present the Group does not have an internal audit function, and the Audit Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

## **Risk management and internal controls**

As described on page 24 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Audit Committee reviewed the framework and is satisfied that the internal control systems in place are currently operating effectively.

## **Whistleblowing**

The Group has in place a whistleblowing policy that sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Audit Committee's agenda, and an opportunity for updates is provided at each meeting. During the year, there were no incidents for consideration.

## **Christopher Wilks**

Audit Committee Chairman  
26 June 2019

As the Group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group and so Kromek makes the following disclosures voluntarily, which are not intended to comply with the requirements of the Companies Act 2006.

The Remuneration Committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Kromek Group plc.

In determining remuneration for the year, the Remuneration Committee has given consideration to the requirements of the UK Corporate Governance Code.

### Remuneration policy

The remuneration of Executive Directors is determined by the Remuneration Committee and the remuneration of Non-Executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-Executive Directors.

The remuneration packages of Executive Directors comprise the following elements:

#### Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually, having regard to individual performance and market practice. In most cases, benefits provided to Executive Directors comprise the provision of a Group car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme.

#### Annual bonus

A contractual bonus is awarded at the end of each financial year, the quantum of which is at the discretion of the Board, having considered the recommendations of the Remuneration Committee. The maximum bonus currently ranges from between 25%–100% of basic salary to reward executives' contribution to the growth in revenue, and specific targeted or strategic objectives.

#### Long-Term Incentive Plan ("LTIP")

The Group believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Group and the shareholders.

The Group has executive incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance.

The LTIP is based on total shareholder return ("TSR") relative to an AIM peer group. Any awards made vest only after three years. A review was undertaken by external advisors during the year which resulted in some modifications of the criteria to bring them in line with market best practice. The annual LTIP award was reduced to reflect the introduction of a parallel value creation share plan ("VC") following the 2017/18 review. The VC will vest in May 2022 and pay-outs, if any, are based on the absolute value of the Group at that date. There is a minimum value threshold before any pay-out may occur and a maximum value cap.

The Remuneration Committee and Board use external independent advisors to provide guidance on benchmarks, scheme structures and metrics. KPMG LLP provided advice on LTIP best practice but not on specific executive schemes. The use of KPMG in this capacity predated their role as the Group's auditor.

### Service contracts

Arnab Basu and Derek Bulmer have service contracts with notice periods (to the Company) of nine and six months respectively.

The Remuneration Committee considers the Directors' notice periods to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

### Non-Executive Directors

The salaries of the Non-Executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-Executive Directors are not eligible for bonuses, pension benefits or share options.

### Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2019 are shown below.

### Pension contributions

During the year, the Group made annual pension contributions for Arnab Basu and Derek Bulmer to a personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

| Year Ended   | 30 April 2019<br>£'000 | 30 April 2018<br>£'000 |
|--------------|------------------------|------------------------|
| Director     |                        |                        |
| Arnab Basu   | 10                     | 10                     |
| Derek Bulmer | 10                     | 10                     |



**Directors' shareholdings**

Beneficial interests of the Directors in the shares of the Group are shown below:

|                   | 30 April 2019 |     | 30 April 2018 |     |
|-------------------|---------------|-----|---------------|-----|
|                   | Number        | %   | Number        | %   |
| Arnab Basu        | 2,952,000     | 0.9 | 2,952,000     | 1.1 |
| Derek Bulmer      | 112,292       | 0.0 | 100,000       | 0.0 |
| Peter Williams    | 150,000       | 0.0 | 100,000       | 0.0 |
| Lawrence Kinet    | 300,000       | 0.1 | 250,000       | 0.1 |
| Jerel Whittingham | 364,890       | 0.1 | 364,890       | 0.0 |
| Christopher Wilks | 125,000       | 0.0 | 75,000        | 0.0 |

**Directors' emoluments for the year ended 30 April 2019**

The table below forms part of the audited financial statements:

|                               | Salary<br>£'000 | Benefits<br>£'000 | Bonus<br>paid<br>£'000 | Pension<br>contributions<br>£'000 | Total<br>emoluments<br>2018/19<br>£'000 | Total<br>emoluments<br>2017/18<br>£'000 |
|-------------------------------|-----------------|-------------------|------------------------|-----------------------------------|---|---|
| <b>Non-executive Chairman</b> |                 |                   |                        |                                   |   |   |
| Sir Peter Williams            | 74              | -                 | -                      | -                                 | 74                                      | 74                                      |
| <b>Executive</b>              |                 |                   |                        |                                   |   |   |
| Arnab Basu                    | 210             | 11                | 133                    | 10                                | 364                                     | 356                                     |
| Derek Bulmer                  | 154             | 8                 | 58                     | 10                                | 230                                     | 204                                     |
| <b>Non-executive</b>          |                 |                   |                        |                                   |   |   |
| Lawrence Kinet                | 38              | -                 | -                      | -                                 | 38                                      | 36                                      |
| Jerel Whittingham             | 41              | -                 | -                      | -                                 | 41                                      | 39                                      |
| Christopher Wilks             | 38              | -                 | -                      | -                                 | 38                                      | 19                                      |
| Graeme Speirs*                | 15              | -                 | -                      | -                                 | 15                                      | 36                                      |
| <b>Total</b>                  | <b>570</b>      | <b>19</b>         | <b>191</b>             | <b>20</b>                         | <b>800</b>                              | <b>764</b>                              |

\*Graeme Speirs resigned from his position as a Non-Executive Director on 1 October 2018.

**Executive Directors' share incentive scheme (LTIP)****Share incentive scheme for Arnab Basu, Chief Executive Officer, and Derek Bulmer, Chief Financial Officer**

The Remuneration Committee agreed, in January 2019, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 471,910 and 307,865 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The Remuneration Committee agreed, in December 2017, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 471,910 and 307,865 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

The Remuneration Committee agreed, in January 2017, an incentive award scheme for Arnab Basu and Derek Bulmer, to offer them up to 595,200 and 370,647 shares respectively, at a price of 1p per share to vest based on specified performance criteria.

These share incentives noted above are measured by a TSR condition, calculated as the average total return in comparison to a peer group. The Board received specialist advice from the Group's auditor.

As at 30 April 2019, the shares issued in 2017, 2018 and 2019 remained unvested.

During 2017/18 as noted on page 29, a new incentive award scheme was introduced regarding an Average Valuation Creation of the Company, referred to as the "VC". This has awarded Arnab Basu and Derek Bulmer 2,001,791 and 1,601,432 options under the scheme respectively. However, these options only vest after 5 years (at 1p per share) and are subject to challenging specific performance criteria over that period commencing 1 May 2017. The quantity of options that vest is weighted, such that the maximum amount only vests on achievement of all performance criteria.

### Share price during the year

During the year to 30 April 2019, the highest share price was 31.34p (2017/18: 35.63p) and the lowest share price was 21.22p (2017/18: 19.75p). The market price of the shares at 30 April 2019 was 25.50p (30 April 2018: 21.15p).

### Directors' interests in material contracts

No Director was materially interested either at the year-end or during the year in any contract of significance to the Group other than their employment or service contract.

### Executive Directors' share options

The following table shows the movement in the total share options that have been granted to Arnab Basu and Derek Bulmer (separate to those under the LTIP scheme as detailed on the previous page). These options are not linked to any specified performance criteria:

| Director     | Date of grant | Exercise price p | At 1 May 2018 number | Awarded during the year | Exercised during the year | At 30 April 2019 number | Expiry date  |
|--------------|---------------|------------------|----------------------|-------------------------|---------------------------|-------------------------|--------------|
| Arnab Basu   | 20 Nov 2011   | 20.0             | 1,000,000            | -                       | -                         | 1,000,000               | 20 Sept 2021 |
| Derek Bulmer | 13 Sept 2010  | 20.0             | 500,000              | -                       | -                         | 500,000                 | 13 Sept 2020 |
| Derek Bulmer | 15 Oct 2012   | 20.0             | 125,000              | -                       | -                         | 125,000                 | 15 Oct 2022  |
| Derek Bulmer | 31 May 2013   | 20.0             | 250,000              | -                       | -                         | 250,000                 | 31 May 2023  |

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**Kromek Group plc**

Annual report and accounts for the  
year ended 30 April 2019

Independent Auditor's Report To The Members of Kromek Group plc

1 OUR OPINION IS UNMODIFIED

We have audited the financial statements of Kromek Group plc ("the Company") for the year ended 30 April 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of changes in equity, company statement of financial position, company statement of cash flows, and the related notes, including the accounting policies in note 3.

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 30 April 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

| Overview                  |   |   |
|---------------------------|---|---|
| Materiality:              | Group financial statements as a whole                                     | £150,000 (2018: £179,000)<br>5% (2018: 5%) of Group loss before tax |
|                           | Coverage  | 100% (2018: 100%) of Group loss before tax                          |
| Key audit matters vs 2018 |   |   |
| Recurring risks           | Revenue recognition on contracts  | ◀▶  |
|                           | Recoverability of capitalised development costs                           | ◀▶  |
|                           | Recoverability of parent company's debt due from group entities           | ◀▶  |
| Event driven              | New: The impact of uncertainties due to the UK exiting the European Union |   |
|                           | New: Going concern  |   |

2 KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

|   | The risk   | Our response   |
|---|--|--|
| <b>The impact of uncertainties due to the UK exiting the European Union</b><br>Refer to page 12-13 (principal risks), page 27-28 (Audit Committee Report), page 47-55 (accounting policy) and page 45-85 (financial disclosures). | <b>Unprecedented levels of uncertainty</b><br>All audits assess and challenge the reasonableness of estimates and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.<br><br>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. | We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:<br><br><b>Our Brexit knowledge</b> <ul style="list-style-type: none"><li>We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.</li></ul> <b>Assessing transparency</b> <ul style="list-style-type: none"><li>We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.</li></ul> However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit. |

|  | The risk  | Our response   |
|--|---|--|
| <p><b>Revenue recognition on contracts ongoing at year end</b><br/>           (£14.5 million; 2018: £11.8 million)<br/>           Refer to page 27-28 (Audit Committee Report), page 48 (accounting policy) and page 56 (financial disclosures).</p> | <p><b>Subjective estimate:</b></p> <p>Certain of the Group's contracts with its customers involve the construction of complex technical equipment and provision of associated services that are not separable from the products over a period of more than one year. This is the first year that the Group is required to account for revenue under IFRS 15 Revenue from Contracts with Customers. The Group has to make an assessment of the progress of each contract in order to determine how much revenue to recognise. The stage of completion is estimated by the Group with reference to costs incurred compared to total forecast contract costs. This requires an estimate of costs to complete the contract. Many of the contracts include new technologies or applications such that estimates of total contract costs are inherently judgmental.</p> <p>Each contract is reviewed to identify and assess distinct performance obligations, and the transaction price allocated to each.</p> <p>For contracts ongoing at year end, inaccurate identification of the performance obligations and/or incorrectly concluding whether performance obligations have been satisfied could lead to material variances in the amounts recognised in revenue.</p> <p>Inaccurate allocation of contract price to separate performance obligations and/or assessment of whether revenue from ongoing contracts at year end should be recognised 'over time' rather than 'point in time', under the relevant accounting standards, could lead to material variances in the amounts recognised in revenue.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that revenue recognised of £5.6 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 4) disclose the sensitivity estimated by the Group</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Accounting analysis:</b> For selected contracts ongoing at year end we inspected the signed contracts to identify relevant performance obligations and other key information in order to assess whether the Group's determination that contract revenue should be recognised over time or at a point in time was appropriate and whether amounts attributed to separate performance obligations were accurate.</li> <li>— <b>Test of detail</b> – For selected contracts ongoing at year end, we inspected the signed contracts to identify relevant performance obligations and corroborated with reference to customer correspondence, other documentation, or Group project personnel interviews whether these obligations had been satisfied and revenue appropriately allocated to the performance obligations and reflected in the financial statements.</li> <li>— <b>Historical comparisons</b> – We evaluated the historical accuracy of the Group's cost to complete estimation by comparing actual costs to budgeted forecasts.</li> <li>— <b>Independent reperformance</b> – We agreed costs to complete to detailed breakdowns and checked mathematical accuracy. We also reperformed the revenue recognition calculations based upon the percentage stage of completion to assess revenue recognised had been calculated and processed correctly.</li> <li>— <b>Assessing transparency</b> – We assessed the adequacy of the disclosures about the judgement involved in the identification of performance obligations and the classification of ongoing contracts at year end as over time or point in time under the relevant accounting standards.</li> </ul> |



