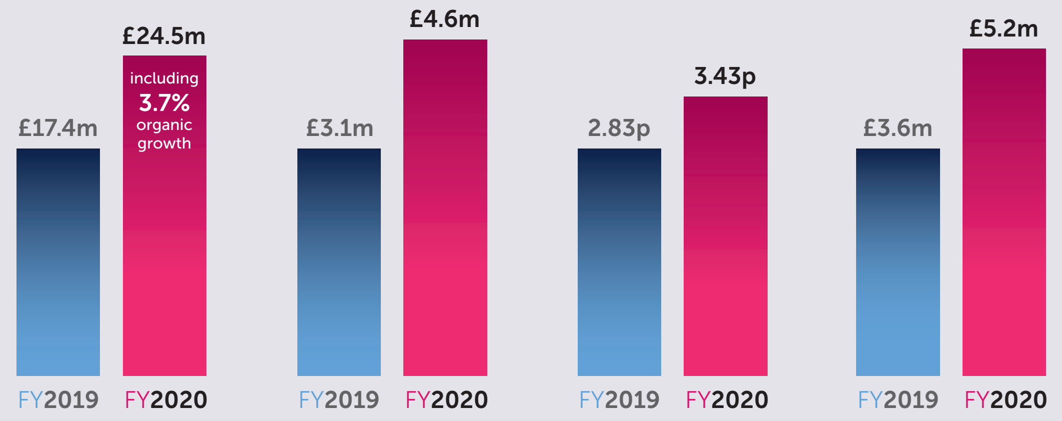
SDI GROUP

SDI Group plc **Annual Report**

SDI Group plc ("SDI") designs and manufactures analytical technology products for use in applications including –Life Sciences, Healthcare, Precision Optics, Consumer Manufacturing, Astronomy & Art Conservation, Thermal Control and Scientific & Industrial Analysis

Contents

Revenue	Adjusted operating profit*	Adjusted diluted EPS	Cash generated from operations
+41%	+48%	+23%	+44%



Basic earnings per share **2.66p** (2019: 2.10p) & diluted earnings per share 2.56p (2019: 2.05p)

One new acquisition added to the Group for consideration of £5.2m (on a cash free debt free basis)

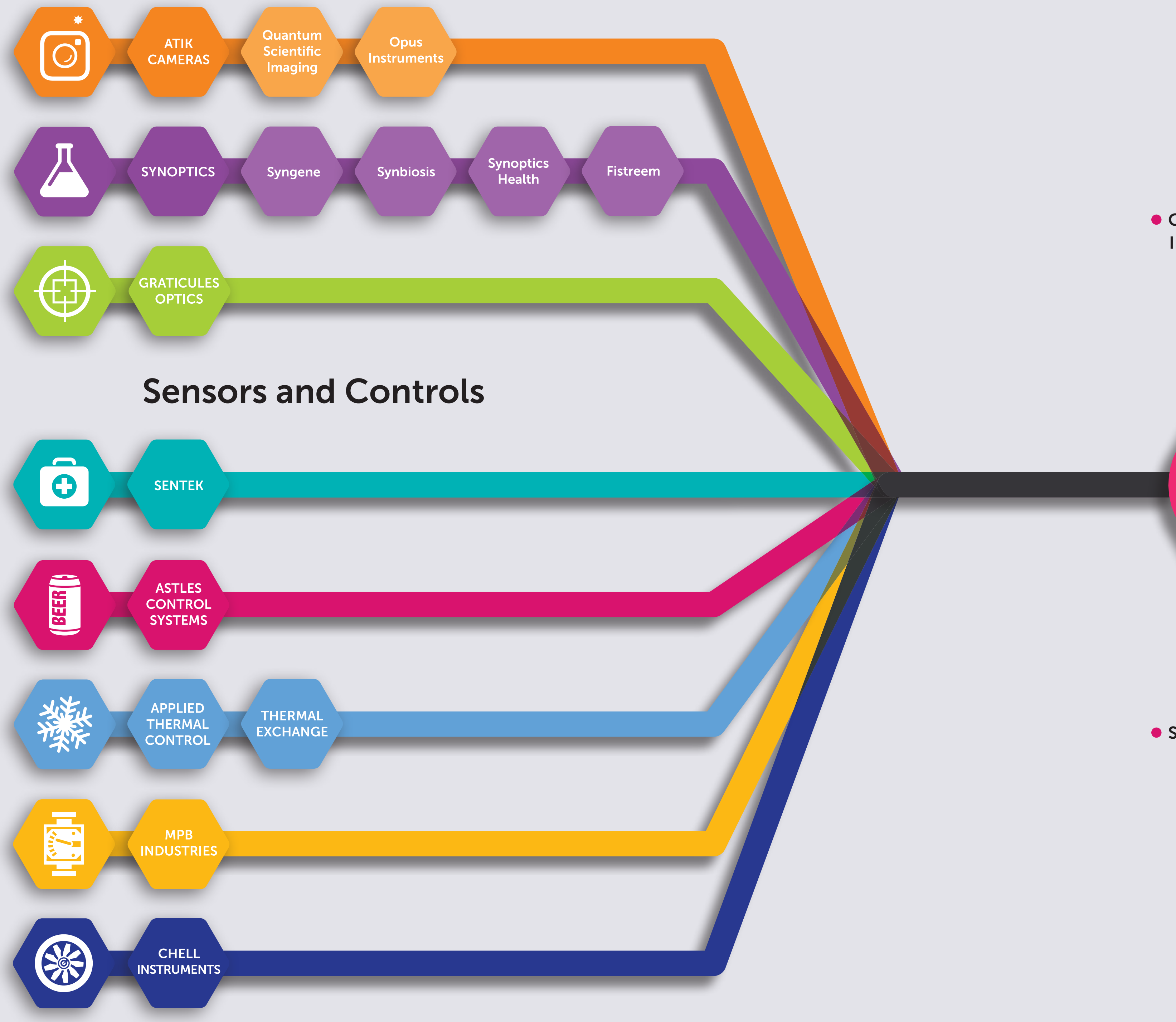
A number of the SDI companies have seen increased demand in medical products which are related to fighting COVID-19

*before reorganisation costs, share-based payments, acquisition and fundraising costs and amortisation of acquired intangible assets.

Why Invest in SDI?

- Buy and build model within science and technology sectors
- Good spread of niche technologies in diverse global markets
- Eleven acquisitions in six years
- Reputation of allowing companies to operate autonomously
- Track record of selecting sustainable businesses
- Management focused on shareholder value – cash generation, profitability and debt reduction
- Companies across the Group adapt quickly to changing market conditions

Digital Imaging



SDI Group Acquisition Process and Timeline

2014
- Opus Instruments

2015
- Sentek

2017
- Astles Control Systems
- Applied Thermal Control

2018
- Quantum Scientific Imaging
- Fistreem

2019
- Chell Instruments
- Ionscope
- MPB Industries
- Thermal Exchange
- Graticules Optics

Why sell to SDI ?

- The business will retain its independence, brands and culture
- Focus on growth
- Strong financial support and access to specialist resources within the Group
- Knowledge sharing within the Group

Main acquisition criteria

- Scientific / technical instruments / manufacturing sector
- Strong exporters within their niche sector
- Profitable and cash generative
- Strong track record
- Strong local management team
- Available at a fair price – recent acquisitions have been priced at 4-6 times EBIT
- SDI have a reputation of being honourable and never changing the deal terms

Post acquisition

- Implement strong financial controls
- The business is run autonomously
- Focus on the medium- to long-term strategy
- Create an environment for the businesses to grow and develop with investment if required

SDI Group plc, formerly known as Scientific Digital Imaging plc (SDI) is an AIM-listed company specialising in the design and manufacture of products for use within a number of imaging and sensing and control applications including life sciences, healthcare, astronomy, precision optics, measurement instrumentation and art conservation markets. Corporate expansion is via organic growth within its subsidiary companies and through the acquisition of complementary, niche technology businesses with established reputations in global markets.

Digital Imaging

ATIK CAMERAS

Based in Norwich, Atik Cameras is the headquarters for the brands: Atik, Quantum Scientific Imaging and Opus Instruments. The cameras are all designed and developed in Norwich and its cameras are manufactured in its dedicated factory in Lisbon, Portugal.

● Atik

Atik Cameras designs and manufactures highly sensitive cameras for life science and industrial applications, as well as deep-sky astronomy imaging.

● Quantum Scientific Imaging

Quantum Scientific Imaging (QSI) designs and manufactures a range of high-performance cameras that have applications in astronomy, life sciences and flat panel inspection.

● Opus Instruments

Opus Instruments is a world leader in the field of Infrared Reflectography cameras for use in the art conservation market. It developed its **OSIRIS** camera as a collaboration with the UK's National Gallery and all its cameras including **Apollo**, a higher specification version of OSIRIS, are manufactured by Atik.

GRATICULES OPTICS

Graticules Optics is a proven designer and manufacturer of precision micropattern products. The firm, based in Tonbridge Kent, is unique in offering photolithographic products on glass, film and in metal foil, with the added bonus of coatings, cementing, mounting and small optical assembly.

Our nine Digital Imaging brands increased their revenue to £11.1m and achieved a

21%

operating profit in FY2019/2020

SYNOPTICS

Synoptics based in Cambridge is the headquarters and manufacturing site for Syngene, Synbiosis, Synoptics Health and Fistreem International products. It also has a US sales and marketing office based in Frederick USA.

● Syngene

Syngene develops and manufactures systems and software for automated gel-based DNA and protein fluorescence/chemiluminescence imaging and includes the popular global **G:BOX** and **NuGenius** brands.

● Synbiosis

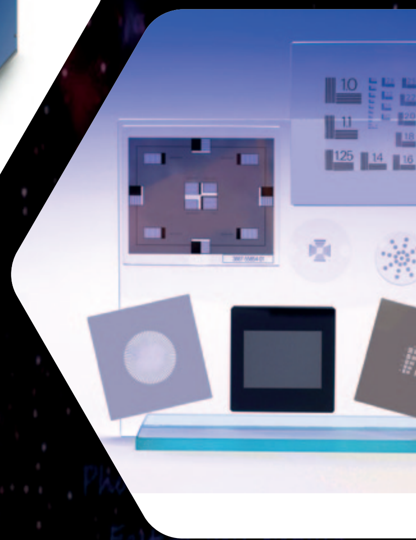
Synbiosis provides automated and manual systems for microbiological testing in food, water, pharmaceutical and clinical applications. Its **ProtoCOL 3** system is used in the major pharmaceutical companies for vaccine and antibiotic development and in 2019 Synbiosis launched **AutoCOL**, the world's first fully automated colony counter.

● Synoptics Health

Synoptics Health manufactures and supplies **ProReveal**, a highly sensitive fluorescence-based patented protein detection test for checking the presence of residual protein on surgical instruments after going through a washer disinfector process.

● Fistreem International

Fistreem International (Fistreem) designs and manufactures water purification products and vacuum ovens. The firm's **Cyclon Water Still** and **Gallenkamp vacuum ovens** are recognised as leading brands. The Company, originally based in Loughborough UK, successfully relocated its technology portfolio in 2020 to Synoptics' facility in Cambridge UK, where it is now manufactured.



Our six Sensors & Control brands grew from £8.0m to £13.4m in revenue, an increase in this financial year of

70%

Sensors & Control

APPLIED THERMAL CONTROL AND THERMAL EXCHANGE

Applied Thermal Control (ATC) and Thermal Exchange (TE) are based at their new manufacturing site in Barrow Upon Soar, UK, where they relocated in 2020. Both companies design, manufacture, and supply a range of chillers, coolers and heat exchangers used within scientific and medical instruments.

ASTLES CONTROL SYSTEMS

Astles Control Systems (Astles) is a supplier of chemical dosing and control systems to different industries including manufacturers of beverage cans, engineering and motor components, white goods, architectural aluminium and steel. The company is located in Princes Risborough, Buckinghamshire, UK.

CHELL INSTRUMENTS

Chell Instruments (Chell) specialises in the design, manufacture and calibration of pressure, vacuum and gas flow measurement instruments for a variety of sectors including aerospace, vehicle aerodynamics, gas and steam turbine testing and power generation. The company is based in North Walsham, Norfolk.

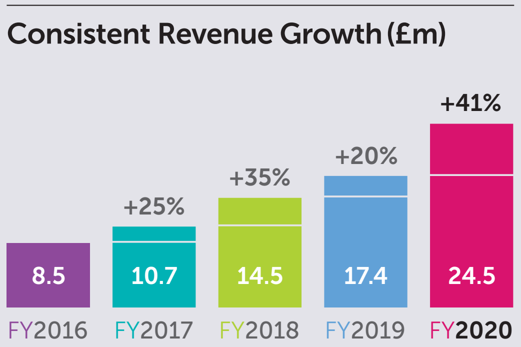
MPB INDUSTRIES

MPB Industries (MPB) designs and manufactures flowmeters, flow alarms, flow indicators, flow switches, calibration cylinders and sight glasses for the measurement of liquids and gases by well-known industrial and scientific users. Based in East Peckham, Kent, MPB operates across a broad range of applications including water treatment, oil and gas production, medical anaesthesia, and scientific analysis.

SENTEK

Sentek manufactures and markets off-the shelf and custom-made, reusable and single-use electrochemical sensors for use in laboratory analysis, food, beverage, pharmaceutical and personal care manufacturing, as well as the leisure industry. The company, based in Braintree, Essex and Auchtermuchty, Scotland serves global markets and has long-term contracts to supply sensors to two major life science companies.

Ken Ford
Chairman
20 July 2020



Performance

I am pleased to report that in the financial year ended 30 April 2020, **SDI Group plc (SDI) achieved another record year of revenues and pre-tax profits**, whilst completing one of our largest acquisitions and managing the disruption of the global pandemic in the final two months of the financial year. Despite the slowdown in orders from March 2020, SDI finished the year with profits in line with market expectations and a strong cash flow, positioning the Group to take advantage of new market opportunities as they may arise.

SDI completed the acquisition of Chell Instruments in November 2019 paying £5.2m for the business, and therefore part-year revenues from this new company are included in this financial year. Chell is a high-quality instrumentation company, reflected by its roster of customers within aerospace and vehicle aerodynamics (including Formula One). It is the Group's tenth acquisition in the past four years, highlighting its buy and build strategy. Chell was identified as an attractive acquisition with a number of parties expressing interest. The fact that SDI was successful supports our belief that SDI is seen by vendors as having a clear strategy with the right cultural fit. The new business has become part of our Sensors and Control segment.

Full-year Revenues of £24.5 million show an increase of 41% from 2019 and Adjusted Profit before Tax at £4.3 million is up 45% from the previous year. Reported Profit before Tax has increased by 56% to £3.3m. This performance has been achieved through 3.7% organic sales growth from the businesses already in the Group's portfolio at the start of the financial year, demonstrating continued commercial demand for the niche technologies and expert services SDI provides. The newly acquired Chell Instruments business also delivered a contribution in line with the Board's expectations for the financial year.

Strategy

The Group's strategy continues to be one of buy and build adding carefully selected acquisitions, ideally funded by cash and a debt facility. The Group's policy is to acquire niche technology companies within the digital imaging and sensing and control sectors. To obtain immediate, continuing earnings enhancements, we only acquire businesses with complementary technologies that have long-lasting profits and cash flows. In the current financial climate, there may be greater opportunities for purchasing companies requiring a rapid sale and we would expect to acquire at least one business in the coming financial year.

The need for digital imaging and sensing and control products, particularly in the life science and medical industries, remains robust and there has been strong demand for several of the Group's products for use in the fight against the COVID-19 pandemic. Since our businesses trade globally, we do expect volatility in some markets caused by the pandemic to have an impact in the current financial year. Long-term market drivers such as the global expansion of automation and in-process measurements, as well as medical and pharmaceutical research, means many of our technologies and services will be increasingly required especially by original equipment manufacturers (OEMs) with which SDI companies have long-term supply contracts.

Delivering returns to our shareholders is a key objective of the SDI Group, and with the uncertainty arising from the global pandemic, the Group has been particularly focused on reducing SDI's overall costs. These included a cut of 33% in all SDI Board salaries and fees for a period of three months. The Group has also furloughed 17% of its staff with Government support, ensuring the retention of skilled staff for the future. Due to the current global pandemic the Board has decided not to pay a dividend for the financial year 2020 but will review again in 2021.

Team

The pleasing results achieved during the 2019-2020 financial year are due to the hard work of our staff. Since the lockdown came into force on 23 March 2020, the Group is proud to confirm that all companies remained open for business despite challenging working conditions. We have taken all necessary steps to protect the health of our employees, clients, and suppliers. Protocols have been introduced in the workplace and, where possible, staff have been working from home. The Board is extremely proud of the way the Group's employees have adapted to their changing working conditions and is grateful to them for their contribution to this year's positive performance.

Outlook and COVID-19

SDI Group has started the current year in a strong financial position and a number of our companies have seen increased demand for medical products which are being used to address the COVID-19 challenges. Other companies within the Group face some uncertainty and a downturn in orders although all our manufacturing facilities remain in operation. There are early signs of a return to normality in trading and overall SDI remains profitable and cash generative. SDI continues to seek acquisitions and looks forward to growing organically and through acquisition as conditions improve.

Reported Profit before Tax increased by
56%
to £3.3m
(£2.1m 2019)

Mike Creedon
Chief Executive Officer
20 July 2020

Group revenues for the financial year ended 30 April 2020 increased by 41% from £17.4 million to £24.5 million. This reflects organic growth and the full year contributions of Fistreem International, Thermal Exchange, Graticules Optics and MPB Industries, all acquired during 2018/2019. During this financial year, we acquired one new company, Chell Instruments, at a cost of £5.2 million for the business. Acquisition costs were funded by existing cash flows from SDI companies and a bank loan due for repayment in April 2023.

Revenues and Profit

SDI's nine digital imaging brands delivered £11.1 million revenue and a 21% operating profit during the 2019/2020 financial year. Revenues have been enhanced by organic growth and full year contributions of Fistreem and Graticules Optics. Synoptics also had an outstanding year achieving the highest profit the company has reported in eight years.

Atik Cameras, the largest business in the SDI Group, achieved profits which were in line with budget for the year. Demand for products from the Atik companies was robust across all global markets until March 2020, when orders began to slow due to the global pandemic and lockdown, resulting in a decline in orders from Atik's main US-based OEM customer. This reduction in orders is however being replaced by an increase in orders from another OEM to supply cameras for a system used in COVID-19 detection.

Our six sensors and control brands grew from £8.0 million to £13.4 million in revenue, an increase of 70% in this financial year. Revenues have been enhanced by the full year contribution of MPB Industries and Thermal Exchange and part year revenues from Chell Instruments, as well as organic growth of existing companies within the division during the period. The segment adjusted operating profit increased by 41% to £3.0 million, or 23% of sales.

Basic earnings per share increased by 27% from 2.10p to 2.66p; fully diluted earnings per share also improved by 25% to 2.56p (2019: 2.05p).

