TRACKWISE

CONNECTING TECHNOLOGY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2019

HEADLINES

TRACKWISE secures
first production order for Improved Harness Technology™
for electric vehicle manufacturer

TRACKWISE delivers
the world's longest multilayer flexible printed circuit

TRACKWISE signs
Collaboration Agreement with GKN Aerospace

TRACKWISE responds
to medical sector 's demands for flexible printed circuits
for increased functionality in smaller and lighter packages

TRACKWISE commissions
new vertical continuous plating capability

TRACKWISE signs
28 new NDAs with IHT prospects

Trackwise Designs plc
Annual Report and Financial Statements
For the period ended 31 December 2019

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Registered in England and Wales, Registration no: 3959572

Registered office: 1 Ashvale, Alexandra Way, Ashchurch, Tewkesbury, Gloucestershire, England GL20 8NB

TRACKWISE
CONNECTING TECHNOLOGY

CONNECTED TECHNOLOGY

Operating & Strategic Highlights

Broad growth of our IHT technology offset by challenging macro-economic environment in our RF division

IHT technical abilities have advanced, customer interest continued to grow and series production now evident

Medical Appliances sector has emerged as our second sector for customer accretion

Signed collaboration agreement with GKN Aerospace the world's leading multi-technology tier 1 aerospace supplier

Capacity and capability further enhanced towards roll to roll IHT production

Financial Highlights

Revenue of £2.9M, decreased by 16% (note 24)

Adjusted profit before tax of £231K down 14% (note 24)

Earnings per share down (0.32p) (2018: 0.63p)

Capital expenditure on plant and equipment £702K (2018: £60K)

Net debt of £300K (2018: net cash £2.27M) (excludes IFRS16 lease liabilities)

Adjusted EBITDA of £573K (2018: £618K) (note 24)

Post Period

Significant order from Electric Vehicle manufacturer

Acquisition of Stevenage Circuits Limited to enable IHT series production of Electric Vehicles

Post year end equity raise of £5.87M

Ian Griffiths
Non-Executive Chairman

Chairman's Statement

Dear Shareholders

STEADY PROGRESS

The period under review in this financial report has been characterised by great changes from Brexit, through increased challenges of global warming and now the threat to the world's economies from Covid-19. The uncertainty has increased dramatically. The Company has reacted to these challenges well with our recent placing ensuring the continued development of the business. We have ensured that we are keeping our staff as safe as we can and have enacted all the guidelines that the Government has set down.

Inevitably the next trading period will be difficult given the enforced slowdown in economic activity, but post these restrictions, which will come eventually, the changes brought about by this jolt could be of benefit to the Company as our technology addresses a key sustainability need and revised supply chains will favour shorter more automated suppliers which is the development path that the Company is embarked upon.

We look forward to the medium term with confidence and in the meantime, we will continue to develop our markets which are increasingly looking to our Company to meet their interconnector needs. To achieve this, we will continue to invest in our team's resources and welfare. Our team's response in the Covid-19 crisis has been first class.

2019 Performance

While market headwinds impacted our long-standing Radio Frequency (RF) division during the year, overall the Group made steady progress towards our vision and strategic goals in this, our first full year as a listed company.

We have made important progress in the development of our Improved Harness Technology™ (IHT), the technology that we aim to make the interconnect of choice for the world's innovators across a focussed spread of industries, being aerospace, electric vehicles, science and medical appliances. We saw enquiries and initial engagements increase in all these industries over the year. Of note was the signing in August 2019 of a collaboration agreement with GKN Aerospace ("GKN") the world's leading multi-technology tier 1 aerospace supplier, taking us a step closer to aerospace production at scale.

Our progress was further demonstrated with the announcement, post year end, of a first production order from a UK based manufacturer of electric vehicles for our IHT flexible printed circuit technology applied to battery harnesses of their rapidly growing fleet of electric vans which follows successful funded development activities during the past year. The electric vehicle industry is one of several growth industries for Trackwise and we were delighted to be selected by an innovator in this field.

Our overall financial progress in the year was held back by global economic factors that impacted our RF business in particular. These included the trade challenges between China and the USA, the pressure from Huawei on our customer base and the enduring disputes over the merger between T-Mobile and Sprint in the USA. Nonetheless, the depth of our customer base provided us with a level of resilience and new opportunities presented themselves during the year. The investments made in new equipment are of benefit to both IHT and non-IHT revenue streams.