Independent Auditor’s Report *(Continued)*

|   | The risk  | Our response  |
|---|---|---|
| <p><b>Recoverability of capitalised development costs</b><br/>(£15.3 million; 2018: £13.4 million)<br/>Refer to page 27-28 (Audit Committee Report), page 52 (accounting policy) and page 64 (financial disclosures).</p> | <p><b>Subjective valuation:</b></p> <p>The Group is developing its own technologies and products across various markets and sectors, with each project being at various stages of development. The nature of the technologies is market disruptive and there is no proven historic track record for the commercial success of the Group's products. The ultimate recoverability therefore of costs capitalised is inherently subjective and requires a judgement as to the likely financial success in the market place of the products developed.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of capitalised development costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 4) disclose the sensitivity estimated by the Group.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"><li>— <b>Tests of detail</b> – Comparing the sum of the forecast discounted cash flows relevant to the sale of products developed as a result of the development costs capitalised, and comparing to the carrying value of those assets to identify any shortfall.</li><li>— <b>Sensitivity analysis</b> – We performed sensitivity analysis on the assumptions, including growth rates and discount rates included in the Group's valuations to identify the breakeven point.</li><li>— <b>Historical comparisons</b> – We compared the historic budget versus actual financial data in order to make an assessment of the Group's forecasting ability given the reliance on future forecast revenues in the discounted cashflows used to support the carrying value.</li><li>— <b>Assessing transparency</b> – We assessed the adequacy of the disclosures about the judgement involved in the recoverability of capitalised development costs.</li></ul> |

|   | The risk  | Our response  |
|---|---|---|
| <p><b>Going concern</b><br/>(Refer to page 27-28 (Audit Committee Report), page 47-55 (accounting policy) and page 45-85 (financial disclosures).</p>   | <p><b>Disclosure quality:</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources over this period were in relation to the timing and delivery of larger contracts which can cause material fluctuations in actual cash flows compared to those forecast.</p> <p>There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of demand and available financial resources.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p> | <p>Our procedures included:</p> <p><b>Historical comparisons:</b></p> <ul style="list-style-type: none"> <li>— We compared the Group's forecasts to actual cash flows achieved in the year and in earlier years.</li> </ul> <p><b>Sensitivity analysis:</b></p> <ul style="list-style-type: none"> <li>— We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>— Assessing the completeness and accuracy of the matters covered in the going concern disclosure with reference to our audit findings from the above procedures and our understanding of the Group's business and strategies.</li> </ul> |
| <p><b>Recoverability of parent company's debt due from group entities</b><br/>(£46.9 million; 2018: £43.0 million)<br/>Refer to page 27-28 (Audit Committee Report), page 47-55 (accounting policy) and page 45-85 (financial disclosures).</p> | <p><b>Forecast-based valuation</b></p> <p>The carrying amount of the group debtor balance is significant and at risk of irrecoverability due to the loss-making position of the subsidiary companies. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of these balances has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 4) disclose the sensitivity estimated by the Company.</p>   | <p>Our procedures included:</p> <p><b>Benchmarking assumptions:</b><br/>Challenging the assumptions used in the cash flows included in the budgets based on our knowledge of the Group and the markets in which the subsidiaries operate;</p> <p><b>Historical comparisons:</b><br/>Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts;</p> <p><b>Our sector experience:</b><br/>Evaluating the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market; and</p> <p><b>Assessing transparency:</b><br/>Assessing the adequacy of the parent company's disclosures in respect of the group debtor balance.</p>   |

## Independent Auditor's Report *(Continued)*

### 3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the Group financial statements as a whole was set at £150,000 (2018: £179,000), determined with reference to a benchmark of group normalised loss before tax, normalised by averaging over the last four years due to fluctuations in the business cycle, of £2,935,000, of which it represents 5% (2018: 5%).

Materiality for the Parent company financial statements as a whole was set at £140,000 (2018: £134,000), determined with reference to a benchmark of company total assets, chosen to be lower than materiality for the group as a whole, of which it represents 0.2% (2018: 0.3% of net assets).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £7,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

All of the Group's 6 (2018: 6) reporting components, were subjected to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved materialities ranging from £4,000 to £140,000, having regard to the mix of size and risk profile of the Group across the components. The work on all components, including the audit of the parent company, was performed by the Group team.

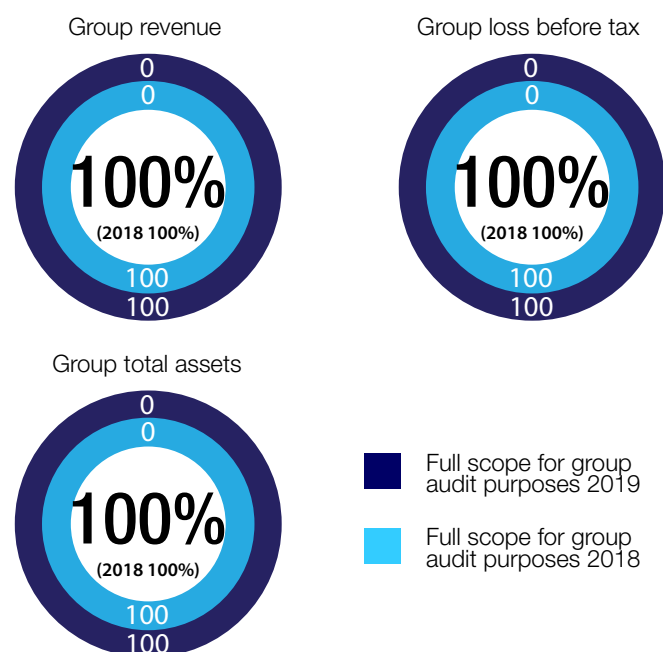
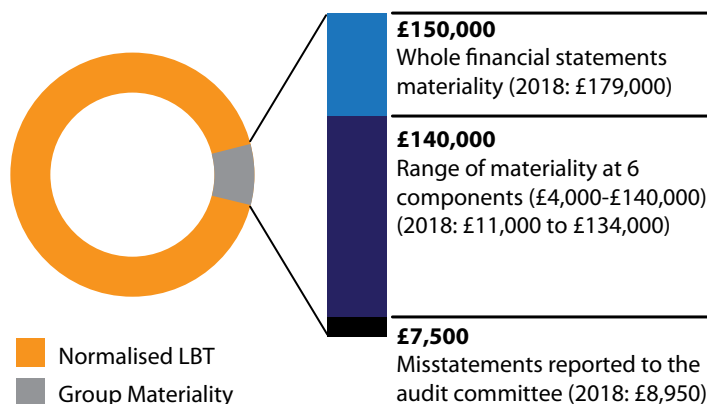
### 4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is

**Normalised Group Loss before Tax**  
£2,935,000 (2018: £3,580,000)

**Group Materiality**  
£150,000 (2018: £179,000)



not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were in relation to the timing and delivery of larger contracts which can cause material fluctuations in actual cash flows compared to those forecast.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of



the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

## **5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## **7. RESPECTIVE RESPONSIBILITIES**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 22-23, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES**

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.

### **David Mitchell**

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

26 June 2019

## Consolidated income statement

For the year ended 30 April 2019

|   | Note | 2019<br>£'000  | 2018<br>£'000 |
|---|------|----------------|---------------|
| <b>Continuing operations</b>                        |      |                |               |
| Revenue   | 5    | <b>14,517</b>  | 11,845        |
| Cost of sales                                       |      | <b>(6,208)</b> | (5,161)       |
| <b>Gross profit</b>                                 |      | <b>8,309</b>   | 6,684         |
| Other operating income                              | 5    | -              | -             |
| Distribution costs                                  |      | <b>(184)</b>   | (214)         |
| Administrative expenses                             |      | <b>(9,031)</b> | (8,811)       |
| <b>Operating loss</b>                               |      | <b>(906)</b>   | (2,341)       |
| Finance income                                      | 9    | <b>155</b>     | 35            |
| Finance costs                                       | 10   | <b>(519)</b>   | (227)         |
| <b>Loss before tax</b>                              | 6    | <b>(1,270)</b> | (2,533)       |
| Tax   | 11   | <b>987</b>     | 1,429         |
| <b>Loss for the year from continuing operations</b> |      | <b>(283)</b>   | (1,104)       |
| Loss per share                                      | 13   |                |               |
| - basic (p)   |      | <b>(0.1)</b>   | (0.4)         |
| - diluted (p)                                       |      | <b>(0.1)</b>   | (0.4)         |

Consolidated statement of comprehensive income

For the year ended 30 April 2019

|   | 2019<br>£'000 | 2018<br>£'000  |
|---|---------------|----------------|
| <b>Loss for the year</b>  | <b>(283)</b>  | <b>(1,104)</b> |
| Items that are or may be subsequently reclassified to profit or loss: |               |                |
| Exchange differences on translation of foreign operations             | <b>1,218</b>  | <b>(1,026)</b> |
| <b>Total comprehensive income/(loss) for the year</b>                 | <b>935</b>    | <b>(2,130)</b> |

# Consolidated statement of financial position

As at 30 April 2019

|                                       | Note | 2019<br>£'000   | 2018<br>£'000  |
|---------------------------------------|------|-----------------|----------------|
| <b>Non-current assets</b>             |      |                 |                |
| Goodwill                              | 14   | 1,275           | 1,275          |
| Other intangible assets               | 15   | 18,165          | 16,555         |
| Investments – long-term cash deposits |      | 1,250           | 1,250          |
| Property, plant and equipment         | 16   | 6,252           | 3,097          |
| Right-of-use asset                    | 17   | 3,975           | -              |
|                                       |      | <b>30,917</b>   | <b>22,177</b>  |
| <b>Current assets</b>                 |      |                 |                |
| Inventories                           | 19   | 3,227           | 3,014          |
| Trade and other receivables           | 21   | 19,997          | 11,334         |
| Current tax assets                    | 21   | 987             | 1,167          |
| Cash and bank balances                |      | 20,616          | 9,488          |
|                                       |      | <b>44,827</b>   | <b>25,003</b>  |
| <b>Total assets</b>                   |      | <b>75,744</b>   | <b>47,180</b>  |
| <b>Current liabilities</b>            |      |                 |                |
| Trade and other payables              | 23   | (4,884)         | (3,500)        |
| Borrowings                            | 26   | (3,133)         | (3,000)        |
| Provisions for liabilities            | 25   | -               | (424)          |
| Lease obligation                      | 24   | (273)           | -              |
|                                       |      | <b>(8,290)</b>  | <b>(6,924)</b> |
| <b>Net current assets</b>             |      | <b>36,537</b>   | <b>18,079</b>  |
| <b>Non-current liabilities</b>        |      |                 |                |
| Lease obligation                      | 24   | (3,938)         | -              |
| Loans                                 | 26   | (2,313)         | -              |
|                                       |      | <b>(6,251)</b>  | <b>-</b>       |
| <b>Total liabilities</b>              |      | <b>(14,541)</b> | <b>(6,924)</b> |
| <b>Net assets</b>                     |      | <b>61,203</b>   | <b>40,256</b>  |
| <b>Equity</b>                         |      |                 |                |
| Share capital                         | 28   | 3,446           | 2,604          |
| Share premium account                 | 29   | 61,600          | 42,625         |
| Merger reserve                        |      | 21,853          | 21,853         |
| Translation reserve                   | 30   | 949             | (269)          |
| Accumulated losses                    | 31   | (26,645)        | (26,557)       |
| <b>Total equity</b>                   |      | <b>61,203</b>   | <b>40,256</b>  |

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 26 June 2019. They were signed on its behalf by

