SRT

MAITIME

- Surveillance
- Safety
- Security
- Management

TECHNOLOGY | PRODUCTS | SYSTEMS

2020 REPORT

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2020

SRT Marine Systems plc

CONTENTS

SRT

ENABLING MARITIME SECURITY, SAFETY PROTECTION & SUSTAINABILITY

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2020

DIRECTORS AND ADVISORS

Directors
Simon Tucker
Neil Peniket
Richard Hurd
Kevin Finn
Simon Rogers
Simon Barrell (appointed 3 July 2019)

Secretary
Richard Hurd

Registered Office
Wireless House
Westfield Industrial Estate
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Bath BA3 4BS

Bankers
Barclays Bank plc
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Bath BA1 1AQ

Auditors
Nexia Smith & Williamson Audit Limited
Statutory Auditor & Chartered Accountants
Portwall Place
Portwall Lane
Bristol BS1 6NA

Tax Advisors
Smith & Williamson LLP
Portwall Place
Portwall Lane
Bristol BS1 6NA

Solicitors
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Mitre House
160 Aldersgate Street
London EC1A 4DD

Nominated Advisor & Broker
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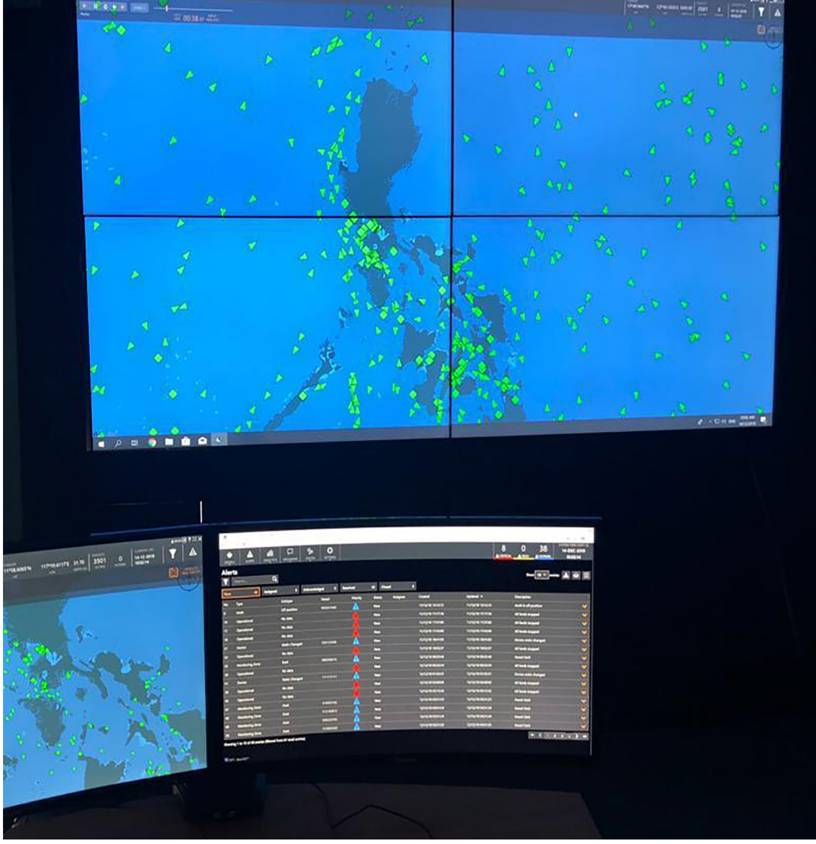
60 New Broad Street
London
EC2M 1JJ

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgewater Road
Bristol BS99 7NH

Company's registered number
05459678

Website
www.srt-marine.com



ABOUT SRT MARINE SYSTEMS PLC

SRT Marine Systems plc (SRT) is providing a new generation of solutions that solve the problem of maritime domain awareness (MDA). The vast and complex scale of the marine domain means that traditional systems and approaches have delivered limited understanding of the marine domain. By harnessing new technologies and innovative techniques such as multi-source data fusion (satellite & terrestrial), intelligent data analytics, new forms of radio communications and digital geo-graphic display we are able to provide significantly enhanced MDA functionality such as high resolution vessel detection, identification and tracking, illegal and suspicious activity detection and alerting, vessel activity reporting such as catch reporting for fisheries control. Our customers range from individual vessel owners to government agencies such as coast guards and fishery authorities seeking to secure and manage extended coastlines and sea areas.

TRANSCEIVERS: Our transceivers division develops and sells a range of intelligent black-box type devices that receive and transmit a variety of maritime information simultaneously between multiple different entities in real time, such as vessels, buoys, coast stations, aircraft and satellites, primarily using a specialist real time maritime radio communications technology called Automatic Identification System (AIS). AIS is a relatively new radio communications technology that, with International Maritime Organisation (IMO) and government agency support, has been adopted globally to provide a new generation of real time information in the marine domain across a wide range of applications from precise and reliable vessel tracking and identification, anti-collision, environment monitoring and navigation safety. SRT established an early first mover position in this now strategically significant market segment and through continued technology innovation and investment has consolidated this into global market share leadership. Our transceivers are sold via a global network of customers that include established marine electronics manufacturers to whom we provide customised own branded solutions, marine electronics dealers and distributors as well as directly to vessel owners.

SYSTEMS: Our systems division specialises in the continuous evolutionary development and delivery of the integrated SRT-MDA maritime surveillance and monitoring system solution to maritime authorities such as coastguards, fisheries, and infrastructure owners. The SRT-MDA system provides a fully integrated national scale surveillance and management solution with a range of sophisticated MDA functionality such as enhanced vessel detection and tracking, automated illegal and suspicious activity detection and alert such as illegal fishing and smuggling, coupled with a range of comprehensive management tools such as electronic fish catch reporting and auditing and command and control. All within a single and thus optimal system. The SRT-MDA system enables a significant uplift in maritime domain awareness and a consequent improvement in maritime security, management and safety. Our systems division works directly with end customers to customise the SRT-MDA system into turn-key system solutions which are delivered as a project which includes supply and installation of the complete system, supplementary data feeds, training, support with follow on system expansions and enhancements thereafter.

ANNUAL REPORT HIGHLIGHTS

FINANCIAL:

- 8% reduction in group revenue due to Covid-19 delayed system projects
- 24% increase in revenues from transceiver business
- £550m systems division validated sales opportunity pipeline
- £0.9m cash as at year end. Covid 19 resilience refinancing completed April 2020 raising £5.3m
- Loss before tax and exceptional item of £3.0m (excluding one-off impairment charge on Middle Eastern project of £3.9m)

OPERATIONAL:

- GeoVS systems application functionality significantly enhanced
- Strengthening of systems delivery team to support pending Middle East projects
- Commencement of major new transceiver development
- Good progress with IMEMS Fisheries Systems project
- Three new system contracts remain in latter stages of negotiation

CHAIRMAN'S STATEMENT

This year did not end as we had expected due to the global Covid-19 pandemic which has caused significant disruption to global business. This has had a significant short-term financial impact on our business, primarily the delay of expected new system contracts and associated revenues. I expect it likely that this will continue to have a material effect on SRT until the second half of the new financial year. Following which I expect a strong recovery lead by our systems business along with continued solid performance by our transceivers business.

We took early action to implement a Covid-19 resilience plan designed to ensure continued operations in the new environment and for SRT to have sufficient cash to weather sustained disruption. This plan has included a smooth transition to home working for most of our staff, continued production and shipping of transceivers, and the development of a refined delivery model for our systems business whereby system components are pre-built and configured prior to shipping to local installation partners who are provided with installation and commissioning training by our delivery team remotely. On the cash side, we raised £5.3m of new cash in a combination of loan and equity, which was further added to by the receipt of £8.5m of systems payments during the first half of the new year as well as regular contribution from our transceivers business. The result is that whilst the financial accounting impact of Covid-19 has been significant, we are in a robust position with our recovery already well underway as of publication of this report in September 2020.

It is important to emphasise that demand for our products is based upon long term fundamental market demand drivers for a new generation of maritime domain awareness that has become possible due to new technology innovations, such as AIS and the application of advanced data analytics and digital display technology such as Dynamic-3D. Through sustained market and technology investments, SRT has positioned itself at the forefront of this significant global marine market trend and therefore whilst the delays we have encountered this year are very frustrating, the combination of our differentiated and proven product offers, fundamental market demand and market position mean that I am very positive about our short and long term future.

Therefore, as a direct result of delayed new and existing system contracts due to Covid-19 lockdowns combined with the inherent timing uncertainties in our systems business, group revenue decreased year on year from £20.6m to £18.9m, resulting in a loss before tax and exceptional item tax of £3.0m (2019: profit of £3.2m). This excludes a one-off non-cash exceptional impairment charge of an existing contract in the Middle East of £3.9m, which we anticipate will be replaced with a new larger contract of approximately £11m. Whilst the blended gross margin from our transceivers division remained at expected levels, our overall margin was significantly reduced due to the specific of the milestones delivered by our systems business during the period which were lower margin equipment only deliverables as opposed to higher margin software related milestones.

The exceptional impairment charge of £3.9m relates to an existing contract worth a total of £5.6m which commenced in 2017 to supply a national vessel tracking system for a Middle East Coast Guard. Following a prolonged process to enter a second contract for a large number of vessel transponders which had reached pre-contract signing stage during the last quarter, we have recently been advised that our customer may prefer for the existing contract to be terminated and be replaced with a single contract that includes both the monitoring system and transceivers. Given this risk we feel it prudent to make this impairment charge to enable accommodation of both contracting routes as determined by the customer.

As at year end, we had cash of £0.9m (2019: £3.9m) and our total debt remained at £5.0m. Cash was generated from our operating activities of £1.1m as project cash payments were received whilst we invested £3.0m in development of our products and systems. Subsequent to year end our cash position has significantly improved due to the completion of Covid-19 resilience financing of £5.3m in April 2020 in a mixture of loans and equity, increasing our total debt from £5.0m to £8.5m, and the receipt of system cash payments amounting to £8.5m, along with the regular gross profit contribution from our transceivers business, thus placing us in a comfortable cash position.

CHAIRMAN'S STATEMENT – CONTINUED

During the year, our administrative costs and expenditure on development increased due to our continued expansion of our systems business resources. This has been focused on three areas; development, product management and delivery. The GeoVS platform which sits at the heart of our systems offer is now a highly sophisticated maritime data & network management, surveillance and management system and the scale and capabilities of our development and product management teams reflect this fact and in turn have enabled us to develop such a system and continue to add new and innovative functionalities and capabilities. In our delivery team, we have added a small number of heads to enable us to simultaneously deliver multiple system projects in different parts of the world. Recognising that our technology is a major differentiator, going forward, subject to progress with new system contracts, we will continue to enhance our core technology development teams in both our systems and transceivers divisions.

However, following the outbreak of Covid-19 at the end of the financial year, as part of our Covid-19 resilience plan we implemented an immediate cost minimisation plan. This involved an immediate pause to our team growth plans, stopping any non-critical capital expenditure, as well as natural reductions caused by minimal delivery and sales travel. The plan ensured that we were able to continuously operate, supplying customers with transceivers and making progress, albeit much slower than planned, with existing system contracts and new prospects. Due to recent IT investments and the inherent technology development weighting of our business model, we were able to seamlessly move to a largely homebased operating model, with physical production continuing with our contract manufacturer in Ireland alongside shipping to customers and partners around the world from our logistics centre in Somerset. In fact, this exercise has enabled us to improve development productivity and therefore we will most likely continue in this fashion in the future, realising benefits for SRT and our staff.

Our transceivers business which sells maritime communication devices based on AIS, performed strongly, achieving year on year growth of 24% to £8.1m with a gross profit margin of 42%. During the year our em-trak division launched a new full transactional web site, dealer marketing initiatives and a new range of AIS transceivers which are focused on providing the best quality AIS information and connectivity so customers can seamlessly use that information on all and any of their chosen display and navigation devices; including all mobile phones, tablets and PCs which are increasingly the navigation device of choice for mariners.