Operations

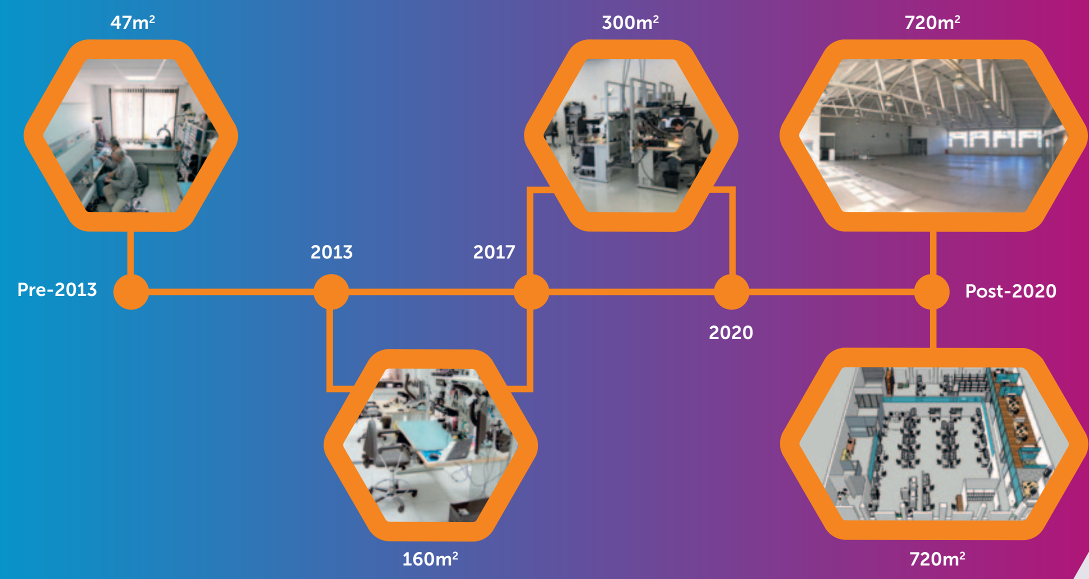
SDI is continually investing in improving its existing products, as well as developing new technologies and additional manufacturing capacity where required.

ATIK CAMERAS' new larger production site in Lisbon, Portugal became operational in the first quarter of 2020 and has allowed implementation of efficient, batch production. Since the facility is double the size of its previous manufacturing site, this has enabled social distancing measures to be put in place, allowing staff to continue safely producing cameras without interruption.

Orders for cameras from Atik's main OEM customer, a major US life science laboratory supplier, decreased from March 2020 during the pandemic. However, these have been replaced by orders for low-light cameras from another major OEM manufacturer of real-time RT-PCR systems (DNA amplification), used to detect the SARS-COV-2 virus which causes COVID-19. Atik, which has worked with this OEM supplier for three years, has increased camera production for them by approximately 10-fold. Atik forecasts it will continue to supply at this increased rate for the next 6-9 months, enabling Atik production to continue at full pace.

Case Study 1
Investment for Growth

ATIK Lisbon is a good example of the long-term investment we make in the business. Atik Lisbon has been based in Santa Iria (near Lisbon) since it started many years ago. We did have an opportunity last year to move the business to Nations Park (a high-profile business park). After consulting the workforce, we have agreed that the manufacturing facility will remain within its current vicinity. Every move over the years has been driven by a need for increased capacity because of increased volumes which is fuelled by the steady increase in demand from science related OEMs.



The **SYNOPTICS** Group of companies had a good year for orders of its Syngene DNA imaging systems in India, the US and Europe and has also sold three Synbiosis AutoCOL systems meeting revenue targets before March 2020. The **AutoCOL** is a new, large fully automated system for colony counting. Two of these will be shipped to a major contract research organization, where they will be used for vaccine research and since interest remains high in this new system, Synoptics forecasts more orders when research laboratories are again fully operational.

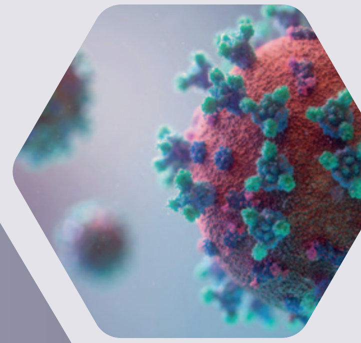
FISTREEM's technology was also successfully transferred to the Synoptics manufacturing site and in 2020, began OEM production of its water purification systems for a major US life science supplier. Since Fistreem products include a number of associated consumables, its addition to Synoptics is providing a steady flow of orders, which is helping Synoptics increase sales and profitability.

This year we have invested in **MPB**, one of our newer companies, putting in place new material requirements planning (MRP) and IT systems, as well as purchasing glass-washing automation and tooling technology. This has enabled MPB to take on a major contract from medical devices company, Penlon, to supply 30,000 human anaesthetic variable area flowmeters for production of Rapidly Manufactured Ventilator Systems as part of the VentilatorChallengeUK consortium.

The consortium, which includes MPB alongside Penlon and over 30 other UK manufacturers, has seen significant cross industry collaboration and effort to deliver two different models of ventilator into the UK's National Health Service (NHS) to help treat patients in UK hospitals suffering with COVID-19.

MPB has worked with Penlon for 25 years and has increased its supply rate 20-fold to meet critical delivery timescales. To fulfil this contract, MPB staff have responded heroically to meet this challenge with the contract signed during the last quarter of the 2019-2020 financial year. MPB has also had assistance from engineers seconded from Ford Motor Company whom they have trained in glass tube forming, as well as time and motion experts to improve the productivity of their manufacturing process.

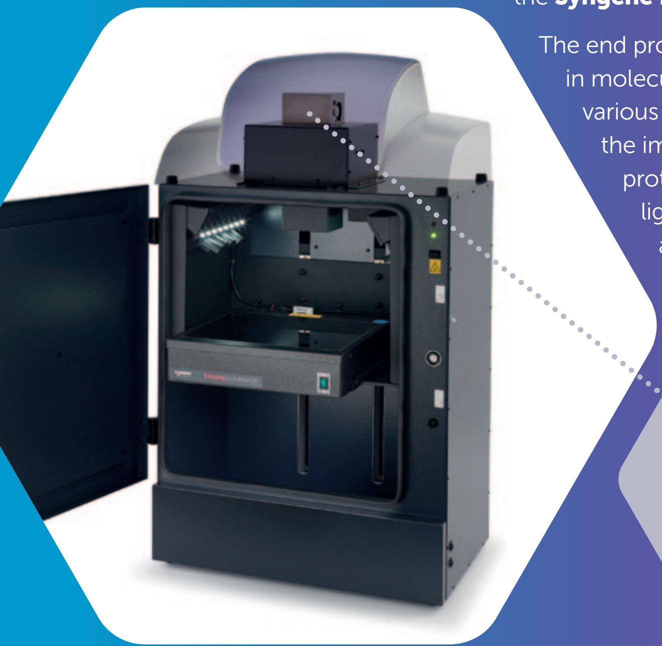
The additional investment SDI has made into MPB has strengthened the company's manufacturing position. MPB has already had enquiries from other medical device companies about supplying tubes for ventilators, making their business more resilient and providing growth opportunities going into the new financial year.



Case Study 2
Company Co-operation

ATIK CAMERAS continues to serve its astronomy customers although it has seen significant growth in recent years for cameras for the life sciences market. Our cameras are incorporated into the products of OEM customers. One of those OEM customers is the **Syngene** brand owned by **SYNOPTICS**.

The end product is a gel documentation system. It is widely used in molecular biology (i.e. biological activity between biomolecules in various systems of cell including DNA, RNA and protein) laboratories for the imaging and documentation of nucleic acid (DNA and RNA) and protein suspended within gels. A gel documentation system includes light trans illuminator, a darkroom to shield external light sources and a camera (in our case, an Atik camera) for image capturing.



Case Study 3
COVID-19

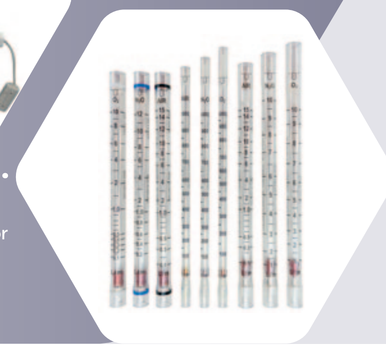
How our technology is being used to assist COVID-19 patients and help save lives.

MPB INDUSTRIES produces, designs, manufactures and sells a range of flowmeters and process control instrumentation for water, oil and gas, medical and other scientific applications all over the world. They are based in East Peckham, Kent. SDI Group acquired the business in April 2019.

MPB Industries was contacted by Penlon Ltd, a long-term customer, for a requirement of 30,000 flowmeters to be incorporated into the Penlon medical ventilator. Due to the size of the order and complexity, a consortium, called Ventilator Challenge UK, was set up consisting of significant UK industrial, technology and engineering businesses from across the aerospace, automotive and medical sectors. They have come together to produce medical ventilators for the UK. These include Ford and McLaren.

For MPB, being a niche business, rapidly scaling production capacity was an issue. With the help of members of the consortium and support of our engineers and suppliers we worked around the clock six days a week, for what will be a total of approximately 15 weeks, to increase output from a standard order to Penlon of 20 units per day, to 500 units per day. This was a major achievement for MPB and its staff in such a short period of time in support of a national effort to address the COVID challenge.

The Penlon ESO 2 Emergency Ventilator using MPB flowmeters at the NHS Nightingale Hospitals



CHELL INSTRUMENTS (acquired in November 2019) has had a successful financial period since joining SDI and the Board believes the company has integrated well into the Group. One of the main highlights since the acquisition has been the design and delivery to an aggressive timeline of the **nanoDaq-LT** – the smallest and lightest pressure scanner currently on the market. Chell engineers redesigned the electronics and case, and manufactured and calibrated 30 units of the nanoDaq-LT within six weeks, for a major Formula One racing car manufacturer. The pressure scanner performed well at Formula One testing sessions in Barcelona in March 2020.

Towards the end of the financial year, orders from the aerospace and automotive industries had begun to slow due to the global pandemic and lockdown but work in Chell's calibration laboratory began increasing. Chell forecasts that this trend will continue into the next quarter as their calibration laboratory is working with more medical ventilator and oxygen sensor suppliers to test and calibrate their equipment. To date, this is providing sufficient workflow and revenues to compensate for order losses in other areas of the Chell business.

Case Study 4
The Evolution of Pressure Scanning in Formula One

Pressure Scanning is instrumentation that measures a number of air pressures on the aerodynamic surfaces of a race car or aircraft – either in real life or a wind tunnel.

We were approached by various F1 teams, approximately 20 years ago, to design a system that could be used on the car as they needed to validate the results from the wind tunnel in the real world – on a track, through corners and following other cars.

The original product was around the size of a small shoe box and was difficult to locate within a F1 car, which made its integration non-trivial. We have continued to develop updated products to reduce their size, interface into the car's acquisition system, and to significantly increase features and performance.

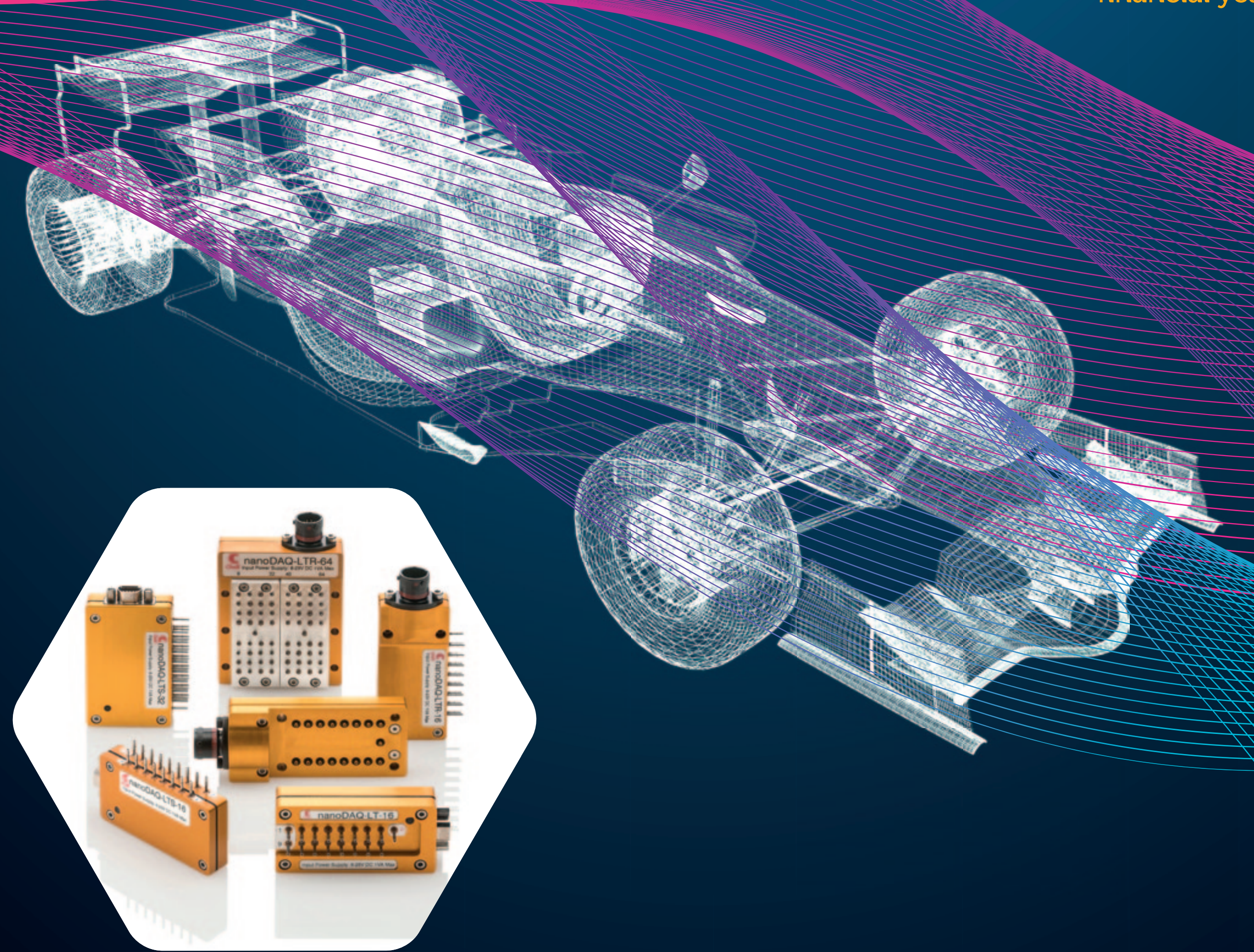
In 2018, we developed the **nanoDaq-LT** range (shown right) which further reduced the size to that of a match box and also had the advantage of being a complete Chell solution – no other sensing components were required.

During this time, the testing regime used in F1 also changed. Wind tunnel time and test sessions became strictly limited in an effort to reduce costs. The end result of this was that teams needed more instrumentation to get more information from each test they did. Our latest products; the **nanoDaq-LT** range fitted this application well due to package size, accuracy and features.

Acquisitions

The UK is a centre of excellence for product innovation and manufacturing with world-leading businesses in many niches of digital imaging and sensing and control sectors. As a buy and build Group, the acquisition of businesses with complementary technologies is key to our success. The SDI Group has a reputation as a supportive buyer that trusts subsidiary management teams with their day-to-day operations. Our acquisition of Chell Instruments this year for £5.2 million, has added a new manufacturing site with calibration expertise and world-class engineering capability in vacuum, gas flow and pressure measurement and control. To date our new acquisition has added £2.0 million of revenue to the Group in this financial year, and has contributed positively to earnings in the period.

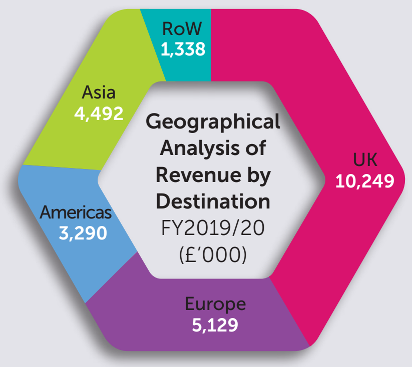
CHELL INSTRUMENTS contributed
£2.0m
of revenue to the Group in this financial year



Strategy

SDI Group is an AIM-quoted group specialising in the acquisition and development of a portfolio of companies that design and manufacture products for use in digital imaging and sensing and control applications in science, technology and medical markets. Corporate expansion is being pursued, both through organic growth within its subsidiary companies and through the acquisition of high-quality businesses with established reputations in global markets.

The Board believes there are many businesses operating within the market, a number of which have not achieved critical mass, and that presents an ideal opportunity for consolidation. This strategy will be primarily focused within the UK but, where opportunities exist, acquisitions in Europe and the United States and elsewhere will also be considered, particularly if these also enable geographic expansion of our existing businesses.



We intend to continue to buy stand-alone businesses as well as smaller entities and technology acquisitions which bolt onto our existing ones. Our track record over the last six years has been good, with eleven businesses acquired across our Digital Imaging and Sensors and Controls segments.

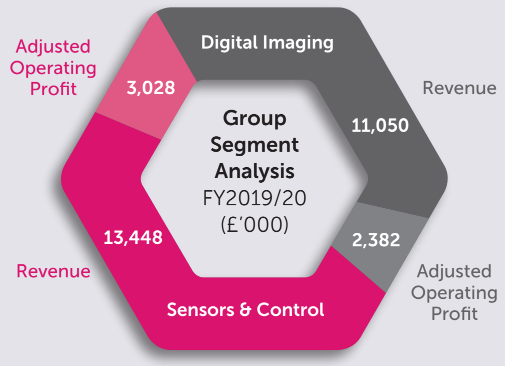
An important element of our strategy is that we are known to be a good acquirer, able to help sellers to achieve a sale quickly and easily, and without surprises.

We keep a lean headquarters, and our businesses are run by seasoned local management with broad discretion within defined limits. Our aim is to grow them, profitably, and we seek to provide them with the resources necessary to grow. Acquired businesses often find that they can grow faster within the SDI Group than they were prepared to do under private ownership, and they are able to learn from and share experience with other companies in the Group.

Our current businesses fall broadly into two segments, which we call Digital Imaging and Sensors & Control, and within these groupings there are significant commonalities of applications, industries served and technologies employed. This provides additional opportunity for knowledge sharing, which we encourage.

Growth in revenues and profit within our businesses depends on both technology advancement and seeking new customers, often by expanding geographical reach, and the Board sees geographical expansion as a driver of organic growth for the future.

By lowering the cost of capital of businesses we acquire and by facilitating their profitable growth, our business model has demonstrated that it can provide good returns to shareholders and can be scaled into the future.



Key Performance Indicators

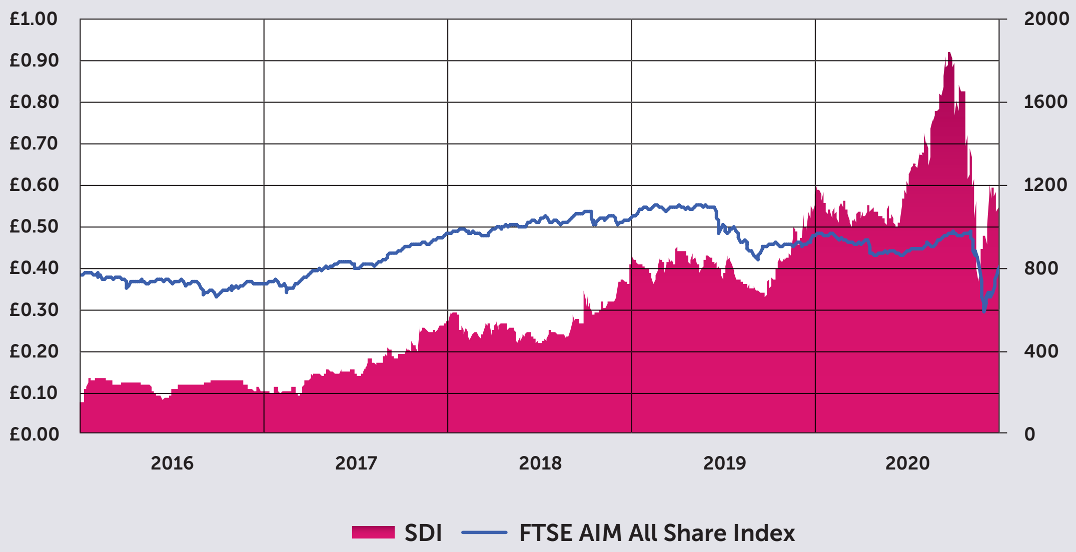
A range of financial key performance indicators are monitored on a monthly basis against budget by the Board and by management, including order pipeline, revenue, gross profit, costs, adjusted operating profit, and cash.