Board, Senior Management and Employees

The Board has overseen a significant step-up in engagement with our employees in the past year as part of a continuing programme to ensure we harness all the talents across our business. We have initiated better communication and dialogue on a team basis and individually and we have increased the level of resource for training and education.

As we completed our first full financial year as a listed business, and in accordance with our governance code adopted at the time of our flotation, reviews of Board performance were carried out and areas of perceived need for improvement, to meet the growing needs of the business, were identified and will be part of my ongoing leadership hereafter.

Dividend

The Board does not recommend the payment of a dividend and in line with the previously stated policy and reaffirms the intention to pay a progressive dividend only once the Company has demonstrated the establishment of the interconnector technology as a stable revenue generator.

Acquisition

The successful completion of the acquisition of Stevenage Circuits Limited (SCL) post year end has increased the technical and operational expertise and sales resource of the business. It provides an extended customer base into which we can cross-sell IHT but most importantly, it enables an increase in manufacturing capacity.

We are grateful for the support of our shareholders in enabling this positive development for the business and look forward to working with the Stevenage team.

Whilst organic growth will be the main driver of value, the Board will continue to selectively evaluate opportunities to support it through acquisitions where a business adds value and is a good strategic fit.

Outlook

The impact of Covid-19 creates significant uncertainty for the economic prospects across the globe. The Board continues to have confidence that the benefits of IHT will deliver strong growth in the medium term. The impact of the pandemic internally and with our customers and suppliers has inevitably led to some slower growth in the short term but our longer-term prospects continue to support the Board's view that the revenue generation from our IHT interconnect technology will manifest itself strongly once the current difficulties are behind us.

Ian Griffiths
Non-Executive Chairman
22 June 2020

Philip Johnston
Chief Executive Officer

Chief Executive's Strategic Review

TRANSITION

The year under review presented us with economic headwinds not expected at the end of 2018 and the impact of Coronavirus will only make the near-term future trading environment more difficult. Despite these headwinds the Company maintains its focus on its primary objective which is to establish our IHT technology as the pre-eminent selection for global innovators when choosing the interconnect that meets their technical objectives.

Growth Strategy and Market overview

Overall, our Growth Strategy is:

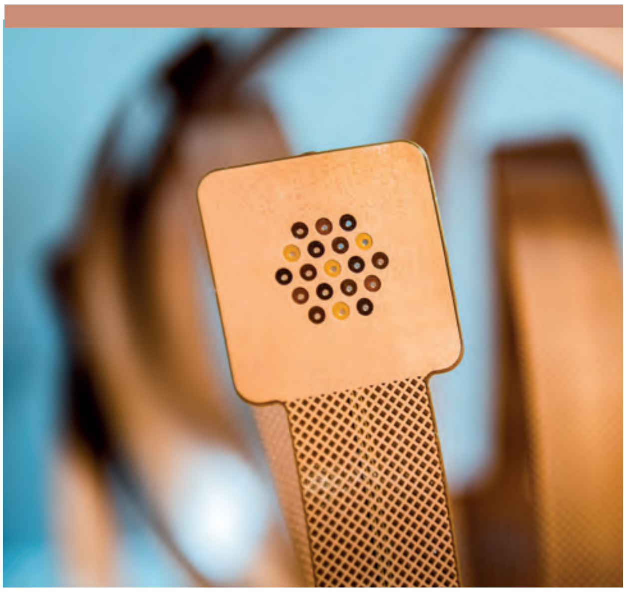
- To roll out IHT to meet demand from:
    - **Electric Vehicles (EV)**
      Battery Packs
    - **Aerospace**
      HAPS, Urban Air Mobility (UAM)
      Civil aviation
    - **Industrial**
      Medical catheters

- Based on the sustained foundation of profitable supply of RF products in support of 4G and 5G network deployment

The fundamental proposition of Improved Harness Technology™ is length-unlimited; our investments in roll to roll flex PCB manufacture, in order to enable the production of length-unlimited, also enable delivery of shorter length products in volume and the same manufacturing assets and methods will serve these diverse growth markets and applications.