SRT is fortunate to have an experienced and talented specialist radio communications development team and we are leveraging this capability with some significant and market disruptive new product developments now in progress that will have mass market appeal across both commercial and leisure segments which we expect to launch during 2021 and 2022. Looking forward, the fundamental interest and growing demand for AIS across the marine segment remains undiminished with adoption and applications increasing. Beyond generally growing demand, we see a number of new significant sales opportunities ahead that include the renewal of approximately 15,000 Class A transceivers on EU Inland waterway vessels originally mandated to carry AIS in 2010, as well as other mandate and tender opportunities in Southern Europe and USA including the use of our products by professional organisations such as coastguards and Navies. Therefore, given our leadership position in this segment, coupled with the recently launched and scheduled new products in the future we expect to see continued growth.

Our systems business has pioneered the development of fully integrated maritime surveillance and monitoring systems. The SRT-MDA system is built around our GeoVS platform and provides entities such as Coast Guards, Border Agencies and Fishery Authorities with a complete turn-key solution that significant enhances maritime security, safety and management. Covid-19 has caused significant disruption to this business. Existing projects have been delayed due to slower implementation, and new opportunities delayed as customers attention have been focused on immediate Covid related activities rather than new projects, however during first half of the new year we have seen customers re-engaging, some with renewed vigour and clarity of requirement.

CHAIRMAN'S STATEMENT – CONTINUED

We are currently implementing our SRT-MDA system contract for The Philippines Fisheries Department (BFAR) as the first phase of a national fisheries monitoring and management system. During the year we have made excellent progress against our project KPI's with all equipment now in country and the system building and installation phase well underway. This has included the installation and commissioning of monitoring centres, coast stations, vessel transceivers and the commencement of satellite data feeds. Progress was temporarily halted during the first half of the new financial year but has restarted from September 2020. Once fully commissioned during 2021, this will be the world's largest and most sophisticated national fisheries monitoring and management system and provide the Philippines with a single robust monitoring platform on which they can further expand to efficiently and cost effectively manage the activities of every fishing boat from the largest commercial to the smallest artisanal fishing boat.

Over the course of the year there has been a notable increase in interest and engagement with prospective customers for our SRT-MDA system solution. This is partially reflected in the increase in the validated sales opportunity pipeline (VSP) for our systems business which includes 17 new system opportunities with an aggregate value of approximately £550 million as of 3rd September 2020. Each is at a different phase and status in the sales process. These include opportunities with entirely new customers as well as new contracts with existing customers. To qualify for inclusion in our VSP, opportunities must meet a range of criteria which include active engagement with our sales team around a defined proposal, confirmation that the customer has taken a formal decision to implement such a project and budget is available, that necessary supporting local laws and regulations such as requirement to fit transceivers is either in place or underway and finally that discussions are making regular progress within some form of timescale which expects commencement within a 3 year time horizon. However, the nature of large projects and government procurement processes means that it is impossible to accurately forecast exact timescales. In this context our VSP is reviewed and updated on a quarterly basis using the criteria mentioned earlier and is therefore a good reflection of the fundamental market demand trend for our products and where we are focusing our resources.

Due to the nature of the customers and scale of the projects, the sales process for our systems business is typically long and complex, involving extensive consultation with the customer to enable them to realise their ideas into a detailed system specification and implementation plan, followed by a usually highly regulated procurement and contracting process. Our VSP has opportunities which are spread across this process with some at the beginning and some at the end.

Of particular note are three new contracts with customers in The Middle East which have an aggregate value of £62m realisable over an expected two year implementation period. These were proceeding to contract during the last quarter, however due to Covid-19 lockdown, activity was suspended. In the last few months the customers have re-engaged and these are now progressing towards contract.

One of the three is for the additional transceivers that the customer wanted to contract alongside our existing monitoring system contract. As described earlier this will now take the form of a new contract that will include both the monitoring system and transceivers and is expected to be concluded in the new financial year. The second is for an expansion of a previously supplied vessel tracking system to our new generation of GeoVS which enables the fusion of multiple sensor systems such as radar, surveillance cameras, and command and control. And the third is a new contract with a new customer for a large national vessel tracking system. In all cases the Covid-19 shutdown has caused a delay of approximately 6 months and has necessitated us and our customer to repeat some of the procurement processes as per their local regulations.

Of course, the ongoing Covid-19 situation creates uncertainty and challenges for both SRT and our customer with regards to pre and post contract engagement. The extent of this challenge varies between customers depending on how developed the opportunity. In general, the more developed the opportunity the less the challenge to

CHAIRMAN'S STATEMENT – CONTINUED

move forward as relationships and project form are well established and remote discussions suffice to progress. In regards to installation, our business model whereby we work with local partners who undertake all installation and commissioning, enables us to continue to progress projects and we have redoubled our efforts to improve our ability to remotely train local partners and deliver system components pre-built and configured for easier installation and commissioning by the local partner thus enabling our delivery support to be provided remotely.

There is no question that this year has been financially very disappointing. However, I believe we have taken the right decisions and actions across the board to adapt quickly and as such the business has made excellent progress with its products and customer engagement across both transceivers and systems divisions. Our transceivers business continues to perform well and system customers have resurfaced and activities on existing and new system contracts are ramping up. As new contracts are signed and we have multiple system contracts underway, it is our intention to recommence forward market guidance. However, this will be done on an extremely conservative basis, and therefore based solely on signed contracts with no inclusion of prospective new business until this is realised, whereupon market forecasts will be revised. I expect this to start during the second half of the new year.

I would like to thank everyone at SRT who have continued to work throughout Covid-19, some even using brief travel windows to fly around the world to visit customers, and to and our shareholders for their long term and exceptional support for the company.

Kevin Finn
Chairman

Date: 4 September 2020

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2020

The directors present their strategic report for the year ended 31 March 2020.

Business review
The principal activity of the SRT Marine Systems plc Group is the development and supply of Automatic Identification System (AIS) based maritime domain awareness (MDA) technologies, derivative product and system solutions for use in a wide range of maritime applications from safety and security to fishery management and environment protection.

The financial Key Performance Indicators (KPIs) used by the Board to monitor progress are revenue growth, gross margin, profit before tax and cash flow. These are used because they best indicate performance against the Group's strategic objective of delivering profitable growth which in turn will drive shareholder value. Non-financial KPIs used include status of customer and development projects against milestone targets. Performance against these metrics has been discussed in the Chairman's Statement on pages 5-8.

Principal risks and uncertainties
The key risks and uncertainties faced by the Group are:

COVID-19
At the present time, COVID-19 presents a key risk to the business in terms of economic disruption and specifically the restriction of government budget and resource availability. This risk was mitigated by the Group completing a COVID-19 resilience financing exercise (note 28) in April 2020, providing the Group with additional working capital in the event of delays to project commencement dates and payments.

A further risk, specifically as a result of COVID-19, is the restriction of the Group's delivery team to travel in order to implement and install project deliverables. Going forward the Group will mitigate this risk as necessary with additional training of local partners, the use of technology to enable remote working by the delivery team and the configuration of equipment in the UK before being delivered into the various project territories.

Nature of systems customers
These customers tend to be governments and thus can be subject to significant risk, including but not limited to: the forecasting of project commencement dates and project delivery schedules, political and financial change and uncertainty, sudden cancellation and or changes to contracts without the possibility for redress, negotiation and or compensation. Furthermore, payment terms are frequently extended and variable and in the event of non-payment may not be collectable.

The Group seeks to manage this risk by obtaining a deep understanding of our markets, end customers and local partners which is achieved through extensive and close co-operation.

System execution risk
The implementation of a system contract contains a wide range of execution risks. These risks are mitigated through forming long term partnerships with local installation partners and investing in customer support and system project delivery teams.

Attracting and retaining employees with appropriate skills
The group's ability to execute its strategy is dependent on the skills and abilities of its staff. The group undertakes ongoing initiatives to foster good staff engagement and ensure that remuneration packages are competitive in the market.

STRATEGIC REPORT - CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

Section 172 (1) Statement

Each individual director must act in the way he considers, in good faith, would be the most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard to:

- long term consequences of any decisions
- the interests of the Group's employees
- the need to foster business relationship with suppliers, customers and others
- the impact of the Group's operations on the community and the environment
- the need to maintain a reputation for high standards of business conduct and act fairly between members of the group

Key issues

Key issues include the investment and delivery of key projects in the systems business in overseas territories. In all evaluations the need to foster important business relationships with customers and local in country suppliers are key considerations which are weighted heavily as are the need for high standards of business conduct and health and safety and environmental compliance.

Furthermore, the interests of our employees amid the Covid-19 pandemic is of paramount importance with the business having transitioned to a largely homebased operating model to protect their health and safety together with the implementation of the required government regulations in our offices.

The full impact of the Covid-19 pandemic on future cash flows is a key issue which is difficult to quantify but the raising of finance subsequent to the year end (note 28) will have the long term consequence of providing working capital to allow for a significant Covid-19 related delay in normal business and thus ensure the resilience of the Group during this period.

Stakeholders

Key stakeholders include shareholders, employees, customers and suppliers.

Methods of engagement

The Group uses a range of methods of engagement with stakeholders, ranging from formal structures to personal engagement. Shareholders are updated regularly on business activities via investor roadshows, quarterly on-line web casts, one on one communication with the executive directors and AGM presentations.

The Group's flat management structure allows personal interaction at all levels which facilitates communication within the organisation as well as externally with customers and suppliers. An "open door" culture is operated with all stakeholders. Employees have regular personal interaction with their line managers and the executive directors and have annual targets set against which formal assessments of performance is reviewed. All key suppliers and customers are personally met in order that business relationships can be fostered.

Investing for the Future

We acknowledge that our chosen market places are still in their early stages and as a result we need to continue to invest in our organisation in order to meet the challenges that a growing market will bring. This will involve adding to our existing product and system portfolio as well as evolving our current technology offerings which is further discussed in the Chairman's Statement.

Approved by the Board of Directors and signed on behalf of the Board on 4 September 2020

S Tucker
Director

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2020

General information
SRT Marine Systems plc is a public limited Company which is listed on the AIM market of the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

Results for the year and dividends
The Group incurred a loss after tax of £6,079,022 (2019: profit £3,408,371). The directors have not recommended the payment of a dividend (2019: £nil).

Future developments and strategy
These are considered in the Chairman's Statement on pages 5-8.

Financial instruments and risk management
Details of the Group's financial instruments and its policies with regard to financial risk management are given in note 24 to the financial statements.

Directors
The directors who served during the year were:

Non Executives	
Chairman	Kevin Finn
Non Executive Director	Simon Rogers
Non Executive Director	Simon Barrell
Executives	
Chief Executive Officer	Simon Tucker
Chief Operating Officer	Neil Peniket
Chief Financial Officer	Richard Hurd

Directors' indemnities
The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Going concern
The directors have prepared the financial statements on a going concern basis. They believe that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future. Further details can be found in note 1, Accounting Policies.

Disclosure of information to the Auditors
In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware; and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors
A resolution to appoint the auditors, Nexia Smith & Williamson Audit Limited, will be proposed at the next Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board on 4 September 2020

S Tucker
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Strategic Report, Directors' 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 elected to prepare the Group and parent Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. 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 Company and of the Group and of the profit or loss of 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 judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for ensuring that they meet their responsibilities under the AIM Rules.

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

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2020

The directors recognise the importance of, and are committed to, high standards of corporate governance. AIM companies are required to apply a recognised corporate governance code. Of the two widely recognised formal codes, the directors have decided to adhere to the Quoted Companies Alliance's Corporate Governance code for small and mid-size quoted companies. The Group's compliance with this code is summarised below and can be found in full on the Group's website at: www.srt-marine.com/corporate-governance.

Business Model and Strategy
SRT is a global leader in the provision of maritime domain awareness (MDA). Our products are used by mariners, infrastructure owners, coast guards and fishing authorities to enhance safety, security and management efficiency of maritime regions.

SRT's strategy and business model is to address MDA market segments using a small set of innovative core technologies and products and systems which can be combined and customised into multiple product configurations and types each of which address different MDA market segments.

The key risks and challenges faced by the Group are set out in the Strategic Report on page 9.