In support of our acquisition strategy as outlined above, we monitor our acquisition pipeline, including any prospects that fail to progress. Post-acquisition, the Board discusses integration progress, and monitors financial performance against our initial plans. Over a longer period, we monitor the return on total invested capital of all of our businesses.

The Board regularly discusses progress in all major research and development and other projects with project and business leaders, including with respect to cost, timelines and adherence to the projects' initial objectives.

Additionally, the Board reserves a specific agenda item for discussion of health and safety and other employee welfare-related issues.

SDI Group Share Price Performance



The following represent, in the opinion of the Board, the principal risks and uncertainties of the business. It is not a complete list of all the risks and uncertainties and the priority, impact and likelihood may change over time.

Competition and technological obsolescence

Competition from direct competitors or third-party technologies could impact upon our market share and pricing.

In order to mitigate this risk the Group continues to invest in researching its markets and continues to offer new products in response to changing customer preferences. In addition the Group invests in research and development to maintain its competitive advantage.

Dependence on key distributors and OEM customers

Failure to effectively manage our distributors of products could damage customer confidence and adversely affect our revenues and profits.

In order to mitigate this risk the Group dedicates significant resource to maintaining close relationships with our distributors and OEM customers, including at Group level.

Acquisitions

Acquisitions are a key element of our strategy, and the failure to identify and prosecute acquisition opportunities would impact future growth in profit and share price. The Group spends significant time and energy in identifying acquisition opportunities, and receives suggestions from various sources as well as directly or through our own businesses and management. These are carefully filtered, and the most attractive ones are managed to a possible successful conclusion.

An additional important risk is that an acquisition does not provide the financial return expected. The Group's disciplined due diligence process helps to avoid this, but the Group is also able to marshal resources in support of an acquired entity's management team to help them improve performance as necessary.

Currency translation

The results for the Group's overseas businesses are translated into Pounds Sterling at the average exchange rates for the relevant year. The balance sheets of overseas businesses are translated into Pounds Sterling at the relevant exchange rate at the year end. Exchange gains or losses from translating these items from one year to the next are recorded in other comprehensive income.

As with the majority of international companies, the Group's UK and overseas businesses purchase goods and services, and sell some of their products, in non-functional currencies. Where possible, the Group nets such exposures or keeps this exposure to a minimum. The Group's principal exposure is to US Dollar and Euro currency fluctuations against Pound Sterling, and in both currencies, we sell more than we purchase and we have a higher level of debtors than creditors. This typically means that a relative devaluation of the Pound results in exchange gains and an improvement in competitiveness, whereas a revaluation has the opposite effect.

We do not hedge our exposure using financial derivative products, but we do have some activity in both Europe and USA, including a factory in Portugal, which acts a partial natural hedge. We keep cash balances in Euros and Dollars to a minimum, and we have recently taken out loans under our revolving credit facility in Euros and Dollars, to reduce our net exposure to those currencies. If the Pound revalues, we will review all opportunities to realign our costs to the changed circumstances.

Recruitment and staffing

If the Group fails to recruit and retain individuals with the appropriate skills and experience its performance may suffer. To ensure the Group retains the highest calibre staff it has implemented a number of schemes designed to retain key individuals, both financial and non-financial, including bonuses and share option schemes. In the current COVID-19 pandemic, the Group has sought to maintain all staff on the payroll, using the UK government furlough scheme where appropriate.

Brexit

The Group manufactures its products in the UK and in Portugal, and sells worldwide. The exit of the UK from the European Union, which is currently in a transitional phase, may cause some disruption to goods movements, may increase barriers to trade between the UK and the EU, and may impact the investment plans of some of our customers. There are likely also to be macroeconomic developments impacting exchange rates, interest rates, GDP growth and government spending levels. The Group has operating flexibility to mitigate some of the potential effects, but is exposed to economic downturns within the markets in which it operates. The Group has taken appropriate steps to minimise disruption, and has cooperated with customers to ensure continuity of their supply chain. The Group continues to monitor the progress of the British Government's negotiations with the EU.

COVID-19

The COVID-19 pandemic has impacted the Group's revenues and operations and may continue to have severe implications for the financial year to 30 April 2021 and beyond. Further waves of the COVID-19 pandemic may occur. The Group is exposed to the risks that OEM customers and distributors close down their own production and selling activities; that lower economic activity reduces demand for the Group's products and services; that supply chains are interrupted; that our own factories and offices are closed in in order to prevent the disease spreading or in consequence of a local outbreak; or that our own key personnel are affected. The Group may incur additional costs to mitigate these risks. It is likely that acquisitions become more difficult to consummate in the short term, in particular because sellers may struggle to accept pricing which reflects any reduction in sales and profits.

The Group has some product lines whose demand has increased as a result of the pandemic, but the overall effect has been to reduce demand, in March and April of the financial year ending 31 April 2020 and in the opening weeks of the new financial year. The Group has followed all government guidelines, but has been able to keep all of its factories open with staff working from home where possible. The Group has continued to be profitable and to generate cash. The Group remains alert to continuing risks.

Liquidity

A review of the Group's exposure to liquidity risk is provided in note 27.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out within this Strategic report. The financial position of the Group, its cash flows, and liquidity position are provided in the financial statements on pages 48-51. In addition, notes to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to liquidity risk. The Board has reviewed forecasts for the period to 30 April 2022. These reflect sales projections taking into account various outcomes for both Brexit and the current COVID-19 pandemic, including cash requirements when sales recover and possible worsening of customer payment times and inventory turns, as well as for new products coming on stream as a result of the Group's research and development activity and continued cost management. The Group meets its cash flow and borrowing requirements through bank loans as detailed in note 20. The Board's forecasts indicate that the Group will continue to trade within its existing facilities with scope to further manage its cost base if necessary. The Board considers that the Group will have adequate cash resources within its existing facilities to continue to trade for the foreseeable future and therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue and Profits

Group revenue for the year was £24.5 million, an increase of 41% over 2019, achieved through approximately 3.7% organic growth and from the additional contribution of £6.3 million from our acquisitions of last year (in their first 12 months in the group) and of Chell Instruments this year.

Gross profit increased to £16.6m (2019: £11.5m) **with increased gross margin at 67.8%** (2019: 66.1%).

Operating profit for the year was £3.5m (2019: £2.2m), and **Adjusted Operating Profit (AOP) was £4.6m** (2019: £3.1m) before reorganisation costs, share-based payments, acquisition and fundraising costs and amortisation of acquired intangible assets, an increase of 48%. The main driver of the increased profit has been the contribution from the businesses acquired in 2019 and 2020.

Jon Abell
Chief Financial Officer
20 July 2020

The Group experienced a contraction in March and April, influenced by the developing COVID-19 pandemic, with sales approximately 18% lower in those months than in the equivalent period in 2019, excluding the contribution from Chell Instruments. The Group took several measures to mitigate the financial impact of the pandemic. These measures have included:

- The furloughing of approximately 17% staff (as of 30 April 2020), making use of the UK government's Coronavirus Job Retention Scheme
- A temporary 33% reduction in Directors' salaries and fees
- All other costs have been reviewed to prioritise expenditure that will help us to maintain operations and resume normal business as soon as possible.

The Board is aware that some of these actions, as well as restrictions caused by adhering to government social distancing guidelines, may result in delayed R&D projects and missed marketing and selling opportunities. The Board will review staffing levels required as the Group returns to more normal levels of activity.

Financing expense was £254k (2019: £77k), reflecting both increased usage of our loan facility to fund the acquisitions and £82k of financing cost resulting from the application of IFRS 16 (Leases).

Investment in R&D

Under IFRS we are required to capitalise certain development expenditure and in the year ended 30 April 2020 £536k (2019: £585k) of cost was capitalised and added to the balance sheet. Much of the work of our growing R&D teams does not qualify for capitalisation, and is booked directly to expense. Amortisation and write-offs for 2020 were £528k (2019: £591k). The carrying value of the capitalised development at 30 April 2020 was £1.174m (2019: £1.18m) to be amortised between 3-5 years.

Reorganisation

The Board carried out a thorough review of the operations and cost structure of the Group and this gave rise to £110k (2019: £124k) of reorganisation costs in the year impacting several businesses, which should bring benefits in the current year.

During the year, the Group's Synoptics Limited subsidiary took the decision to cease the activities of its Ionscope product line. The product line had been acquired in January 2019 for a consideration of £49k, which was recovered by a sale within the 2019 financial year. It was judged, however, that further investment in the product would not be an optimal use of resources, and the product line has been ceded to a former employee.

Acquisition and Fundraising Costs

£58k of costs relate to stamp duty, legal fees, and other advisor remuneration for the acquisition completed in the year (2019: £288k). In 2019, £190k of brokers fees and legal expenses relating to a share placing were booked directly to the share premium account within equity.

Taxation

Taxation for the year was £666k (2019: £209k) arising through improved profitability, but impacted adversely by the reversion to a 19% enacted UK statutory tax rate (2019: 17%) on our deferred tax liabilities which resulted in additional expense of £158k.

Earnings per Share

Basic earnings per share for Group was 2.66p (2019: 2.10p) and diluted earnings per share for the Group was 2.56p (2019: 2.05p). Adjusted diluted EPS, an alternative performance measure which excludes certain non-cash and non-recurring expenses was 3.43p (2019: 2.83p).

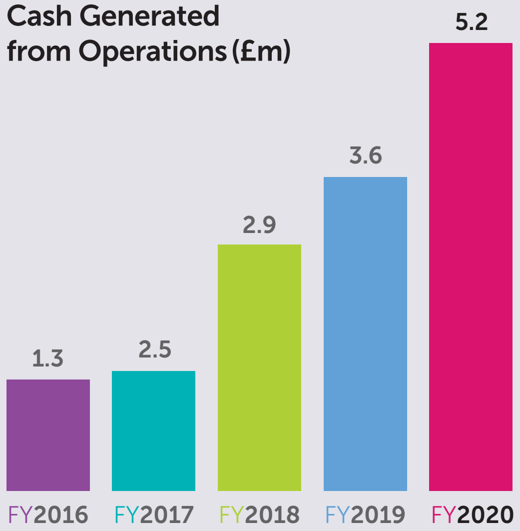
Accounting Standards

In the year, beginning 1 May 2019, we implemented IFRS 16, which requires us to capitalise "right of use" assets held under operating leases, such as the Group's building leases. The effects on the consolidated income statement are minor resulting in a decrease in profit before tax of £40k, but the change had the effect of increasing both fixed assets and debt by £2.48m on 1 May 2019. Including leased assets held by Chell Instruments, the total net value of "right of use" fixed assets resulting from the standards change on our balance sheet at 30 April 2020 was £2.84 million.

Cash Flow and Working Capital

During the year the Group generated cash from operations of £5.2m (2019: £3.6m). Working capital increased in the year, but we saw strong reductions in April as the COVID-19-related slowdown took effect. Taxes paid increased from £319k to £786k, partly as a result of more of our businesses moving to HMRC's quarterly instalment payment regime.

Cash Generated from Operations (£m)



Our investment in fixed assets increased to £919k (2019: £419k) with notable investment in our new Atik factory in Portugal and in the new facility housing the combined Applied Thermal Control and Thermal Exchange entities in Leicestershire, UK.

Capitalised Research and Development expense at £536k (2019: £585k) was broadly equal to amortisation.

However, our biggest investment was in the acquisition of Chell Instruments Limited, and we deployed £5.2m of funds, on a cash-free basis, to that end in the year (2019: £6.7m across 5 smaller acquisitions). Despite the slowdown towards the end of the year, Chell has contributed positively to earnings, and we look forward to its full-year contribution in 2021.

Funding

Our investments were financed by a combination of our own cash flow, an increase in our use of our revolving credit facility, and by the addition in November 2019 of a new amortising term loan of £4.8m, taken out in conjunction with the Chell acquisition.

In the light of the developing COVID-19 pandemic, in March and April 2020 we took steps to secure our liquidity position by drawing down almost all of our available borrowing capacity under the revolving facility, and by requesting and obtaining from our bank a deferral of the £342k repayment due in April under the term loan. These actions, plus the release of working capital resulting from the sales slowdown, resulted in the build-up of a significant cash balance at 30 April which is in excess of our immediate needs. We continue to monitor the situation closely, and we would expect to reduce our borrowing and surplus cash again over time as the pandemic recedes and our working capital position permits it. In parallel with the deferral of the loan repayment, we agreed with our bank a precautionary waiver for two quarters of one of the three covenants relating to the credit facility, which provides for a minimum level of cashflow-to-debt-service. In any case, we were compliant with the covenant at 30 April 2020 and we would expect to remain compliant.

We closed the year with a cash balance of £5.3m (2019: £2.5m), and net debt (debt, including £3.0m of lease debt under IFRS 16, less cash) of £7.1m (2019: net debt of £1.7m). There is no deferred or contingent consideration outstanding for any of our acquisitions.

1 Ken Ford Chairman

Ken joined the Board in 2010, and became Chairman in 2012. He was previously Chief Executive of Teather & Greenwood, the investment bank, and brings over 36 years of City experience to the Company, including a strong understanding of shareholder value, strategic planning and corporate transactions. His previous roles include Aberdeen Asset Management, Morgan Grenfell and Wedd Durlacher. Ken is currently Chairman of AIM-listed Gear4music. He is a Fellow of the Chartered Securities Institute.

2 Mike Creedon Chief Executive Officer

Mike joined the Board in 2010 as Finance Director, and was appointed CEO in 2012, maintaining also the Finance Director role until July 2018. A Chartered Certified Accountant with an MBA from Henley Management College, Mike brings to SDI considerable experience of working within quoted companies and technology businesses, and fundraising, mergers and acquisitions. In particular, he has recent experience of AIM-listed technology companies. Previous Finance Director posts include Ninth Floor plc and Ideal Shopping Direct Limited.

3 Jon Abell Chief Financial Officer

Jon joined the Board in July 2018 and has over 35 years of business experience. Prior to joining SDI he was Divisional VP of Finance, Electronic Instruments Group at Ametek, Inc. where his principal duties include performance management, M&A, business controls and accounting for several scientific and industrial instrument businesses. Jon started his career with industrial companies in the UK and in Italy, before obtaining his MBA at Columbia Business School in New York. He subsequently went on to senior financial management roles in Germany, the Netherlands, USA and UK including at Philips Electronics and Broadcom Inc.

4 Isabel Napper Non Executive
Chair of the Remuneration & Nomination Committee

Isabel joined the Board in February 2017 and has more than 25 years' experience in advising clients in the technology and healthcare/life science areas, both public and private sector, leading on business development and managing regulatory issues, governance risk and strategic change. Isabel was previously a Partner at the law firm Mills & Reeve where she acted as legal adviser and company secretary to a number of boards. Her extensive business development and marketing skills are invaluable to the Board. Isabel is also a non-executive director at Tristel plc.

5 David Tilston Non Executive
Chair of the Audit Committee

David joined the Board in July 2017. He has over 30 years' experience in finance functions within public companies, and is a Fellow of the Institute of Chartered Accountants in England and Wales. Most recently, David held the role of Interim Group CFO of Northgate plc, and before that Interim Group CFO at Consort Medical plc. Previously, David held senior finance roles at Innovia Group, Mouchel Group Limited, Findel plc, SABMiller plc and SThree plc. He has 8 years' experience as Audit Committee chairman at two companies. David is also Treasurer and Trustee at British Exploring Society, a youth development charity.

Chairman's Introduction

As Chairman I am responsible for the leadership of the Board and for ensuring the Board's effectiveness. I also have the responsibility for conducting Board meetings and making sure that there is effective and timely communication to our shareholders. In my role as chair I also provide advice, counsel and support to the executive.

The 2018 QCA Corporate Governance Code

The AIM Rule 26 introduced during our 2019 year requires the Group to follow a recognised corporate code of governance. The Board, after due consideration, agreed to follow the 2018 QCA Corporate Governance Code after concluding that it was the one best suited to SDI's business, aims and ambitions. The Board believes that the Group complies with the Code, but is committed to continuously improving its governance over time.

Principle	Commentary	Further Information
1 A strategy and business model which promotes long-term value for shareholders	The Board has a shared view of SDI's purpose, business model and strategy. Our vision is to develop our existing technologies and to grow through strategic acquisitions. We believe that acquiring companies which complement the capabilities within SDI will promote organic growth and give us the opportunity to explore challenges and new markets within the fast-evolving science and technology sectors.	The Strategy section of this Annual Report and our website
2 Understanding and meeting shareholder needs and expectations	Responsibility for shareholder liaison rests principally with our CEO supported by our CFO. However, all our Board members attach a high degree of importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. The Board holds meetings with institutional investors and other large shareholders following the release of the interim and financial results. We regard our Annual General Meeting as a good opportunity to engage directly with shareholders through a question and answer session. We provide the market and shareholders with the results of AGM and GM voting via RNS and other communication channels including the Group's website. SDI also participates from time to time in investor shows offering smaller and private investors insight into our business and also access to our management team.	Details of all shareholder communications are provided on our website
3 Taking account of wider stakeholder and social responsibilities and their implications for long-term success	SDI's vision involves encouraging our subsidiary businesses to work together to help advance medical and scientific knowledge, increase the technical capabilities of industry and ultimately improve the standard of living of the population as a whole. As well as that overarching purpose, the Board recognises that long-term business success relies on good relations with a range of different stakeholder groups both internal and external such as staff, suppliers and customers. We also seek to understand the impact our business activities have on the communities in which we operate and consider our corporate social responsibilities and how these issues are integrated in to our long-term strategy. We encourage feedback from all our stakeholders and where appropriate use that feedback to shape our future direction e.g new methods or product offerings.	The "Section 172" report in this Annual Report provides further information
4 Embed effective risk management, considering both opportunities and threats, throughout the organisation	We have addressed the principal risks we face by the appointment of an experienced executive team supported by experienced non-executive directors and a team of appropriately qualified professional advisers. Our executive directors are closely involved in the day to day operations of the Group and of our operating subsidiaries and report to the board in detail at regular intervals. Relevant papers are distributed to members of the board in advance of board and committee meetings. Detailed financial reports of the Group's financial performance are also provided on a regular basis. Our directors' knowledge and understanding of the Group is further enhanced by on-site visits to operational units; directors also receive presentations from senior management on the performance and strategies of their business units. We have included in our strategy meetings with our operating subsidiaries a specific agenda item on risk management, to understand individual business risks and to confirm appropriate mitigating actions. Directors also have the contractual right to take independent professional advice on any matter – at SDI's expense – if they deem it necessary in order to carry out their responsibilities.	The Principal Risks and Uncertainties section of this Annual Report sets out some of the principal risks and uncertainties faced by the Group
5 Maintaining the board as a well-functioning, balanced team led by the Chair	Our board consists of three executive directors (Chairman, CEO and CFO) together with two non-executive directors. We believe this to be a good balance for a business of our size. Due to their working backgrounds and professional experience the non-executive directors provide a solid foundation for good corporate governance for the Group. They are also independent of management and ensure that no individual or group dominates the board's decision-making process. To ensure the board functions well, our non-executive directors are requested to attend eleven board and board committee meetings per year. They are also required to be available at other times between meetings when necessary for face-to-face and phone/web meetings. We also hold an annual strategy meeting at which directors' attendance is mandatory. Each non-executive director continues to demonstrate that they have sufficient time to devote to our business. To support the board we have put in place Audit, Remuneration and Nomination Committees all of which have agreed formal terms of reference.	Biographies of the Directors are presented on page 23 in this Annual Report and on our website. Reports of the Board committees are also presented on pages 29-31 in this Report.
6 Ensuring the directors have the necessary up-to-date experience skills and capabilities	Our directors have been chosen because of the skills and experience they offer. Of our five directors one is female and four are male. All have listed company experience and one was the CEO of an investment bank, three are accountants, one a lawyer. Our directors attend industry and regulatory learning and networking events in order to keep up to date with relevant developments.	Biographies of the Directors are presented on pages 23 in this Annual Report and on our website.
7 Ensuring the directors have the necessary up-to-date experience skills and capabilities	We undertake annual monitoring of personal and corporate performance. The responsibility for assessing and monitoring the performance of the executive directors lies with the independent non-executive directors. Agreed personal objectives and targets are set each year for the executive directors and performance measured against these metrics. This year we instituted a formal board evaluation process. The process was led by our Chairman assisted by the Chair of the Nominations Committee, and required directors to answer a set of questions setting out their views on the effectiveness of the Board and on the value of their board contributions. The results of that assessment process were used by the Chairman to facilitate discussions with each individual director and with the Board as a whole. The questions were based around issues arising from the ten principles of the QCA Code and the results have assisted in continuing our focus on strategy and risk management.	