**Dr Arnab Basu MBE**  
Chief Executive Officer



## Consolidated statement of changes in equity

For the year ended 30 April 2019

|  | Share capital<br>£'000 | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Translation<br>reserve<br>£'000 | Accumulated<br>income/<br>(losses)<br>£'000 | Total<br>equity<br>£'000 |
|--|------------------------|--------------------------------------|----------------------------|---------------------------------|---|--------------------------|
| <b>Balance at 1 May 2017</b>                             | <b>2,591</b>           | <b>42,592</b>                        | <b>21,853</b>              | <b>757</b>                      | <b>(25,584)</b>                             | <b>42,209</b>            |
| Loss for the year  | -                      | -                                    | -                          | -                               | (1,104)                                     | (1,104)                  |
| Exchange difference on translation of foreign operations | -                      | -                                    | -                          | (1,026)                         | -   | (1,026)                  |
| <b>Total comprehensive losses for the year</b>           | -                      | -                                    | -                          | (1,026)                         | (1,104)                                     | (2,130)                  |
| Issue of share capital net of expenses                   | 13                     | 33                                   | -                          | -                               | -   | 46                       |
| Credit to equity for equity-settled share based payments | -                      | -                                    | -                          | -                               | 131   | 131                      |
| <b>Balance at 30 April 2018</b>                          | <b>2,604</b>           | <b>42,625</b>                        | <b>21,853</b>              | <b>(269)</b>                    | <b>(26,557)</b>                             | <b>40,256</b>            |
| <b>IFRS 15 adjustment</b>                                | -                      | -                                    | -                          | -                               | -   | -                        |
| Loss for the year  | -                      | -                                    | -                          | -                               | (283)                                       | (283)                    |
| Exchange difference on translation of foreign operations | -                      | -                                    | -                          | 1,218                           | -   | 1,218                    |
| <b>Total comprehensive income/(losses) for the year</b>  | -                      | -                                    | -                          | 1,218                           | (283)                                       | 935                      |
| Issue of share capital net of expenses                   | 842                    | 18,975                               | -                          | -                               | -   | 19,817                   |
| Credit to equity for equity-settled share based payments | -                      | -                                    | -                          | -                               | 195   | 195                      |
| <b>Balance at 30 April 2019</b>                          | <b>3,446</b>           | <b>61,600</b>                        | <b>21,853</b>              | <b>949</b>                      | <b>(26,645)</b>                             | <b>61,203</b>            |

## Consolidated statement of cash flows

For the year ended 30 April 2019

|   | Note | 2019<br>£'000  | 2018<br>£'000 |
|---|------|----------------|---------------|
| <b>Net cash used in operating activities</b>                  | 32   | <b>(4,777)</b> | (4,613)       |
| <b>Investing activities</b>                                   |      |                |               |
| Investment into Money Market account                          |      | -              | (1,250)       |
| Interest received   |      | 155            | 35            |
| Purchases of property, plant and equipment                    |      | (3,644)        | (272)         |
| Purchases of patents and trademarks                           |      | (210)          | (641)         |
| Capitalisation of development costs                           |      | (2,731)        | (3,450)       |
| <b>Net cash used in investing activities</b>                  |      | <b>(6,430)</b> | (5,578)       |
| <b>Financing activities</b>                                   |      |                |               |
| Net proceeds on issue of shares                               |      | 19,817         | 46            |
| New loans and borrowings                                      |      | 2,557          | -             |
| Payment of loan and borrowings                                |      | (111)          | -             |
| Payment of lease liability                                    |      | (486)          | -             |
| Interest paid   |      | (293)          | (227)         |
| <b>Net cash generated from/(used in) financing activities</b> |      | <b>21,484</b>  | (181)         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | <b>10,277</b>  | (10,372)      |
| <b>Cash and cash equivalents at beginning of year</b>         |      | <b>9,488</b>   | 20,343        |
| Effect of foreign exchange rate changes                       |      | 851            | (483)         |
| <b>Cash and cash equivalents at end of year</b>               |      | <b>20,616</b>  | 9,488         |

# Notes to the consolidated financial statements

For the year ended 30 April 2019

## 1. GENERAL INFORMATION

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 3.

The Group's financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and on a basis consistent with that adopted in the previous year.

## 2. ADOPTION OF NEW AND REVISED STANDARDS

### Adoption of New and Revised Standards

The accounting policies used in this financial report are consistent with International Financial Reporting Standards. However, new accounting standards have been adopted as described below:

#### IFRS 15 Revenue from contracts with customers (effective for year ends beginning on or after 1 January 2018)

The new accounting standard IFRS 15 sets out a single and comprehensive framework for revenue recognition. The guidance in IFRS 15 is more detailed than previous IFRSs for revenue recognition (IAS 11 Construction Contracts and IAS 18 Revenue and associated interpretations).

The Group has adopted IFRS 15 from 1 May 2018 and has chosen to apply the cumulative effect approach. As a result, the Group is required to restate its opening equity position as at 1 May 2018 to reflect the impact of transitioning to IFRS 15. However, when transitioning to IFRS 15, on 1 May 2018, there has been a zero impact on its opening equity position.

In line with the requirements of the standard in regard to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18. As noted below, the financial impact of this is zero.

#### Impact of the adoption of IFRS 15

|   | As reported<br>1 May 2018<br>£'000 |
|---|------------------------------------|
| Retained earnings as previously reported                            | (26,557)                           |
| Adjustment to earnings from adoption of IFRS 15 – profit before tax | -                                  |
| Adjustment to earnings from adoption of IFRS 15 – deferred tax      | -                                  |
| <b>Retained earnings on adoption of IFRS 15 – 1 May 2018</b>        | <b>(26,557)</b>                    |

|  | Result before<br>adoption<br>of IFRS 15<br>£'000 | Impact of<br>change<br>in GAAP<br>£'000 | Result after<br>adoption<br>of IFRS 15<br>£'000 |
|--|--|---|---|
| <i>Impact on the result for the year ended 30 April 2019</i> |  |   |   |
| Revenue  | 14,517   | -                                       | 14,517  |
| Cost of sales  | (6,208)  | -                                       | (6,208)   |
| <b>Gross profit</b>  | <b>8,309</b>                                     | <b>-</b>                                | <b>8,309</b>                                    |
| Distribution costs   | (184)  | -                                       | (184)   |
| Administration expenses                                      | (9,031)  | -                                       | (9,031)   |
| <b>Operating loss</b>  | <b>(906)</b>                                     | <b>-</b>                                | <b>(906)</b>                                    |
| Finance income   | 155  | -                                       | 155   |
| Finance costs  | (519)  | -                                       | (519)   |
| <b>Loss before tax</b>                                       | <b>(1,270)</b>                                   | <b>-</b>                                | <b>(1,270)</b>                                  |
| Tax  | 987  | -                                       | 987   |
| <b>Loss for the year from continuing operations</b>          | <b>(283)</b>                                     | <b>-</b>                                | <b>(283)</b>                                    |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

#### Impact of the adoption of IFRS 15 (continued)

Revenue before the adoption of IFRS 15 was accounted for under IAS 11 and IAS 18.

An assessment of the impact of IFRS 15 was completed during the year across the Group's revenue streams, including a comprehensive review of contracts that were not completed at the date of initial application.

This review ascertained that under IFRS 15 all revenue that had been recognised in previous accounting periods up to and including 30 April 2018 under the former revenue standards of IAS 11 and IAS 18 are consistent with how the revenue would have been recognised under IFRS 15 should this standard have been applied retrospectively to the same period.

In addition to this, IFRS 15 has not impacted the revenue and profit recognition of contracts commencing during the year which were incomplete at 30 April 2019. The revenue from contracts that were formerly assessed under IAS 11 have been accounted for under IFRS 15 as "over time" and, revenue from contracts that were formerly assessed under IAS 18 have been accounted for under IFRS 15 as "point in time".

A summary of the new accounting policies and the nature of the changes to previous accounting policies in relation to the revenues derived from the Group's various goods and services are set out below:

| Type of product or service                             | Nature, timing and satisfaction of performance obligations and significant payment terms   | Nature, timing and satisfaction of performance |
|--|--|--|
| Revenue from the sale of radiation detection equipment | Revenue from the sale of radiation detection equipment is recognised at a point in time on despatch unless the customer specifically requests deferred delivery. For deliveries deferred, at the customer's request, revenues are recognised at a point in time when the customer takes title of the goods provided that it is probable that delivery will be made, the goods are identifiable and ready for delivery and usual payment terms apply.   | No material impact on adoption of IFRS 15.     |
| Revenue from construction contracts and grants         | Construction contracts comprise contracts specifically negotiated for the construction and design, development and delivery of specific radiation equipment to a particular customer.<br><br>The transaction price of the contract is known from inception of the contract.<br><br>Each contract is reviewed to identify the number of distinct performance obligations and the transaction price is assigned accordingly, usually by the value of work performed on an input cost basis. Based on the performance of the contract to date, revenue is recognised over time.<br><br>If relevant, an expected loss on a contract is recognised immediately in the income statement. | No material impact on adoption of IFRS 15.     |

In order to demonstrate a consistent revenue recognition of IFRS 15 compared to IAS 18 and IAS 11, the timing of the Group's revenue recognition can be disaggregated in 2018/19 and 2017/18 as follows:

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Product and services transferred at a point in time – IFRS 15 (2018: IAS 18) | 8,952         | 6,035         |
| Products and services transferred over time – IFRS 15 (2018: IAS 11)         | 5,565         | 5,810         |
|  | 14,517        | 11,845        |

#### IFRS 16 Leases

The Group has early adopted IFRS 16 Leases using the modified retrospective approach. Leases are initially recorded on the statement of financial position whereby the right of use ("ROU") asset is measured at an amount equal to the current outstanding lease liability. Under this methodology, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group recognises a ROU asset and a lease liability at the transition date (1 May 2018). Leases subject to IFRS 16 are recorded on the balance sheet, showing a ROU asset and a corresponding lease liability. The lease liability is initially measured at the present value of future lease payments that are not paid at the commencement date, discounted using the relevant incremental borrowing rate in line with the standard.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU or the end of the lease term.



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

#### IFRS 16 Leases (continued)

The standard allows two options for adoption – fully retrospective and modified retrospective. The Group has elected to take the modified retrospective approach. As a result of this the Group has:

- recognised a lease liability at 1 May 2018 for leases previously classified as operating leases applying IAS 17. The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application;
- recognised a right-of-use asset at 1 May 2018 for leases previously classified as operating leases applying IAS 17. The Group has chosen to measure right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position as at 30 April 2018; and
- 2018 comparatives are left unchanged, and any opening adjustment to net assets was recognised on 1 May 2018.

The Group has also applied the low value and short-term expedients.

All these leases adopted under IFRS 16 relate to property rentals; no other material leases that are above the expedient threshold are required for IFRS 16 treatment.

As noted above, no comparatives are given for the adoption of IFRS 16. The Group has calculated that the right-of-use asset recognised and corresponding liability as at 1 May 2018 is £1.3m.

The impact on adoption within the results reported as continued operations for the year ended 30 April 2019 is as follows:

- Finance costs have increased by £226k;
- Depreciation expense has increased by £334k due to the depreciation of the right-of-use asset;
- EPS has not changed; and
- Adjusted EBITDA has improved by £0.5m due to the reduction of rental expense.

#### IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments which is mandatory for years commencing on or after 1 January 2018. The Group does not believe that the new classification requirements have a material impact on its accounting for financial assets, financial liabilities, loans, investments in debt securities that are all managed on a fair value basis.

At the end of each reporting period, financial instruments are assessed for impairment. Any impairment charge is recognised in the profit and loss account.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and IFRIC interpretations.

The financial statements have been prepared on the historical cost basis modified for assets recognised at fair value on acquisition. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Group and entities controlled by the Group (its subsidiaries) made up to 30 April each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses, and profits are eliminated on consolidation.

#### Going concern

As at 30 April 2019, the Group had net assets of £61.2m (2018: £40.3m) and cash and cash equivalents of £20.6m (2018: £9.5m) including £3m (2018: £3m) drawn down on the Group's Revolving Credit Facility as set out in the consolidated statement of financial position. The Directors have prepared detailed forecasts of the Group's financial performance over the next five years. As a result of this review, which incorporated sensitivities and risk analysis, the Directors believe that the Group has sufficient resources and working capital to meet their present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group financial statements.