Risk Management
The Board is responsible for the systems of internal control and risk management and reviewing their effectiveness. Furthermore, through the activities of the Audit Committee the effectiveness of these internal controls is considered annually.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. Revised forecasts are also produced on a monthly basis. The Group's results, compared with the budget and forecast are reported to the Board on a monthly basis.

Within the scope of the annual audit, specific financial risks are evaluated in detail, including those in relation to revenue recognition, recoverability of receivables and stock and intangibles valuation.

SRT has published a share dealing policy on its intranet to seek the necessary approval from directors should they, or their families, plan to trade in the group's equities.

The Board of Directors
The members of the board have a collective responsibility and legal obligation to promote the interests of the group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

The board consists of six directors of which three are executive and three are independent non-executives. The board is satisfied that at present it has a suitable balance between independence on the one hand and knowledge of the company on the other.

During the year ended 31 March 2020 there were five board meetings and calls. All the directors attended all the meetings and calls during the year, except for Simon Rogers who attended four out of the five.

CORPORATE GOVERNANCE REPORT - CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

The board has an agenda of items to consider at each meeting subdivided into the key activities of the business, namely operations, project delivery, sales and marketing and financial matters. Prior to the board meeting a board pack of information is compiled by the executive directors and circulated around the board together with the minutes from the previous meeting for approval and the monthly management accounts.

The board believes that the composition and breadth of experience of the board are appropriate for the Company at present and that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. All Directors receive regular and timely information on the Group's operational, sales and financial performance.

Biographies of the board are set out in the Corporate Governance section of the Group's website.

The board is supported by three committees: audit, remuneration and nomination.

Audit Committee
The Audit Committee comprises of Simon Barrell (Chairman) and Kevin Finn. It meets at least once per year. The audit planning meeting took place on 28 May 2020 and the meeting to review feedback from the 2020 audit took place on 26 August 2020.

Remuneration Committee
The Remuneration Committee comprises Simon Rogers (Chairman), Kevin Finn and Simon Barrell; it meets at least twice a year. During the year, the Committee met to discuss the remuneration of the Executive directors. The remuneration policy for Directors is set by the Board and is described below. It is determined by the Remuneration Committee within the framework of this policy. The remuneration of the Executive Directors is determined by the Remuneration Committee which consists entirely of Non-Executive Directors.

The Remuneration Committee consults with Simon Tucker, the Group Chief Executive Officer, as appropriate with regard to its proposals relating to the remuneration of the Executive Directors.

The policy of the Remuneration Committee is to review the Executive Directors' Remuneration based on market practice within the Company's market sector. The Group wishes to attract, motivate and retain key executives. Accordingly, its policy is to design remuneration packages which, through an appropriate combination of basic salary, performance related bonuses, share options, pension arrangements and certain benefits, reward executives fairly and responsibly for their individual contributions, whilst linking their potential earnings to the performance of the Group as a whole. The overall package, which is reviewed at least annually may contain the following elements:-

a) **Basic salaries**
Basic salaries for Executive Directors are reviewed annually by the Remuneration Committee and are set at levels which reflect their performance and degree of responsibility.

b) **Enterprise Management Incentive Share Option Scheme**
The Company has had in place, since November 2005, an enterprise management incentive share option scheme under which awards are met at the discretion of the Remuneration Committee. The share options held by the Directors are set out in note 4.

c) **Performance related bonus**
The Remuneration Committee can award discretionary bonuses, which are linked to the achievement of demanding individual, business and corporate objectives.

CORPORATE GOVERNANCE REPORT - CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

d) Pension allowance
Simon Tucker elected not to join the Company's Money Purchase Pension Scheme and in compensation for this the Remuneration Committee agreed to pay him the amount that the Company would have paid to the pension scheme on his behalf, for him to invest as he wishes.

e) Other benefits
Other benefits include private health insurance.

f) Non-Executive Directors
The Non-Executive Directors are independent of management and have no relationship which could materially interfere with the exercise of their independent judgement. The remuneration of the Non-Executive Directors is decided by the Remuneration Committee in consultation with the Executive Directors.

Nomination Committee
The Nomination Committee comprises Kevin Finn (Chairman) and Simon Rogers. The Nomination Committee met during the year to discuss the appointment of new members of the senior management team.

Corporate Culture
The Board aims to lead by example and do what is in the best interests of the Company. It seeks to maintain the highest level of integrity in the conduct of the Group's operations. An open culture is encouraged within the Group, with regular communication to staff regarding progress and staff feedback sought on a regular basis. Given the nature of the customers and markets within our systems business, a strict anti-bribery and corruption policy is operated to ensure that business dealings are carried out to the highest ethical standards.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRT MARINE SYSTEMS PLC

We have audited the financial statements of SRT Marine Systems plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 March 2020 which comprise Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements concerning the Group and Company's ability to continue as a going concern, which is dependent on certain level of income being generated from the Group's system business. The level of future income to be generated is uncertain and is highly dependent on the timing of the awarding of contracts and cash receipts from the Group's systems customers. In addition, on 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. The directors have introduced remote working and completed a COVID 19 resilience financing exercise subsequent to the year end as disclosed in note 28. However, the ultimate impact of the COVID-19 pandemic on the business remains unquantifiable at this stage, particularly in relation to future cashflows.

As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRT MARINE SYSTEMS PLC - CONTINUED

Key audit matters
In addition to the matter described in the Material uncertainty related to going concern section above, we have identified the following key audit matters described below. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing these matters, we have performed the procedures below which were designed to address the matters in the context of the financial statements as a whole and in forming our opinion thereon. Consequently, we do not provide a separate opinion on these individual matters.

Revenue recognition – for Group only

Key audit matter description
As explained further in note 1 and the Chairman's Statement, due to the nature of revenue recognition of the Group in respect of long-term overseas projects, and the estimates and judgement involved in determining the amount of revenue to recognise each year, we have considered revenue recognition a key area of audit focus.

Response to key audit matter
The main procedures performed on the revenue recognised and areas where we challenged management were as follows:

- Significant contracts with customers on long-term overseas projects were obtained and reviewed against the steps referenced by IFRS 15. Assessment of management's conclusions was performed on each contract sampled in respect of:

  - performance obligations identified
  - determination and allocation of transaction price for each of those
  - determination of revenue recognition method for satisfying those performance obligations.

Management were challenged, where appropriate, on judgements made.

- The revenue recognised in the year was assessed against the criteria specified in the standard that demonstrates control has passed to the customer and they have an obligation to pay the Group for performance to date. In completing this assessment, the impact of COVID on deliveries was also considered in order to establish the appropriate level of revenue to recognise on goods despatched but delayed in transit due to lockdowns.

- Considering the appropriateness and completeness of the disclosures made in the financial statements in respect of revenue recognition in accordance with IFRS 15.

Intangible assets – for Group only

Key audit matter description
As further explained in note 10, the Group capitalises qualifying development costs as intangible assets, which are material to the Group's financial statements. The audit risk is considered significant, given the stringent requirements that must be met to capitalise these costs in accordance with IAS 38. In addition, the value of these costs to the Group, once capitalised, presents an area of audit risk, given the uncertainty and value of future sales, and the projected future life of the intangible asset and amortisation period assigned. For these reasons, we have considered this area of key audit focus.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRT MARINE SYSTEMS PLC - CONTINUED

Intangible assets – for Group only (continued)

Response to key audit matter
The main procedures performed on the recognition and valuation assessments, including areas where we challenged management were as follows:

- Obtaining and agreeing the breakdown of intangible assets by ongoing/finalised projects to the note in the financial statements.
- Assessing the most significant costs capitalised per each project at year end against the stringent recognition criteria of IAS 38 and corroborating the explanations received from management with information obtained elsewhere, such as corroborating sales levels and margins obtained on the projects for which amortisation is being charged to work performed on the respective sales area.
- Substantive testing of a sample of costs capitalised during the year by agreeing to supporting documents and assessing them against the recognition criteria of IAS 38.
- Reviewing the amortisation charged during the year, to ensure it has been calculated in accordance with the Group's amortisation policy, and consideration of whether the amortisation period is appropriate for the specific costs capitalised.
- Reviewing and challenging management's assessment that there are no impairment indicators by considering the indicators specified in IAS 36 relative to the intangible assets held by each division.
- Reviewing and challenging the impairment review conducted to ensure the value of intangible assets not yet in use were more than covered by the recoverable amount.
- Considering the appropriateness of the disclosures made in the financial statements in respect of these assets.

Materiality
The materiality for the Group financial statements as a whole was set at £515k. This has been determined with reference to the benchmark of the Group's net assets, which we consider to be an appropriate measure for a Group focussed on long term contracts where the key risk areas are balance sheet focussed. Materiality represents 3.8% of Group net assets.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £26k, in addition to other identified misstatements that warrant reporting on qualitative grounds.

The materiality for the Company financial statements as a whole was set at £319k. This has been determined with reference to the net assets of the Company, which we consider to be one of the principal considerations for members of the Company in assessing the performance of a holding entity. Materiality represents 3% of Company net assets.

An overview of the scope of the audit
The Group performs all transaction processing and financial statement preparation centrally in the UK. Of the Group's seven reporting components, we audited individually three of them, with the remaining components being dormant entities.

The components within the scope of our work covered all of the Group's revenue, all of the Group's profit before tax and all of the Group's net assets.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRT MARINE SYSTEMS PLC - CONTINUED

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SRT MARINE SYSTEMS PLC - CONTINUED

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditors responsibilities. 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.

Carl Deane
Senior Statutory Auditor, for and on behalf of

Nexia Smith & Williamson
Statutory Auditor & Chartered Accountants
Portwall Place
Portwall Lane
Bristol BS1 6NA

Date: 4 September 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £	2019 £
Revenue	2	18,908,062	20,559,699
Cost of sales		(14,537,092)	(11,229,754)
Gross profit		4,370,970	9,329,945
Administrative costs		(6,883,261)	(5,877,445)
Operating (loss) / profit before exceptional item	7	(2,512,291)	3,452,500
Impairment charge	3	(3,922,029)	-
Operating (loss) / profit after exceptional item		(6,434,320)	3,452,500
Finance expenditure	6	(464,539)	(275,195)
Finance income	6	1,430	363
(Loss) / profit before tax		(6,897,429)	3,177,668
Income tax credit	8	818,407	230,703
(Loss) / profit for the year after tax		(6,079,022)	3,408,371
Total comprehensive (expense) / income for the year		(6,079,022)	3,408,371
(Loss) / earnings per share:			
Basic	23	(3.93)p	2.43p
Diluted	23	(3.93)p	2.36p

The notes on pages 28-56 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020 £	2019 £
Assets			
Non-current assets			
Intangible assets	10	7,776,882	6,625,203
Property, plant and equipment	11	1,782,048	355,509
Deferred tax	8	670,778	54,297
Total non-current assets		10,229,708	7,035,009
Current assets			
Inventories	13	1,928,730	2,234,378
Trade and other receivables	14	15,958,534	18,012,279
Cash and cash equivalents		918,808	3,942,167
Total current assets		18,806,072	24,188,824
Liabilities			
Current liabilities			
Trade and other payables	15	(9,044,454)	(6,318,987)
Financial liabilities	16	(4,990,000)	-
Lease liabilities	17	(202,445)	(18,055)
Total current liabilities		(14,236,899)	(6,337,042)
Net current assets		4,569,173	17,851,782
Total assets less current liabilities		14,798,881	24,886,791
Long term liabilities			
Financial liabilities	16	-	(4,990,000)
Lease liabilities	17	(1,067,741)	(26,981)
Total long term liabilities		(1,067,741)	(5,016,981)
Net assets		13,731,140	19,869,810
Shareholders' equity			
Share capital	18	154,844	153,223
Share premium account	20	11,543,989	11,510,773
Retained (loss) / earnings	20	(3,458,289)	2,715,218
Other reserves	20	5,490,596	5,490,596
Total shareholders' equity		13,731,140	19,869,810

The financial statements were approved by the Board of Directors on 4 September 2020 and were signed on its behalf by:

S Tucker
Director

The notes on pages 28-56 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020 £	2019 £
Assets			
Non-current assets			
Investments in subsidiaries	12	932,593	932,593
Property, plant and equipment	11	727,572	115,102
Total non-current assets		1,660,165	1,047,695
Current assets			
Other receivables	14	14,986,225	13,291,100
Cash and cash equivalents		105,237	2,769,540
Total current assets		15,091,462	16,060,640
Liabilities			
Current liabilities			
Trade and other payables	15	(512,272)	(501,351)
Financial liabilities	16	(4,990,000)	-
Lease liabilities	17	(131,506)	(18,055)
Total current liabilities		(5,633,778)	(519,406)
Net current assets		9,457,684	15,541,234
Total assets less current liabilities		11,117,849	16,588,929
Long term liabilities			
Financial liabilities	16	-	(4,990,000)
Lease liabilities	17	(473,679)	(26,981)
Total long term liabilities		(473,679)	(5,016,981)
Net assets		10,644,170	11,571,948
Shareholders' equity			
Share capital	18	154,844	153,223
Share premium account	20	11,543,989	11,510,773
Retained loss	20	(1,117,063)	(154,448)
Other reserves	20	62,400	62,400
Total shareholders' equity		10,644,170	11,571,948

The loss for the year ended 31 March 2020 was £892,912 (2019: loss £878,457).