Principle	Commentary	Further Information
8 Promote a corporate culture that is based on ethical values and behaviours	We believe it is the responsibility of the Board and senior leaders to ensure that the culture of our organisation is based on ethical values and behaviours. As well as leading by example, our ethics-based culture is promoted through our business behaviours, decisions, processes and operations, as well as the management of the risk of ethical misconduct. In addition, we have mechanisms to support high ethical standards – e.g for raising concerns and reporting misconduct. We also aim to include ethical criteria in recruitment and in performance appraisals, and have detailed policies relating to important issues such as discrimination, harassment, bribery and corruption, and conflicts of interest. We expect all our staff to adhere to these high standards. We are keen to invest in our people not just our companies. With that in mind we seek to make our workplaces a better environment and to encourage all our staff to undergo relevant training and development.	
9 Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	Our non-executive directors scrutinise the performance of management against the Group's objectives and also monitor the reporting of performance. The Board has considered mechanisms by which the business and the financial risks facing the Group are managed and reported to the board. The principal business and financial risks have been identified and control procedures implemented. The Board acknowledges its responsibility for reviewing the effectiveness of the systems that are in place to manage risk. To achieve this aim the Board has a formal schedule of matters specifically reserved to it for decisions including the approval of annual and interim results and recommendation of dividends, approval of annual budgets, approval of larger capital expenditure and investment proposals, review of the overall system of internal control and risk management and review of corporate governance arrangements. Other responsibilities are delegated to the Board Committees, being the Audit, Remuneration and Nomination committees, which as explained in section 5 above operate within clearly defined terms of reference, and which report back to the Board.	Reports of the Board committees are also presented on pages 29-31 in this Report.
10 Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	We have set out in section 2 above how we maintain a regular dialogue with our shareholders including welcoming all shareholders to our AGMs.	Further information and the resolutions put to a vote at annual general meetings can be found on our website.

The Board

The Board comprises the Chairman, two Executive Directors and two Non-Executive Directors. The Non-Executive Directors are considered to be independent, provide a solid foundation for good corporate governance for the Group, and ensure that no individual or group dominates the Board's decision-making process. The Non-Executive Directors are independent of management. Each current Non-Executive Director received a grant of 250,000 stock options following appointment, which the Board considers to be not material and does not compromise independence. Each Non-Executive Director continues to demonstrate that they have sufficient time to devote to the Company's business and attendance at Board and Committee meetings is summarised later in this report.

The Non-Executive Directors constructively challenge and assist in developing the strategy of the Group using their experience and knowledge of acquisition targets and fundraising. They scrutinise the performance of management against the Group's objectives and also monitor the reporting of performance. The Board is provided with regular and timely information on the financial performance of the Group as a whole, together with reports on trading matters, markets and other relevant matters.

There are clearly defined roles for the Chairman and CEO. The Chairman is responsible for leadership of the Board, ensuring effectiveness of the Board in all aspects, conducting Board meetings and the effective and timely communication of information to shareholders. The Chairman is able to provide advice, counsel and support to the Chief Executive. The Chief Executive has direct charge of the Group's day-to-day activities and sets the operating plans and budgets required to deliver the agreed strategy. The Chief Executive is also responsible for ensuring that the Group has in place appropriate risk management and control mechanisms.

The Board is collectively responsible for the performance of the Group and is responsible to shareholders for proper management of the Group. A statement of Directors' responsibilities is given on page 34 and a statement on going concern is given on page 19.

The Board has a formal schedule of matters specifically reserved to it for decisions including the approval of annual and interim results and recommendation of dividends, approval of annual budgets, approval of larger capital expenditure and investment proposals, review of the overall system of internal control and risk management and review of corporate governance arrangements. Other responsibilities are delegated to the Board Committees, being the Audit, Remuneration and Nomination committees, which operate within clearly defined terms of reference, and which report back to the Board.

Relevant papers are distributed to members in advance of Board and Committee meetings. Directors' knowledge and understanding of the Group is enhanced by visits to the operations and by receiving presentations by senior management on the results and strategies of the business units. Directors may take independent professional advice on any matter at the Company's expense if they deem it necessary in order to carry out their responsibilities. The Company has secured appropriate insurance cover for Directors and Officers.

Board Committees

The following committees deal with specific aspects of the Group's affairs.

Audit Committee

The Audit Committee, which is chaired by D Tilston and has I Napper as the other member, meets not less than twice annually and more frequently if required.

The Board considers that both members of the Audit Committee have recent and relevant financial experience and an understanding of accounting and financial issues relevant to the industries in which SDI Group operates. The Committee provides a forum for reporting by the Group's external auditors. Where appropriate meetings are also attended by the Chairman and executives at the invitation of the Committee.

A report of the Audit Committee is provided on pages 29-30.

Remuneration Committee

A report of the Remuneration Committee and the Directors' remuneration report can be found on pages 31-33.

Board Committees continued

Nomination Committee

This Committee is chaired by Isabel Napper and has David Tilston as its other member and meets at least once per annum. Where appropriate meetings are also attended by the Chairman, the CEO and the CFO at the invitation of the Committee.

The Nomination Committee focusses on evaluating the board of directors, examining the skills and characteristics which are needed in board candidates, and on succession issues. Its principal focus during the last financial year was instituting and assisting the Chairman with the board evaluation process as set out in Principle 7 of our Governance Statement above.

Attendance at Board and Committee Meetings

The members' attendance at Board and Committee meetings during the year is disclosed in the table below.

	Board	Audit	Remuneration	Nomination
K Ford	11/11	-	4/4	-
M Creedon	11/11	-	-	-
I Napper	11/11	4/4	4/4	1/1
D Tilston	10/11	4/4	4/4	1/1
J Abell	11/11	-	-	-

Conformance with Best Practice

The Board has reviewed its composition against certain non-statutory "best practice" guidelines and makes the following observations:

That remuneration of non-executive directors should be with basic fees only (excluding historical, one-off options grants if the quantum is not considered material)

– The Board considers the one-time share option awards made on appointment to its non-executive directors to be not material and that they do not impair their independence. The Board therefore considers its non-executive directors to be independent of management and expects them to exercise their independence to the fullest extent.

That the remuneration committee should not include non-independent or executive members

– The Board considers Ken Ford's membership of the Remuneration Committee to be an asset in its determination of the remuneration of executive directors and other key personnel, and the Committee as a whole is aware of any potential conflict.

That the Company Secretary should not be an executive director

– The Board members have significant external board of directors experience and are aware that they may seek independent professional advice at the company's expense to discharge their duties. The Board believes that the company is currently best served by combining the roles of CFO and Company Secretary, in the interests of efficiency and cost.

The Board expects to keep such matters under at least annual review.

I am pleased to present the Audit Committee report for the year ended 30 April 2020.

The Committee consists of myself (as Chairman) and Isabel Napper. The Chairman, Executive Directors and Group Financial Controller may be invited to attend Committee meetings if required. During the year, the Committee met four times, to approve the audit plan, review the audit conclusions and interim findings and to consider other matters delegated to the Committee. The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am a Chartered Accountant; I have served as Group Finance Director in several quoted companies and have prior experience as an Audit Committee Chairman. I report the Committee's activities at Board meetings and the minutes of each meeting are made available to all members of the Board. The Committee has satisfactorily completed a self-assessment exercise on its effectiveness using externally sourced material.

Responsibilities

The duties of the Committee are set out in its Terms of Reference, which are available on the Company's website. During the year the Committee undertook a review of its Terms of Reference following the issue of The Audit Committee Guide by the Quoted Companies Alliance and agreed minor changes which were approved by the Board. The Committee's main duties are to:

- ensure the integrity of the financial statements (including annual and interim accounts and results announcements);
- review significant financial reporting judgements and the application of accounting policies thereon;
- ensure the Annual Report and Accounts are fair, balanced and understandable and recommend their approval to the Board;
- manage the relationship with the Group's external Auditor and review their suitability and independence;
- negotiate and approve the external Auditor's fee, the scope of their audit and terms of engagement;
- advise on the appointment of external Auditors and to review and monitor the extent of the non-audit services undertaken by the Group's external Auditor;
- review of the risk management and internal control systems;
- review the assessment of going concern; and
- assess the need for an internal audit function.

Role of the external Auditor

The Committee monitors the relationship with its external Auditor, Grant Thornton UK LLP, to ensure that auditor independence and objectivity are maintained. As part of its review the Committee has established a policy in respect of the provision of non-audit services by the external Auditor which it monitors. No issues impacting upon the Auditor's independence were observed or brought to the Committee's attention.

Audit Process

The external Auditor prepares an audit plan for its review of the full year financial statements. The audit plan sets out the scope of the audit, specific areas of risk to target and the audit timetable. This plan is reviewed and agreed in advance by the Committee. Following completion of audit fieldwork the Auditor presented their findings to the Committee for discussion, including accounting judgements undertaken in respect of various matters including acquisition accounting and research and development capitalisation.

Internal Audit

At present the Group does not have a formal internal audit function and the Committee will keep this matter under review as the Group's activities expand.

Risk Management and Internal Controls

The Corporate Governance Statement on pages 24-28 explains the measures taken to embed effective risk management throughout the Group which is dependent upon the close involvement of the executive directors in the day-to-day operations of the Group, the strength of subsidiary management teams and reporting from the operating subsidiaries. This oversight was strengthened during the current year with the appointment of a Group Financial Controller. The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year the Group was impacted by the economic and logistical challenges related to the COVID-19 pandemic which resulted in a proportion of its administrative workforce operating remotely. The Committee has reviewed the framework by (a) receiving papers and discussing oversight practices with the Group CEO and Group CFO and (b) participating in strategic risk discussions with operating subsidiaries, and determined that it remains appropriate for the Group's current scale of operations.

Going Concern

As explained in the Strategic Report the Group has reviewed forecasts for the period to 30 April 2022 and has considered the profile of the Group's debt facilities which mature in April 2023. Various scenarios have been considered taking account of downside risks which might be anticipated from the current COVID-19 pandemic and Brexit and the impact that this could have on the Group's cash generation, net debt levels and financial covenants. These scenarios recognise both the Group's recent trading experience during the early months of the COVID-19 pandemic and an assessment of management actions that could be taken to mitigate further macro-economic uncertainties should they arise. The Audit Committee considers that the Group will have adequate cash resources within its existing facilities to continue to trade for the foreseeable future and that it remains appropriate for the going concern basis of accounting to continue to be used in the preparation of the annual financial statements. These conclusions have been further considered and agreed by the Group's Board of Directors.

David Tilston
Audit Committee Chairman
20 July 2020

I am pleased to present the report of the Remuneration Committee for the year ended 30 April 2020.

The Committee is chaired by myself and has Ken Ford and David Tilston as its other members. Other regular attendees, at the invitation of the Committee, include the CEO and the CFO.

The Committee meets at least two times per year and determines the Group's policy for executive remuneration and the individual remuneration packages for executive directors and other designated senior management. The Committee's terms of reference are available on the Group's website.

In setting the Group's remuneration policy, the Committee considers a number of factors including the following:

- Salaries and benefits available to executive directors of comparable companies;
- The need to both attract and retain executives of appropriate calibre; and
- The continued commitment of executives to the Group's development through appropriate incentive schemes (including the award of shares and share options).

Remuneration of Executive Directors

Consistent with this policy, benefit packages awarded to executive directors comprise a mix of basic salary and performance-related remuneration that is designed as an incentive.

The remuneration packages cover the following elements:

- Base salary: the Remuneration Committee sets base salaries to reflect the responsibilities and the skills, knowledge and experience of the individual;
- Bonus Scheme: the executive directors are eligible to receive a bonus dependent on both individual and Group performance as determined by the Remuneration Committee. This is capped at 50% of the individual's salary;
- Long-Term Incentive Plan shares: the executive directors are eligible to receive share options, related to Group performance under the terms of a long-term incentive scheme determined by the Remuneration Committee;
- Equity: share options; and
- Group contribution into a personal pension scheme, life assurance, and private medical insurance.

The CEO and CFO are engaged under separate contracts which require a notice period of six months given at any time by the Group or the individual.

During 2019/2020 the Committee looked at the operation of the LTIP scheme adopted by the Board in December 2018. The Committee took the view that it was appropriate to make another round of awards under the scheme as being a fair reward for, and a reflection of, the Group's executive directors' significant responsibility for growth.

The LTIP awards granted in 2020 were made on the same terms as the previous year i.e. they have a three-year vesting period and are made in respect of the CEO, Mike Creedon and Group CFO, Jon Abell. The Group Chairman, Ken Ford, was again included in the award as a reflection of the significant amount of time and experience he provides to the Group in relation to acquisitions and other important strategy issues.

The details of the LTIP are set out in the Remuneration Report on pages 32-33.

Remuneration of Chairman and Non-Executive Directors

The fees paid to the non-executive directors are determined by the Board. The Chairman and non-executive directors do not receive any other forms of benefits such as health cover or pension. Although both non-executive directors were recipients of non-tax advantaged share options in 2017 that was part of a one-off occurrence on joining the Board and is not intended to be repeated in the future. The notice periods of the Chairman and the non-executive directors are three months which can be given at any time by the Group or the individual.

Executive and Non-Executive Board Remuneration under COVID-19

One part of the Group's response to the global pandemic was to seek an active reduction in the Group's overall costs. As part of those measures and in recognition of the furlough arrangements affecting some of the workforce, each member of the Board agreed to take an immediate cut of 33% in their salaries and fees for a period of three months.

Isabel Napper
Chair, Remuneration Committee
20 July 2020

Statement about Basis of Preparation

SDI has produced this report, read in conjunction with the Report of the Remuneration Committee, to comply with AIM rule 19.

Directors' remuneration and pension entitlements

The remuneration of the Directors is set out below:

	Salary / Fees £'000	Gain on exercising share options	Bonus £'000	Taxable Benefits £'000	Pension £'000	2020 Total £'000	2019 Total £'000
K Ford	49	–	–	–	–	49	48
M Creedon	141	40	45	2	8	236	204
I Napper	29	–	–	–	–	29	27
D Tilston	29	–	–	–	–	29	27
J Abell	109	–	30	2	6	147	105
	357	**40**	**75**	**4**	**14**	**490**	**411**

Directors' beneficial interests

Directors' beneficial interests in shares in the Company are set out below:

	2020 Number	2019 Number
K Ford	1,250,000	1,450,000
M Creedon	442,452	311,924
I Napper	65,472	35,472
D Tilston	90,000	90,000
J Abell	100,000	59,608

None of the Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

Directors' beneficial interests in share options in the Company are set out below:

	2020 Number	2019 Number
K Ford	850,672	715,217
M Creedon	1,952,327	1,872,173
I Napper	250,000	250,000
D Tilston	250,000	250,000
J Abell	1,134,103	1,021,739

Service contracts

The service contracts with M Creedon dated 25 April 2010 and with J Abell dated 4 April 2018 include a notice period of six months if given by either party.

The non-executive Directors' service contracts and the service contract of the Chairman include a notice period of three months if given by either party.

Long-Term Incentive Plan ("LTIP")

This LTIP was introduced in December 2018 to provide an effective mechanism for senior executives to participate in the company's equity, aligning their interests with those of the shareholders. The LTIP scheme overall has a duration of ten years and provides for a maximum of 10% of the company's equity to be granted (under all schemes) to executives in that period, subject to performance conditions which are set for each award.

An award was made on 19 March 2020 with performance conditions based for 50% on the growth in fully-diluted Earnings Per Share in the three years starting 1 May 2019 and for 50% on the total shareholder return for SDI shareholders compared with a basket of twenty comparable companies. Subject to the rules of the LTIP, vesting is on the third anniversary of the date of grant, to the extent that the performance conditions are met. The directors participating in the scheme at the date of this report and their maximum respective entitlement under the scheme to shares in SDI Group plc are as follows:

	March 19 2020 Award	Previous Award	Total
M Creedon	210,682	652,173	**862,855**
J Abell	112,364	521,739	**634,103**
K Ford	135,455	215,217	**350,672**

The above table is a subset of the share option table on page 32.

The market price of the company's shares at the end of the financial year was 52.5p and ranged from 36.25p to 91.5p during the year. The exercise price of the ordinary options ranges from £0.205 to £0.385, and of LTIP options is nil.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report comprising Strategic Report, Governance Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare separate parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS101 Reduced Disclosure Framework). 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 the Company and the profit or loss of the Company and the Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

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

Group Results

The Group's profit for the year after taxation amounted to £2.6m (2019: £1.9m) and has been transferred to reserves.

All KPIs and risks are disclosed in the Strategic Report on pages 16-19.

The Board does not recommend the payment of a dividend.

Directors

The directors who served during the period are set out below.

K Ford
M Creedon
I Napper
D Tilston
J Abell

The interests of the directors and their families in the share capital of the Company are shown in the directors remuneration report on pages 32-33.

The appointment and replacement of directors of the Company is governed by its Articles of Association and the Companies Act 2006. The Articles of Association may be amended by special resolution of the shareholders.

The Company must have a minimum of two directors holding office at all times. There is no maximum number of directors. The Company may by ordinary resolution, appoint any person to be a director. The Board may appoint a person who is willing to act as director, either to fill a vacancy or as an addition to the Board. A director appointed in this way may hold office only until the dissolution of the next Annual General Meeting unless he or she is reappointed during the meeting.

Power of Directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Memorandum and Articles of Association.

At the Annual General Meeting held on 25 September 2019, the directors were given the power to:

- Arrange for the Company to purchase its own shares in the market up to a limit of 15% of its issued share capital;
- Allot ordinary shares up to an aggregate nominal value of £324,000;
- Issue equity securities for cash, otherwise than to existing shareholders in proportion to their existing shareholdings, up to an aggregate nominal value of £48,600.

Similar powers will form part of the resolutions to be put to the forthcoming AGM expected to be held on 23 September 2020.