Our Ashvale site was established as an engineering-led, product development, new product introduction facility; capable of early series ramp-up support, into which we have been making investments to increase capability and capacity. At the time of our IPO in 2018, we signalled our intention to establish a dedicated scale-up supply capability when we had visibility over market adoption of IHT. As expected, electric vehicles are emerging as the first scale-up opportunity. The first production order, placed by an electric vehicle manufacturer post year end, provided us with that visibility and prompted the acquisition of Stevenage Circuits Limited, completed post year end. As we move through 2020 we intend to transfer the majority of our RF related activities to the Stevenage site, which will be primarily responsible for the majority of our short flex, flex rigid and rigid PCB production, including RF; releasing capacity from our Ashvale site to deliver IHT production at scale.

The automotive operational excellence necessary to serve the rapidly emerging electric vehicles market, developed in parallel with ongoing aerospace qualification, will in turn equip Trackwise and IHT to serve the emerging UAM sector (aerospace products at near-automotive volumes), in turn leading to the large volume and long-term opportunity of mainstream civil aerospace. The diverse products and customers in the industrial market sector, notably medical catheters, are also emerging as a significant growth opportunity.



The baseline growth plan is scale-up, but if necessary, consideration will be given to capability and market delivery by further acquisition if necessary, partnership, or licensing.

Capacity improvements and technological development

We have continued to invest in all aspects of our capability and capacity, including equipment to enable flex PCB roll to roll production, quality control and capability enhancement, as well as expanding our training programme and technical skills through selective recruitment. Whilst we have further improvements to make in the year ahead we are now able to begin scale-up production of IHT, as envisaged at the time of flotation.

We continue to push the boundaries of flexible circuit innovation – for example by investing in a state-of-the-art Vertical Continuous Plating (VCP) line at our Ashvale factory. Operational since June 2019, this fully automated manufacturing process is uniquely capable of plating roll to roll flexible substrates and rigid panels of any length. This new capability means that we can address a broad range of requirements for both our IHT and RF customers, guaranteeing best-in-class results for both volume and niche plated products. This new VCP line, the first of its kind in Europe, significantly increases our plating capacity and offers total flexibility regarding customer specification and volume requirements. Leveraging the latest Industry 4.0 technologies will enable us to continue to deliver exceptional products using a more cost-and-time-efficient manufacturing process.

Our increased sales and marketing activity in the year has resulted in a growing number of customers and potential customers across a diverse range of industries. We have increased our development team to assimilate new processes as quickly as possible into our capabilities, providing us with confidence in the applicability of the IHT process across a range of markets.

The investments we have made over the last eighteen months and the recent acquisition of Stevenage Circuits Limited (SCL), covered in more detail below, will make it increasingly within our grasp to achieve our volume ambitions.

Electric Vehicles

During the year we have been seeking to broaden the applications of IHT beyond Aerospace, the market for IHT that gave rise to the initial innovation some years ago. Consequently, we have been pleased by the reception our disruptive technology has received both in the electric vehicle market as well as in the medical appliances sector.

Post year end, in February 2020 we announced a significant order for the supply of high voltage battery module (HVBM) flex PCBs to an electric vehicle manufacturer and whilst this is a developing relationship we are excited by the possible applications for our technology within this sector.

We are in discussions with other HVBM manufacturers and anticipate further profitable revenues as this market grows, as a consequence of the sustainability agenda and the increasing legislative pressure to force the automotive sector towards non-fossil fuel motive power.

Civil Aerospace – GKN collaboration

We are delighted to have signed a Collaboration Agreement with GKN Aerospace, the world's leading multi-technology tier 1 aerospace supplier, for the industrialisation of GKN Aerospace Type 8 Ice Protection System. The Collaboration Agreement will see GKN Aerospace and Trackwise build upon existing development work by advancing the manufacture of Ice Protection Systems – for both wing and air inlet scoop applications – to rate production level capability.

Following nearly two years of joint product development, this is a significant milestone in our engagement with GKN, taking us a step closer to aerospace production at scale. The capabilities involved are wholly aligned with those being developed by Trackwise for IHT and while aerospace qualification is a lengthy process, the size of the potential end markets means that the future revenue potential for our technology is significant.

Our work in the wider aerospace sector and our ability to drive revenue growth has been hampered by developments in the industry which has led to a general "risk off" approach to the adoption of new technology. However, we continue to work with a growing number of companies in mainstream civil aerospace as well as with emerging HAPS and UAM OEMs and remain confident of the applicability of our technology to the benefits they are seeking – principally weight and space saving.