The financial statements were approved by the Board of Directors on 4 September 2020 and were signed on its behalf by:

S Tucker
Director
Company's registered number: 05459678

The notes on pages 28-56 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £	2019 £
Cash generated from / (used in) operating activities	22	857,765	(3,636,473)
Corporation tax received		201,926	449,094
Net cash generated from / (used in) operating activities		1,059,691	(3,187,379)
Investing activities			
Expenditure on product development		(2,970,033)	(1,690,516)
Purchase of property, plant and equipment		(523,530)	(240,247)
Interest received		1,430	363
Net cash used in investing activities		(3,492,133)	(1,930,400)
Financing activities			
Gross proceeds on issue of shares		34,837	7,031,530
Costs of issue of shares		-	(400,826)
Repayments on loan		-	(500,000)
New loans issued		-	1,840,000
Lease repayments		(225,149)	-
Loan interest paid		(400,605)	(275,195)
Net cash (used in) / generated from financing activities		(590,917)	7,695,509
Net (decrease) / increase in cash and cash equivalents		(3,023,359)	2,577,730
Net cash and cash equivalents at beginning of year		3,942,167	1,364,437
Net cash and cash equivalents at end of year		918,808	3,942,167

Reconciliation of financing activities for the year ended 31 March 2020 and 31 March 2019

	2020 £	Interest on leases £	New leases £	IFRS 16 adoption £	Cash flow £	2019 £
Other loan	4,990,000	-	-	-	-	4,990,000
Lease liabilities	1,270,186	63,934	222,473	1,163,892	(225,149)	45,036
Financial liabilities	6,260,186	63,934	222,473	1,163,892	(225,149)	5,035,036

	2019 £	Interest on leases £	New leases £	IFRS 16 adoption £	Cash flow £	2018 £
Bank loan	-	-	-	-	(500,000)	500,000
Other loan	4,990,000	-	-	-	1,840,000	3,150,000
Lease liabilities	45,036	-	45,036	-	-	-
Financial liabilities	5,035,036	-	45,036	-	1,340,000	3,650,000

During the year, £2,990,000 (2019: nil) of other loans were transferred from long term to short term liabilities as explained in note 16. The notes on pages 28-56 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £	2019 £
Cash used in operating activities	22	(1,993,806)	(5,888,592)
Investing activities			
Purchase of property, plant and equipment		(176,642)	(74,512)
Interest received		702	286
Net cash used in investing activities		(175,940)	(74,226)
Financing activities			
Gross proceeds on issue of shares		34,837	7,031,530
Costs of issue of shares		-	(400,826)
Repayments on loan		-	(500,000)
New loans issued		-	1,840,000
Finance lease repayments		(128,801)	-
Loan interest paid		(400,593)	(275,195)
Net cash (used in) / generated from financing activities		(494,557)	7,695,509
Net (decrease) / increase in cash and cash equivalents		(2,664,303)	1,732,691
Net cash and cash equivalents at beginning of year		2,769,540	1,036,849
Net cash and cash equivalents at end of year		105,237	2,769,540

Reconciliation of financing activities for the year ended 31 March 2020 and 31 March 2019

	2020 £	Interest on leases £	New leases £	IFRS 16 adoption £	Cash flow £	2019 £
Other loan	4,990,000	-	-	-	-	4,990,000
Lease liabilities	605,185	28,178	222,472	438,300	(128,801)	45,036
Financial liabilities	5,595,185	28,178	222,472	438,300	(128,801)	5,035,036

	2019 £	Interest on leases £	New Leases £	IFRS 16 adoption £	Cash flow £	2018 £
Bank loan	-	-	-	-	(500,000)	500,000
Other loan	4,990,000	-	-	-	1,840,000	3,150,000
Lease liabilities	45,036	-	45,036	-	-	-
Financial liabilities	5,035,036	-	45,036	-	1,340,000	3,650,000

During the year, £2,990,000 (2019: nil) of other loans were transferred from long term to short term liabilities as explained in note 16.

The notes on pages 28-56 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
At 1 April 2018	127,743	4,905,549	(789,410)	5,490,596	9,734,478
Total comprehensive income for the year	-	-	3,408,371	-	3,408,371
Transactions with owners:					
Issue of equity share capital	25,480	7,006,050	-	-	7,031,530
Costs of issue of equity share capital	-	(400,826)	-	-	(400,826)
Share based payment charge	-	-	96,257	-	96,257
At 31 March 2019	153,223	11,510,773	2,715,218	5,490,596	19,869,810
Adjustment on initial application of IFRS 16 (note 17)	-	-	(93,360)	-	(93,360)
Total comprehensive expense for the year	-	-	(6,079,022)	-	(6,079,022)
Transactions with owners:					
Issue of equity share capital	1,621	33,216	-	-	34,837
Share based payment credit	-	-	(1,125)	-	(1,125)
At 31 March 2020	154,844	11,543,989	(3,458,289)	5,490,596	13,731,140

The notes on pages 28-56 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
At 1 April 2018	127,743	4,905,549	627,752	62,400	5,723,444
Total comprehensive expense for the year	-	-	(878,457)	-	(878,457)
Transactions with owners:					
Issue of equity share capital	25,480	7,006,050	-	-	7,031,530
Cost of issue of equity share capital	-	(400,826)	-	-	(400,826)
Share based payment charge	-	-	96,257	-	96,257
At 31 March 2019	153,223	11,510,773	(154,448)	62,400	11,571,948
Adjustment on initial application of IFRS16 (note 17)	-	-	(68,578)	-	(68,578)
Total comprehensive expense for the year	-	-	(892,912)	-	(892,912)
Transactions with owners:					
Issue of equity share capital	1,621	33,216	-	-	34,837
Share based payment credit	-	-	(1,125)	-	(1,125)
At 31 March 2020	154,844	11,543,989	(1,117,063)	62,400	10,644,170

The notes on pages 28-56 form part of these financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES

SRT Marine Systems plc is a public limited Company, limited by shares, incorporated in England and Wales. It is listed on the Alternative Investment Market (AIM). The address of the registered office is Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS. The nature of the Group's operations and its principal activities are noted in the Chairman's Statement and Strategic Report. The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these financial statements.

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, applied in relation to the Company financial statements in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Basis of consolidation
The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company prepared to 31 March each year. An investor controls an investee if the investee has all of the following: power over the investee; exposure or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. All intra-Group transactions and balances and any unrealised gains and losses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Going concern
The Group's business activities, together with the key factors likely to affect its future development, profitability, cash flows, liquidity position, borrowing facilities and financial position are outlined within the chairman's statement, strategic report and the financial statements. The directors have prepared the financial statements on the going concern basis, which assumes that the systems business will generate sufficient future recoverable income.

The level of future income to be generated is uncertain and is highly dependent on the timing of the awarding of contracts and cash receipts from the Group's systems business. The Directors recognise that it is very difficult to quantify the full impact of the COVID 19 pandemic upon the timing of these cash receipts and in order to mitigate the potential impact on cash flows, the Group completed a COVID 19 resilience financing exercise subsequent to the year end (note 28). Furthermore, the Group's projections have allowed for delays relating to the possible impact of the pandemic in performance and specifically cash receipts and its projections have allowed for a range of possible outcomes on trading performance. That said, and whilst the directors consider that they have used a reasonable basis to forecast the timing of these types of cash receipts, they do recognise that the nature of these systems' customers does mean that the awarding of future contracts can be unpredictable, difficult to forecast and subject to change, particularly in the context of the current COVID-19 pandemic. These circumstances represent a material uncertainty that may cast significant doubt upon the group's and the company's ability to continue as a going concern.

Notwithstanding this matter, after making due enquiries and considering the uncertainty described above, the Directors believe they have a reasonable basis to conclude that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and for this reason, the directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would result if the company was unable to continue as a going concern.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Business combinations and goodwill
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year end date and the reported amounts of revenues and expenses during the year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements

- ***Development costs capitalised as intangible assets***
  Management exercises judgement in determining whether the costs can be capitalised, and this is done by reference to a number of criteria as set out in these accounting policies. During the year, the Group has capitalised intangible assets development costs of £2,970,031 (2019: £1,690,516).

- ***Determination of performance obligations and satisfaction thereof***
  For the purposes of recognising revenue, management has exercised judgement in considering the bundle of products and services provided under long term contracts as one performance obligation in building a monitoring system.

- ***Allocation of transaction price***
  The allocation of the total price to performance obligations is done, where possible, on the basis of relative stand-alone selling prices, which may need to be estimated as some performance obligations are never, in practice, sold on their own. Management exercises judgement to determine the best approach for allocating the transaction price to performance obligations where relative stand-alone prices are not readily available as some of the contracts are highly bespoke. The residual method of allocation of the transaction price is used when stand-alone prices are not available

- ***Revenue recognition method for performance obligations where satisfaction is over time***
  The Group uses either output methods or input methods to measure the progress towards completion of a performance obligation satisfied over time, depending on which method is considered to depict the entity's performance. Output methods recognise revenue on the basis of direct measurement of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The output method used by the Group is based on milestones reached. Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. The input method used by the Group is based on costs incurred to date relative to total expected costs, which requires significant judgement. Contracts can be highly bespoke and hence historical cost information is not always useful in estimating future costs. The Group's policies for the recognition of revenue and profit are set out in the revenue recognition policy below.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Critical accounting judgements and key sources of estimation uncertainty - continued

- ***Determination of the lease term***
  Rental contracts are typically made for fixed periods but may have extension options. In these cases, significant judgement is required to ascertain the correct lease term. When assessing whether the Group is reasonably certain to exercise the option to extend the lease, the directors consider all relevant facts and circumstances (both monetary and non- monetary) that create an economic incentive for them to exercise or not exercise that options. They also include any expected changes in facts and circumstances from the commencement date until the exercise date of that option.

  Key sources of estimation uncertainty

- ***Bad debt provision***
  Trade receivables are impaired when the asset meets one of the following criteria: the financial asset is credit-impaired; or credit losses are expected on the asset. Any loss allowance relating to trade receivables has been calculated with reference to historical experience in the recoverability of such receivables, taking into consideration current conditions and forecasts of future economic conditions. The provision for bad debt includes estimated potential credit losses. At 31 March 2020, the Group's bad debt provision was £3,922,029 (2019: £3,004,900). The directors have reviewed the recoverability of trade receivables and deemed them to be recoverable.

- ***Impairment of fixed assets***
  Management tests intangible assets and property, plant and equipment for impairment if and when indicators of impairment arise. Where such an indication exists management estimates the fair value less costs to sell of the assets based on the net present value of future cash flows. The directors have considered whether there are any indicators of impairment to the carrying amount of fixed assets of £8,925,285 (2019: £6,347,067) and concluded that no impairment indicators are present.

- ***Amortisation of development costs***
  Management consider the amortisation period of each development cost asset based on the revenue generating life of each asset, currently considered to be five years.