Structure of Share Capital

As at 30 April 2020 the Company's authorised share capital was £10,000,000 comprising 1,000,000,000 ordinary shares of 1p each.

As at 30 April 2020 the Company had 97,503,951 (2019: 97,203,951) ordinary shares in issue with a nominal value of 1p each.

Financial Risk Management Objectives and Policies

Financial risk management objectives and policies are discussed in note 27 'Financial risk management objectives and policies'.

Employee Involvement

During the year, the policy of providing employees with information about the Group has been continued through regular meetings which are held between local management and employees to allow a free flow of information and ideas.

The Group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Employees who become disabled are provided, where practicable, with continuing employment under normal terms and conditions and are provided with training and career development where appropriate.

Health and Safety Policies

The Group is committed to conducting its business in a manner which ensures high standards of health and safety for its employees, visitors and general public. It complies with all applicable and regulatory requirements.

Substantial Shareholdings

As at 20 July 2020 the Company is aware of the following shareholders who hold an interest of 3% or more in the Company's ordinary share capital.

	Number of ordinary shares	Percentage of ordinary shares
Berenberg Wealth and Asset Management	9,651,726	9.90%
Business Growth Fund	8,765,731	8.99%
Herald Investment Management	8,178,149	8.39%
Tellworth Capital	5,043,989	5.17%
Octopus Investments	3,719,640	3.81%
Hargreaves Lansdown	3,629,335	3.72%
Dana Investments BV	3,496,494	3.59%
Killik stockbrokers	3,463,534	3.55%
Charles Stanley	3,123,307	3.20%

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

On behalf of the Board

Ken Ford
Chairman
20 July 2020

Mike Creedon
Chief Executive Officer
20 July 2020

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006

When making decisions, the directors of SDI Group plc must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006).

The directors are committed to developing the Group to create value for shareholders over the long-term, and believe that attention to the interests of all stakeholders will provide the best platform for sustained value creation.

Here we provide some detail regarding our engagement with key stakeholders, our understanding of their interests, and our actions and decisions taken which may affect them.

Shareholders and their Representatives

SDI Group plc is quoted on the AIM market, and has shareholders ranging from investment funds to retail investors, directors and employees and former employees. All shareholders are entitled to share equally in the Group's success, and we aim to provide all with the information they need to understand the progress of their investment. We believe that a mixed shareholder base provides benefits to all in maintaining liquidity in the shares.

In addition to public announcements made, directors meet from time to time with some of the Group's larger shareholders and potential shareholders to discuss the state of the Group, usually following annual or interim results announcements and with the presence of our Nominated Advisor. These meetings are important in providing large investors with comfort for their investment decisions, and are for many a requirement prior to investing.

We also present occasionally at events aimed at retail investors, to provide them with a similar opportunity to hear directly from directors.

These meetings do not give attendees any insider information and presentations made are excerpts from publicly available documents such as this Annual Report. We welcome requests from all shareholders to speak with directors, and we will usually be able to accommodate that.

The Group is acquisitive, and has occasionally funded acquisitions via the placing of new shares (for example, most recently in February 2019). In assessing the mechanism for offering new shares, the directors have to balance the desire of all shareholders to be able to participate in an offering with the need to execute a simple and timely process, in order not to compromise the acquisition which is dependent on the funding. We have typically used an accelerated book-building process, in which larger shareholders and non-shareholders are canvassed by our brokers to subscribe to the new shares. In the 2019 placing, for the first time we reserved a portion of the new shares for subscription (on equal terms to the larger buyers) by retail investors via an electronic platform.

Directors occasionally consult with some of our larger shareholders on matters of executive benefits, to ensure that these are aligned with the expectations of the market.

The directors keep the payment of a dividend under review. We are aware that different shareholders (and current non-shareholders) may have different dividend appetites, and we cannot please everyone. Our judgement to date has been that funds were better reserved for acquisitions, and this year we also took into account the potential impacts of the COVID-19 pandemic.

Customers and Suppliers

SDI Group is organised as a constellation of individual operating businesses, each with its own general management, and customer and supplier bases. Our engagement with customers and suppliers generally takes place within those businesses. Some customers and suppliers are common to several of our businesses, although we may deal with different divisions of the same group. The directors encourage our businesses to deal correctly with their customers and suppliers, and to look for long-term relationships that can add value to all parties. Our businesses report on key relationships to our executive directors and in their reports to the wider Board, and we look for opportunities to expand our relationships with good customers and suppliers across the Group.

We aim to develop new products and technologies that satisfy future customer needs, and provide the highest quality and most reliable products for the markets we serve.

Employees

Our business is built on the hard work, knowledge, skills and experience of staff across the Group. We expect them to go the extra mile in looking after our other stakeholders, and they do so. Our commitment is to look after them fairly, both in economic terms and in providing a stimulating working environment where they can use and develop their capabilities to the full.

Executive directors of SDI Group engage with employees across the Group during regular visits to all locations, and the Board's policy is to rotate its meetings around the locations so that all directors can meet with staff. The Board receives monthly reports from the Group's operating businesses which include sections on staffing matters, and reserves specific agenda slots for staff and health and safety matters at each regular meeting.

Key staff remuneration, and remuneration policy for the wider Group, is decided by directors, and our aim is to pay people competitively and provide additional reward for exceptional performance.

The culture at SDI Group, as experienced by our staff, is generally that of a successful small business, which is the recent history of each of our operating businesses. As part of the SDI Group, however, opportunities for career development and learning from other businesses can be enhanced, and we look for ways to develop our staff across the Group.

The ongoing COVID-19 pandemic has disrupted normal life for our staff, and the directors have emphasised staff safety and well-being across the Group, but have also been pleased by the commitment of employees to keep the business operating in challenging times. The Group has operated according to relevant government guidelines, with some employees working throughout the crisis from our business locations with enhanced regimes of safety and social distancing, others working from home, and up to 17% of staff on temporary furlough.

Acquisition Partners

For SDI Group, acquisitions are not one-time events, but a repeatable process. We seek to make the process as easy as possible for sellers and for their advisors to realise their goals. Our management of the businesses post-acquisition is also a key factor in enhancing our reputation as a good acquirer. By treating sellers openly and fairly, and by executing on our commitments, we seek to remain the acquirer of choice for businesses that will fit well into the Group.

Independent Auditor's Report to the Members of SDI Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of SDI Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 April 2020, which comprise the consolidated income statement and statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity, company balance sheet, company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 April 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

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

The Impact of Macro-Economic Uncertainties on our Audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's and the parent company's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and parent company associated with these particular events.

Conclusions Relating to Going Concern

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

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

In our evaluation of the directors' conclusions, we considered the risks associated with the Group's and the parent company's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's and the parent company's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

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 not a guarantee that the Group and the parent company will continue in operation.

Overview of Our Audit Approach

- Overall Group materiality: £243,000, which represents 1% of the Group's revenue
  - Key audit matters were identified as improper revenue recognition, valuation of goodwill and capitalised development costs, accuracy of intangible assets on recognition of the acquired businesses, and going concern;
- We performed full scope audit procedures on the financial statements of the UK parent entity, SDI Group plc, and on the financial information of the 10 significant UK components; and
- We performed specified audit procedures on the financial information of the non-significant Group components in the USA and Portugal.

Key Audit Matters

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

Key Audit Matter – Group

Improper Revenue Recognition

The Group has recognised revenue of £24,498,000 (2019: £17,427,000) in its consolidated income statement during the year, which is comprised of revenue from sales of goods and income from service contracts. The nature of the Group's revenue involves the processing of a high volume of transactions, with each stream following different revenue recognition criteria under IFRS 15 'Revenue from Contracts with Customers'.

As the Group's revenue comprises various individually material streams which are each subject to different recognition policies, the risk that revenue may be improperly recognised has been identified as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- assessing whether the revenue recognition accounting policy for each type of revenue was consistent with IFRS 15 and testing that these policies were followed;
- undertaking analytical procedures to identify and assess key movements in revenue streams and significant transactions which have occurred in the year;
- performing data analytic procedures designed to highlight any unusual transactions or postings recorded in revenue;
- substantively testing a sample of revenue transactions in respect of sale of goods and agreeing them to a cash receipt or proof of delivery to check that the sale did occur;
- testing a sample of revenue transactions in respect of contract income for services by obtaining purchase orders and supporting documentation, recalculating the revenue recognised, and assessing the appropriateness of any deferred or accrued income at year end; and
- agreeing a sample of transactions before and after the year end to supporting documentation to determine whether transactions had been recorded in the correct period.

The Group's accounting policy on revenue recognition is shown in note 3 to the financial statements and related disclosures are included in note 6.

Key Observations

Our audit testing did not identify any material misstatements in the revenue recognised during the year or any instances of revenue not being recognised in accordance with the Group's accounting policies and the requirements of IFRSs as adopted by the European Union.

Key Audit Matter – Group

Valuation of Goodwill and Capitalised Development Costs

The carrying value of goodwill included in the consolidated statement of financial position at the year-end was £10,895,000 (2019: £8,391,000).

The net book amount of capitalised development costs included in the consolidated statement of financial position at the year-end was £1,174,000 (2019: £1,180,000), including amortisation charged in the year on capitalised development costs of £528,000 (2019: £585,000). These costs are amortised by the Group to ensure the capitalised cost reflects the anticipated benefit of the development project to the Group over time.

In accordance with International Accounting Standard (IAS) 36, 'Impairment of Assets', an annual review is required to assess whether goodwill or capitalised development costs may be impaired.

Management's impairment reviews of goodwill are based on forecasting cash flows relating to cash generating units (CGUs) using a discounted cash flow model.

Management's impairment reviews of capitalised development costs are based on identifiable assets for which future revenues and gross margins can be assigned to calculate a value in use based on a discounted cash flow model.

Due to the inherent estimation uncertainty and the existence of key assumptions when forecasting and discounting future cash flows, we identified the valuation of the carrying value of capitalised development costs and goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- assessing whether the accounting policy for the amortisation of capitalised development costs was consistent with prior year and assessing the appropriateness of the determined useful economic life;
- comparing the carrying value of a sample of development projects against management's calculation of their value in use, based on management's assessment of their future cash flows;
- checking the mathematical accuracy of a selection of management's impairment models applied to capitalised development costs;
- testing the accuracy of management's forecasting by comparing the budgeted sales and gross profit to the results achieved for the year;
- challenging management on the basis of key assumptions used within the forecasts, such as the growth rate and the discount rate;
- performing sensitivity analysis of cash flow model inputs, including the discount rate applied;
- discussing and corroborating the ongoing viability and recoverability of development projects with relevant Group personnel, focussing on project progress and sales generated for new products where possible; and
- comparing the carrying value of each CGU including goodwill and other intangible assets against the net present value calculations, produced by management, based on future cash flows.

The Group's accounting policy on the carrying value of capitalised development costs and goodwill is shown in note 3 to the financial statements and related disclosures are included in note 11.

Key Observations

Our audit testing did not identify any material misstatements in the carrying value of capitalised development costs or goodwill. We are satisfied that the judgements applied in estimating the discounted future cash flows are reasonable.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Valuation of Intangible Assets on Recognition of the Acquired Business The Group has an acquisitive business model. It made one acquisition in the year, purchasing 100% of the share capital of Chell Instruments Limited. There is a risk that the intangible assets, including goodwill, are not recognised in accordance with IFRS 3 'Business Combinations'. There is significant judgement and complexity associated with the allocation of excess consideration over net assets acquired between separable intangible assets and remaining goodwill. Management have prepared workings that incorporate, for the fair value of the intangible assets, assumptions of growth rates, margins, discount rates and attrition rates. Due to the inherent uncertainty and key assumptions involved in determining the accurate valuation of acquired intangible assets and goodwill, we therefore identified the valuation of intangible assets on recognition of the acquired business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Our audit work included, but was not restricted to:** • obtaining and assessing management's acquisition accounting workpaper which calculated the split between net assets acquired, fair value of acquired intangible assets and goodwill to be recognised on consolidation; • assessing the Group's accounting for acquisitions to check whether it was in accordance with the Group's financial reporting framework, including IFRS 3; • using our internal valuations team to assess the appropriateness of the valuation methodology used by management, including the methodology adopted for identifying separate intangible assets distinct from goodwill and assessing the appropriateness of discount rates and growth rates applied; • evaluating the acquisition workings prepared by management and checking its mathematical accuracy; and • challenging the assumptions used in the valuation models, to assess whether they are reasonable and consistent with our knowledge of the acquired business. The Group's accounting policy on the recognition of intangible assets and goodwill is shown in note 3 to the financial statements and related disclosures are included in note 11.

Key Observations

Our audit testing did not identify any material misstatements in the valuation of intangible assets on recognition of the acquired business. We are satisfied that the judgements made in determining the split between acquired intangible assets and goodwill are reasonable.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Going Concern As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, COVID-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Group and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Our audit work included, but was not restricted to:** • Obtaining management's base case forecasts covering the period to April 2022, assessing how these forecasts were compiled and assessing their appropriateness by applying sensitivities to the underlying assumptions, which we also challenged; • Assessing the accuracy of management's forecasting by comparing the reliability of past forecasts to the base case forecast; • Obtaining management's more extreme case scenario prepared to assess the potential impact of COVID-19, evaluating the assumptions regarding the impact of an extended lockdown period and delays in cash receipts from customers and considering whether the assumptions are consistent with our understanding of the business derived from other detailed work undertaken; • Assessing the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available facilities; • Considering the forecasts prepared in respect of the most likely impact of COVID-19; and • Assessing the adequacy of related disclosures within the annual report and financial statements. The Group's going concern accounting policy and related disclosures are shown in the going concern note within note 3 to the financial statements.

Key Observations

We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

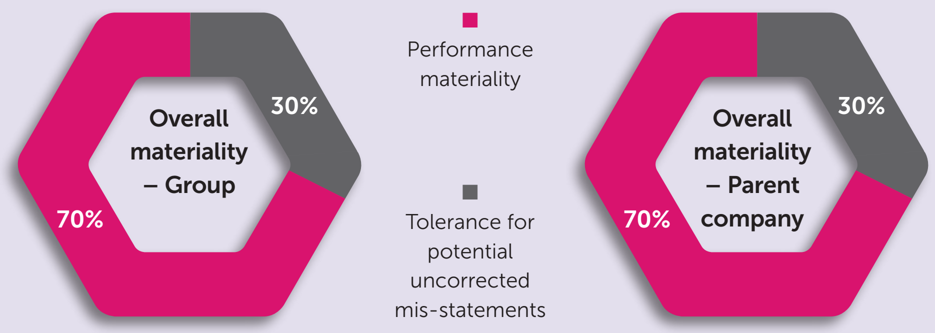
Our Application of Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent Company
Financial statements as a whole	£243,000, which is approximately 1% of the Group's revenue. This benchmark is considered the most appropriate because the Group are strategically looking to increase Group revenues and it is identified as a KPI for stakeholders. Materiality for the current year is higher than the level that we determined for the year ended 30 April 2019 to reflect increased Group revenue.	£129,000, which is approximately 10% of the parent company's profit before tax for the year. This benchmark is considered the most appropriate because this metric is actively monitored by management. Materiality for the current year is higher than the level that we determined for the year ended 30 April 2019 because of an increase in profit before tax during the year.
Performance materiality used to drive the extent of our testing	70% of financial statement materiality.	70% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£6,450 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An Overview of the Scope of Our Audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- Assessment of the Group's centralised processes and controls, including understanding and testing design and implementation effectiveness of controls for significant risk areas. Whilst Group management are responsible for all judgemental processes and significant risk areas in respect of the consolidated financial statements, each trading subsidiary has a decentralised local accounting function which reports to the local subsidiary management who are responsible for the operations and financial management of the subsidiary companies. We have tailored our audit response accordingly with all Group audit work undertaken by the Group audit team.
- An evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. We determined significance as a percentage of the Group's total assets, revenue and profit/(loss) before tax;
- We performed full scope audit procedures on the financial statements of SDI Group plc and on the financial information of Synoptics Limited, Atik Cameras Limited, Sentek Limited, Astles Control Systems Limited, Applied Thermal Control Limited, Fistreem International Limited, Thermal Exchange Limited, Graticules Optics Limited, MPB Industries Limited and Chell Instruments Limited;
- We performed specified procedures on the financial information of Synoptics Inc and Perseu Comercio De Equipamento Para Informatica E Astronomica SA;
- No procedures were performed on the dormant subsidiaries of the Group as they did not include any material balances or areas of risk.

Other Information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

David White
Senior Statutory Auditor

for and on behalf of
Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants

Cambridge
20 July 2020

Consolidated Income Statement and Statement of Comprehensive Income

	Note	2020 £'000	2019 £'000
Revenue	6	24,498	17,427
Cost of sales		(7,899)	(5,902)
Gross profit		16,599	11,525
Other income		19	–
Operating expenses		(13,107)	(9,327)
Analysed as:			
Reorganisation costs		(110)	(124)
Share-based payments		(276)	(136)
Acquisition and fundraising costs		(58)	(288)
Amortisation of acquired intangible assets		(647)	(356)
Expected credit loss		(165)	(123)
Other operating costs		(11,851)	(8,300)
Operating expenses		(13,107)	(9,327)
Operating profit		3,511	2,198
Net financing expenses	9	(254)	(77)
Profit before tax	7	3,257	2,121
Income tax	10	(666)	(209)
Profit for the year		2,591	1,912
Earnings per share			
Basic earnings per share	23	2.66p	2.10p
Diluted earnings per share	23	2.56p	2.05p

All activities of the Group are classed as continuing.

The results attributable to business combinations in the year are disclosed in note 30.

The accompanying accounting policies and notes form an integral part of these financial statement.

	2020 £'000	2019 £'000
Profit for the year	2,591	1,912
Other comprehensive income		
Items that will subsequently be reclassified to profit and loss:		
Exchange differences on translating foreign operations	41	31
Total comprehensive income for the year	2,632	1,943

Consolidated Balance Sheet

Company registration number: 6385396	Note	2020 £'000	2019 £'000
Assets			
Intangible assets	11	21,650	17,194
Property, plant and equipment	12	3,901	767
Deferred tax asset	14	246	180
		25,797	18,141
Current assets			
Inventories	15	3,728	2,576
Trade and other receivables	16	3,617	3,340
Cash and cash equivalents	17	5,290	2,494
		12,635	8,410
Total assets		38,432	26,551
Liabilities			
Non-current liabilities			
Borrowings	20	10,376	4,016
Deferred tax liability	14	2,134	1,448
		12,510	5,464
Current liabilities			
Trade and other payables	18	3,350	3,280
Provisions for warranties	19	85	11
Borrowings	20	1,910	84
Current tax payable		513	626
		5,858	4,001
Total liabilities		18,368	9,465
Net assets		20,064	17,086
Equity			
Share capital	22	975	972
Merger reserve		3,030	3,030
Share premium account		8,746	8,696
Own shares held by Employee Benefit Trust	24	–	(17)
Share-based payment reserve		467	284
Foreign exchange reserve		181	140
Retained earnings		6,665	3,981
Total equity		20,064	17,086

The financial statements were approved and authorised for issue by the Board of Directors on 20/07/2020.