The Improved Harness Technology™ patent is now granted in the UK, EU, US, China and with the post year-end notification of intent to grant in Canada, now only leaves Brazil as a pending application. These jurisdictions cover all of the main civil aerospace manufacturing locations.

Coronavirus is clearly having a significant impact upon the global airline industry. It remains to be seen how this plays out over time, but it will certainly not diminish the sustainability agenda already firmly 'in play' in civil aerospace, addressed by both GKN's electro-thermal ice protection systems, and Trackwise's Improved Harness Technology™.

Industrial – Medical Catheters

The accretion of a number of customers (both US and EU) in the medical appliances sector in the middle part of the year under review was a direct result of our marketing efforts in this industry. Whilst there is a period of approval that we have to complete in association with our customers, we are hopeful that these approvals will be in place in 2020, prompting the receipt of mass production orders. Should this be the case, then we expect a significant increase in revenues from this sector in 2021.

The fact that two large US Medical OEMs have sought out Trackwise for manufacturing long (c.2m) thin (c.2mm), fine feature flex PCBs, provides credibility as to the cross-sectoral applicability of the capability that we are developing.

The wide Industrial group of customers and applications includes opportunities in the space industry. Whilst this revenue stream is likely to be smaller than automotive and aerospace as volumes will be lower, we have some developing work streams that have the potential to lead to significant profits in the longer-term.

Acquisitive Growth

We were delighted to complete the acquisition of Stevenage Circuits Limited on 1 April 2020. Stevenage Circuits Limited is a printed circuit board manufacturer first

established in 1972 which produces and sells bespoke PCBs from rigid to multi-layer and flexi-rigid to short-flex solutions to various markets which Trackwise is targeting with its IHT product. The acquisition of SCL extends our manufacturing capabilities, liberating our capacity at Ashvale to deliver IHT series production, while diversifying our revenue streams and customer base. The SCL team brings significant additional depth to our technical, sales and operational expertise and we are very pleased to welcome them to Trackwise.

The acquisition is a significant step forward for Trackwise and allows us to re-organise production across the two sites, releasing Ashvale in Tewkesbury to become a dedicated IHT production unit with focus on increasing activity for series production from IHT customers.

Coronavirus response

As a supplier of essential parts, our priority has been protecting the health and wellbeing of our staff, suppliers and customers while continuing to serve customers in as near normal a manner as is practicable. The majority of our office-based staff have been working from home since March and we have implemented a wide range of social distancing measures and safety protocols at our manufacturing facilities in line with current Government guidance.

These include stopping non-essential third party visits to the site; changing shift patterns where possible to minimise person to person contact; provision of enhanced PPE and the employment of a temporary worker to disinfect all commonly touched surfaces on a near-continual basis. At the time of writing these measures appear to have been effective; although of course this remains a rapidly changing situation which we are continuing to monitor closely.

The Group has also updated its business continuity plans accordingly and in order to protect the business from any prolonged measures, discretionary investment plans have been temporarily held, as has the recruitment of new staff and pay-rises.

The Coronavirus has been, and continues to be, a testing time for us all. I would like to pay personal tribute to all of our staff who have adapted to this stressful situation with professionalism and good humour, and continued to work with commitment, despite inevitable concerns regarding personal safety and the safety of their loved ones.

Strategic focus for the year ahead

The support of our shareholders, both those who came in at the time of the flotation and also those who have supported us since, and the great efforts of the entire team at Trackwise have enabled the considerable progress detailed above to be achieved.

Our focus for the year ahead remains to deliver against the three core elements of our strategy:

- Customers
  - Generate additional customer opportunities through focused sales and marketing activities
  - Successfully transition existing customer engagements from testing, through to initial orders and subsequently orders at scale
- Operations
  - Ensure we have the capability and capacity to deliver orders at scale
- Innovation
  - Continue to develop the applicability of IHT for our identified target industries

Current trading and outlook

While we have inevitably experienced disruption to normal trading patterns since the outbreak of the pandemic, trading has shown some resilience but there has been some impact on the timing of revenues and order intake.

We have continued to make progress with our first IHT production order as announced in February, and while the timing of further production orders is hard to predict, our pipeline of opportunities for the technology remains healthy.