  Where an asset is not ready for use at the year end and therefore has not been amortised, management perform impairment reviews based upon anticipated future cash flows which are contingent upon successfully securing systems contracts as detailed further in the going concern section of this note.

Research and development
Research expenditure is written off to profit or loss in the year in which it is incurred. Development expenditure is capitalised and amortised over the period during which the Company is expected to benefit, currently considered to be five years. This cost is included as part of administrative expenses within profit or loss.

Development expenditure capitalised represents time spent by Company employees, sub-contractor costs, and any other directly attributable costs incurred in creating the asset for the purposes intended by management, valued at cost. In recognising such development costs as assets consideration is given to each of the following:-

- The technological feasibility of completing the asset so that it may be used or sold
- The intention and ability to use or sell the asset
- How the asset will generate future probable economic benefits, for example by demonstrating that there is a market for the asset's output
- Availability of adequate technical, financial and other resources to complete the development and to use the asset
- The ability to measure reliably the expenditure on the asset during its development.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Once management is satisfied that the above criteria are met the development costs are carried as assets. The amortisation periods of each of the assets is five years, as this is considered to be the revenue generating life of each asset. This period is subject to annual review by management. The AIS technology assets have between 3 and 60 months of amortisation remaining.

Revenue recognition
Revenue is recognised in accordance with the transfer of promised goods or services to customers (i.e. when the customer gains control of the good/service) and is measured as the consideration which the Group expects to be entitled to in exchange for those goods or services. Consideration is typically fixed on the agreement of a contract. Payment terms are agreed on a contract by contract basis.

Contracts include promises to transfer goods and/or services to a customer (i.e. "performance obligations") which are typically indistinct and hence are accounted for together in a single performance obligation. Where multiple performance obligations exist within one contract, the transaction price is allocated between each performance obligation on the basis of past experience, with reference to stand-alone selling prices of each component, and where appropriate by using the residual method approach.

A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. A performance obligation is satisfied over time when the vendor's performance creates an asset under the control of the customer and the customer has an obligation to pay the vendor for performance to date, or when the customer simultaneously receives and consumes the benefits from the performance obligation.

The group recognises revenue from the sale of support services, maintenance and training over the time period to which the services provided relate, as this is considered the best indicator of when the customer receives and consumes the benefit of the service.

The group recognises revenue from the sale of maritime system solutions over the time as the monitoring system is built on the customer's territory and therefore the asset is deemed under the customer's control. The Group uses either output methods or input methods to measure the progress towards completion of a performance obligation satisfied over time, depending on which method is considered to faithfully depict the entity's performance.

Output methods recognise revenue on the basis of direct measurement of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The output method used by the Group companies is based on milestones reached.

Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation. The input method used by the Group is based on costs incurred to date.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Revenue recognition – continued
If revenue is recognised over a period of time, the Group presents as a contract asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retentions are included within 'trade and other receivables'. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses). Contract asset and liability balances fluctuate due to the timing and mix of contracts held across the Group.

The group recognises revenue from the sale of goods and licenses at the point in time that goods are transferred to a customer, which is the point in time that the customer gains control of the goods. This is due to the nature of goods being fairly standardised and hence specific contract accounting does not apply.

Contracts are deemed to be complete, and hence performance obligations fully satisfied, post customer acceptance of the goods. Amounts disclosed as current deferred income reflect revenue that will be recognised on performance obligations that will be satisfied within a year. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, as of the end of the reporting period is £7,567,456 (2019: £16,732,318). This amount will be recognised over the remaining life of the contract.

Property, plant and equipment
Property, plant and equipment are valued at net book value, being the cost less accumulated depreciation. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets concerned. Annual lives of 3-4 years are used for plant and equipment.

Taxation
Where an income tax credit arises, this represents the sum of the tax currently receivable and deferred tax. Current tax is based on taxable profits for the year using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided for on a full provision basis on all temporary differences, which have arisen but not reversed at the statement of financial position date. Temporary differences represent the accumulated 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. Deferred tax is calculated at the tax rates that are expected to apply when the related deferred tax balance is settled. Deferred tax is charged or credited to profit or loss, 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 assets are recognised to the extent that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Pension costs
Contributions to defined contribution schemes are charged to profit or loss as they become payable in accordance with the rules of the scheme.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Foreign currencies
Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the statement of financial position date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in profit or loss.

Inventories
Inventories and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and other subcontracted manufacturing costs. The costs of finished products are expensed to profit or loss to match against the corresponding revenues from those products. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made against slow moving and obsolete inventories to ensure the value at which inventories are held in the statement of financial position is reflective of anticipated future sales patterns.

Share based payments
The Group operates an equity settled share-based compensation plan whereby the Company grants share options to employees of all Group companies. The fair values of the options granted under this plan are calculated using an appropriate valuation model which takes into account assumptions about future events and market conditions. Further details are provided in note 19.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service condition are fulfilled, ending on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest.

In making this judgement consideration must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model, which is dependent on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations.

Financial instruments

Trade receivables and contract assets
Trade receivables and contract assets do not carry any interest and are initially measured at their fair value, and subsequently at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. Trade receivables are impaired when the asset meets one of the following criteria:

- The financial asset is credit-impaired; or
- Credit losses are expected on the asset. Any loss allowance relating to trade receivables has been calculated with reference to historical experience in the recoverability of such receivables, taking into consideration current conditions and forecasts of future economic conditions.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Borrowings
Interest-bearing loans and overdrafts are recorded initially when the proceeds are received. Finance charges are accounted for at amortised cost using the effective interest rate method.

Trade payables
Trade payables are non-interest bearing and are initially measured at their fair value and subsequently at their amortised cost.

Leases

Accounting policy applicable before 1 April 2019
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Accounting policy applicable after 1 April 2019
IFRS 16 was adopted as at 1 April 2019 without restatement of comparative figures (note 17).

A right of use asset and lease liability has been recognised for all leases. The right of use asset has been measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of the costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Group will depreciate the right of use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. Where impairment indicators exist, the right of use asset will be assessed for impairment.

The lease liabilities are measured at the present value of the lease payments due to the lessor over the lease term, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's cost of capital.

After initial measurement, any payments made will reduce the liability and the interest accrued will increase it. Any reassessment or modification will lead to a remeasurement of the liability. In such cases, the corresponding adjustment will be reflected in the right of use asset, or profit or loss if the right of use asset is already reduced to zero.

On the statement of financial position, right of use assets have been included in property, plant and equipment.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

1 ACCOUNTING POLICIES – CONTINUED

Changes in accounting policies and disclosures

Amendments to IFRS which apply for the first time in the period
The Group has adopted "IFRS 16 – Leases" for the first time this period. This new standard has changed the recognition and measurement of leases and also required additional disclosures which have been provided in note 17.

New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 April 2019

The following new and amended Standards and Interpretations are not currently relevant to the Group or Company; however, they may have a significant impact in future years:

- IFRIC 23 "Uncertainty over Income Tax Treatments"
- Amendment to IFRS 9 "Prepayment Features with Negative Compensation"
- Amendment to IAS 28 "Investments in Associates and Joint Ventures"
- Amendment to IAS 19 "Employee Benefits"
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 in "Annual Improvements 2015-2017 cycle"

New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 April 2019

Amendments have been made to IAS1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" in the definition of material. The amendments clarify the definition of what is material to the financial statements and how to apply the definition.

The amendments will have an impact on the presentation and disclosure in the financial statements. After applying the new definition, the financial statements may have less disclosure as it will enable clearer decisions on materiality to be taken. The additional guidance on the effect of obscuring information will improve the overall presentation in the accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

2 REVENUE AND SEGEMENT INFORMATION

Business and Geographical Segments
The directors have given due consideration to the requirements of IFRS 8 and the components of the Group which management use to make decisions about operating matters and internal reports that are regularly reviewed by the chief operating decision maker, which is considered to be the board of directors.

As in previous years, it has been concluded by management and the board that the organisation is structured as a single business segment, the Marine technology business. The Marine technology business is the segment which provides solutions to solve the problem of maritime domain awareness, both products and systems and which reflects the results presented in the primary statements. Individual contracts are specifically considered by management and the board if their magnitude is considered significantly large to warrant such consideration.

From a geographical perspective, the Group earns revenue from a number of countries as set out below:

Revenue by geographical destination:	**2020**	**2019**
	£	**£**
Europe	5,592,199	4,405,024
Middle East	25,752	145,084
North America	679,322	478,657
UK	1,029,501	977,820
South East Asia	11,275,045	14,178,393
Other	306,243	374,721
	18,908,062	20,559,699

Included within revenue are 2 customers (2019: 2) with an amount exceeding 10% of the Group's total revenue. In both years, these customers were within the Marine business segment. Sales to the Group's largest customer from the Philippines amounted to £10,782,128 and to the second largest customer from Belgium amounted to £3,091,427 (2019: largest customer from Philippines amounted to £13,818,251 and second largest customer from Belgium amounted to £1,648,246).

Revenue from the Group's largest customer in the Philippines is recognised over time whilst all other revenue is recognised at a point in time.

3 IMPAIRMENT CHARGE

During the year, the Group has incurred an exceptional impairment charge of £3,922,029 in respect of a contract signed in 2017 to supply a national vessel tracking system for a Middle East Coast Guard.

The impairment charge relates to the receivables balance which has now been fully provided against (note 14).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

4 DIRECTORS' EMOLUMENTS

The remuneration of the individual Directors was as follows:

Year ended 31 March 2020	Salary £	Bonus £	Pension £	Total £
Executive Directors				
S Tucker	225,000	-	-	225,000
N Peniket	150,000	-	7,063	157,063
R Hurd	110,000	-	5,500	115,500
Non Executive Directors				
K Finn	50,000	-	-	50,000
S Barrell	27,000	-	-	27,000
S Rogers	20,000	-	-	20,000
Total	582,000	-	12,563	594,563

Year ended 31 March 2019	Salary £	Bonus £	Pension £	Total £
Executive Directors				
S Tucker	184,000	68,214	-	252,214
N Peniket	115,000	42,634	5,750	163,384
R Hurd	90,000	33,365	4,500	127,865
Non Executive Directors				
K Finn	50,000	-	-	50,000
S Rogers	20,000	-	-	20,000
Total	459,000	144,213	10,250	613,463

Share options at 31 March 2020

	Total options	Exercise price	Expiry date
Executive Directors			
S Tucker	1,500,000	0.1p	8 August 2026
S Tucker	2,200,000	9p	18 February 2020
N Peniket	750,000	0.1p	8 August 2026
R Hurd	450,000	0.1p	8 August 2026
R Hurd	500,000	20p	18 December 2022

Share options at 31 March 2019

	Total options	Exercise price	Expiry date
Executive Directors			
S Tucker	1,500,000	0.1p	8 August 2026
S Tucker	2,200,000	9p	18 February 2020
N Peniket	750,000	0.1p	8 August 2026
N Peniket	1,300,000	2.5p	20 July 2019
R Hurd	450,000	0.1p	8 August 2026
R Hurd	500,000	20p	18 December 2022
R Hurd	75,000	2.5p	20 July 2019

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

4 DIRECTORS' EMOLUMENTS - CONTINUED

Those options granted at an exercise price of 0.1p vest in three equal tranches dependent on the Company's share price. The first tranche vests when the share price has exceeded 50p. This occurred during the year ended 31 March 2017 and so the first tranche has vested and is exercisable. The second and third tranches vest on the same basis but with thresholds of 75p and £1.25. These criteria have not been met and as such those options have not yet vested and are not exercisable. The criteria for all other executive share options have been met and therefore all are exercisable immediately.

During the year, N Peniket exercised 1,300,000 share options at an exercise price of 2.5p and R Hurd exercised 75,000 options, also at an exercise price of 2.5p. There were no other movements from the previous year.

An insurance premium of £4,495 (2019: £4,092) was paid in respect of directors' and officers' liability. Retirement benefits are accruing to two directors (2019: two) under the money purchase pension scheme.