Mike Creedon
Director

Jon Abell
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	2020 £'000	2019 £'000
Operating activities			
Net profit for the year		2,591	1,912
Depreciation	12	831	231
Amortisation	11	1,189	971
Finance costs and income	9	254	77
Impairment of intangible assets		22	–
Increase/(decrease) in warranty provision	19	74	(12)
Taxation in the income statement		666	209
Employee share-based payments		276	136
Operating cash flows before movement in working capital		5,903	3,524
(Increase)/decrease in inventories		(539)	65
Decrease/(increase) in trade and other receivables		726	(415)
(Decrease)/increase in trade and other payables		(921)	446
Cash generated from operations		5,169	3,620
Interest paid		(253)	(77)
Income taxes paid		(786)	(319)
Cash generated from operating activities		4,130	3,224
Investing activities			
Capital expenditure on fixed assets	12	(506)	(419)
Sale of property, plant and equipment		–	45
Expenditure on development and other intangibles		(582)	(591)
Acquisition of subsidiaries, net of cash	30	(5,182)	(6,668)
Net cash used in investing activities		(6,270)	(7,785)
Financing activities			
Finance leases net repayments	20	(511)	(30)
Proceeds from bank borrowing	20	6,496	3,600
Repayment of borrowings	20	(1,143)	(970)
Issues of shares and proceeds from option exercise		80	2,449
Net cash from financing		4,922	5,049
Net changes in cash and cash equivalents		2,782	488
Cash and cash equivalents, beginning of year		2,494	2,007
Foreign currency movements on cash balances		14	(1)
Cash and cash equivalents, end of year		5,290	2,494

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital £'000	Merger reserve £'000	Foreign exchange £'000	Share premium £'000	Own shares held by EBT £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 30 April 2018	896	3,030	109	6,390	(82)	148	2,069	12,560
Shares issued	76	–	–	2,306	65	–	–	2,447
Share-based payments	–	–	–	–	–	136	–	136
Transactions with owners	76	–	–	2,306	65	136	–	2,583
Profit for the year	–	–	–	–	–	–	1,912	1,912
Foreign exchange on consolidation of subsidiaries	–	–	31	–	–	–	–	31
Total comprehensive income for the period	–	–	31	–	–	–	1,912	1,943
Balance at 30 April 2019	972	3,030	140	8,696	(17)	284	3,981	17,086
Restatement for IFRS 16 ("Leases")	–	–	–	–	–	–	–	–
Adjusted balances at 30 April 2019	972	3,030	140	8,696	(17)	284	3,981	17,086
Shares issued	3	–	–	50	17	–	–	70
Share-based payment transfer	–	–	–	–	–	(93)	93	–
Share-based payments	–	–	–	–	–	276	–	276
Transactions with owners	3	–	–	50	17	183	93	346
Profit for the year	–	–	–	–	–	–	2,591	2,591
Foreign exchange on consolidation of subsidiaries	–	–	41	–	–	–	–	41
Total comprehensive income for the period	–	–	41	–	–	–	2,591	2,632
Balance at 30 April 2020	975	3,030	181	8,746	–	467	6,665	20,064

The accompanying accounting policies and notes form an integral part of these financial statements.

1 Reporting Entity

SDI Group plc, a public limited company, is the Group's ultimate parent. It is registered and domiciled in England and Wales. The consolidated financial statements of the Group for the year ended 30 April 2020 comprise the Company and its subsidiaries (together referred to as the "Group"). The details of subsidiary undertakings are listed in note 4 to the Company Financial Statements.

2 Basis of Preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and as applied with the provisions of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention as modified by the recognition of certain financial instruments at fair value.

The principal accounting policies of the Group are set out below.

The consolidated financial statements are presented in British pounds (£), which is also the functional currency of the ultimate parent company. All values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic report. The financial position of the Group, its cash flows, and liquidity position are provided in the financial statements on pages 48-51. In addition, notes to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Board has prepared forecasts for the period to 30 April 2022. These reflect the sales projections for new products coming on stream as a result of the Group's research and development activity and continued cost management. The Group meets its cash flow and borrowing requirements through a bank loan as detailed in note 20. The Board's forecasts indicate that the Group will continue to trade within its existing facilities with scope to further manage its cost base if necessary. The Board is confident that continued focus on research and development, new product development and sales & marketing will deliver growth. The Board considers that the Group will have adequate cash resources within its existing facilities to continue to trade for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Accounting Judgements and Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Judgements in applying accounting policies

Intangibles – development costs

The Group is required to capitalise any development costs that meet the criteria as per IAS 38. (See Research and Development accounting policy, page 55 and in note 11). The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the point at which technical feasibility is demonstrable. The carrying value of development assets also depends on management's ability to demonstrate the future economic benefits they will deliver. This judgement requires assumptions about factors outside the business's control such as medium-term economic conditions, technological developments and market changes. The Group tests annually whether the capitalised development costs have been impaired by reference to expected future generation of cash from the technologies developed and the timing of when these will be released.

IFRS 16 Leased assets (see note 13)

There are various judgements that management are required to make, as follows:

- Identifying whether a contract (or part of a contract) includes a lease and establishing whether there are multiple leases in an arrangement;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Determination of whether variable payments are in-substance fixed; and
- Determination of the appropriate rate to discount the lease payments.

Sources of estimation uncertainty

Fair value assessments of business combinations

Following an acquisition, management makes an assessment of the fair value of all assets and liabilities acquired, including intangible assets and goodwill. The valuation process requires a number of estimates to be made. For details of assumptions see note 30.

Carrying value of goodwill and other intangible assets

The impairment analysis of intangible assets is based upon future discounted cash flows and a number of assumptions are made to estimate the future cash flows expected to arise from the cash generating unit as well as a suitable discount rate in order to calculate present value. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in discount rates could lead to impairment. For details of assumptions see note 11.

Principal Accounting Policies 3

Other than the introduction of IFRS 16 this year, the principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 April 2019. The adoption of new accounting standard and interpretations which came into effect, including IFRS 16, has had a material impact on the Group's financial statements in this period of initial application.

Basis of consolidation

Subsidiaries are entities controlled by the Group where control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The subsidiaries transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented.

Intra group balances and any unrealised income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

3 Principal Accounting Policies continued

Going concern

The Board has prepared trading and cash flow forecasts for the period to 30 April 2022. These reflect a reduction in trade due to the impact of COVID-19 which affects the whole of the current financial year and beyond, as well as the sales projections for new products and services coming on stream as a result of the Group's research and development activity and continued cost management.

The Board's forecasts indicate that the Group will continue to trade within its existing facilities which are detailed in note 20. Specifically to assess the potential impact of the COVID-19 pandemic, the Board has prepared various downside scenarios from its base case, involving further reductions to sales, margin reductions and additional delays in collecting amounts due and other working capital effects. Under these scenarios, the Group continues to generate cash, and has scope to further manage its cost base if necessary.

After specifically taking into account the impact of COVID-19 on the Group's future trading, the directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements. The Board considers that the Group will have adequate cash resources within its existing facilities to continue to trade for the foreseeable future and therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

The Board is confident that continued focus on research and development, new product development and sales & marketing will deliver growth.

Business combinations

Business combinations are accounted for using the acquisition method under the revised IFRS 3 Business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration agreement. Acquisition costs are expensed within administration expenses as incurred. The Group recognises identifiable assets acquired and liabilities assumed including contingent liabilities in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Foreign currency

Transactions entered into by Group entities in a currency other than the functional currency of the company which incurred them are recorded at the rate of exchange at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

For the purpose of presenting the consolidated financial statements the assets and liabilities of the Group's overseas operations are translated using exchange rates prevailing on the balance sheet date. Exchange differences on net assets arising from this policy are recognised in other comprehensive income and accumulated in the foreign exchange reserve; such translation differences are reclassified from equity to profit or loss as a reclassification adjustment in the period in which the foreign operation is disposed of.

Income and expense items of overseas operations are translated at exchange rates approximating to those ruling when the transactions took place.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of property, plant and equipment to write down the cost of the asset to its residual value. Residual values are reviewed annually.

The estimated useful lives are as follows:

Motor vehicles	3 years
Computer equipment	3 years
Tools and other equipment	3 years
Furniture, fixtures and fittings	5 years
Building and leasehold improvements	5 years

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in the income statement as a gain from a bargain purchase. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is also reviewed for impairment immediately following an acquisition. The impairment of goodwill is based upon value in use, determined using estimated future discounted cash flows.

Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the following conditions are met:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The Group intends to complete the intangible assets and use or sell it;
- The Group has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or the intangible asset itself, or, if it is to be used internally, the asset will be used for generating such benefits; and
- The expenditure attributable to the intangible asset during its development can be measured reliably.

The expenditure capitalised includes direct cost of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation is shown within administrative expenses in the income statement. The estimated useful lives of current development projects are three years. Until completion of the project the assets are subject to impairment testing.

3 Principal Accounting Policies continued

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill providing the assets are separable or they arise from contractual or other legal rights and their fair value can be measured reliably. The fair value of intangible assets in a business combination includes the value of any tax benefit.

Intangible assets with a finite life are amortised over their useful economic lives. Amortisation is recognised in the income statement within administrative expenses on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Capitalised development costs	3 years
Other intangible assets	3-15 years
Customer relationships and trade marks	15 years

Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses for cash-generating units reduce first the carrying value of any goodwill allocated to that cash generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indicators that an impairment loss previously recognised may no longer exist.

Any impairment in respect of goodwill is not reversed. Impairment losses on other assets recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of these inventories is recognised as an expense in the period in which the related revenue is recognised. Provisions for write-down to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Merger reserve" represents the difference between the parent company's cost of investment and the subsidiary's share capital and share premium where a group reorganisation qualifies as a common control transaction.
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Own shares held by Employee Benefit Trust" represents shares held in trust for the benefit of employees
- "Foreign exchange reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Share-based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised. The equity component of convertible loan stock, if any, is also included. On conversion of the loan stock the equity component is transferred into the retained earnings reserve.
- "Retained earnings" represents retained profits.

Contributions to pension schemes

Defined Contribution Scheme

Obligations for contributions for defined contribution plans are recognised as an expense in the income statement when they are due.

3 Principal Accounting Policies continued

Financial assets

The Group's financial assets comprise trade receivables, other receivables, cash and cash equivalents. Trade and other receivables are recognised and carried at the original invoice amount less a provision for the expected credit loss, where collection of the amount is no longer probable. Management uses historical experience of losses applied to the specific circumstances of the receivable, including trading history with the debtor and period overdue to determine the need for and amount of any provision to cover expected future losses. Uncollectable amounts are written off to the Income Statement when identified.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. The Group's financial liabilities comprise trade payables, other payables, other loans and bank borrowings. All financial liabilities are measured at fair value plus transaction costs on initial recognition and subsequently are measured at amortised cost. Contingent consideration is measured at fair value through profit and loss in the income statement.

Revenue recognition

In accordance with IFRS 15 'Revenues from Contracts with Customers', revenue is measured by reference to the fair value of consideration received or receivable by the Group, excluding value added tax (or similar local sales tax), in exchange for transferring the promised goods or services to the customer. The consideration is allocated to each separate performance obligation that is identified in a sales contract, based on stand-alone selling prices. Sales of instruments and spare parts, and sales of services, such as non-specialised installation, support, training or consultancy, are assessed to be separate performance obligations.

Revenue is recognised when (or as) the Group satisfies the identified performance obligation. For sales of instruments and spare parts, the performance obligation is satisfied at a point in time; for revenue from services, the performance obligation is satisfied over time. As the period of time between payment and performance is less than one year, the Group does not adjust revenue for the effects of financing.

Revenue from sales of instruments and spare parts is recognised at the point at which the customer obtains control of the asset. This is usually on despatch of the instrument but in some cases (depending on the contract with the customer) it is when the customer receives the goods.

Revenue from services is a separate performance obligation and is recognised when the service is performed.

Interest income is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. Dividend income, if any, is recognised when the shareholder's right to receive payment is established.

Leased assets

For any new contracts entered into on or after 1 May 2019, the Company considers whether a contract is, or contains a lease (note 4). A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Contingent consideration

Contingent consideration on acquisitions is measured at fair value.

Taxation

Income tax expense comprises current and deferred tax.

The tax currently payable is based on the taxable profit for the year. Current tax is recognised in profit or loss, except that current tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and current tax relating to items recognised directly in equity is recognised in equity. Taxable profit differs from profit 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group or it is probable that reversal will not occur in the foreseeable future. Deferred tax liabilities are 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 the temporary difference can be utilised.

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

Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax relating to items recognised in other comprehensive income is recognised 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.

3 Principal Accounting Policies continued

Segment reporting

The Group identifies reportable operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker. The chief operating decision maker is the Board of directors.

Provisions

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and the amounts can be estimated reliably.

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Employee benefit trust

The employee benefit trust (EBT) was a separately administered discretionary trust for the benefit of employees, the assets of which comprised shares in the Company. The EBT was wound up during the year, its assets having been used to satisfy shares required on the exercise of options. The material assets, liabilities, income and costs of the EBT were consolidated within the Group's financial statements until its dissolution.

Share-based payments

SDI Group plc regularly issues share options to employees. The fair value of the award granted is recognised as an employee expense within the Income Statement with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

When shares are issued for the purchase of intangibles, the fair value is measured at the issue date.

The fair value of the grants is measured using the Black-Scholes model or a Monte Carlo simulation as appropriate, taking into account the terms and conditions upon which the grants were made.

Furlough scheme

SDI Group plc have accrued for a government grant receivable under IAS 20 and recognised a credit to match the related employee costs as and when they are incurred, on the assumption that there is reasonable assurance that it will comply with the conditions attaching to the scheme and that the grant will be received.

Under IAS 20, it is permissible to present the grant and the expenses on either a gross or net basis. However, any related balance sheet items (i.e. grant receivable and amounts payable to employees) cannot be netted off.

Any decision to top up the furlough payments to employees (e.g by choosing to pay more than the government guaranteed 80% of salary up to a maximum of £2,500 per month) is a voluntary decision and should not be provided for in advance. This is because there is no obligation to make these additional payments and to do so would constitute providing for future operating costs.

Changes in Accounting Policies 4

Standards adopted for the first time

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 May 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.1%. The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 May 2019:

	Carrying amount at 30 April 2019 £'000	Reclassification £'000	IFRS16 carrying amount at 1 May 2019 £'000
Tangible fixed assets	767	2,477	3,244
Trade and other receivables	3,340	(22)	3,318
Lease liabilities	(100)	(2,455)	(2,555)

The following is a reconciliation of total operating lease commitments at 30 April 2019 (as disclosed in the financial statements to 30 April 2019) to the lease liabilities recognised at 1 May 2019:

	£'000
Total operating lease commitments disclosed at 30 April 2019	2,706
Recognition exemptions:	
• Adjustment to commitment disclosures	282
Operating lease liabilities before discounting	2,988
Discounted using incremental borrowing rate of 3.1%	(533)
Total lease liabilities recognised under IFRS 16 at 1 May 2019	2,455

5 Alternative Performance Measures

The Group uses Adjusted Operating Profit, Adjusted Profit Before Tax, Adjusted Diluted EPS and Net Operating Assets as supplemental measures of the Group's profitability and investment in business-related assets, in addition to measures defined under IFRS. The Group considers these useful due to the exclusion of specific items that are considered to hinder comparison of underlying profitability and investments of the Group's segments and businesses, and is aware that shareholders use these measures to evaluate performance over time. The adjusting items for the alternative measures of profit are either recurring but non-cash charges (share-based payments and amortisation of acquired intangible assets) or exceptional items (reorganisation costs and acquisition and fundraising costs).

The following table is included to define the term Adjusted Operating Profit:

	2020 £'000	2019 £'000
Operating Profit (as reported)	3,511	2,198
Adjusting items (all costs):		
Non-underlying items		
Share-based payments	276	136
Amortisation of acquired intangible assets	647	356
Exceptional items		
Reorganisation costs	110	124
Acquisition and fundraising costs	58	288
Total adjusting items	1,091	904
Adjusted Operating Profit	4,602	3,102

Adjusted Profit Before Tax is defined as follows:

	2020 £'000	2019 £'000
Profit before tax (as reported)	3,257	2,121
Adjusting items (all costs):		
Non-underlying items		
Share-based payments	276	136
Amortisation of acquired intangible assets	647	356
Exceptional items		
Reorganisation costs	110	124
Acquisition and fundraising costs	58	288
Total adjusting items	1,091	904
Adjusted Profit Before Tax	4,348	3,025

Adjusted EPS is defined as follows:

	2020 £'000	2019 £'000
Profit for the year	2,591	1,912
Adjusting items (all costs):		
Non-underlying items		
Share-based payments	276	136
Amortisation of acquired intangible assets	647	356
Exceptional items		
Reorganisation costs	110	124
Acquisition and fundraising costs	58	288
Total adjusting items	1,091	904
Less taxation on adjusting items calculated at the UK statutory rate	(207)	(172)
Adjusted profit for the year	3,457	2,644
Divided by diluted weighted average number of shares in issue (note 23)	101,206,148	93,330,500
Adjusted Diluted EPS	3.43p	2.83p

The following table is included to define the term Net Operating Assets:

	2020 £'000	2019 £'000
Net assets	20,064	17,086
Deferred tax asset	246	180
Corporation tax asset	52	–
Cash and cash equivalents	5,290	2,494
Borrowings and lease liabilities (current and non-current)	(12,286)	(4,100)
Deferred tax liability	(2,134)	(1,448)
Current tax payable	(513)	(626)
Total adjusting items within Net assets	(9,345)	(3,500)
Net Operating Assets	29,409	20,586

6 Segment Analysis

The Digital Imaging segment incorporates the Synoptics brands Syngene, Synbiosis, Synoptics Health and Fistreem, the Atik brands Atik Cameras, Opus and Quantum Scientific Imaging, and the Graticules Optics business. These businesses share significant characteristics including customer application, technology, and production location. Revenues derive from the sale of instruments, components for OEM customers' instruments, from accessories and service and from licence income.

The Sensors & Control segment combines our Sentek, Astles Control Systems, Applied Thermal Control, Thermal Exchange, MPB Industries and Chell Instruments businesses. All of these businesses provide products that enable accurate control of scientific and industrial equipment. Their revenues also derive from the sale of instruments, major components for OEM customers' instruments, and from accessories and service.

The Board of Directors reviews operational results of these segments on a monthly basis, and decides on resource allocations to the segments and is considered the Group's chief operational decision maker.

	2020 Total £'000	2019 Total £'000
Revenues		
Digital Imaging	11,050	9,434
Sensors & Control	13,448	7,993
Group	24,498	17,427
Adjusted Operating Profit		
Digital Imaging	2,382	1,954
Sensors & Control	3,028	2,165
Other	(808)	(1,017)
Group	4,602	3,102
Amortisation of acquired intangible assets		
Digital Imaging	(182)	(50)
Sensors & Control	(465)	(306)
Other	–	–
Group	(647)	(356)

Adjusted Operating Profit has been defined in note 5.

Analysis of amortisation of acquired intangible assets has been included separately as the Group considers it to be an important component of profit which is directly attributable to the reported segments.

The Other category includes costs which cannot be allocated to the other segments, and consists principally of Group HQ costs.

	2020 Total £'000	2019 Total £'000
Operating assets excluding acquired intangible assets		
Digital Imaging	6,281	4,828
Sensors & Control	5,993	3,020
Other	120	27
Group	12,394	7,875
Acquired intangible assets		
Digital Imaging	5,370	5,552
Sensors & Control	15,068	10,451
Group	20,438	16,003
Operating Liabilities		
Digital Imaging	(1,190)	(1,281)
Sensors & Control	(2,087)	(1,361)
Other	(158)	(649)
Group	(3,435)	(3,291)
Net operating assets		
Digital Imaging	10,550	9,099
Sensors & Control	19,042	12,110
Other	(183)	(623)
Group	29,409	20,586

Net Operating Assets has been defined in note 5.