Sales in our RF and SCL business units have been steady – in the first five months of the year we signed new business with Leonardo, Qualcomm and Kappa Sense. The transfer of RF production to Stevenage is underway; this will result in increased operational efficiencies at Stevenage and allow greater focus on, and capacity for, IHT at Tewkesbury. We are pleased with the momentum we are seeing in SCL, the integration is progressing well.

The Group is in a strong financial position, benefitting from a well-funded balance sheet, with £3.2m cash as at 22 June 2020 following the recent fundraise.

Notwithstanding the inherent uncertainties associated with the current trading environment, we continue to make good progress against our strategy, the fundamentals of the business remain sound and the Board sees no reason to believe the effects of the virus will have a negative impact on Trackwise's long-term value proposition.

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties as detailed in Section 172 of the Companies Act 2006. This is summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;

(b) the interests of the company's employees;

(c) the need to foster the company's business relationships with suppliers, customers and others;

(d) the impact of the company's operations on the community and the environment;

(e) the desirability of the company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the company.

The board of directors ("the Board") of Trackwise Designs plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole in decisions taken during the year-ending 31 December 2019.

Section 172 requirement	Examples of how the Board's discussions and decision making have taken this into account	Referenced in the Directors /Strategic Report
(a) the likely consequences of any decision in the long term;	Investing in significant capability and capacity to promote the success of IHT as a product which has benefit for our customers, our suppliers and for the environment. Focussing on every area of cost to ensure maximum return to our shareholders.	Page 5 – CEO Strategic Report
(b) the interests of the Company's employees;	We have introduced enhanced employee responsiveness and commitment to training which benefits the individuals within our team as well as benefitting the overall efficiency of the Company. Engaging in regular employee surveys to assess employee engagement and well-being.	Page 10 – ESG report
(c) the need to foster the Company's business relationships with suppliers, customers and others;	We promote strong relationships with our customers through a interactive key account programme and focus closely on quality to ensure that the customer has a high regard for the Company. We manage our supplier base closely to promote levels of business that meet our quality standards and gives the supplier a chance to interact with the company to be able to expand his business with us if it is mutually suitable.	
(d) the impact of the Company's operations on the community and the environment;	We have a strong record of managing successfully our waste processes which have been effective and audited for many years. Our product IHT has the potential to significantly enhance energy conservation and carbon usage by reducing weight and size in a variety of industries. Our aims for growth are locally focussed and it is our aim to provide well-paid interesting and challenging employment to our local community. The Company's environmental policies recognise the protection of the environment and natural resources as one of the principal business responsibilities;	Page 10 – ESG report
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and	The Board is committed to complying with all applicable regulations and provides training and monitoring across the company to all employees to encourage and ensure compliance.	Page 15 – Corporate Governance Review
(f) the need to act fairly as between members of the Company.	The company is quoted on the London AIM market and interacts regularly with its members. The Board is committed to enhance that dialogue with a developing programme of investor related communications and events.	

Philip Johnston
Chief Executive Officer
22 June 2020

ESG Engagement Report

The Company's awareness of the challenges presented by global warming is at the core of the benefits that IHT, as a product, offers to many of its customers.

The application of IHT within Aerospace, EV Automotive and Urban Air Mobility in particular contributes to a significant reduction in weight that will enhance the efficiency of aircraft, EVs and UAMs thereby offering a compelling carbon footprint reduction. Our product used in aircraft has provided evidence of a 65% reduction in the weight of the wire harness which, if replicated across the entire craft, would lead to a substantial weight saving and carbon emission reduction.

Additionally, in all EVs, battery efficiency is critical to the battery life between each recharge. IHT, as a substitute for traditional wire harnesses with its consequent reduction in weight, contributes to the efficiency of the battery powered EV and therefore contributes to a lower carbon footprint.

In non-motive applications of IHT the reduction in copper content, compared to the traditional wire harness, reduces the quantum of copper that is required which, if replicated in large scale, would assist and support a reduction in copper that has to be mined.

The processes that we adopt in the manufacture of IHT and RF products require a number of chemical reactions and processes which cause potentially harmful waste products and the satisfactory neutralisation and disposal of these products has been central to the Company's daily routines for 30 years. The Company has a proud record of maintaining satisfactory treatment of waste products and we take very seriously our responsibility to ensure that this remains so.