#### Business combinations

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Business combinations *(continued)*

control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

### Acquisitions on or after 1 May 2010

For acquisitions on or after 1 May 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Contracts with customers – accounting policies applied since 1 May 2018

The Group has adopted IFRS 15 retrospectively from 1 May 2018 in accordance with paragraph C3(a) and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 May 2018 to reflect the impact of transitioning to IFRS 15. Comparatives for the year ended 30 April 2018 have not been restated.

The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- in the financial statements for the year ending 30 April 2019, the comparative information for the year ending 30 April 2018 will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue.

Following the adoption of IFRS 15, the Group's accounting policy in respect of revenue is as follows:

Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

### Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

### Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### **Transaction price *(continued)***

contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

#### **Revenue and profit recognition**

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. The Group has determined that the performance obligations of the majority of its contracts are satisfied at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

The Group's contracts that satisfy the over time criteria are typically product development contracts where the customer simultaneously receives and consumed the benefit provided by the Groups performance.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

#### **Contract modifications**

The Group's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

- (a) prospectively as an additional, separate contract;
- (b) prospectively as a termination of the existing contract and creation of a new contract; or
- (c) as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (c) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

#### **Costs to obtain a contract**

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

#### **Costs to fulfil a contract**

Contract fulfilment costs in respect of over time contracts are expensed as incurred. No such costs have been incurred in current or previous years. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

#### **Inventories**

Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead.

#### **Contract receivables**

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### **Contract liabilities**

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

#### **Leases**

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group recognised a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU has been reduced to zero.

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **Foreign currencies**

The individual results of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pound sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements. The Directors have applied IAS 21 The Effects of Changes in Foreign Exchange Rates and have come to the conclusion that the inter-company loans held by Kromek Limited, substantially form part of the net investment in Kromek USA, and so any gain or loss arising on the inter-company loan balances are recognised as other comprehensive income in the period.

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation and growth (RGF) costs are recognised as income over the periods necessary to match them with the related costs of creating those jobs.

#### Operating result

Operating loss is stated as loss before tax, finance income and costs.

#### Retirement benefit costs

The Group operates a defined contribution pension scheme for employees.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes the assets of the schemes are held separately from those of the Group in independently administered funds. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The R&D tax credit is calculated using the current rules as set out by HMRC and is recognised in the income statement during the period in which the R&D programmes occurred.

##### i) Current tax

The tax credit is based on taxable loss for the year. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

##### ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

|                                  |           |
|----------------------------------|-----------|
| Plant and machinery              | 6% to 25% |
| Fixtures, fittings and equipment | 15%       |
| Computer equipment               | 25%       |

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### **Internally-generated intangible assets – research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised straight-line over a 2-15-year period. Provision is made for any impairment.

Amortisation of the intangible assets recognised on the acquisitions of NOVA R&D, Inc. and eV Products, Inc. are recognised in the income statement on a straight-line basis over their estimated useful lives of between five and fifteen years.

#### **Patents and trademarks**

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

#### **Impairment of tangible and intangible assets excluding goodwill**

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### **Inventories (continued)**

Provision is made for obsolete, slow moving or defective items where appropriate. Items which have not shown activity for between 12-18 months will be provided for at a rate of 50%, and those which have not shown activity in 18 months or longer will be provided for at a rate of 100% after consideration is given to the full or residual value where appropriate. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case by case basis.

#### **Provisions for liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

#### **Financial instruments**

##### **(i) Recognition and initial measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### **(ii) Classification and subsequent measurement**

#### **Financial assets**

##### **(a) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and call deposits.

##### **(b) Subsequent measurement and gains and losses**

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

#### **Financial liabilities and equity**

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### **Financial liabilities and equity (continued)**

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

#### **Intra-group financial instruments**

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

#### **(iii) Impairment**

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as twelve-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

#### **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

#### **Credit-impaired financial assets**

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### **Write-offs**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

#### **Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Share-based payments *(continued)*

entitled to the options, which is based on a period of employment of three years from grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually three years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

#### Cash

Cash, for the purposes of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Critical judgements in applying the Group's accounting policies***

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### **Development costs**

As described in note 3, the Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Management have exercised and applied judgement when determining the useful economic life of development cost families. If the amortisation rate of the SPECT and D3S development family were to be reduced to 10 and 5 years respectively, the amortisation charge for the year would be £0.6m higher. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is assessed, usually when a product development project has reached a defined milestone.

The recoverability of the development costs are assessed on an annual basis using the latest forecasts and management expectations regarding the markets in which the Group operates in. Where the recoverable amount is deemed less than the currently carrying value of the development cost a provision is made for any impairment. Where no internally-generated intangible asset can be recognised, development expenditure is expensed in the period in which it is incurred.

#### **Performance obligations arising from customer contracts**

As described in notes 2 and 3, the Group recognises revenue as performance obligations are satisfied when control of the goods and services is transferred to the customer. Management have exercised and applied judgment in determining what the performance obligation is and whether they are satisfied over time or at a point in time. In applying this judgement, management consider the nature of the overall contract deliverable, legal form of the contract and economic resource required for the performance obligation to be satisfied.

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### **i) Development costs**

As disclosed in note 16, Development costs are capitalised in accordance with the accounting policy noted above. These capitalised assets are amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products the development expenditure relates to. Where expenditure relates to developments for use rather than direct sales of product the cost is amortised over a 15-year period.

##### **ii) Contract revenue**

This policy requires forecasts to be made of the outcomes of long-term contracts, which include assessments and judgements on changes in expected costs. A change in the estimate of total forecast contract costs would impact the stage of

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

#### ii) Contract revenue *(continued)*

completion of those contracts and the level of revenue recognised thereon which could have a material impact on the results of the Group. In accordance with IFRS 15, £4,091k of contracted revenue is measured upon stage of completion, which is an estimate. If the stage of completion were to be understated by 1%, this would have the effect of reducing revenue by £146k.

#### iii) R&D Tax credit

The R&D tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. Management form an estimation of the tax credit on a prudent basis and then obtain additional professional input from the current tax providers prior to submission of the claim to HMRC. The Group has assumed 100% of the R&D tax credit is recoverable. If only 95% of the claim were to be accepted by HMRC, this would have the effect of reducing the tax receivable and corresponding tax credit by £49k to £938k.

#### iv) Recoverability of receivables

As disclosed in note 3, in order to obtain market penetration through technology-based customers, the Group recognises that normal payment terms from these customers may not be adhered to when assessing recoverability of receivables. Management judge the recoverability at the balance sheet date and provide where appropriate. The provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date, assessed on customer risk scoring and commercial discussions.

### 5. OPERATING SEGMENTS

#### Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two geographical business units from which the Group currently operates from (US and UK) and it is on these operating segments that the Group is providing disclosure. Both business units focus on the three key markets of the Group (Medical Imaging, Nuclear Detection and Security Screening). Typically, the US business unit focuses on Medical Imaging and the UK on Nuclear Detection and Security Screening. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer.

The chief operating decision maker is the Board of Directors, who assess performance of the segments using the following key performances indicators: revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the Financial Statements.

The turnover, profit on ordinary activities and net assets of the Group are attributable to one business segment, i.e. the development of digital colour X-ray imaging enabling direct materials identification, as well as developing a number of detection products in the industrial and consumer markets.

#### Analysis by geographical area

A geographical analysis of the Group's revenue by destination is as follows:

|                | 2019<br>£'000 | 2018<br>£'000 |
|----------------|---------------|---------------|
| United Kingdom | 2,267         | 1,253         |
| North America  | 4,869         | 3,547         |
| Asia           | 5,452         | 6,080         |
| Europe         | 1,905         | 949           |
| Australasia    | 24            | 16            |
| Total revenue  | 14,517        | 11,845        |

The Group has aggregated its market sectors into two reporting segments being the operational business units in the UK and US.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**5. OPERATING SEGMENTS (CONTINUED)****Analysis by geographical area (continued)**

A geographical analysis of the Group's revenue by origin is as follows:

**Year ended 30 April 2019**

|   | UK Operations<br>£'000 | US Operations<br>£'000 | Total for Group<br>£'000 |
|---|------------------------|------------------------|--------------------------|
| <b>Revenue from sales</b>                       |                        |                        |                          |
| Revenue by segment:                             |                        |                        |                          |
| -Sale of goods and services                     | 6,718                  | 4,694                  | <b>11,412</b>            |
| -Revenue from grants                            | 1,020                  | -                      | <b>1,020</b>             |
| -Revenue from contract customers                | 82                     | 4,534                  | <b>4,616</b>             |
| Total sales by segment                          | 7,820                  | 9,228                  | <b>17,048</b>            |
| Removal of inter-segment sales                  | (1,251)                | (1,280)                | <b>(2,531)</b>           |
| <b>Total external sales</b>                     | <b>6,569</b>           | <b>7,948</b>           | <b>14,517</b>            |
| <b>Segment result – operating (loss)/profit</b> | (1,652)                | 746                    | <b>(906)</b>             |
| Interest received                               | 155                    | -                      | <b>155</b>               |
| Interest expense                                | (197)                  | (322)                  | <b>(519)</b>             |
| <b>(Loss)/profit before tax</b>                 | (1,694)                | 424                    | <b>(1,270)</b>           |
| Tax credit                                      | 1,020                  | (33)                   | <b>987</b>               |
| <b>(Loss)/profit for the year</b>               | <b>(674)</b>           | <b>391</b>             | <b>(283)</b>             |
| <i>Reconciliation to adjusted EBITDA:</i>       |                        |                        |                          |
| Net interest                                    | 42                     | 322                    | <b>364</b>               |
| Other operating income                          | -                      | -                      | <b>-</b>                 |
| Tax   | (1,020)                | 33                     | <b>(987)</b>             |
| Depreciation of PPE                             | 432                    | 447                    | <b>879</b>               |
| Amortisation                                    | 1,085                  | 721                    | <b>1,806</b>             |
| Non-recurring other income                      | -                      | -                      | <b>-</b>                 |
| Share-based payment charge                      | 184                    | 11                     | <b>195</b>               |
| <b>Adjusted EBITDA</b>                          | <b>49</b>              | <b>1,925</b>           | <b>1,974</b>             |
| <b>Other segment information</b>                |                        |                        |                          |
| Property, plant and equipment additions         | 569                    | 3,075                  | <b>3,644</b>             |
| Right-of-use assets                             | 1,051                  | 3,257                  | <b>4,308</b>             |
| Depreciation of PPE                             | 432                    | 447                    | <b>879</b>               |
| Intangible asset additions                      | 1,309                  | 1,632                  | <b>2,941</b>             |
| Amortisation of intangible assets               | 1,085                  | 721                    | <b>1,806</b>             |
| <b>Statement of financial position</b>          |                        |                        |                          |
| Total assets                                    | 41,370                 | 34,374                 | <b>75,744</b>            |
| Total liabilities                               | (7,097)                | (7,444)                | <b>(14,541)</b>          |

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

## 5. OPERATING SEGMENTS *(CONTINUED)*

### Analysis by geographical area *(continued)*

Year ended 30 April 2018

|   | UK Operations<br>£'000 | US Operations<br>£'000 | Total for Group<br>£'000 |
|---|------------------------|------------------------|--------------------------|
| <b>Revenue from sales</b>                       |                        |                        |                          |
| Revenue by segment:                             |                        |                        |                          |
| -Sale of goods and services                     | 2,914                  | 5,585                  | <b>8,499</b>             |
| -Revenue from grants                            | 1,024                  | -                      | <b>1,024</b>             |
| -Revenue from contract customers                | 129                    | 5,293                  | <b>5,422</b>             |
| Total sales by segment                          | 4,067                  | 10,878                 | <b>14,945</b>            |
| Removal of inter-segment sales                  | (940)                  | (2,160)                | <b>(3,100)</b>           |
| <b>Total external sales</b>                     | <b>3,127</b>           | <b>8,718</b>           | <b>11,845</b>            |
| <b>Segment result – operating (loss)/profit</b> | <b>(3,955)</b>         | <b>1,614</b>           | <b>(2,341)</b>           |
| Interest received                               | 35                     | -                      | <b>35</b>                |
| Interest expense                                | (227)                  | -                      | <b>(227)</b>             |
| <b>(Loss)/profit before tax</b>                 | <b>(4,147)</b>         | <b>1,614</b>           | <b>(2,533)</b>           |
| Tax credit                                      | 1,429                  | -                      | <b>1,429</b>             |
| <b>(Loss)/profit for the year</b>               | <b>(2,718)</b>         | <b>1,614</b>           | <b>(1,104)</b>           |
| <i>Reconciliation to adjusted EBITDA:</i>       |                        |                        |                          |
| Net interest                                    | 192                    | -                      | <b>192</b>               |
| Other operating income                          | -                      | -                      | <b>-</b>                 |
| Tax   | (1,429)                | -                      | <b>(1,429)</b>           |
| Depreciation of PPE                             | 307                    | 478                    | <b>785</b>               |
| Amortisation                                    | 1,132                  | 775                    | <b>1,907</b>             |
| Non-recurring other income                      | -                      | -                      | <b>-</b>                 |
| Share-based payment charge                      | 111                    | 20                     | <b>131</b>               |
| <b>Adjusted EBITDA</b>                          | <b>(2,405)</b>         | <b>2,887</b>           | <b>482</b>               |
| <b>Other segment information</b>                |                        |                        |                          |
| Property, plant and equipment additions         | 17                     | 83                     | <b>100</b>               |
| Depreciation of PPE                             | 307                    | 478                    | <b>785</b>               |
| Intangible asset additions                      | 790                    | 3,300                  | <b>4,090</b>             |
| Amortisation of intangible assets               | 1,132                  | 775                    | <b>1,907</b>             |
| <b>Statement of financial position</b>          |                        |                        |                          |
| Total assets                                    | 26,975                 | 20,205                 | <b>47,180</b>            |
| Total liabilities                               | (5,503)                | (1,421)                | <b>(6,924)</b>           |

Inter-segment sales are charged on an arms-length basis.