5 EMPLOYEE INFORMATION

The average number of persons, including directors, employed by the Group during the year was:

	2020 No.	2019 No.
Technical	49	36
Administration and sales	21	22
	70	58

Staff costs for the above persons were:	**2020** **£**	**2019** **£**
Wages and salaries	2,436,547	2,215,887
Social security costs	297,268	241,137
Pension costs - defined contributions	97,084	70,132
	2,830,899	2,527,156

Total amounts payable for wages and salaries exclude costs capitalised as development expenditure within intangible assets, amounting to £1,425,420 (2019: £1,058,461). Total amounts payable for wages and salaries exclude a credit of £1,125 (2019: charge of £96,257) in respect of share-based payment charges.

The Company employed an average of 7 persons within administration, sales and other (2019: 7) with total wages and salaries of £645,601, (2019: £731,053), including social security costs of £46,667 (2019: £64,367) and pension costs of £9,589 (2019: £7,358). The wages and salaries of the Company also include a credit of £1,125 (2019: charge of £96,257) in respect of share-based payment charges.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

6 FINANCE INCOME AND EXPENDITURE

Group	**2020** **£**	**2019** **£**
Bank interest payable	824	11,171
Interest on lease liabilities	63,816	-
Other interest payable	399,899	264,024
Total interest payable	464,539	275,195
Bank interest receivable	(1,430)	(363)

7 OPERATING (LOSS) / PROFIT

Operating (loss) / profit for the year is stated after charging/(crediting):	**2020** **£**	**2019** **£**
Inventories recognised as an expense	14,335,666	10,906,353
Amortisation of intangible assets	1,818,352	1,288,132
Depreciation	389,997	107,253
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the parent Company's accounts	24,000	22,000
Fees payable to the Company's auditor for other services:		
- audit of the Company's subsidiaries	55,500	42,285
- audit-related assurance services	4,000	11,670
- tax compliance services	16,250	15,900
- tax advisory services	4,000	4,500
Exchange gain	(834,416)	(271,946)
Operating lease rentals - land & buildings	-	124,262
Research costs not capitalised	153,403	153,704

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

8 TAXATION

Income tax credit	**2020**	**2019**
UK corporation tax at 19% (2019: 19%):	**£**	**£**
Adjustments in respect of prior periods	201,926	449,094
Deferred tax credit / (charge)	616,481	(218,391)
Total tax credit for the year	818,407	230,703
Factors affecting tax charge for the year		
(Loss) / profit on ordinary activities before tax	(6,897,429)	3,177,668
(Profit) / loss on ordinary activities multiplied by standard rate of corporation tax in the UK 19% (2019: 19%)	1,310,512	(603,757)
Effects of:		
Expenses not deductible for tax purposes	(1,900)	(20,921)
Other differences	(96,138)	144,521
Additional deduction for R&D expenditure	496,798	343,975
Patent Box additional deduction	-	23,923
Adjustment to tax charge in previous periods	201,926	449,094
Adjustment to tax charge in previous periods - deferred tax	(240,746)	(511,752)
Temporary differences in relation to share options	(64,264)	157,723
Deferred tax not recognised	(787,781)	252,683
Effect of change of tax rates	-	(4,786)
Tax credit for the year	818,407	230,703
Losses carried forward	16,334,550	6,422,751
Movement in deferred tax asset:		
At 1 April, 2019	(54,297)	(272,688)
Deferred tax charge	(616,481)	218,391
At 31 March, 2020	(670,778)	(54,297)
Deferred tax asset:		
Fixed asset temporary differences	1,477,684	1,054,797
Short term temporary differences	-	(363,867)
Losses and other deductions	(2,148,462)	(745,227)
Deferred tax asset	(670,778)	(54,297)
Unprovided deferred tax:		
Fixed asset temporary differences	-	(15,333)
Short term temporary differences	(165,634)	3
Losses and other deductions	(955,103)	(237,353)
Unprovided deferred tax asset	(1,120,737)	(252,683)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

8 TAXATION - CONTINUED

The deferred tax asset has not been provided for due to uncertainties surrounding the recoverability of a significant element of the losses. The planned reduction in tax rate to 17% from 1 April 2020 has been repealed by Finance Act 2020. Deferred tax has been calculated at 19%.

9 COMPANY LOSS FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 not to publish its individual income statement. The loss for the year ended 31 March 2020, dealt with in the financial statements of the Company, was £892,912 (2019: loss £878,457). The Company made no gains or losses which would be reported in other comprehensive income in the years ended 31 March 2020 and 2019 and therefore the Company has not published its individual Statement of Comprehensive Income.

10 INTANGIBLE ASSETS

	Patent	Development costs	Goodwill	Total
	£	£	£	£
Cost				
At 1 April 2018	54,160	16,371,086	633,645	17,058,891
Additions	-	1,690,516	-	1,690,516
At 31 March 2019	54,160	18,061,602	633,645	18,749,407
Additions	-	2,970,031	-	2,970,031
At 31 March 2020	54,160	21,031,633	633,645	21,719,438
Amortisation				
At 1 April 2018	54,160	10,781,912	-	10,836,072
Charge for the year	-	1,288,132	-	1,288,132
At 31 March 2019	54,160	12,070,044	-	12,124,204
Charge for the year	-	1,818,352	-	1,818,352
At 31 March 2020	54,160	13,888,396	-	13,942,556
Net book value				
At 31 March 2020	-	7,143,237	633,645	7,776,882
At 31 March 2019	-	5,991,558	633,645	6,625,203
At 1 April 2018	-	5,589,174	633,645	6,222,819

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination identified according to operating segments. The carrying amount of goodwill has been allocated to the Marine CGU.

The recoverable amount of the goodwill has been determined based on a value in use calculation. That calculation uses cash flow projections covering a three-year period, and a discount rate of 6.5%. Management estimated the discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the market in which the Marine CGU operates.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

10 INTANGIBLE ASSETS - CONTINUED

The main assumption in the cash flow projections is the budgeted sales which have been determined using in-house estimates based upon detailed discussions with the Group's customers and risk discounts applied where necessary.

Management have concluded, based on its forecasts and the net present value of its forecast future cash flows, that there is no recognised impairment. None of the goodwill is expected to be tax deductible.

Development costs in respect of assets not in use are subject to an impairment review.

The patent is the only intangible asset owned by the Company.

11 PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment		Land & Buildings	
Group	**Owned assets £**	**Right of Use assets £**	**Right of Use assets £**	**Total £**
Cost				
At 1 April 2018	952,770	-	-	952,770
Additions	285,283	-	-	285,283
At 31 March 2019	1,238,053	-	-	1,238,053
Adjustment on adoption of IFRS 16 (note 17)	-	31,945	1,308,373	1,340,318
Additions	529,021	216,983	-	746,004
At 31 March 2020	1,767,074	248,928	1,308,373	3,324,375
Depreciation				
At 1 April 2018	775,291	-	-	775,291
Charge for the year	107,253	-	-	107,253
At 31 March 2019	882,544	-	-	882,544
Adjustment on adoption of IFRS 16 (note 17)	-	7,098	262,688	269,786
Charge for the year	200,342	74,092	115,563	389,997
At 31 March 2020	1,082,886	81,190	378,251	1,542,327
Net book value				
At 31 March 2020	684,188	167,738	930,122	1,782,048
At 31 March 2019	355,509	-	-	355,509
At 1 April 2018	177,479	-	-	177,479

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

11 PROPERTY, PLANT AND EQUIPMENT - CONTINUED

Company	Plant & Equipment		Land & Buildings	
	Owned assets £	Right of Use assets £	Right of Use assets £	Total £
Cost				
At 1 April 2018	233,886	-	-	233,886
Additions	119,548	-	-	119,548
At 31 March 2019	353,434	-	-	353,434
Adjustment on adoption of IFRS 16 (note 17)	-	31,945	495,206	527,151
Additions	182,134	216,983	-	399,117
At 31 March 2020	535,568	248,928	495,206	1,279,702
Depreciation				
At 1 April 2018	206,580	-	-	206,580
Charge for the year	31,752	-	-	31,752
At 31 March 2019	238,332	-	-	238,332
Adjustment on adoption of IFRS 16 (note 17)	-	7,099	150,330	157,429
Charge for the year	46,906	74,091	35,372	156,369
At 31 March 2020	285,238	81,190	185,702	552,130
Net book value				
At 31 March 2020	250,330	167,738	309,504	727,572
At 31 March 2019	115,102	-	-	115,102
At 1 April 2018	27,306	-	-	27,306

The corresponding leases in respect of the above right of use assets are disclosed in note 17.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

12 INVESTMENT IN SUBSIDIARIES – COMPANY

Cost - Shares in group undertakings	**£**
At 31 March 2020 and 2019	932,593

Holdings of more than 20%

The Company holds more than 20% of the share capital of the following companies:

Subsidiary	**Country of Incorporation**	**Shares held Class**	**%**
SRT Marine Technology Limited	UK	Ordinary	100
Em-trak Marine Electronics Limited*	UK	Ordinary	100
SRT Software Development (India) Private Limited*	India	Ordinary	100
SRT Marine Systems SAS*	France	Ordinary	100
Software Radio Technology Limited*	UK	Ordinary	100
SRT Marine System Solutions Limited	UK	Ordinary	100

* not consolidated as non-trading

The address of the above entities is the same as the Registered Office of the parent Company, SRT Marine Systems plc as given on page 2 except for SRT Marine Systems SAS whose address is SNCF Station, 14 rue de Dunkerque, 75010 Paris, France. The principal activities of these undertakings for the last relevant financial year were as follows:

Subsidiary	**Principal activity**
SRT Marine Technology Limited	Sale, development and licensing of maritime communication products
Em-trak Marine Electronics Limited	Non-trading
Software Radio Technology Limited	Non-trading
SRT Marine System Solutions Limited	Development & supply of real time maritime domain tracking systems
SRT Marine Systems SAS	Non-trading
SRT Software Development (India) Private Limited	Non-trading

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

13 INVENTORIES

Group	2020 £	2019 £
Raw materials and consumables	982,238	1,080,281
Finished goods	946,492	1,154,097
	1,928,730	2,234,378

14 TRADE AND OTHER RECEIVABLES

Group	2020 £	2019 £
Trade receivables	15,474,537	15,065,778
Other receivables	220,184	128,791
Prepayments and accrued income	263,813	2,817,710
	15,958,534	18,012,279

As at 31 March 2020 and 31 March 2019 the following movements in the provision account for credit losses were recognised during the year:-

Group	2020 £	2019 £
Balance at 1 April	3,004,900	3,091,929
Impairment during the year (note 3)	3,922,029	-
Other amounts charged during the year	(3,004,900)	6,130
Amounts written off during the year	-	(93,159)
	3,922,029	3,004,900

The other amounts charged during the year relate to a contract to supply an MDM system in SE Asia which was fully provided for in the year ended 31 March 2018.

As at 31 March 2020 trade receivables of £300,745 (2019: £1,269,817) were past due but not impaired. The provision for bad and doubtful debts includes estimated potential credit losses.

The ageing analysis of these trade receivables is as follows:-

Group	2020 £	2019 £
Up to 3 months past due	281,394	112,116
3 to 6 months past due	1,145	7,835
Over 6 months past due	18,206	1,149,866
	300,745	1,269,817

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

14 TRADE AND OTHER RECEIVABLES - CONTINUED

Company	**2020**	**2019**
	£	**£**
Amounts owed by group undertakings	14,821,436	13,163,900
Prepayments and accrued income	119,270	86,707
Other receivables	45,519	40,493
	14,986,225	13,291,100

The amounts owed by group undertakings are unsecured, interest free and have no fixed dates for repayment. Prepayments and accrued income and other receivables do not contain impaired assets.