The geographical analysis of revenue by destination, analysis of revenue by product or service, and non-current assets by location are set out below:

Revenue by destination of external customer	2020 £'000	2019 £'000
United Kingdom (country of domicile)	10,249	6,624
Europe	5,129	3,216
Americas	3,290	2,805
Asia	4,492	4,539
Rest of World	1,338	243
	24,498	17,427

Revenue by product or service	2020 £'000	2019 £'000
Instruments and spare parts	23,894	16,867
Service	604	560
	24,498	17,427

Non-current assets by location	2020 £'000	2019 £'000
United Kingdom	25,292	17,943
Portugal	412	106
America	227	92
	25,931	18,141

7 Profit before Taxation

Profit for the year has been arrived at after charging:

	2020 £'000	2019 £'000
Amortisation and write-down of intangible assets	1,189	971
Depreciation charge for year – Right-of-use assets	490	–
Depreciation charge for year – Other assets	342	234
Auditor's remuneration Group:		
– Audit of Group accounts	18	34
Fees paid to the auditor and its associates in respect of other services:		
– Audit of Company and of subsidiaries	151	82
– Tax compliance services	34	14
– Audit related assurance services	12	10
Currency exchange loss	9	16
Reorganisation costs	110	124
Acquisition and fundraising costs	58	288

8 Directors' and Employees' Remuneration

Staff costs during the year were as follows:

	2020 £'000	2019 £'000
Wages and salaries (including reorganisation costs and other termination benefits £58k (2019: £124k))	7,221	4,905
Furlough income	(55)	–
Social security costs	731	441
Share-based payments	276	136
Other pension costs	345	281
	8,518	5,763

The share-based payment charge and reorganisation costs are included in the income statement separately.

Key management for the Group is considered to be the directors of the Group. Remuneration of directors is set out in the directors' remuneration report on pages 32-33.

Pensions

The Group operates defined contributions pension schemes for the benefit of the employees. The assets of the schemes are administered by trustees in funds independent from those of the Group. Total contributions for the Group were £345k (2019: £281k).

	2020 £'000	2019 £'000
Current pension obligations included in liabilities	60	12

The average number of employees of the Group during the year was:

	2020 Number	2019 Number
Administration	50	24
Production	129	95
Product development	30	13
Sales and marketing	23	16
	232	148

Share-based employee remuneration

The company has two active EMI option schemes, "approved" and "unapproved", which share similar features, but may be treated differently regarding taxation of the option holder. Both schemes have been approved by shareholders in general meetings. The approved scheme has been approved by HM Revenue & Customs. The options can be exercised three years after the share options are granted. Upon vesting, each option allows the holder to purchase one ordinary share. The options lapse if share options remain unexercised after a period of 10 years after the date of grant or if the employee leaves. During the year, 425,000 of such options were granted under these schemes, at exercise prices ranging from £0.172 to £0.896. The weighted average remaining contractual life of all outstanding options under these schemes is 7.75 years.

In addition, in December 2018, a Long-Term Incentive Plan (LTIP) was approved by the Board of directors and in March 2020 458,501 options were granted under this plan to certain Directors. Under the terms of the grant, a proportion of the options will vest after three years, depending on a) the ranking of Total Shareholder Return (TSR) to Group shareholders compared with a basket of twenty comparator companies, and b) the earnings per share growth for the Group over the three-year period. The exercise price for these options is 1p each, being the nominal value of SDI shares.

A summary of options outstanding currently is as follows:

Scheme	Options outstanding at 1 May 2019	Granted	Lapsed	Exercised	Options outstanding at 30 April 2020	of which exercisable	Weighted average exercise price
EMI, Approved and Unapproved	5,180,000	425,000	–	(430,528)	5,174,472	299,472	0.350
LTIP	1,389,129	458,501	–	–	1,847,630	–	0.010
Total	6,569,129	883,501	–	(430,528)	7,022,102	299,472	0.259

In accordance with IFRS 2, Share-based compensation expense is calculated on the issue of share options. For options under the LTIP scheme vesting based on TSR, a Monte Carlo simulation performed by a third party was used to value the compensation expense. For the other options issued during the year, the compensation expense was valued using the Black Scholes model, with the following inputs:

- interest rate 0.37% - 0.58%
- volatility 37% - 50%
- expected life of option 3 years.

The charge for the year ended 30 April 2020 was £276k (2019: £136k).

9 Finance Costs

	2020 £'000	2019 £'000
Bank loans	172	74
Leases and hire purchase contracts	82	3
	254	77

10 Taxation

	2020 £'000	2019 £'000
Corporation tax:		
Prior year corporation tax adjustment	17	37
Current tax charge	544	469
	561	506
Deferred tax expense/(income)	105	(297)
Income tax charge	666	209

Reconciliation of effective tax rate

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	3,257	2,121
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 19% (2019: 19%)	619	403
Effects of:		
Expenses not deductible for tax purposes	22	156
Additional deduction for R&D expenditure	(135)	(136)
Share-based payment expense in excess of share scheme deductions	–	(176)
Prior year tax adjustments	17	37
Update deferred tax liabilities and assets to enacted future tax rate of 19% (2019: 17%)	158	(82)
Other	(15)	7
	666	209

The Group takes advantage of the enhanced tax deductions for Research and Development expenditure in the UK and expects to continue to be able to do so.

Intangible Assets 11

The amounts recognised in the balance sheet relate to the following:

	Customer relationships £'000	Other intangibles £'000	Goodwill £'000	Development costs £'000	Total £'000
Cost					
At 1 May 2019	7,899	810	8,391	2,678	19,778
Additions	–	41	5	536	582
Additions on acquisition	2,318	261	2,499	–	5,078
Disposals/Eliminations	–	(17)	–	(310)	(327)
At 30 April 2020	10,217	1,095	10,895	2,904	25,111
Amortisation					
At 1 May 2019	719	367	–	1,498	2,584
Amortisation for the year	603	58	–	528	1,189
Disposals/Eliminations	–	(16)	–	(296)	(312)
At 30 April 2020	1,322	409	–	1,730	3,461
Net book amount at 30 April 2020	8,895	686	10,895	1,174	21,650
Net book amount at 30 April 2019	7,180	443	8,391	1,180	17,194

	Customer relationships £'000	Other intangibles £'000	Goodwill £'000	Development costs £'000	Total £'000
Cost					
At 1 May 2018	4,241	650	5,419	2,458	12,768
Additions	3,658	223	2,972	585	7,438
Disposals/Eliminations	–	(63)	–	(365)	(428)
At 30 April 2019	7,899	810	8,391	2,678	19,778
Amortisation					
At 1 May 2018	389	380	–	1,272	2,041
Amortisation for the year	330	50	–	591	971
Disposals/Eliminations	–	(63)	–	(365)	(428)
At 30 April 20219	719	367	–	1,498	2,584
Net book value at 30 April 2019	7,180	443	8,391	1,180	17,194
Net book value at 30 April 2018	3,852	270	5,419	1,186	10,727

Capitalised development costs include amounts totalling £385k (2019: £674k) relating to incomplete projects for which amortisation has not yet begun.

11 Intangible Assets continued

Goodwill relates to various acquisitions, and impairment has been tested for the following cash-generating units:

- **Atik,** consisting of the acquisitions of Artemis CCD Ltd, Perseu Comercio De Equipamento Para Informatica E Astronomica SA, Opus Instruments, and the assets of QSI.
- **Sentek**
- **Astles Control Systems**
- **Applied Thermal Control and Thermal Exchange**
- **Synoptics and Fistreem International**
- **Graticules Optics**
- **MPB Industries**
- **Chell Instruments**

The individual impairment assessments for the cash generating units were based on value-in-use calculations covering a five-year forecast followed by an extrapolation of expected cash flows to perpetuity using a long-term growth rate of 2%. A risk-adjusted, pre-tax discount rate of 14% was used which was judged to be appropriate for each of the entities given that they operate in similar markets and the risk profiles of each CGU are similar. Management's key assumption for all cash generating units and resulting cash flows is to maintain market share in their markets. The Directors have concluded that Goodwill is not impaired for any of the cash generating units. They have further considered the sensitivity of the key assumptions, including reduced growth rates and increased discount rates, and do not consider it probable that any reasonable change in the key assumptions would result in an impairment, given the available headroom. Two of the cash generating units approach the trigger for impairment if growth rates are reduced to zero.

The average remaining amortisation period of intangible assets excluding Goodwill is 9.1 years (2019: 9.4 years).

Property, Plant and Equipment 12

	Motor vehicles £'000	Computer equipment £'000	Tools and other equipment £'000	Furniture fixtures & fittings £'000	Building and leasehold improvements £'000	Total £'000
Cost						
At 1 May 2019	64	231	950	182	273	1,700
IFRS16 adjustment	–	–	–	–	2,477	2,477
Restated cost at 1 May 2019	64	231	950	182	2,750	4,177
Additions	6	20	394	25	474	919
Additions on acquisition	3	57	–	93	432	585
FX movement	–	2	3	1	10	16
Disposals	(57)	(15)	(217)	(119)	–	(408)
At 30 April 2020	16	295	1,130	182	3,666	5,289
Depreciation						
At 1 May 2019	4	91	634	114	90	933
Charge for year	36	52	197	44	502	831
FX movement	–	1	1	–	3	5
Disposals	(30)	(16)	(214)	(121)	–	(381)
At 30 April 2020	10	128	618	37	595	1,388
Net book value						
At 30 April 2020	6	167	512	145	3,071	3,901
At 30 April 2019	60	140	316	68	183	767

	Motor vehicles £'000	Computer equipment £'000	Tools and other equipment £'000	Furniture fixtures & fittings £'000	Building and leasehold improvements £'000	Total £'000
Cost						
At 1 May 2018	56	124	946	123	141	1,390
Additions	–	108	243	30	138	419
Additions on acquisition	64	7	93	30	–	194
FX movement	–	–	3	–	–	3
Disposals	(56)	(8)	(235)	(1)	(6)	(306)
At 30 April 2019	64	231	950	182	273	1,700
Depreciation						
At 1 May 2018	51	65	661	100	82	959
Charge for year	5	34	163	15	14	231
FX movement	–	–	1	–	–	1
Disposals	(52)	(8)	(191)	(1)	(6)	(258)
At 30 April 2019	4	91	634	114	90	933
Net book value						
At 30 April 2019	60	140	316	68	183	767
At 30 April 2018	5	59	285	23	59	431

Included in the net carrying amount of building and leasehold improvements are right-of-use assets of £2,821k and of Motor vehicles are right-of-use assets of £11k.

13 Leases

Lease liabilities are presented in the balance sheet as follows:

	2020 £'000	2019 £'000
Current	539	84
Non-current	2,414	16
	2,953	100

Note 4 provides the impact of the adoption of IFRS 16 (Leases) at 30 April 2019. The lease liabilities shown for 2020 include both leases which were formerly classified as operating leases and leases which were formerly classified as finance leases. The lease liabilities shown for 2019 exclude leases formerly classified as operating leases.

The Group has leases for the main warehouses and offices, and for some vehicles and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 12).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Furthermore, the Group must insure items of plant and machinery and incur maintenance fees on such items in accordance with the lease contracts.

The lease liabilities are secured by the related underlying assets. Total contractual undiscounted lease liabilities at 30 April 2020 were as follows:

	2020 £'000	2019 £'000
Within one year	583	88
Within two to five years	1,668	19
After five years	1,255	–
Total undiscounted lease liabilities	3,506	107

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

At 30 April 2020 the Group had not committed to any leases which had not yet commenced.

14 Deferred Tax

	2020 Deferred tax asset £'000	Deferred tax liability £'000	2019 Deferred tax asset £'000	Deferred tax liability £'000
Opening	180	(1,448)	37	(969)
Capitalised R & D	–	–	–	(20)
Deferred tax on share options	47	–	154	–
Acquired deferred tax assets/liabilities	–	(25)	–	–
Intangibles recognised on business combinations	–	(490)	–	(661)
Amortisation acquired intangible assets	–	122	–	61
Adjustment to enacted tax rate	23	(181)	(3)	82
Trading losses recognised/used	(26)	–	(8)	–
Adjustment to prior year	40	(8)	–	–
Other temporary differences	(18)	(104)	–	59
At 30 April 2020	246	(2,134)	180	(1,448)

	2020 Deferred tax asset £'000	Deferred tax liability £'000	2019 Deferred tax asset £'000	Deferred tax liability £'000
Deferred tax on capitalised R&D	–	(189)	–	(204)
Other temporary differences	22	(145)	–	40
Deferred tax on acquired intangible assets	–	(1,800)	–	(1,284)
Deferred tax on share option exercises	224	–	154	–
Trading losses recognised	–	–	26	–
At 30 April 2020	246	(2,134)	180	(1,448)

Deferred tax assets are recognised for tax losses available for carrying forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £355k (2019: £308k) in respect of losses. Total losses (provided and unprovided) totalled £1.8m (2019: £1.8m).

15 Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	1,948	1,943
Work in progress	289	229
Finished goods	1,491	404
	3,728	2,576

There is no material difference between the replacement cost of inventory and the amounts stated above.

In the year ended 30 April 2020 a total of £7,975k (2019: £5,902k) of inventories were consumed and charged to the Income Statement as an expense.

16 Trade and Other Receivables

	2020 £'000	2019 £'000
Trade receivables	3,009	2,963
Corporation tax	52	–
Other receivables	171	157
Prepayments	385	220
	3,617	3,340

All amounts are short-term. All of the receivables have been reviewed for potential credit losses, and expected credit loss has been estimated.

A reconciliation of the movement in the expected credit loss provision for trade receivables is as follows:

	2020 £'000	2019 £'000
Expected credit loss provision as at 1 May 2019	132	9
Increase in provision	165	123
Provision as at 30 April 2020	297	132

In addition, some of the unimpaired trade receivables are past due at the reporting date. There are no indications that financial assets past due but not impaired are irrecoverable.

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

Cash and Cash Equivalents 17

	2020 £'000	2019 £'000
Cash at bank and in hand	5,290	2,494

Trade and Other Payables 18

	2020 £'000	2019 £'000
Trade payables	1,427	1,632
Social security and other taxes	379	300
Other payables	90	151
Accruals and deferred income	1,454	1,197
	3,350	3,280

Accruals and deferred income includes an amount of £398k (2019: £192k) in respect of contract liabilities for service revenues recognised over time but invoiced in advance, relating to performance obligations expected to be satisfied within the next 12 months.

All amounts are short-term. The carrying values are considered to be a reasonable approximation of fair value.

Provision for Warranties 19

	2020 £'000	2019 £'000
As at 1 May 2019	11	11
Provided for in year (net)	74	–
Warranty provision as at 30 April 2020	85	11

Warranties of between one and three years are given with the sales of products. There are potential costs associated with the repair of goods under these warranties which could occur at any time over the next three years. The level of costs is uncertain. The warranty provision is based on the historical cost of warranty repairs over the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year.

20 Borrowings

Borrowings are repayable as follows:

	2020 £'000	2019 £'000
Within one year		
Bank finance	1,371	–
Leases	539	84
	1,910	84
After one and within five years		
Bank finance	7,962	4,000
Leases	2,414	16
	10,376	4,016
Total borrowings	12,286	4,100

Bank finance relates to amounts drawn down under the Group's bank facility with HSBC Bank plc, which is secured against all assets of the Group. The facility consists of a revolving facility of £5m and an amortising facility which reduces in quarterly instalments from £4,800k when it was taken out in November 2019 to zero by April 2023, when the current agreement expires. The facility has covenants relating to leverage (net debt to EBITDA), interest coverage, and cash flow to debt service.

In March and April 2020, as a precautionary response to the COVID-19 pandemic, the Group requested and was granted a deferment (to April 2023) of the quarterly repayment due in April 2020, and a waiver of the cash flow to debt service covenant for two quarters. Debt under the amortising facility at 30 April 2020 was £4,457k. The Group also drew down substantially all of its revolving facility, with loans denominated in UK Pounds, Euros and US Dollars totalling £4,876k, to maximise available cash balances.

Leases in 2019 include only those leases formerly classified as finance leases.

Reconciliation of Liabilities Arising from Financing Activities 21

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowing £'000	Short-term borrowing £'000	Leases £'000	Total £'000
At 30 April 2019	4,000	–	100	4,100
Impact of IFRS 16	–	–	2,457	2,457
At 1 May 2019	4,000	–	2,557	6,557
Movements:				
– Repayments	(800)	(342)	(515)	(1,657)
– New liabilities	5,125	1,371	412	6,908
– Assumed on acquisition	–	–	499	499
– FX difference	(21)	–	–	(21)
– Reclassification between ST and LT	(342)	342	–	–
At 30 April 2020	7,962	1,371	2,953	12,286

Share Capital 22

	2020 £'000	2019 £'000
Authorised		
1,000,000,000 (2019: 1,000,000,000) Ordinary shares of 1p each	10,000	10,000
Allotted, called up and fully paid 97,503,951 (2019: 97,203,951) Ordinary shares of 1p each	975	972

During the year 300,000 Ordinary shares of 1p were issued due to the exercise of options. The 300,000 options had an exercise price of £0.172, and the Group received £53k, which was allocated £3k to share capital and £50k to share premium.

Additionally, a total of 130,528 share options were exercised and satisfied by the release of shares from the Synoptics Employee Benefit Trust which has now been wound up.

23 Earnings Per Share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of SDI Group plc divided by the weighted average number of shares in issue during the period. All profit per share calculations relate to continuing operations of the Group.

	Profit attributable to shareholders £'000	Weighted average number of shares	Earnings per share amount in pence
Basic earnings per share:			
– Year ended 30 April 2020	2,591	97,277,721	2.66
– Year ended 30 April 2019	1,912	91,209,753	2.10
Dilutive effect of share options:			
– Year ended 30 April 2020		3,928,426	
– Year ended 30 April 2019		2,120,747	
Diluted earnings per share:			
– Year ended 30 April 2020	2,591	101,206,148	2.56
– Year ended 30 April 2019	1,912	93,330,500	2.05

At the year end, there were 425,000 share options which were anti-dilutive but may be dilutive in the future.

24 Own Shares Held by Employee Benefit Trust

The Group	2020 £'000	2019 £'000
Investment in own shares	–	17

As at 30 April 2020 the trust held nil shares (2019: 130,528) in SDI Group plc. During the year, a total of 130,528 ordinary shares (2019: 130,528 outstanding) were satisfied through the exercise of share options and the Synoptics Employee Benefit Trust has now been wound up.

25 Contingent Liabilities

Contingent liabilities

Performance guarantees totalling £32k (2019: £32k) are held by the bank. These would become payable by the Group if, once the customer has placed an order, the Group fails to deliver goods to the customer.

26 Related Party Transactions and Controlling Related Party

Transactions with directors are disclosed within the Directors' Remuneration Report and note 8. Additionally, Ken Ford is a non-executive director of Primary Bid, a technology platform that allows retail investors to access share offerings at the same price as institutions. During the previous year, the Company placed £100k of shares with retail investors using Primary Bid's platform alongside its institutional placing associated with the Group's acquisition of Graticules Optics in February 2019. Fees for the placing were approximately £5k.

The Company is not required to disclose transactions with its wholly owned subsidiaries.

Unless otherwise stated, none of the transactions incorporated in these financial statements include any special terms or conditions. There is no ultimate controlling party.

27 Financial Risk Management Objectives and Policies

Financial instruments

The Group uses various financial instruments, including loans and leasing arrangements, and has certain assets and liabilities which are denominated in foreign currencies. The main purpose of the financial instruments is to raise finance for the Group's operations. The existence of these financial instruments and other financial assets and liabilities exposes the Group to a number of financial risks, primarily interest rate risk and currency risk.