No other additions of non-current assets have been recognised during the year other than property, plant and equipment, and intangible assets.

No impairment losses were recognised in respect of property, plant and equipment and intangible assets including goodwill.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment (loss) represents the (loss) earned by each segment. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**5. OPERATING SEGMENTS (CONTINUED)****Revenues from major products and services**

The Group's revenues from its major products and services were as follows:

|                                  | 2019<br>£'000 | 2018<br>£'000 |
|----------------------------------|---------------|---------------|
| Product revenue                  | 12,060        | 9,611         |
| Research and development revenue | 2,457         | 2,234         |
| Consolidated revenue             | 14,517        | 11,845        |

**Information about major customers**

Included in revenues arising from USA operations are revenues of approximately £4,092k (2018: £4,773k) which arose from the Group's largest customer. Included in revenues arising from UK operations are revenues of approximately £1,066k (2018: £1,265k) which arose from a major customer.

**6. LOSS BEFORE TAX FOR THE YEAR**

Loss before tax for the year has been arrived at after (crediting)/charging:

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Net foreign exchange losses/(gains)                     | 82            | (593)         |
| Research and development costs recognised as an expense | 5,432         | 4,015         |
| Depreciation of property, plant and equipment           | 879           | 785           |
| Amortisation of internally-generated intangible assets  | 1,806         | 1,907         |
| Cost of inventories recognised as expense               | 4,152         | 4,672         |
| Staff costs (see note 8)                                | 7,372         | 6,642         |

**7. AUDITOR'S REMUNERATION**

The analysis of the auditor's remuneration is as follows:

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| <b>Fees payable to the Company's auditor and their associates for other services to the Group</b> |               |               |
| –The audit of the Company and its subsidiaries  | 62            | 55            |
| <b>Total audit fees</b>   | 62            | 55            |
| - Taxation and other services   | 34            | 33            |
| <b>Total non-audit fees</b>   | 34            | 33            |
| <b>Total</b>  | 96            | 88            |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 8. STAFF COSTS

The average monthly number of employees (excluding non-executive directors) was:

|                                      | 2019<br>Number | 2018<br>Number |
|--------------------------------------|----------------|----------------|
| Directors (executive)                | 2              | 2              |
| Research and development, production | 95             | 89             |
| Sales and marketing                  | 7              | 6              |
| Administration                       | 12             | 11             |
|                                      | <b>116</b>     | <b>108</b>     |

Their aggregate remuneration comprised:

|                              | 2019<br>£'000 | 2018<br>£'000 |
|------------------------------|---------------|---------------|
| Wages and salaries           | 6,297         | 5,662         |
| Social security costs        | 551           | 504           |
| Pension scheme contributions | 329           | 345           |
| Share-based payments         | 195           | 131           |
|                              | <b>7,372</b>  | <b>6,642</b>  |

The total Directors' emoluments (including non-executive directors) was £780k (2018: £744k). The aggregate value of contributions paid to money purchase pension schemes was £20k (2018: £20k) in respect of two directors (2018: two directors). For a breakdown of remuneration by director, refer to the Directors' emoluments table on page 30 within the Remuneration Committee Report (pages 29-31).

The highest paid director received emoluments of £354k (2018: £346k) and amounts paid to money purchase pension schemes was £10k (2018: £10k).

Key management compensation:

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Wages and salaries and other short-term benefits | 1,162         | 1,307         |
| Social security costs                            | 136           | 258           |
| Pension scheme contributions                     | 27            | 57            |
| Share-based payment expense                      | 184           | 97            |
|  | <b>1,494</b>  | <b>1,719</b>  |

Key management comprise the Executive Directors and senior operational staff.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**9. FINANCE INCOME**

|                      | 2019<br>£'000 | 2018<br>£'000 |
|----------------------|---------------|---------------|
| Bank deposits        | 155           | 35            |
| Total finance income | 155           | 35            |

**10. FINANCE COSTS**

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Interest on bank overdrafts, loans and borrowings | 293           | 227           |
| Interest expense for lease arrangements           | 226           | -             |
| Total interest expense                            | 519           | 227           |

**11. TAX****Recognised in the income statement**

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Current tax credit:                            |               |               |
| UK corporation tax on losses in the year       | 992           | 1,167         |
| Adjustment in respect of previous periods      | (5)           | 262           |
| Foreign taxes paid                             | -             | -             |
| Total current tax                              | 987           | 1,429         |
| Deferred tax:                                  |               |               |
| Origination and reversal of timing differences | -             | -             |
| Adjustment in respect of previous periods      | -             | -             |
| Total deferred tax                             | -             | -             |
| Total tax credit in income statement           | 987           | 1,429         |

Corporation tax is calculated at 19% (2018: 19%) of estimated taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 11. TAX (CONTINUED)

#### Reconciliation of tax credit

The charge for the year can be reconciled to the profit in the income statement as follows:

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| Loss before tax   | 1,270         | 2,533         |
| Tax at the UK corporation tax rate of 19% (2018: 19.0%) | 241           | 481           |
| (Non-taxable income)/expenses not deductible            | (205)         | 115           |
| Effect of R&D   | 1,073         | 879           |
| Share scheme deduction under Part 12 CTA 2009           | 9             | 64            |
| Unrecognised movement on deferred tax                   | (74)          | (305)         |
| Adjustment in respect of previous periods               | (5)           | 262           |
| Unrelieved tax losses arising in the period             | (52)          | 10            |
| Fixed asset timing differences                          | -             | (77)          |
| Total tax credit for the year                           | 987           | 1,429         |

Further details of deferred tax are given in note 22. There are no tax items charged to other comprehensive income.

The effect of R&D is the tax impact of capitalised development costs being deducted in the year in which they are incurred.

Adjustment in respect of previous periods relate to additional R&D tax credits the Group receives following final submission.

The rate of corporation tax for the year is 19% (2018: 19%). Finance (No.2) Act 2015 reduced the rate from 19% to 18% (with effect from 1 April 2020). The 2020 rate was further reduced to 17% by Finance Act 2016. Accordingly, deferred tax has been provided in line with the rates at which temporary differences are expected to reverse. There is a potential deferred tax asset on excess tax deductions arising from share-based payments on exercise of share options of £145k (2018: £46k). The asset has not been recognised as it is not considered probable that there will be future profits available.

The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 21% which represents the revised rate of 21% following recent tax reform in the US.

### 12. DIVIDENDS

The Directors do not recommend the payment of a dividend (2018: £nil).

### 13. LOSSES PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

#### Losses

|  | 2019<br>£'000          | 2018<br>£'000          |
|--|------------------------|------------------------|
| Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group | (283)                  | (1,104)                |
| <b>Number of shares</b>  | <b>2019<br/>Number</b> | <b>2018<br/>Number</b> |
| Weighted average number of ordinary shares for the purposes of basic losses per share                              | 275,073,400            | 260,161,744            |
| Effect of dilutive potential ordinary shares:  |                        |                        |
| Share options  | 2,581,104              | 2,606,464              |
| Weighted average number of ordinary shares for the purposes of diluted losses per share                            | 277,654,504            | 262,768,208            |



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**13. LOSSES PER SHARE (CONTINUED)****Losses (continued)**

|             | <b>2019</b>  | 2018  |
|-------------|--------------|-------|
| Basic (p)   | <b>(0.1)</b> | (0.4) |
| Diluted (p) | <b>(0.1)</b> | (0.4) |

Due to the Group having losses in each of the years, the fully diluted loss per share for disclosure purposes, as shown in the income statement, is the same as for the basic loss per share.

**14. GOODWILL**

|                                      | £'000        |
|--------------------------------------|--------------|
| <b>Cost</b>                          |              |
| At 1 May 2018                        | 1,275        |
| At 30 April 2019                     | 1,275        |
| <b>Accumulated impairment losses</b> |              |
| At 1 May 2018                        | -            |
| At 30 April 2019                     | -            |
| <b>Carrying amount</b>               |              |
| <b>At 30 April 2019</b>              | <b>1,275</b> |
| At 30 April 2018                     | 1,275        |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

|               | <b>2019<br/>£'000</b> | 2018<br>£'000 |
|---------------|-----------------------|---------------|
| US operations | <b>1,275</b>          | 1,275         |

The goodwill arose on the acquisition of Nova R&D, Inc. in 2010, and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to Kromek USA (a combination of eV Products and Nova R&D Inc.) as a cash generating unit (CGU). This is reported in note 6 within the segmental analysis of the US operations.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the net book value of the goodwill and non-current assets for the CGU to its value in use on a discounted cash flow basis.

The recoverable amount has been determined on a value in use basis on each cash-generating unit using the management approved 10 year forecasts for each cash-generating unit. The base 10-year projection is year-on-year growth over the next 10 years, with overheads remaining relatively stable. The annual growth rate of the CGU for the next 10 years is expected to be 70%. These cash flows are then discounted at the Company's weighted average cost of capital of 11.97% (2018: 12.37%).

Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 April 2019 (2018: £nil). Management have considered various sensitivity analyses in order to appropriately evaluate the carrying value of goodwill.

Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 April 2019. For illustrative purposes, a compound reduction in revenue of 10% in each of years 1-10 whilst holding overheads constant would not affect the conclusion of the review.

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2019 or 2018.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**15. OTHER INTANGIBLE ASSETS**

|                         | Development costs<br>£'000 | Patents,<br>trademarks &<br>other intangibles<br>£'000 | Total<br>£'000 |
|-------------------------|----------------------------|--|----------------|
| <b>Cost</b>             |                            |  |                |
| At 1 May 2018           | 15,933                     | 6,785  | <b>22,718</b>  |
| Additions               | 2,731                      | 210  | <b>2,941</b>   |
| Exchange differences    | 421                        | 207  | <b>628</b>     |
| <b>At 30 April 2019</b> | <b>19,085</b>              | <b>7,202</b>   | <b>26,287</b>  |
| <b>Amortisation</b>     |                            |  |                |
| At 1 May 2018           | 2,509                      | 3,654  | <b>6,163</b>   |
| Charge for the year     | 1,207                      | 599  | <b>1,806</b>   |
| Exchange differences    | 38                         | 115  | <b>153</b>     |
| <b>At 30 April 2019</b> | <b>3,754</b>               | <b>4,368</b>   | <b>8,122</b>   |
| <b>Carrying amount</b>  |                            |  |                |
| <b>At 30 April 2019</b> | <b>15,331</b>              | <b>2,834</b>   | <b>18,165</b>  |
| At 30 April 2018        | 13,424                     | 3,131  | 16,555         |

The Group amortise the capitalised development costs on a straight-line basis over a period of 2-15 years rather than against product sales directly relating to the development expenditure. Provision is made for any impairment.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

The carrying amounts of the acquired intangible assets arising on the acquisitions of Nova R&D, Inc. and eV Products, Inc. as at the 30 April 2019 was £952k (2018: £1,067k), with amortisation to be charged over the remaining useful lives of these assets which is between 3 and 13 years.