15 TRADE AND OTHER PAYABLES

Group	**2020**	**2019**
	£	**£**
Trade payables	2,267,228	1,236,238
Other tax and social security payable	246,390	108,906
Other payables	15,878	22,910
Accruals and deferred income	6,514,958	4,950,933
	9,044,454	6,318,987

Company	**2020**	**2019**
	£	**£**
Trade payables	334,284	274,212
Other tax and social security payable	36,096	15,012
Accruals and deferred income	141,892	212,127
	512,272	501,351

The amounts owed to group undertakings are unsecured, interest free and have no fixed dates for repayment. The directors consider that the carrying amount of trade and other payables approximates to fair value.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

16 FINANCIAL LIABILITIES

Group & Company	**2020**	**2019**
	£	**£**
Less than one year:		
Other loans	4,990,000	-
More than one year:		
Other loans	-	4,990,000

Other loans all relate to drawdowns on a £10 million secured loan note programme which has been arranged by LGB Corporate Finance and which is secured by a floating charge over the Group's assets. The loans have a 3-year term and an interest rate of 8%.

The loans have maturity dates as follows:

	£
December 2020	2,000,000
June 2021	1,150,000
March 2020	1,840,000
	4,990,000

The loans are subject to covenants relating to gearing as at 31 March 2018 and beyond, and debt service cover as at 31 March 2019 and beyond.

During the year ended 31 March 2020 the covenant in relation to debt service cover was breached and a waiver from loan note holders was obtained subsequent to the year end on April 3, 2020. Due to the waiver not being received prior to the year end, IAS 1 requires that the loans are all classified as being repayable in less than one year, despite their maturity dates.

The gearing covenant was not breached as at 31 March 2020.

There are no material differences between the fair value of all borrowings and their actual book value.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

17 LEASE LIABILITIES

Group	**2020**	**2019**
	£	**£**
Lease liabilities:		
Current	202,445	18,055
Non current	1,067,741	26,981
	1,270,186	45,036

Company	**2020**	**2019**
	£	**£**
Lease liabilities:		
Current	131,506	18,055
Non current	473,679	26,981
	605,185	45,036

During the year, the Group has adopted IFRS 16 which eliminates the classification of leases as operating leases or finance leases and treats all in a similar way to finance leases. It replaced IAS 17 leases and related interpretations. The group has long term property and office equipment leases with lease terms varying between 3 and 20 years. Liabilities for such leases are recognised and measured at the present value of the remaining lease payments. For new leases there are discounted using the rate implicit in the lease when readily determinable, for other leases, including those at transition, these are discounted using the incremental borrowing rate (IBR) relevant for the lease. The weighted average IBR applied to leases was 5%. A right of use asset has been recognised using the modified retrospective approach as if the new rules had always been applied.

The Group has adopted IFRS 16 using the modified retrospective method (including appropriate practical expedients) with the effect of initially applying this standard recognised at the date of initial application (ie 1 April 2019). Accordingly, the information presented for the year ended 31 March 2019 has not been restated i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The impact of transition to IFRS 16 on retained earnings at 1 April 2019 wholly relates to the change in policy for the recognition of long term property and office equipment leases and amounts to a decrease in retained earnings of £93,360 for the group and £68,578 for the company.

Measurement of lease liability	**2019**
	£
Operating lease commitments disclosed at 31 March 2019	774,570
Leases previously not recognised	592,000
Restated lease commitments at 31 March 2019	1,366,570
Discounted using the incremental borrowing rate at 1 April 2019	(157,542)
Lease liability recognised at 1 April 2019	1,209,028

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

18 CALLED UP SHARE CAPITAL

Allotted: Ordinary shares of 0.1p each	**2020 No.**	**2019 No.**
Number of shares allotted	154,843,919	153,222,419
	£	**£**
Value of shares allotted	154,844	153,223

Reconciliation of movements in share capital:	**No.**
Shares outstanding at 31 March 2018	127,742,419
Share placing May 2018 (a)	12,000,000
Share placing January 2019 (b)	13,400,000
Exercise of share options (c)	80,000
Shares outstanding as at 31 March 2019	153,222,419
Exercise of share options (d)	1,621,500
Shares outstanding as at 31 March 2020	154,843,919

Notes:

a) The placing in May 2018 took place at 25p per share raising gross proceeds of £3,000,000 before costs of £155,239.

b) The placing in January 2019 took place at 30p raising gross proceeds of £4,020,000 before costs of £245,587.

c) 50,000 share options were exercised at a price of 23p in December 2018 and 30,000 at a price of 0.1p in March 2019.

d) 35,000 share options were exercised at a price of 0.1p in April 2019 and a further 1,375,000 at a price of 2.5p in the same month. 152,500 options were exercised at a price of 0.1p in June 2019. 9,000 options were exercised at a price of 2.5p in July 2019. 30,000 options were exercised at a price of 0.1p in October 2019 and a further 20,000 at the same price in December 2019.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

19 SHARE BASED PAYMENT

The Company operates an Enterprise Management Incentive share option scheme and a Non-Enterprise Management Incentive scheme for directors and employees. The general terms of the schemes are that awards are made once an employee has completed a minimum of six months' service with the Company. The awards made to employees are at the discretion of the Management Team and those to the directors at the discretion of the Remuneration Committee.

The options are expected to vest over a period of up to four years and the maximum exercise period for the options is ten years from the date of grant. Upon vesting the options are equity settled. Details of the share options outstanding during the year and previous year are as follows:-

	No. of options	**Weighted average exercise price**
Balance at 1 April 2018	8,353,000	6.5p
Granted during the year	100,000	0.1p
Exercised during the year	(80,000)	14.4p
Lapsed during the year	(230,000)	10.2p
Balance at 31 March 2019	8,143,000	6.3p
Granted during the year	40,000	31.5p
Exercised during the year	(1,621,500)	2.1p
Lapsed during the year	(62,500)	0.1p
Balance at 31 March 2020	6,499,000	7.5p
Balance exercisable at 31 March 2020	4,532,000	10.0p
Balance exercisable at 31 March 2019	6,025,500	8.1p

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

19 SHARE BASED PAYMENT - CONTINUED

The value of the options granted during the year has been measured by using the Black Scholes pricing model as adjusted where applicable for market-based performance criteria. The inputs into the Black Scholes model included an expected life of 3 years as well as the relevant share price, exercise price, volatility and risk-free rate at the date of grant. The options granted during the year had an exercise price of 0.1p and a share price on the date of issue was 55p.

Expected volatility was determined by referencing volatility data received and using historical data for similar sized companies over the previous five years and amounted to 78% for the grant made during the year. Risk free rates were determined using government bonds and amounted to 0.78%. The expected dividend yield was 0%.

For share options outstanding at the year end, vesting criteria and dates and expiry dates are as set out below.

Vesting date/criteria	Number issued	Exercise price	Expiry date
Vested and exercisable immediately	2,200,000	9p	Feb 2020
Vested and exercisable immediately	30,000	32p	Oct 2021
Vested and exercisable immediately	500,000	20p	Dec 2022
Vested and exercisable immediately	180,000	18p	Dec 2022
Vested and exercisable immediately	60,000	23p	Jan 2023
Vested and exercisable immediately	174,000	25p	Dec 2023
Vested and exercisable immediately	50,000	29p	Feb 2025
Vested and exercisable immediately	160,000	26p	Dec 2025
Vested and exercisable immediately	900,000	0.1p	Aug 2026
Vested and exercisable immediately	225,000	0.1p	Dec 2026
Vested and exercisable immediately	20,000	0.1p	Feb 2027
Vested and exercisable immediately	33,000	0.1p	May 2028
Share price criteria not met	30,000	37p	May 2021
Share price criteria not met	30,000	23p	May 2021
Share price criteria not met	1,800,000	0.1p	May 2026
Not exercisable before:			
May 2020	33,000	0.1p	May 2028
December 2020	40,000	31.5p	Dec 2029
May 2021	34,000	0.1p	May 2028
Total outstanding options	6,499,000		

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

20 RESERVES

Reserves for the Group and Company are set out in the Statement of Changes in Equity on pages 26 and 27 respectively. Other reserves consist of a capital redemption reserve, warrant reserve and a merger reserve as set out below:

	Capital redemption reserve £	Warrant reserve £	Merger reserve £	Total £
At 31 March 2018, 2019, 2020	2,857	62,400	5,425,339	5,490,596

The capital redemption reserve arose on 8 March 2005 when 285,714 deferred 1p shares with an aggregate nominal value of £2,857 were repurchased by Software Radio Technology (UK) Limited for the aggregate consideration of 1p. The merger reserve arose on 19 October 2005 when SRT Marine Systems plc acquired the entire share capital of Software Radio Technology (UK) Limited by means of a share for share exchange. The warrant reserve arose on Software Radio Technology plc listing on the London Alternative Investment Market in November 2005 when for everyone share issued one warrant was also issued. This reserve represents the other reserve within the Company.

Retained earnings represent the profits that the Group and Company has earned to date less dividends paid to shareholders. Share premium represents the difference between the subscription and issue price of shares and their nominal value less any associated costs.

21 RELATED PARTY TRANSACTIONS

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the directors of SRT Marine Systems plc. The compensation of the directors of SRT Marine Systems plc is disclosed in note 4. In addition, a total share-based payment expenses of £1,935 (2019: £37,195) was recognised during the year in respect of share options granted to directors, together with an aggregate charge relating to directors' employer's national insurance contributions of £84,688 (2019: £69,538).

During the year, there were expenses charged from the Company to its subsidiaries which are related parties for services provided. These transactions amounted to £1,042,470 (2019: £843,000). As at 31 March 2020, the Company had an outstanding receivables balance from SRT Marine Technology Ltd of £5,140,221 (2019: £10,443,977) and an outstanding receivables balance with SRT Marine System Solutions Ltd of £9,681,215 (2019: £2,717,687).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

22 CASH GENERATED FROM OPERATIONS

Group	**2020**	**2019**
	£	**£**
Operating (loss) / profit before exceptional item	(2,512,291)	3,452,500
Depreciation of property, plant and equipment	389,997	107,253
Amortisation of intangible fixed assets	1,818,352	1,288,132
Share based payment (credit) / charge	(1,125)	96,257
Decrease in inventories	305,648	1,209,307
Increase in trade and other receivables	(1,868,283)	(13,579,279)
Increase in trade and other payables	2,725,467	3,789,357
	857,765	(3,636,473)

Company	**2020**	**2019**
	£	**£**
Operating loss	(464,846)	(603,548)
Depreciation of property, plant and equipment	156,369	31,752
Share based payment (credit) / charge	(1,125)	96,257
Decrease/ (increase) in trade and other receivables	(37,589)	46,390
(Increase) in amounts owed by/to group undertakings	(1,657,536)	(5,139,966)
Increase / (decrease) in trade and other payables	10,921	(319,477)
	(1,993,806)	(5,888,592)

23 BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

The basic (loss) / earnings per share has been calculated on the loss on ordinary activities after taxation of £6,079,022 (2019: profit £3,408,371) divided by the weighted number of ordinary shares in issue of 154,742,293 (2019: 140,059,460).

During the year, the Group incurred a loss on ordinary activities after taxation and therefore there is no dilution of the impact of the share options granted.

During the previous year, the calculation of diluted earnings per share has been calculated on profit on ordinary activities after taxation of £3,408,371. It assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of subscription rights to outstanding share options. The number of dilutive shares under option was 4,237,894 and the weighted average number of ordinary shares for the purposes of dilutive earnings per share was 144,297,354.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

24 FINANCIAL INSTRUMENTS

The Group and Company's financial instruments comprise cash and cash equivalents, borrowings lease liabilities and items such as trade payables and trade receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group and Company's operations.

The Group and Company's operations expose it to a variety of financial risks including credit risk, interest rate risk and foreign currency exchange rate risk. Given the size of the Group and Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Company's finance department.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The Company had no trade receivables at 31 March 2020 (2019: £nil). The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by each subsidiary's management team. The carrying amount of financial assets represents the maximum credit exposure.

The maximum credit exposure to credit risk has increased significantly during the year due primarily to balances outstanding from the group's largest customer. This largest customer represents 96% (2019: 87%) of trade receivables. Other than that, the Group has no material credit risk concentration as it maintains a geographically diverse customer base. None of these balances were overdue as at 31 March 2020. The maximum credit exposure as at the reporting date was:-

	2020	**2019**
	£	**£**
Trade receivables	15,474,537	15,065,778
Cash and cash equivalents	918,808	3,942,167
	16,393,345	19,007,945

The Company has cash and cash equivalents of £105,237 (2019: £2,769,540).