Interest rate risk

The Group finances its operations through a mixture of retained profits, short- and long-term bank borrowings, and shareholders' equity. The Group has an exposure to interest rate fluctuations on its borrowings which are generally linked to LIBOR at 1 or 3 months. An increase in LIBOR of 1% would result in an increase in interest costs of approximately £94k annually, based on the loan outstanding at 30 April 2020.

Currency risk

A significant proportion of the Group's monetary assets (principally bank balances and trade receivables) and liabilities (principally borrowings) are denoted in Dollars and Euros but held in entities with Sterling as the functional currency. An adverse movement in exchange rates could lead to losses on these positions. As at 30 April 2020 an adverse movement in the dollar of 5% would result in a reduction in the Group's equity and profit or loss of £3k (2019: £28k). An adverse movement in the Euro of 5% would result in a reduction in the Group's equity and profit or loss of £7k (2019: £36k).

The carrying amount of the Group's Dollar and Euro-denominated monetary assets with a differing functional currency at the reporting date is as follows:

	Assets 2020 £'000	2019 £'000	Liabilities 2020 £'000	2019 £'000
US Dollars	413	562	(479)	–
Euros	841	721	(696)	–

In addition significant proportions of the Group's revenue, purchases and overhead costs are transacted in foreign currencies, mainly Dollars and Euros. The Group does not attempt to hedge its exposure using derivative instruments.

27 Financial Risk Management Objectives and Policies continued

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of cash deposits and trade and other receivables recognised at the balance sheet date of £8,999k (2019: £5,834k). Risks associated with cash deposits are limited as the banks used are reputable with quality external credit ratings.

The principal credit risks lies with trade receivables. In order to manage credit risk credit limits are set for customers based on a combination of payment history and third-party credit references. Details of overdue trade receivables are provided below.

Liquidity risk

Liquidity risk is that the Group might be unable to meet its obligations and arises from trade and other payables. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecasts and actual cash flows.

As at 30 April 2020, the Group's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
Trade and other payables	3,376	–	–	–
Borrowings	1,017	893	10,376	–

	Current		Non-current	
As at 30 April 2019	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
Trade and other payables	3,280	–	–	–
Borrowings	44	40	4,016	–

Ageing of receivables:

	2020		2019	
	Gross £'000	Provision £'000	Gross £'000	Provision £'000
Past due less than 1 month	1,611	–	2,465	–
Past due 1-3 months	1,137	–	337	–
Past due 3-6 months	276	(43)	233	(102)
Past due 6-12 months	136	(124)	32	(16)
Past due greater than 12 months	96	(81)	28	(14)
	3,256	(247)	3,095	(132)

Summary of Financial Assets and Liabilities by IFRS 9 Category 28

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the years under review may also be categorised as follows:

Balance sheet headings	Financial assets at amortised cost 2020 £'000	Non-financial assets 2020 £'000	Financial liabilities at amortised cost 2020 £'000	Financial liabilities measured at fair value through profit & loss 2020 £'000	Non-financial liabilities 2020 £'000	Total balance sheet heading 2020 £'000
Cash and cash equivalents	5,290	–	–	–	–	5,290
Trade and other receivables	3,232	385	–	–	–	3,617
Borrowings – current	–	–	(1,910)	–	–	(1,910)
Borrowings – non-current	–	–	(10,376)	–	–	(10,376)
Trade and other payables – current	–	–	(2,971)	–	(379)	(3,350)
Total	8,522	385	(15,257)	–	(379)	(6,729)

Balance sheet headings	Financial assets at amortised cost 2019 £'000	Non-financial assets 2019 £'000	Financial liabilities at amortised cost 2019 £'000	Financial liabilities measured at fair value through profit & loss 2019 £'000	Non-financial liabilities 2019 £'000	Total balance sheet heading 2019 £'000
Cash and cash equivalents	2,494	–	–	–	–	2,494
Trade and other receivables	3,120	220	–	–	–	3,340
Borrowings – current	–	–	(84)	–	–	(84)
Borrowings – non-current	–	–	(4,016)	–	–	(4,016)
Trade and other payables – current	–	–	(2,980)	–	(300)	(3,280)
Total	5,614	220	(7,080)	–	(300)	(1,546)

The fair values of the financial assets and liabilities at 30 April 2020 and 30 April 2019 are not materially different from their book values.

29 Capital Management Policies and Procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to provide an adequate return to shareholders; and
- be in a position to make acquisitions ('buy and build' strategy)

The Group monitors capital by tracking and forecasting its Debt-to-EBITDA ratio as required by its bank facility covenant. The Group has historically acquired companies using a combination of cash on hand, increased borrowing, issue of shares to the sellers, and new equity share placings, taking care to retain adequate liquidity reserves.

The Group will keep its dividend policy under review.

30 Business Combinations

On 29 November 2019, the Company acquired the entire share capital of Chell Instruments Limited, a company incorporated in England and Wales, for a consideration payable in cash.

The assets and liabilities acquired were as follows:

	Book value £'000	IFRS 16 adjustment £'000	Fair Value adjustment £'000	Fair Value £'000
Assets				
Non-current assets				
Intangible assets	–	–	2,579	2,579
Property, plant & equipment	153	432	–	585
Total non-current assets	153	432	2,579	3,164
Current assets				
Inventories	800	–	(178)	622
Trade and other receivables	968	–	–	968
Cash and cash equivalents	295	–	–	295
Liabilities				
Trade and other payables	(889)	–	(110)	(999)
Borrowings – lease commitments	(66)	(432)	–	(498)
Corporation tax	(58)	–	–	(58)
Deferred tax liability	(26)	–	(490)	(516)
Net assets acquired	1,177	–	1,801	2,978
Goodwill	–	–	2,499	2,499
Consideration and cost of investment				5,477
Fair value of consideration transferred				
Cash paid in year				5,477
				5,477

Chell Instruments Limited contributed £2,036k revenue and approximately £422k (after management charges) to the Group's profit before tax for the period between the date of acquisition and the balance sheet date, not including £84k of acquired intangible asset amortisation.

If the acquisition of Chell Instruments Limited had been completed on the first day of the financial year, the additional impact on group revenues for the period would have been £2,888k and the additional impact on group profit would have been approximately £260k (after management charges), before additional £117k of amortisation expense.

The goodwill of £2,499k arising from the acquisition relates to the assembled workforce and to expected future profitability and growth expectations.

Management performed a detailed review of the acquired intangible assets, and recognised acquired customer relationships, trademarks and domain names, and non-compete agreements. The customer relationships intangible asset was valued using a multi-period excess earnings methodology. The estimated fair value of the customer relationships therefore reflects the present value of the projected stream of cash flows that are expected to be generated by existing customers going forwards. Key assumptions are the discount rate and attrition rate. Values of 15% and 11% were selected.

The fair value of stock has been adjusted downwards from its previous book value to account for estimated excess and obsolescence. The deferred tax liability has been calculated on the amortisable intangible assets using the current statutory tax rate of 19%.

The last financial year for Chell Instruments Limited before the acquisition closed was to 31 December 2018. The current financial year has been extended by 4 months to April 2020 to align with that of SDI Group plc.

Company Balance Sheet
For the year ended 30 April 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Property, plant & equipment		2	–
Investments	4	21,298	15,739
Intangible assets	5	–	–
Deferred tax asset	6	164	120
		21,464	15,859
Current assets			
Debtors	7	3,374	3,674
Cash		2,091	437
		5,465	4,111
Creditors: amounts falling due within one year	8	(2,244)	(619)
Net current assets		3,221	3,492
Total assets less current liabilities		24,685	19,351
Creditors: amounts falling due after more than one year	9 &10	(7,962)	(4,000)
Net assets		16,723	15,351
Capital and reserves			
Called up share capital	11	975	972
Share premium account		8,748	8,698
Share-based payment reserve		467	284
Merger relief reserve		424	424
Profit and loss account		6,109	4,973
Shareholders' funds		16,723	15,351

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's profit for the financial year was £1,043k (2019: £2,406k).

The financial statements were approved and authorised for issue by the Board of Directors on 20/07/2020.

Mike Creedon
Chief Executive Officer

Jon Abell
Chief Financial Officer

Company registration number: 6385396

Company Statement of Changes in Equity
For the year ended 30 April 2020

	Share capital £'000	Merger reserve £'000	Share premium reserve £'000	Share-based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 May 2019	972	424	8,698	284	4,973	15,351
Shares issued	3	–	50	–	–	53
Share-based payment transfer	–	–	–	(93)	93	–
Share-based payments	–	–	–	276	–	276
Transactions with owners	3	–	50	183	93	329
Profit for the year	–	–	–	–	1,043	1,043
At 30 April 2020	975	424	8,748	467	6,109	16,723

	Share capital £'000	Merger reserve £'000	Share premium reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 May 2018	896	424	6,389	111	2,567	10,387
Shares issued	76	–	2,309	–	–	2,385
Share-based payments	–	–	–	173	–	173
Transactions with owners	76	–	2,309	173	–	2,558
Profit for the year	–	–	–	–	2,406	2,406
At 30 April 2019	972	424	8,698	284	4,973	15,351

1 Principal Accounting Policies

Basis of preparation

The separate financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The financial statements are prepared under the historical cost convention.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- A statement of cash flows and related notes
- The requirements of IAS 24 related party disclosures to disclose related party transactions entered between two or more members of the group as they are wholly owned within the group.
- Disclosure of key management personnel compensation
- Capital management disclosures
- Presentation of comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period
- The effect of future accounting standards not adopted
- Certain share-based payment disclosures
- Disclosures in relation to impairment of assets
- Financial instrument disclosures under IFRS 9

Investments

SDI Group plc qualifies for merger relief under Companies Act 2006 s612, and has recorded the investment in Synoptics Limited at the nominal value of the shares issued, less provision for impairment. The shares issued on acquisition of Opus Instruments Limited also qualified for merger relief under Companies Act 2006 s612 and so the premium has been classified as a merger relief reserve. All other investments are recorded at cost, less any provision for impairment.

Share options

SDI Group plc regularly issues share options to employees, including to employees of subsidiary companies. The fair value of the employee services received in exchange for the grant of options is recognised as an expense which is written off to the income statement over the vesting period of the option. The amount to be expensed is determined by reference to the fair value of the options at the grant date adjusted for the number expected to vest. The expense relating to these options is recognised in the relevant subsidiary company income statement. The carrying value of the investment in those subsidiaries is increased by an amount equal to the value of share-based payment charge attributable to the option holders in the respective subsidiaries.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that results in a residual interest in the assets of the Company after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial asset to another entity.

Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability. Financial liabilities are presented under creditors on the balance sheet.

Pension

The pension costs charged against profits represent the amount of the contributions payable to the defined contribution scheme in respect of the accounting period.

Employee Remuneration 2

Remuneration in respect of directors paid by the Company was as follows:

	2020 £'000	2019 £'000
Emoluments	547	400
Pension	14	12
	561	412

During the period one director exercised 430,528 share options held over ordinary shares of SDI Group plc.

Details of directors' interest in the shares and options of the Company are provided in the directors remuneration report on pages 32-33. The highest paid director aggregate entitlements were £236k (2019: £204k) in addition to Company pension contributions of £8k (2019: £7k) made to a money purchase scheme. As at 30 April 2020 the highest paid Director held a total of 1,952,327 share options (2019: 1,872,123 share options).

Key management for the Company is considered to be the directors of the Company. Employer's National Insurance in respect of directors was £62k (2019: £46k).

Share-based employee remuneration

Further details of the Company's share-based remuneration are set out in note 8 to the consolidated financial statements.

The share-based payment expense for the Company totalled £194k (2019: £105k).

Auditors' Remuneration 3

Auditors' remuneration attributable to the Company is as follows:

	2020 £'000	2019 £'000
Taxation compliance services/taxation advisory services	6	4
Fees payable to the company's auditor for the audit of the financial statements	13	11

4 Investments

Investments in Group undertakings	£'000
Cost and net book amount as at 1 May 2019	15,739
Additions	5,476
Share-based payment expense recognised as capital contributions in subsidiaries	83
Cost and net book amount as at 30 April 2020	21,298

Details of the investments are as follows:

Subsidiary undertakings	Country of Incorporation	Holdings	Proportion of voting rights	Nature of Business
Synoptics Limited	England and Wales	Ordinary shares	100%	Design and Manufacture
Atik Cameras Limited	England and Wales	Ordinary shares	100%	Design
Perseu Comercio De Equipamento Para Informatica E Astronomica SA	Portugal	Share quotas	100%	Manufacture
Opus Instruments Limited	England and Wales	Ordinary Shares	100%	Dormant
Sentek Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
Astles Control Systems Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
Applied Thermal Control Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
Fistreem International Limited	England and Wales	Ordinary Shares	100%	Dormant
Thermal Exchange Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
Graticules Optics Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
MPB Industries Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
Chell Instruments Limited	England and Wales	Ordinary Shares	100%	Design and Manufacture
The following companies are all held by Synoptics Limited:				
Scientific Digital Imaging Limited	England and Wales	Ordinary Shares	100%	Dormant
Synoptics Inc	USA	Ordinary	100%	Distributor

Each of the above investments has been included in the consolidated financial statements

Intangible Assets 5

	2020 £'000
Cost at 30 April 2020 & 2019	50
Amortisation at 30 April 2020 & 2019	50
Net book value as at 30 April 2019	–
Net book value as at 30 April 2020	–

Deferred Tax Asset 6

	2020 £'000	2019 £'000
Deferred tax asset	164	120
	164	120

The deferred tax asset relates to tax deductions for share options as they are exercised.

Debtors 7

	2020 £'000	2019 £'000
Inter-group debtors	3,254	3,625
Prepayments and accrued income	111	40
Other debtors	9	9
	3,374	3,674

All debtors fall due within one year of the balance sheet date. No provisions are made for inter-group debtors as the credit risk is not thought to be significant.

Creditors: Amounts Falling Due Within One Year 8

	2020 £'000	2019 £'000
Amounts owed to other group companies	713	69
Trade creditors	31	149
Bank loans	1,371	–
Lease liabilities	2	–
Social security and other taxes	11	14
Accruals and deferred income	116	387
	2,244	619

9 Creditors: Amounts Falling Due After One Year

	2020 £'000	2019 £'000
Bank loans	7,962	4,000
	7,962	4,000

10 Borrowings

	2020 £'000	2019 £'000
Within one year		
Bank finance	1,371	–
	1,371	–
After one and within five years		
Bank finance	7,962	4,000
	7,962	4,000
Total borrowings	9,333	4,000

Bank finance relates to amounts drawn down under the Company's bank facility with HSBC Bank plc, which is secured against all assets of the Group. The facility consists of a revolving facility of £5,000,000 and an amortising facility which reduces in quarterly instalments from £4,800,000 when it was taken out in November 2019 to zero by April 2013, when the current agreement expires. The facility has covenants relating to leverage (net debt to EBITDA), interest coverage, and cash flow to debt service.

In March and April 2020, as a precautionary response to the COVID-19 pandemic, the Company requested and was granted a deferment (to April 2023) of the quarterly repayment due in April 2020, and a waiver of the cash flow to debt service covenant for two quarters. Debt under the revolving facility at 30 April 2020 was £4,457k. The Company also drew down substantially all of its revolving facility, with loans denominated in UK Pounds, Euros and US Dollars totalling £4,876k, to maximise available cash balances.

Called Up Share Capital 11

	2020 £'000	2019 £'000
Authorised 1,000,000,000 Ordinary shares (2019: 1,000,000,000) of 1p each	10,000	10,000
Allotted, called up and fully paid 97,503,951 (2019: 97,203,951) Ordinary shares of 1p each	975	972

During the year 300,000 Ordinary shares of 1p were issued due to the exercise of options. The 300,000 options had an exercise price of £0.172, and the Company received £53k, which was allocated £3k to share capital and £50k to share premium. Additionally, a total of 130,528 share options were exercised and satisfied by the release of shares in the Company from the Synoptics Employee Benefit Trust which has now been wound up.

Share options

A summary of options outstanding currently is provided in note 8 to the consolidated financial statements.

Related Party Transactions 12

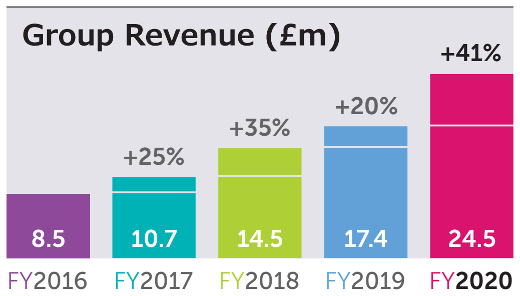
Transactions with directors are disclosed within the Directors' Remuneration Report and note 8 to the consolidated financial statements. Additionally, Ken Ford is a non-executive director of Primary Bid, a technology platform that allows retail investors to access public share offerings at the same price as institutions. During the previous year, the Company placed £100k of shares with retail investors using Primary Bid's platform alongside its institutional placing associated with the Group's acquisition of Graticules Optics in February 2019. Fees for the placing were approximately £5k.

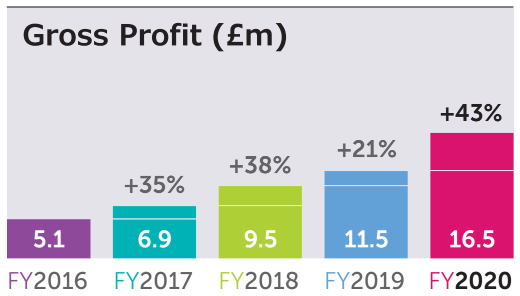
The Company is not required to disclose transactions with its wholly owned subsidiaries.

Five-Year Summary

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Revenue	24,498	17,427	14,496	10,748	8,473
Cost of sales	(7,899)	(5,902)	(4,954)	(3,837)	(3,298)
Gross profit	16,599	11,525	9,542	6,911	5,175
Gross margin %	67.8%	66.1%	65.8%	64.3%	61.1%
Other income	19	–	–	–	–
All other operating costs	(12,016)	(8,423)	(7,196)	(5,575)	(4,346)
Adjusted operating profit	4,602	3,102	2,346	1,336	819
Reorganisation costs	(110)	(124)	(63)	(87)	(17)
Share-based payments	(276)	(136)	(65)	(2)	(7)
Acquisition and fundraising costs	(58)	(288)	(165)	(165)	(178)
Amortisation of acquired intangible assets	(647)	(356)	(277)	(118)	(81)
Operating profit	3,511	2,198	1,776	964	536
Net financing expenses	(254)	(77)	(63)	(61)	(40)
Profit before tax	3,257	2,121	1,713	903	496
Income tax	(666)	(209)	(98)	(75)	75
Profit for the year	2,591	1,912	1,616	828	571
Cash generated from operations	5,169	3,620	2,854	1,406	1,298
Earnings per share					
Basic earnings per share	2.66p	2.10p	1.81p	1.17p	1.17p
Diluted earnings per share	2.56p	2.05p	1.79p	1.14p	1.15p
Adjusted diluted earnings per share	3.43p	2.83p	2.30p	1.55p	1.61p

The implementation of IFRS16 this year has resulted in a decrease in profits before tax of £40k. The prior year comparatives have not been restated to reflect the impact of IFRS16.





Shareholder Information
For the year ended 30 April 2020

SDI Group plc

Company registration number 6385396

Registered office
Beacon House, Nuffield Road, Cambridge CB4 1TF

Directors
E K Ford Chairman
M Creedon Chief Executive Officer
I Napper Non-Executive Director
D Tilston Non-Executive Director
J Abell Chief Financial Officer

Company Secretary
J Abell

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