The amortisation charge on intangible assets is included in administrative expenses in the consolidated income statement.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**16. PROPERTY, PLANT AND EQUIPMENT**

|  | Assets Under<br>Construction<br>£'000 | Computer<br>Equipment<br>£'000 | Plant and<br>machinery<br>£'000 | Fixtures and<br>fittings<br>£'000 | <b>Total<br/>£'000</b> |
|--|---------------------------------------|--------------------------------|---------------------------------|-----------------------------------|------------------------|
| <b>Cost or valuation</b>                           |                                       |                                |                                 |                                   |                        |
| At 1 May 2018                                      | -                                     | 932                            | 7,839                           | 251                               | 9,022                  |
| Additions  | 494                                   | 184                            | 2,773                           | 193                               | 3,644                  |
| Disposals  | -                                     | -                              | (145)                           | (24)                              | (169)                  |
| Exchange differences                               | -                                     | 15                             | 184                             | 7                                 | 206                    |
| <b>At 30 April 2019</b>                            | <b>494</b>                            | <b>1,131</b>                   | <b>10,651</b>                   | <b>427</b>                        | <b>12,703</b>          |
| <b>Accumulated depreciation and<br/>impairment</b> |                                       |                                |                                 |                                   |                        |
| At 1 May 2018                                      | -                                     | 710                            | 5,032                           | 183                               | 5,925                  |
| Charge for the year                                | -                                     | 106                            | 411                             | 28                                | 545                    |
| Eliminated on disposal                             | -                                     | -                              | (139)                           | (24)                              | (163)                  |
| Exchange differences                               | -                                     | 9                              | 131                             | 4                                 | 144                    |
| <b>At 30 April 2019</b>                            | <b>-</b>                              | <b>825</b>                     | <b>5,435</b>                    | <b>191</b>                        | <b>6,451</b>           |
| <b>Carrying amount</b>                             |                                       |                                |                                 |                                   |                        |
| <b>At 30 April 2019</b>                            | <b>494</b>                            | <b>306</b>                     | <b>5,216</b>                    | <b>236</b>                        | <b>6,252</b>           |
| At 30 April 2018                                   | -                                     | 222                            | 2,807                           | 68                                | 3,097                  |

**17. RIGHT-OF-USE ASSET**

The Group has early adopted IFRS 16 effective from 1 May 2018 and has recognised right-of-use assets for leases previously classified as operating leases applying IAS 17.

Details of the Group's right-of-use assets and their carrying amount are as follows:

|   | <b>2019<br/>£'000</b> |
|---|-----------------------|
| <b>Cost</b>   |                       |
| Opening right-of-use asset recognised on adoption of IFRS 16 (1 May 2018) | 1,340                 |
| Rent accrual release  | (163)                 |
| New leases in the year  | 3,075                 |
| Effect of movements in exchange rates                                     | 56                    |
| <b>Cost at 30 April 2019</b>  | <b>4,308</b>          |
| <b>Depreciation</b>   |                       |
| Charge for the year   | 334                   |
| Exchange differences  | (1)                   |
| <b>Depreciation at 30 April 2019</b>                                      | <b>333</b>            |
| <b>Carrying amount</b>  |                       |
| <b>At 30 April 2019</b>   | <b>3,975</b>          |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 18. SUBSIDIARIES

A list of the subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

### 19. INVENTORIES

|                  | 2019<br>£'000 | 2018<br>£'000 |
|------------------|---------------|---------------|
| Raw materials    | 1,394         | 1,093         |
| Work-in-progress | 1,656         | 1,488         |
| Finished goods   | 177           | 433           |
|                  | <b>3,227</b>  | <b>3,014</b>  |

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,152k (2018: £4,672k).

The write-down of inventories to net realisable value amounted to £462k (2018: £235k). The reversal of write-downs amounted to nil (2018: nil). The partial release of the write-downs was because of a revised estimate of the net realisable value of certain inventory lines based upon actual sales made of the inventory during the period.

### 20. AMOUNTS RECOVERABLE ON CONTRACTS

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| <b>Contracts in progress at the balance sheet date:</b>                        |               |               |
| Amounts due from contract customers included in trade and other receivables    | 12,362        | 7,556         |
|  | <b>12,362</b> | <b>7,556</b>  |
| Contract costs incurred plus recognised profits less recognised losses to date | 12,929        | 8,062         |
| Less: progress billings  | (567)         | (506)         |
|  | <b>12,362</b> | <b>7,556</b>  |

### 21. TRADE AND OTHER RECEIVABLES

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Amount receivable for the sale of goods        | 5,592         | 3,245         |
| Amounts recoverable on contracts (see note 20) | 12,362        | 7,556         |
| Other receivables                              | 848           | 200           |
| Prepayments and accrued income                 | 1,195         | 333           |
| Current tax assets                             | 987           | 1,167         |
|  | <b>20,984</b> | <b>12,501</b> |

#### Amount receivable for the sale of goods

Trade receivables disclosed above are classified as financial assets at amortised cost.

The average credit period taken on sales of goods is 54 days. The Group initially recognises an impairment allowance of 100% against receivables over 120 days. However, this is subject to management override where there is evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products.



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**21. TRADE AND OTHER RECEIVABLES (CONTINUED)****Amount receivable for the sale of goods (continued)**

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables, with the exception of stock recovered from customers in respect of the doubtful debts disclosed below.

Ageing of past due but not impaired receivables at the statement of financial position date was:

|             | 2019<br>£'000 | 2018<br>£'000 |
|-------------|---------------|---------------|
| 31-60 days  | 113           | 114           |
| 61-90 days  | 113           | 58            |
| 91-120 days | -             | -             |
| 121+ days   | 893           | 876           |
| Total       | 1,119         | 1,048         |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Ageing of impaired receivables at the statement of financial position date was:

|             | 2019<br>£'000 | 2018<br>£'000 |
|-------------|---------------|---------------|
| 31-60 days  | -             | -             |
| 61-90 days  | -             | -             |
| 91-120 days | -             | -             |
| 121+ days   | 116           | 303           |
| Total       | 116           | 303           |

At 30 April 2019, trade receivables are shown net of an impairment allowance of £116k (2018: £303k) arising from the ordinary course of business, as follows:

|                            | 2019<br>£'000 | 2018<br>£'000 |
|----------------------------|---------------|---------------|
| Balance at 1 May 2018      | 303           | 435           |
| Provided during the year   | -             | 32            |
| (Released) during the year | (193)         | (155)         |
| Impact of foreign exchange | 6             | (9)           |
| Balance at 30 April 2019   | 116           | 303           |

The doubtful debt provision records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivables directly.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 22. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

|                                   | Fair value<br>revaluation of<br>acquired<br>intangibles<br>£'000 | Accelerated<br>capital<br>allowances<br>£'000 | Short term<br>timing<br>differences<br>£'000 | Tax<br>losses<br>£'000 | Total<br>£'000 |
|-----------------------------------|--|---|--|------------------------|----------------|
| At 1 May 2018                     | 723  | 844   | (27)   | (1,540)                | -              |
| (Credit)/charge to profit or loss | (384)  | 225   | (127)  | 286                    | -              |
| At 30 April 2019                  | <b>339</b>   | <b>1,069</b>                                  | <b>(154)</b>                                 | <b>(1,254)</b>         | <b>-</b>       |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

|                          | 2019<br>£'000  | 2018<br>£'000 |
|--------------------------|----------------|---------------|
| Deferred tax liabilities | <b>1,254</b>   | 1,540         |
| Deferred tax assets      | <b>(1,254)</b> | (1,540)       |
|                          | <b>-</b>       | <b>-</b>      |

At the statement of financial position date, the Group has unused tax losses of £20,632k (2018: £21,786k) available for offset against future profits. A deferred tax asset has been recognised in respect of £6,763k (2018: £6,763k) of such losses. The asset is considered recoverable because it can be offset to reduce future tax liabilities arising in the Group. No deferred tax asset has been recognised in respect of the remaining £13,869k (2018: £15,023k) as it is not yet considered sufficiently certain that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

### 23. TRADE AND OTHER PAYABLES

|                             | 2019<br>£'000 | 2018<br>£'000 |
|-----------------------------|---------------|---------------|
| Trade payables and accruals | <b>4,871</b>  | 3,490         |
| Deferred income             | <b>13</b>     | 10            |
|                             | <b>4,884</b>  | 3,500         |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 50 days. For all suppliers, no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred income relates to government grants received which have been deferred until the conditions attached to the grants are met.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**24. LEASE OBLIGATION**

The Group has early adopted IFRS 16 effective from 1 May 2018 and has recognised a lease liability at 1 May 2018 for leases previously classified as operating leases applying IAS 17. The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Details of the Group's liability in respect of right-of-use assets and their carrying amount are as follows:

|   | <b>2019<br/>£'000</b> |
|---|-----------------------|
| <b>Opening lease liability recognised on adoption of IFRS 16 (1 May 2018)</b> | <b>1,340</b>          |
| New leases entered into during the year                                       | 3,075                 |
| Finance costs   | 226                   |
| Payments made during the year   | (486)                 |
| Impact of foreign exchange  | 56                    |
| <b>At 30 April 2019</b>   | <b>4,211</b>          |
| Presented as:   |                       |
| Lease liability payable within 1 year   | 273                   |
| Lease liability payable in more than 1 year                                   | 3,938                 |
| <b>At 30 April 2019</b>   | <b>4,211</b>          |

Rental charges associated with other low value leased assets that fall within the expedient threshold have been expensed to the profit and loss accounts (£17k).

**25. PROVISIONS FOR LIABILITIES**

|                            | <b>2019<br/>£'000</b> | <b>2018<br/>£'000</b> |
|----------------------------|-----------------------|-----------------------|
| At 1 May                   | <b>424</b>            | 169                   |
| Charged to profit or loss  | -                     | 269                   |
| Fully utilised             | <b>(424)</b>          | -                     |
| Impact of foreign exchange | -                     | (14)                  |
| <b>At 30 April</b>         | <b>-</b>              | <b>424</b>            |

During the prior year, the Company was given notice on one of its sites. The sites dilapidations provision reflects management's best estimates and ability to measure the likely costs that may be incurred restoring the building back to its original state. The Group are now free from future obligations relating to the old site so the provision has been released in full.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 26. BORROWINGS

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| <b>Secured borrowing at amortised cost</b> |               |               |
| Revolving credit facility                  | 3,000         | 3,000         |
| Other borrowings                           | 2,446         | -             |
|  | <b>5,446</b>  | 3,000         |
| <b>Total borrowings</b>                    |               |               |
| Amount due for settlement within 12 months | 3,133         | 3,000         |
| Amount due for settlement after 12 months  | 2,313         | -             |

In February 2019, the Group successfully renewed its revolving credit facility. Previously a 24-month facility, this facility is now a 36 months deal with a plus 1, plus 1 option with regards to years 4 to 5. In addition to the extension of the renewal period, the quantum of the facility has increased from £3.0m to £5.0m. This facility is secured by a debenture and a composite guarantee across the Group. The terms of the revolving credit facility are a nominal interest rate of LIBOR+2.5% and a repayment term of six months from date of drawdown. The fair value equates to the carrying value.

During the year, the Group secured a £2.3m loan with the landlord of the new Zelenople premises in relation to additional leasehold improvements. This loan is repaid in equal instalments on a monthly basis and attracts interest at 6.50% per annum. This facility is secured against a standby letter of credit.

The RCF borrowing is secured by a floating charge over the Group's assets.

Finance lease liabilities are secured by the assets leased. The borrowings are at a fixed interest rate with repayment periods not exceeding five years.

The weighted average interest rates paid during the year were as follows:

|                           | 2019<br>% | 2018<br>% |
|---------------------------|-----------|-----------|
| Revolving credit facility | 3.10      | 3.10      |
| Finance lease liabilities | 5.30      | -         |

### 27. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

At 30 April 2019 and 30 April 2018, the Group had no derivatives in place.