Interest rate risk

The Group and Company have interest bearing assets and liabilities which comprise of cash and cash equivalents and medium term loans (see note 16) and lease liabilities (note 17) which earn or incur interest at a fixed rate.

The Group and Company have not entered into any derivative transactions during the period under review.

The Group and Company's cash and cash equivalents earned interest at a variable rate totalling £1,430 (2019: £363) during the year. Interest payable on the short and medium term loans at a variable rate amounted to £400,273 (2019: £275,196) for the Group and Company together with interest on lease liabilities of £63,816 (2019: £nil).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

24 FINANCIAL INSTRUMENTS - CONTINUED

Foreign currency exchange rate risk
The Group is exposed to foreign currency exchange rate risk as a result of trade payables and trade receivables which will be settled in US Dollars, Euros and Philippine Peso. The Company had no material exposure to foreign exchange risk. During the year the Group did not enter into any arrangements to hedge this risk, as the directors did not consider the exposure to be significant. The Group will review this policy as appropriate in the future.

The Group's currency exposure comprises monetary assets and liabilities that are denoted in currencies other than sterling, principally those denominated in US Dollars, Euros and Philippine Peso. Such transactions give rise to net currency gains and losses recognised in profit or loss.

At the year end this exposure comprised £695,539 (2019: £4,497,013) of assets denominated in US Dollars, £290,338 (2019: £364,218) of assets denominated in Euros and £14,915,726 (2019: £13,856,691) of assets denominated in Philippine Peso. Furthermore, the Group at year end had £579,838 (2019: £294,869) of liabilities denominated in US Dollars, £60,798 (2019: £9,620) of liabilities denominated in Euros and £7,757,552 (2019: £ nil) of liabilities denominated in Philippine Peso.

The table below illustrates the hypothetical sensitivity of the Group's reported profits and equity to a 10% increase and decrease in the US dollar/Sterling, Euro/Sterling and Philippine Peso/Sterling exchange rates at the year-end date assuming all other variables remain unchanged. The sensitivity rate of 10% represents the Directors assessment of a reasonable possible change.

Positive figures represent an increase in profit and equity.

Year-end exchange rates applied in the analysis below are US Dollar 1.24 (2019: 1.30), Euro 1.12 (2019: 1.16) and Philippine Peso 62.60 (2019: 68.64).

	2020	2019
Sterling strengthens by 10%	**£**	**£**
US Dollar	(10,518)	(382,013)
Euro	(20,867)	(32,236)
Philippine Peso	(650,743)	(861,081)
Sterling weakens by 10%		
US Dollar	11,570	420,214
Euro	22,954	35,460
Philippine Peso	715,817	947,190

25 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders. The Group defines capital as being share capital plus reserves. The Group is not subject to any externally imposed capital requirements, except as disclosed in note 16.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020

26 OPERATING LEASE COMMITMENTS

As at 31 March 2019, the Group had operating lease commitments in respect of properties and equipment for which the payments extend over a number of years:

Group	**2019**
	£
Due:	
Within one year	129,708
Between two and five years	378,908
After five years	265,954
	774,570

27 FINANCIAL COMMITMENTS

As at 31 March 2020, the Group had financial purchase order commitments with its contract manufacturer amounting to £921,074 (2019: £910,185).

28 SUBSEQUENT EVENTS

In April, the Group completed a COVID-19 resilience financing, raising a total amount of £5,302,005 in loans and equity.

The company raised £1,802,050 from investors following a placing of 7,208,020 shares at a price of 25p. Furthermore, it raised an additional £2,500,000 from a bank loan, provided under the UK government Coronavirus Business Interruption Loan Scheme (CBILS) repayable in one year, together with a further £1,000,000 drawn-down from its loan note programme and repayable after three years.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your ordinary shares in the Company, please forward this document to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Please note that in light of the current UK Government measures around COVID-19 and the Company's desire to protect the health and safety of our directors and officers, shareholders and employees, our AGM this year is expected to be held as a closed meeting and shareholders will not be permitted to attend in person. Attendance will be limited, such that the legal requirements for a quorum to hold the AGM will be satisfied through the attendance of two directors who are also shareholders. Therefore we strongly recommend that shareholders vote by using the Form of Proxy instead of attending the AGM in person. The Form of Proxy must be completed and returned not less than 48 hours before the time of the holding of the AGM.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting ("AGM") of SRT Marine Systems plc (the "Company") will be held at Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS at 11.00 a.m. on 15 October 2020.

The business of the AGM will be to consider and, if thought fit, pass the following resolutions. Resolutions 1 to 6 (inclusive) are proposed as ordinary resolutions. Resolution 7 is proposed as a special resolution.

ORDINARY RESOLUTIONS

1. To receive the audited annual accounts and reports of the Company for the financial year ended 31 March 2020.

2. To re-appoint Nexia Smith & Williamson Audit Limited as the auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company.

3. To authorise the directors of the Company to determine Nexia Smith & Williamson Audit Limited's remuneration as the auditors of the Company.

4. To re-appoint Simon Tucker as a director of the Company.

5. To re-appoint Kevin Finn as a director of the Company.

6. THAT the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot shares, and to grant rights to subscribe for or to convert any security into shares up to an aggregate nominal amount of £54,751 provided that this authority shall expire (unless previously varied as to duration, revoked or renewed by the Company in general meeting) 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2021, except that the Company may before such expiry make any offer or agreement which would or might require relevant shares to be allotted or such rights to be granted after such expiry and the directors may allot shares or grant such rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired, and this authority shall be in substitution of any such previous authorities.

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

SPECIAL RESOLUTION

7. THAT subject to the passing of resolution 6, the directors be empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of that Act) for cash pursuant to the general authority conferred on them by resolution 6 above and/or to sell equity securities held as treasury shares for cash pursuant to section 727 of the Companies Act 2006, in each case as if section 561 of that Act did not apply to any such allotment or sale, provided that this power shall be limited to:

(a) any such allotment and/or sale of equity securities in connection with an offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the directors, to holders of ordinary shares (other than the Company) on the register on any record date fixed by the directors in proportion (as nearly as may be) to the respective number of ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(b) any such allotment and/or sale, otherwise than pursuant to sub-paragraph (a) above, of equity securities having, in the case of ordinary shares, an aggregate nominal value or, in the case of other equity securities, giving the right to subscribe for or convert into ordinary shares having an aggregate nominal value, not exceeding the sum of £16,425.

This authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the directors by resolution 6 above expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

The directors believe that the proposed resolutions to be put to the meeting are in the best interests of shareholders as a whole and recommend that shareholders vote in favour of all the resolutions, as they intend to do in respect of their own beneficial shareholdings in the Company.

On behalf of the Board

Richard Hurd
Company Secretary
September 4th 2020

Registered Office:
Wireless House, Westfield Industrial Estate,
Midsomer Norton, Bath BA3 4BS

Registered in England and Wales No. 05459678

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

Notes:

In light of the current UK Government measures around COVID-19 and the Company's desire to protect the health and safety of our directors and officers, shareholders and employees, our AGM this year is expected to be held as a closed meeting and shareholders will not be permitted to attend in person. Shareholders are strongly advised to appoint the chairman of the meeting when submitting a proxy.

1. A shareholder is entitled to appoint another person as that shareholder's proxy to exercise all or any of that shareholder's rights to attend and to speak and vote at the AGM. A shareholder may appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy does not need to be a shareholder of the Company. As stated above, this year in light of the restrictions on physical attendance at the AGM, we strongly recommend that you appoint the Chairman of the meeting as your proxy in order for your vote to be counted at the AGM. At the date of this Notice, any other proxies appointed will not be permitted to attend the AGM.

2. A form of proxy for use in connection with the AGM is enclosed with this document. Completion and return of a form of proxy will not prevent a shareholder from attending and voting at the AGM in person if he/she wishes to do so, although please note that, as our AGM this year is expected to be held as a closed meeting, you will not be permitted to attend the AGM in person. Addresses (including electronic addresses) in this document are included strictly for the purposes specified and not for any other purpose.

3. To appoint a valid proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or any other authority under which it is signed, or a notarially certified copy of such authority, to the Company Secretary at the Company's offices at SRT Marine Systems plc, Wireless House, Westfield Industrial Estate, Midsomer Norton, Bath BA3 4BS, or (b) a CREST Proxy Instruction (see note 5 below) in each case no later than 48 hours before the time fixed for holding the meeting or any adjournment thereof (excluding any part of a day that is not a working day).

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed any voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual (available at www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent by the latest time for receipt of proxy appointments set out in paragraph 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders included in the register of members of the Company at 6.00 p.m. on 13 October 2020 or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the time of the adjourned meeting (excluding any part of a day that is not a working day), will be entitled to attend and to vote at the AGM in respect of the number of shares registered in their names at that time. Changes to entries on the share register after the relevant deadline will be disregarded in determining the rights of any person to attend or vote at the AGM.

9. Any corporation which is a member can appoint one or more corporate representative who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. However, as our AGM this year is expected to be held as a closed meeting, corporate representatives will not be able to attend the meeting and corporations which are shareholders are strongly recommended to appoint the Chairman of the meeting as their proxy.

10. As at September 4th 2020, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 164,251,939 ordinary shares of 0.1 pence each with each share carrying the right to one vote.

11. A copy of this document can be found at www.srt-marine.com.

EXPLANATORY NOTES FOR SHAREHOLDERS

The following notes provide an explanation as to why the resolutions set out in the Notice are to be put to shareholders. Resolutions 1 to 6 are proposed as ordinary resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 – Directors' report and audited accounts for year ended 31 March 2020
The directors are required by the Companies Act 2006 (the "Act") to present to the shareholders of the Company at a general meeting the audited accounts and the reports of the directors and auditors of the Company for the year ended 31 March 2020. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and both reports are contained in the Company's Annual Report and Accounts.

Resolution 2 – Re-appointment of auditors
The Act requires that an auditor be appointed at each general meeting at which accounts are laid, to hold office until the next such meeting. This resolution seeks shareholder approval for the re-appointment of Nexia Smith & Williamson Audit Limited. The Audit Committee keeps under review the independence and objectivity of the external auditors. After considering relevant information the Audit Committee recommended to the board of directors that Nexia Smith & Williamson Audit Limited be reappointed.

Resolution 3 – Auditors' remuneration
This resolution gives authority to the directors to determine the remuneration of Nexia Smith & Williamson Audit Limited for the audit work to be carried out by them in the next financial year.

Resolutions 4 and 5 – Directors' re-election
Simon Tucker and Kevin Finn will retire at this year's AGM in accordance with the articles of association of the Company and offer themselves for re-election.

Resolution 6 – Authority to allot shares
The Act provides that the directors may only allot shares or grant rights to subscribe for or to convert any security into shares if authorised by shareholders to do so. Resolution 6 will, if passed, authorise the directors to allot shares up to an aggregate nominal amount of £54,751.

It is accordingly proposed that the directors be granted general authority during the period beginning with the date of the passing of resolution 6 and ending 15 months after the passing of it or if earlier, at the conclusion of the annual general meeting of the Company in 2021, to allot shares up to an aggregate nominal amount of £54,751, which represents an amount which is approximately equal to one-third of the issued ordinary share capital of the Company as at the date of the Notice of the AGM.

Passing resolution 6 will ensure that the directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. The directors have no current plans to make use of this authority.

Resolution 7 is proposed as a special resolution. This resolution will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 7 – Disapplication of statutory pre-emption rights
The Act requires that, if the Company issues new shares, or grants rights to subscribe for or to convert any security into shares, for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. If passed, resolution 7 will authorise the directors to issue shares for cash and/or sell shares from treasury (if any are so held) up to an aggregate nominal amount of £16,425 (representing approximately 10% of the Company's issued share capital as at the date of the Notice of the AGM) without offering them to shareholders first, and will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. If passed, this authority will begin with the date of the passing of resolution 7 and will end 15 months after the passing of it or if earlier, at the conclusion of the annual general meeting of the Company in 2021. The Company does not at present hold any shares in treasury.

SRT

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