The Board is continuing to develop its focus on our performance and the progress the Company is making in the areas of reduced energy consumption, reducing water usage, the recycling of packaging materials and treatment of toxic by-products.

All our staff are briefed, informed and where appropriate trained, to ensure that we maintain the standards we have set ourselves with regard to care for the environment. The Company has a management system that addresses the commitment to operating its business responsibly and in compliance with all environmental regulations, legislation and approved codes of practice relating to its industry and activities.

The culture of the Company strives for openness, supportiveness, team orientation, friendship and drive and we encourage team members to contribute their ideas and thoughts as to how we can improve our operations constantly.

We promote this contribution by having regular feedback opportunities with the whole team as well as a regular programme of reviews for individuals and tailored training to assist them in meeting the standards we require and to push them to consistently improve.

We ask our staff, in surveys, to score our achievements with regard to environment, workplace and culture which broadly give us a positive report, though the management recognise that there is more to be done and that the agenda is in a state of change and enlargement.

It is necessary to ensure that the Company maintains this effort and level of achievement which is targeted through a range of internal governance routines enacted by management and overseen by the Board of Directors. A more complete review of the governance routines of the company is given on page 15.

It is part of the Company's programme to continue its contribution to a more carbon free environment by promoting the use of IHT in its chosen target industries and we are proud that this technology is capable of being a substitute for a host of wiring applications all of which would have a positive benefit for the environment.

The Company has had for many years' accreditation of AS9100D, ISO9001:2015 and ISO14001:2015, all of which support our quality and environmental standards to achieve the objectives we have.

It is the Company's declared policy to carry out all measures reasonably practicable to meet, exceed or develop necessary or desirable requirements to continually improve environmental performance, in particular:

- Assess and regularly re-assess the environmental effects of the organisation's activities
- Assess and regularly re-assess the organisation's environment objectives and targets
- Training of employees in environmental issues
- Minimise the production of waste
- Minimise material wastage
- Minimise energy wastage
- Promote the use of recyclable and renewable materials
- Reduce and/or limit the production of pollutants to water, land and air
- Control noise emissions from operations
- Minimise the risk to the general public and employees from operations and activities undertaken by the organisation

The Company pays close attention to ensuring the health & safety of everyone involved in the business.

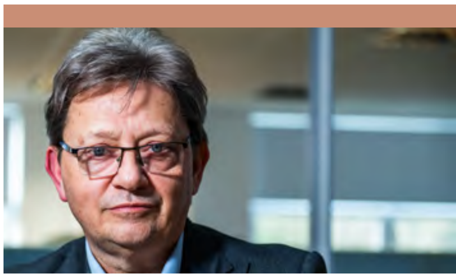
Employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit, reporting all safety observations and incidents, being involved in safety audits, risk assessments and regular awareness training sessions. During the Covid-19 period, we have followed guidelines which has included measures to enable working from home and employee involvement in ensuring safe working practices.

We have reconfigured our premises to promote a safe working environment that provides social distancing and reduces the possibility of airborne transmission of Covid-19.

The Company operates non-discriminatory policies regarding age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation and is committed to openness about how it deals with these requirements.

Mark Hodgkins
Chief Financial Officer

Chief Financial Officer's Report



Investment In Capacity, Know-how and markets

The financial performance of the Company during 2019 was adversely impacted by a number of negatives which were outside the control of the directors. In particular, Brexit had an impact upon the European customer base of the RF business as did the ongoing legal disagreements in the merger between Sprint and T Mobile in the United States where Sprint is a key end customer of the Company. Globally, the difficulties between the United States and China which particularly drew in Huawei, created difficulties for our core RF market which experienced reduced activity and heavy pressure on margins as a consequence.

However, despite these headwinds we were able to press on with our plans for IHT and were able to report revenues for IHT of £968,000, an increase of 46% on the prior year. The much-increased customer base for IHT provides a higher base of opportunities for future years. The relative strength of IHT compared to our legacy RF business enabled us to increase our margins for the business overall to 37.8% compared to 2018 of 30.3% and this is in line with our objectives.

Trading Performance

Despite the loss of revenues within the legacy RF business it remained a profitable and cash generative business and the improving IHT revenues and associated margins have enabled the Company to report an adjusted operating profit for the year of £258,000 (2018: £325,000) and an adjusted EBITDA of £516,000 (2018: £618,000). Additionally, the Company suffered an exchange loss on conversion as a consequence of the impact of the political impasse on the value of sterling over the year.