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| <b>Allotted, called up and fully paid:</b>                          |               |               |
| 260,435,618 (2018: 259,095,618) Ordinary shares of £0.01 each       | 2,604         | 2,591         |
| 84,199,471 (2018: 1,300,000) Ordinary shares issued at £0.01 each   | 842           | 13            |
| Total 344,635,089 (2018: 260,435,618) Ordinary shares of £0.01 each | <b>3,446</b>  | 2,604         |

During the year 191,000 shares (2018: 1,340,000) were allotted under EMI share option schemes.

The Directors were authorised at the AGM in February 2019 to allot and issue 84,008,471 Ordinary Shares at a price of 24p per share.



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**29. SHARE PREMIUM ACCOUNT**

|  | <b>£'000</b>  |
|--|---------------|
| Balance at 1 May 2018                      | 42,625        |
| Premium arising on issue of equity shares  | 20,163        |
| Expenses arising on issue of equity shares | (1,188)       |
| Balance at 30 April 2019                   | <b>61,600</b> |

**30. TRANSLATION RESERVE**

|  | <b>£'000</b> |
|--|--------------|
| Balance at 1 May 2018  | (269)        |
| Exchange differences on translating the net assets of foreign operations | 1,218        |
| Balance at 30 April 2019   | <b>(949)</b> |

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being Sterling, are recognised directly in the translation reserve.

**31. ACCUMULATED LOSSES**

|                                      | <b>£'000</b>    |
|--------------------------------------|-----------------|
| Balance at 1 May 2018                | (26,557)        |
| Net loss for the year                | (283)           |
| Effect of share-based payment credit | 195             |
| Balance at 30 April 2019             | <b>(26,645)</b> |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 32. NOTES TO THE CASH FLOW STATEMENT

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Loss for the year  | (283)         | (1,104)       |
| Adjustments for:   |               |               |
| Finance income   | (155)         | (35)          |
| Finance costs  | 519           | 227           |
| Income tax credit  | (987)         | (1,429)       |
| Depreciation of property, plant and equipment            | 879           | 783           |
| Amortisation of intangible assets                        | 1,806         | 1,907         |
| Share-based payment expense                              | 195           | 131           |
| Operating cash flows before movements in working capital | 1,974         | 480           |
| (Increase)/decrease in inventories                       | (213)         | 191           |
| Increase in receivables                                  | (8,663)       | (5,330)       |
| Increase/(decrease) in payables                          | 1,384         | (1,067)       |
| (Decrease)/increase in provisions                        | (424)         | 255           |
| Cash used in operations                                  | (5,942)       | (5,471)       |
| Income taxes received                                    | 1,165         | 858           |
| Net cash used in operating activities                    | (4,777)       | (4,613)       |
| <b>Cash and cash equivalents</b>                         |               |               |
|  | 2019<br>£'000 | 2018<br>£'000 |
| Cash and bank balances                                   | 20,616        | 9,488         |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

**33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

|                                      | Loans and borrowings<br>£'000 | Lease liability<br>£'000 |
|--------------------------------------|-------------------------------|--------------------------|
| Balance at 1 May 2018                | 3,000                         | -                        |
| Cash flows;                          |                               |                          |
| - Repayments                         | (247)                         | (486)                    |
| Non – cash                           |                               |                          |
| - Recognition on adoption of IFRS 16 | -                             | 1,340                    |
| - Additions                          | 2,557                         | 3,075                    |
| - Effect of moving exchange rates    | -                             | 56                       |
| - Interest applied                   | 136                           | 226                      |
| Balance at 30 April 2019             | 5,446                         | 4,211                    |

**34. SHARE BASED PAYMENTS****Equity-settled share option scheme**

The Company has a share option scheme (EMI scheme) for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows.

|                                      | Number of share options | 2019<br>Weighted average exercise price (£) | Number of share options | 2018<br>Weighted average exercise price (£) |
|--------------------------------------|-------------------------|---|-------------------------|---|
| Outstanding at beginning of the year | 9,851,070               | 0.17  | 10,514,870              | 0.16  |
| Granted during the year              | 882,600                 | 0.20  | 910,600                 | 0.26  |
| Exercised during the year            | (191,000)               | 0.015                                       | (1,340,000)             | 0.015                                       |
| Forfeited during the year            | (514,200)               | 0.28  | (234,400)               | 0.27  |
| Outstanding at the end of the year   | 10,028,470              | 0.17  | 9,851,070               | 0.17  |
| Exercisable at the end of the year   | 8,875,570               | 0.17  | 8,500,570               | 0.17  |

The weighted average share price at the date of exercise for share options exercised during the year was £0.015 (2018: £0.015). The options outstanding at 30 April 2019 had a weighted average exercise price of £0.17 (2018: £0.17) and a weighted average remaining contractual life of four years (2018: four years). The range of exercise prices for outstanding share options at 30 April 2018 was 1.5p to 79p (2017: 1.5p to 79p). In 2019, the aggregate of the estimated fair values of the options granted is £46k (2018: £46k). The inputs into the Black-Scholes model are as follows:

|                                 | 2019    | 2018    |
|---------------------------------|---------|---------|
| Weighted average share price    | 26p     | 27p     |
| Weighted average exercise price | 20p     | 27p     |
| Expected volatility             | 29.30%  | 31.14%  |
| Expected life                   | 6 years | 6 years |
| Risk-free rate                  | 0.57    | 0.37    |
| Expected dividend yields        | 0%      | 0%      |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 34. SHARE BASED PAYMENTS *(CONTINUED)*

#### Equity-settled share option scheme *(continued)*

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### The Kromek Group Plc 2013 Long Term Incentive Plan

On 10 October 2013, a new Long Term Incentive Plan was adopted. Under the plan, awards will be made annually to key employees. Subject to the satisfaction of the required TSR performance criteria, these grants will vest evenly over a three-year reporting period, with the first having ended on 30 April 2014, and the remainder on subsequent year end dates.

During January 2019, 1,443,829 (2018: 1,443,829) options were granted under the 2013 LTIP to a number of key employees, including two executive directors of the Group. The fair value of these options granted was £183k (2018: £61k). The amounts recognised as a share-based payment expense for the year ended 30 April 2019 was £12k (2018: £20k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model. The inputs into the Monte Carlo pricing model are as follows:

|                                 | 2019    | 2018    |
|---------------------------------|---------|---------|
| Weighted average share price    | 22p     | 22p     |
| Weighted average exercise price | 1p      | 1p      |
| Expected volatility             | 35.00%  | 35.00%  |
| Expected life                   | 3 years | 3 years |
| Risk-free rate                  | 0.32    | 0.32    |
| Expected dividend yields        | 0%      | 0%      |

During 2017/18, a new incentive award scheme was introduced for a number of key employees regarding an Average Valuation creation of the Company, referred to as the "VC". This has awarded key employees 8,007,162 options under the scheme. However, these options only vest after 5 years (at 1p per share) and are subject to challenging specific performance criteria over that period commencing 1 May 2017. The quantity of options that vest is weighted, such that the maximum amount only vests on achievement of all performance criteria.

The Group recognised total expenses of £195k (2018: £131k) related to all equity-settled share-based payment transactions. This is inclusive of both the equity settled share option scheme and the 2013 LTIP.

### 35. RETIREMENT BENEFIT SCHEMES

#### Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the United States of America are members of a state-managed retirement benefit scheme operated by the government of the United States of America. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £329k (2018: £345k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2019, contributions of £23k (2018: £23k) due in respect of the current reporting period had not been paid over to the scheme.

### 36. FINANCIAL INSTRUMENTS

#### Financial Instruments

The Group's principal financial instruments are cash and trade receivables.

The Group has exposure to the following risks from its operations:

#### Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy has remained unchanged between 2018 and 2019.

# Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

## 36. FINANCIAL INSTRUMENTS (CONTINUED)

### Capital risk (continued)

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 28 to 31.

The Group is not subject to any externally imposed capital requirements.

The Group's primary source of capital is equity. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the revolving credit facility available, which at the year-end was £3.0m (2018: £3.0m). Details of the revolving credit facility have been included in note 26.

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Group.

### Market risk

The Group may be affected by general market trends, which are unrelated to the performance of the Group itself. The Group's success will depend on market acceptance of the Group's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Group may change and this could lead to an adverse effect upon its revenue and earnings.

### Foreign currency risk

The Group's operations are split between the UK and the US, and as a result the Group incurs costs in currencies other than its presentational currency of pounds sterling. The Group also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year end cash and cash equivalents balance:

|                          | 2019<br>£'000 | 2018<br>£'000 |
|--------------------------|---------------|---------------|
| £ sterling               | 24,229        | 8,847         |
| US\$ sterling equivalent | (4,156)       | 202           |
| € sterling equivalent    | 543           | 439           |

Had the foreign exchange rate between sterling, US\$ and € changed by 4% (2018: 6%), this would affect the loss for the year and net assets of the Group by £12k (2018: £65k). 4% (2018: 6%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2018 and 2019 (2017 and 2018).

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 60 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised in note 21.

Amounts recoverable on contract arise following revenue recognized over time in line with IFRS 15. The balance of £12,362k at 30 April 2019 will convert into invoiced revenues following product dispatch to the customer. The Group retain physical possession of the inventory, which passes to the customer on payment of invoice. Under these contracts, the Group retains the right to be compensated at a minimum for the full value of the contract in the event of early termination.

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### 36. FINANCIAL INSTRUMENTS (CONTINUED)

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

|  | Weighted<br>average<br>effective<br>interest rate<br>% | Less than 1<br>month<br>£'000 | 1-3 months<br>£'000 | 3 months to<br>1 year<br>£'000 | 1-5 years<br>£'000 | 5+ years<br>£'000 | <b>Total<br/>£'000</b> |
|--|--|-------------------------------|---------------------|--------------------------------|--------------------|-------------------|------------------------|
| <b>Revolving credit facility at<br/>30 April 2018</b>  | 3.1  | -                             | -                   | 3,000                          | -                  | -                 | 3,000                  |
|  |  | -                             | -                   | 3,000                          | -                  | -                 | 3,000                  |
| <b>Revolving credit facility at<br/>30 April 2019</b>  | 3.1  | -                             | -                   | 3,000                          | -                  | -                 | <b>3,000</b>           |
| <b>Other Borrowing Facilities<br/>at 30 April 2019</b> | 5.3  | 11                            | 33                  | 89                             | 527                | 1,786             | <b>2,446</b>           |
| <b>Lease obligations at<br/>30 April 2019</b>          | 5.0  | 21                            | 65                  | 187                            | 1,183              | 2,755             | <b>4,211</b>           |
|  |  | <b>32</b>                     | <b>98</b>           | <b>3,276</b>                   | <b>1,710</b>       | <b>4,541</b>      | <b>9,657</b>           |

#### Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

#### Categories of financial instruments

|                                     | <b>2019<br/>£'000</b> | <b>2018<br/>£'000</b> |
|-------------------------------------|-----------------------|-----------------------|
| <b>Financial assets</b>             |                       |                       |
| Investment in money market accounts | <b>1,250</b>          | 1,250                 |
| Cash and bank balances              | <b>20,616</b>         | 9,488                 |
| Loans and receivables               | <b>18,802</b>         | 11,001                |
| <b>Financial liabilities</b>        |                       |                       |
| Amortised cost                      | <b>(14,513)</b>       | (3,925)               |

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2019

### **36. FINANCIAL INSTRUMENTS (CONTINUED)**

#### **Fair Values of Financial Assets and Financial Liabilities**

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets of liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, all of the above financial instruments are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date of 30 April 2019.

### **37. RELATED PARTY TRANSACTIONS**

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

#### **Director's transactions**

Other than those disclosed within this note and the shareholding transaction with directors noted in the Directors Report, there have been no other transactions with related parties.

# Company statement of financial position

As at 30 April 2019

|                                     | Note | 2019<br>£'000  | 2018<br>£'000 |
|-------------------------------------|------|----------------|---------------|
| <b>Non-current assets</b>           |      |                |               |
| Investment in subsidiaries          | 3    | 4,000          | 4,000         |
| Amounts due from subsidiary company |      | 46,902         | -             |
| Investment in money market account  |      | 1,250          | 1,250         |
|                                     |      | <b>52,152</b>  | 5,250         |
| <b>Current assets</b>               |      |                |               |
| Trade and other receivables         | 5    | 157            | 43,008        |
| Cash and cash equivalents           |      | 16,943         | 1,778         |
|                                     |      | <b>17,100</b>  | 44,786        |
| <b>Total assets</b>                 |      | <b>69,252</b>  | 50,036        |
| <b>Current liabilities</b>          |      |                |               |
| Trade and other payables            | 6    | (349)          | (271)         |
| Borrowings                          | 7    | (3,000)        | (3,000)       |
| <b>Total liabilities</b>            |      | <b>(3,349)</b> | (3,271)       |
| <b>Net assets</b>                   |      | <b>65,903</b>  | 46,765        |
| <b>Equity</b>                       |      |                |               |
| Share capital                       | 11   | 3,446          | 2,604         |
| Share premium account               | 12   | 61,600         | 42,625        |
| Merger reserve                      |      | 3,221          | 3,221         |
| Accumulated losses                  | 13   | (2,364)        | (1,685)       |
| <b>Total Equity</b>                 |      | <b>65,903</b>  | 46,765        |

The loss for the year was £679k (2018: loss £535k).

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 26 June 2019. They were signed on its behalf by:

**Dr Arnab Basu MBE**

Chief Executive Officer

# Company statement of changes in equity

For the year ended 30 April 2019

|   | Equity attributable to equity holders of the Company |                                      |                            |                                |                          |
|---|--|--------------------------------------|----------------------------|--------------------------------|--------------------------|
|   | Share capital<br>£'000                               | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Accumulated<br>losses<br>£'000 | Total<br>equity<br>£'000 |
| <b>Balance at 1 May 2017</b>                                  | <b>2,591</b>   | <b>42,592</b>                        | <b>3,221</b>               | <b>(1,150)</b>                 | <b>47,254</b>            |
| Loss for the year and total comprehensive losses for the year | -  | -                                    | -                          | (535)                          | (535)                    |
| Issue of share capital net of expenses                        | 13   | 33                                   | -                          | -                              | 46                       |
| <b>Balance at 30 April 2018</b>                               | <b>2,604</b>   | <b>42,625</b>                        | <b>3,221</b>               | <b>(1,685)</b>                 | <b>46,765</b>            |
| Loss for the year and total comprehensive loss for the year   | -  | -                                    | -                          | (679)                          | (679)                    |
| Issue of share capital net of expenses                        | 842  | 18,975                               | -                          | -                              | 19,817                   |
| <b>Balance at 30 April 2019</b>                               | <b>3,446</b>   | <b>61,600</b>                        | <b>3,221</b>               | <b>(2,364)</b>                 | <b>65,903</b>            |

## Company statement of cash flows

For the year ended 30 April 2019

|   | Note | 2019<br>£'000  | 2018<br>£'000 |
|---|------|----------------|---------------|
| <b>Net cash used in operating activities</b>                | 10   | <b>(650)</b>   | (577)         |
| <b>Investing activities</b>                                 |      |                |               |
| Investment in Money market account                          |      | -              | (1,250)       |
| Net cash used in investing activities                       |      | -              | (1,250)       |
| <b>Financing activities</b>                                 |      |                |               |
| Net proceeds from issue of share capital                    |      | <b>19,817</b>  | 47            |
| Loans made to Group companies                               |      | <b>(3,934)</b> | (4,144)       |
| Loans paid  |      | <b>(68)</b>    | (76)          |
| <b>Net cash from financing activities</b>                   |      | <b>15,815</b>  | (4,173)       |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |      | <b>15,165</b>  | (6,000)       |
| <b>Cash and cash equivalents at beginning of year</b>       |      | <b>1,778</b>   | 7,778         |
| <b>Cash and cash equivalents at end of year</b>             |      | <b>16,943</b>  | 1,778         |



# Notes to the Company financial statements

For the year ended 30 April 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The Company's financial statements are included in the consolidated financial statements of Kromek Group plc. Accordingly, the Company has taken advantage of the exemption from publishing an income statement, and the losses for the Company are shown within the Company Statement of Financial Position.

## 2. AUDITOR'S REMUNERATION

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

## 3. SUBSIDIARIES

Details of the Company's direct and indirect subsidiaries as at 30 April 2019 are as follows:

| Name  | Place of incorporation<br>(or registration) and operation                    | Class of<br>shares<br>held | Proportion<br>of ownership<br>interest % | Activity<br>%                          |
|---|--|----------------------------|--|--|
| Kromek Limited (Direct)   | NETPark, Sedgefield,<br>TS21 3FD, United Kingdom                             | Ordinary                   | 100                                      | Scientific research and<br>development |
| Kromek Germany Limited<br>(Indirect through Kromek Limited)             | NETPark, Sedgefield,<br>TS21 3FD, United Kingdom                             | Ordinary                   | 100                                      | Sales and marketing                    |
| Kromek, Inc.<br>(Indirect through Kromek Limited)                       | 143 Zehner School Road,<br>Zelienople, PA 16063,<br>United States of America | Ordinary                   | 100                                      | Holding company                        |
| NOVA R&D, Inc.<br>(Indirect through Kromek Limited)                     | 833 Marlborough Avenue,<br>Riverside CA 92507,<br>United States of America   | Ordinary                   | 100                                      | Scientific research and<br>development |
| eV Products, Inc.<br>(Indirect through Kromek Limited)                  | 143 Zehner School Road,<br>Zelienople, PA 16063,<br>United States of America | Ordinary                   | 100                                      | Scientific research and<br>development |
| Durham Scientific Crystals Limited<br>(Indirect through Kromek Limited) | NETPark, Sedgefield,<br>TS21 3FD, United Kingdom                             | Ordinary                   | 100                                      | Dormant company                        |

The Company owns 100% of the share capital in Kromek Limited. Kromek Limited owns 100% of the share capital in Kromek Inc. and 100% of the share capital in Kromek (Germany) Limited. Kromek Inc. owns 100% of the share capital in eV Products Inc. and NOVA R&D Inc.

The investments in subsidiaries are all stated at cost.

|                  |              |
|------------------|--------------|
|                  | £,000        |
| At 1 May 2018    |              |
|                  | 4,000        |
| At 30 April 2019 | <b>4,000</b> |

At 30 April 2019 the Company was owed £46,902k from its immediate subsidiary company, Kromek Limited. This has been classified as a receivable due in more than one year on the face of the balance sheet as this most accurately reflects the likely repayment timeframe of the balance outstanding. The loan is unsecured, interest free and repayable on demand. At 30 April 2018 the balance was £42,968 and was included in trade and other receivables within current assets (see note 5).

## Notes to the Company financial statements (*continued*)

For the year ended 30 April 2019

### 4. STAFF COSTS

The average monthly number of employees (excluding non-executive directors) was:

|                                      | 2019<br>Number | 2018<br>Number |
|--------------------------------------|----------------|----------------|
| Research and development, production | 2              | 2              |
| Sales and marketing                  | 1              | 1              |
| Administration                       | 3              | 2              |
|                                      | <b>6</b>       | <b>5</b>       |

Their aggregate remuneration comprised:

|                              | 2019<br>£'000 | 2018<br>£'000 |
|------------------------------|---------------|---------------|
| Wages and salaries           | 400           | 354           |
| Social security costs        | 50            | 47            |
| Pension scheme contributions | 22            | 75            |
|                              | <b>472</b>    | <b>476</b>    |

### 5. TRADE AND OTHER RECEIVABLES

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Amounts due from subsidiary undertakings | -             | 42,968        |
| Prepayments                              | 157           | 40            |
|  | <b>157</b>    | <b>43,008</b> |

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.

### 6. TRADE AND OTHER PAYABLES

|                                    | 2019<br>£'000 | 2018<br>£'000 |
|------------------------------------|---------------|---------------|
| Trade payables and accruals        | 326           | 248           |
| Social security and other taxation | 23            | 23            |
|                                    | <b>349</b>    | <b>271</b>    |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

## Notes to the Company financial statements (*continued*)

For the year ended 30 April 2019

### 7. BORROWINGS

Details regarding the borrowings of the Company are disclosed in note 26 to the consolidated financial statements.

### 8. FINANCIAL ASSETS

#### Intercompany balances

The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

#### Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 9. FINANCIAL LIABILITIES

#### Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. The carrying amount of trade payables approximates to their fair value.

### 10. NOTES TO THE STATEMENT OF CASH FLOWS

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Loss for the year  | (679)         | (535)         |
| Adjustments for:   |               |               |
| Finance costs  | 68            | 75            |
| Operating cash flows before movements in working capital | (611)         | (460)         |
| Increase in receivables                                  | (117)         | (36)          |
| Increase/(decrease) in payables                          | 78            | (81)          |
| Net cash from operating activities                       | (650)         | (577)         |

### 11. SHARE CAPITAL

|   | 2019<br>£'000 | 2018<br>£'000 |
|---|---------------|---------------|
| <b>Allotted, called up and fully paid:</b>                          |               |               |
| 260,435,618 (2018: 259,095,618) Ordinary shares of £0.01 each       | 2,604         | 2,591         |
| 84,199,471 (2018: 1,340,000) Ordinary shares issued at £0.01        | 842           | 13            |
| Total 344,635,089 (2018: 260,435,618) Ordinary shares of £0.01 each | 3,446         | 2,604         |

## Notes to the Company financial statements (*continued*)

For the year ended 30 April 2019

### 12. SHARE PREMIUM ACCOUNT

|  | 2019<br>£'000 |
|--|---------------|
| Balance at 1 May 2018                      | 42,625        |
| Premium arising on issue of equity shares  | 20,163        |
| Expenses arising on issue of equity shares | (1,188)       |
| <b>Balance at 30 April 2019</b>            | <b>61,600</b> |

### 13. ACCUMULATED LOSSES

|                                 | £'000          |
|---------------------------------|----------------|
| Balance at 1 May 2018           | (1,685)        |
| Net loss for the year           | (679)          |
| <b>Balance at 30 April 2019</b> | <b>(2,364)</b> |

### 14. FINANCIAL INSTRUMENTS

The Company's principal financial instruments are cash and trade receivables.

The Company has exposure to the following risks from its operations:

#### Capital risk

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 26 to 30 to the consolidated financial statements.

The Company is not subject to any externally imposed capital requirements.

Cash flow is controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Company.

#### Market risk

The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

#### Foreign currency risk

The Company currently does not undertake transactions denominated in foreign currencies.

# Notes to the Company financial statements (continued)

For the year ended 30 April 2019

## Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

## Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

|   | Weighted<br>average<br>effective<br>interest rate<br>% | Less than 1<br>month<br>£'000 | 1-3 months<br>£'000 | 3 months to<br>1 year<br>£'000 | 1-5 years<br>£'000 | 5+ years<br>£'000 | Total<br>£'000 |
|---|--|-------------------------------|---------------------|--------------------------------|--------------------|-------------------|----------------|
| <b>Revolving Credit Facility<br/>at 30 April 2018</b> | 3.1  | -                             | -                   | 3,000                          | -                  | -                 | 3,000          |
| <b>Revolving Credit Facility<br/>at 30 April 2019</b> | 3.1  | -                             | -                   | 3,000                          | -                  | -                 | 3,000          |

## 15. ULTIMATE CONTROLLING PARENT AND PARTY

In the opinion of the Directors, there is no ultimate controlling parent or party.

## 16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after the reporting date that require disclosure in line with IAS10 events after the reporting period.

## 17. RELATED PARTY TRANSACTIONS

No dividends were paid in the period in respect of ordinary shares held by the Company's Directors.

Notes:



# Directors, Secretary and Advisers

## DIRECTORS

Dr A Basu  
Mr D Bulmer  
Sir P Williams  
Mr L H N Kinet  
Mr J H Whittingham  
Mr C Wilks

## COMPANY SECRETARY

Mr D Bulmer

## REGISTERED OFFICE

NETPark  
Thomas Wright Way  
Sedgefield  
TS21 3FD

## BANKERS

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Durham  
DH1 3NR

## NOMINATED ADVISER AND BROKER

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## AUDITOR

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Statutory Auditor  
Newcastle upon Tyne  
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## REGISTRAR

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## PUBLIC RELATIONS ADVISER

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