Overall Company Operating result

	2019 £'000	2018 £'000
Revenues	2,906	3,468
Adjusted Operating profit*	258	325
Adjusted EBITDA*	573	618

*An analysis of adjusted Operating Profit and adjusted EBITDA is given in note 24 of these financial statements

The growing number of IHT customers drove an increasing level of development of the IHT product technology as we began the development of products for both the EV market and medical appliance companies. This has added to our knowledge and technical abilities across a range of applications and provides a base for revenue generation across a range of industries in the future. This investment will contribute to our ability to not only serve the existing customer base but also enable our delivery of product in volume terms to customers across a range of industries.

Our investment in IHT capability in the year amounted to £3.44m (2018: £1.281m) which was made up of capital expenditure on capacity and capability of £790,000 (2018 £214,000), capitalised development cost of £1.836m (2018: £1.067m).

Measuring Financial Performance

In these uncertain times we have placed even more focus on short term planning routines and focussed on tight control of all costs; in response to the difficulties of the last two quarters of 2019 we took a number of cost-cutting measures including the reduction in Board employment costs. We closely monitor our usage of cash and have restricted some of the plans we had at the time of flotation until we have more certainty over the outlook for trading.

The Company uses a number of specific measures to assess its performance which are not defined by IFRS but are used by the Board to assess the progress of the business. As our IHT business moves from the developmental stage to the production phase then we will add to these measures to enhance our control and will be reported upon in future years as results become available.

Adjusted operating profit, as set out in note 24, declined by 20% in the year as a direct consequence of the reduction in the revenues in the RF market due to the impact of Brexit fears and the US trade stand-off with China.

For some years, the Company has benefited from the provisions of the UK Government's R&D tax regime. This is expected to continue for the foreseeable future but cannot be guaranteed. As a consequence, the Company receives credits to its P&L account and accumulates tax losses that are created in the process. Consequently, the Company is unlikely to pay corporate tax in the short term. In 2019, the Company received a tax credit of £134,000 and also benefited from adjustments to prior years of £40,000 giving a total credit for the year of £174,000 (2018: £61,000). The large increase on previous years reflects the significantly increased investment in IHT development which was made possible as a consequence of the flotation of the Company.

In total the Company has invested £1.8m in IP, know-how and associated IP fees which has allowed the Company to begin to ready itself for the ramp-up in production that is anticipated.

The Company's trading activities are such that there is a built-in hedge to a proportion of our currency exposure where our principal exposures are the Euro and the US Dollar. The Board monitors the exposure carefully and uses currency hedging contracts to manage foreign currency risks when exposure is considered to be medium or higher. Transactions of a speculative nature are and will continue to be, prohibited. In the course of the year the Company was affected by the differing swings in sentiment as to the likely impact of Brexit. In order to protect the buying power of our foreign currencies at a time when the UK feared a hard Brexit as at 31 March 2019 we sought to protect our position. The subsequent negotiated settlement and changes in perception as a consequence led to a loss of £57,000 on our holdings of foreign currency. We do not consider this loss to be a normal trading expense and adjusted accordingly for it (see note 24).

Stevenage Circuits Limited

After the year end we completed the purchase of Stevenage Circuits Limited as detailed in the Chief Executive Officer's Strategic report on page 5. To complete this purchase as well as to fund the capacity and capability requirements of the growing series production for our EV customers on 31 March 2020 we raised £5.87m with the issue of 7,341,250 new shares at a price of 80p. The placing represents a 49.6% increase in the equity base of the Company and the number of shares now in issue is now 22,113,662 (previously 14,772,372) ordinary shares of £0.04 each. Additionally, there are options over 901,909 shares giving a fully diluted number of shares of 23,015,571.

In the year to 30 September 2019, Stevenage Circuits Limited had revenues of £6.486m (2018: £6.739m) and adjusted EBITDA of £352,000 (2018: £495,000). Audited net assets at 30 September 2019 were £3.537m (2018: £3.368m).

Trackwise paid a total price of up to £2.457m for the acquisition of Stevenage Circuits Limited, which comprised a payment of £2m in cash on completion, a further £200,000 in cash on the first anniversary of completion and a contingent £257,000 payable 2 years after completion provided the business generates an EBITDA of £457,000 on a like for like basis in the first 12 months of trading immediately following completion.

The full set of disclosures required by IFRS3 in relation to this acquisition will be finalised and presented in the 31 December 2020 annual report.

Following completion, the reporting routines and internal controls at Trackwise are being applied across the Stevenage business, and the performance management criteria in use at Trackwise has been made common across the whole group.

The equity raise at the end of March 2020 was sufficient not only to complete the purchase of Stevenage Circuit Limited but also to ensure sufficient working capital for the integration of Stevenage and further investment in capacity and capability at Trackwise in anticipation of the increasing series production revenues implicit in the production estimates of our EV customers. As part of this process, management have made sure that there is sufficient working capital headroom to withstand a number of simultaneous challenges any of or all of which could manifest themselves over the forthcoming period as a consequence of global economic deterioration which might occur as a consequence of either the impact of Covid-19 or Brexit, which could yet be a hard no-deal outcome.

The Company faces a range of challenges from a growing order book, acquisition integration and economic uncertainty and the Board consider that they have secured sufficient working capital to withstand those challenges.

Corona Virus Solvency Review

In particular management have carried out an assessment of the economic impact of Corona Virus upon the near-term results and the suitability of the assumption that the business remains a going concern.

In the immediate short term the group have orders to support the trading plans to the end of July and we have maintained our plans for this period. The significant risk to that assumption is that material supplies become unavailable, though there is no evidence of this at the time of the review. Any shortage of supply would impact August through October.

We have therefore modelled the assumption that we will not be able to make any revenues through September and October and that in August and November and December we will only achieve 50% of our plan.

As a worse case outlook, we have further assumed that the Government schemes for furloughing are not available and we retain all our labour expense and that we are ineligible for Government backed CBILS's facility. Furthermore, we have assumed a reduction of 50% of revenues in all other months through to June 2021.

As a consequence of applying these stresses, management remain confident that the Company has sufficient working capital resources to meet its commitments with a satisfactory level of headroom.

Management also modelled an additional stress test, reducing all revenues in the period to 30 June 2021 by 50% whilst holding all other stress conditions in place. Management are confident at this level of trading that the Company has sufficient working capital resources to meet all its commitments with a satisfactory level of headroom.

Results and Dividends

Reported Loss after taxation of £48,000 (2018: Profit After Taxation £75,000) means the Company is reporting a Diluted Earnings per Share (loss) of (0.32) pence (2018: Diluted Earnings per Share of 0.61 pence). The Company set out its dividend policy last year which has not changed. It is the Company's intention that when commercial conditions allow, a progressive dividend policy will be adopted, consequently there will be no dividend paid for 2019.

Mark Hodgkins
Chief Financial Officer
22 June 2020

Corporate Governance Review

The business of the Company is under the control of the Board of Directors who are responsible for running the Company for the benefit of its Shareholders in accordance with their fiduciary and statutory duties.

The Directors acknowledge the importance of and the requirement for companies whose shares are admitted to trading on AIM to apply a recognised corporate governance code and explain compliance with that code.

The Directors have chosen to comply with the QCA Corporate Governance Code for Small and Mid-Size companies which has become a widely recognised benchmark for corporate governance of smaller quoted companies, particularly AIM companies. In accordance with Rule 26 of the AIM Rules for Companies, details of how the Company complies with the QCA Code are provided on the Company's website: www.trackwise.co.uk/investors/corporate-governance

The Board meets at least nine times a year to review, formulate and approve the Company's strategy, budgets, corporate actions and oversee the Company's progress towards its goals. It has established an Audit Committee, a Remuneration Committee and Nomination Committee with formally delegated duties and responsibilities and with written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Board and Committee Independence

The Company's Board consists of two independent non-executive Directors (including the Chairman) and two executive Directors. The Company regards the non-executive Directors as "independent non-executive Directors" within the meaning of the UK Corporate Governance Code and free from any relationship that could materially interfere with the exercise of their independent judgement.

Audit Committee Report

The Audit Committee is chaired by Lesley Jackson, a Chartered Accountant. The Committee also comprises Ian Griffiths and Philip Johnston and is considered to have had an appropriate balance between those individuals with finance or accounting training and those from a general business background.

At the invitation of the Committee, representatives of the external auditors, Mazars LLP meet with the Committee at least twice a year. The Committee also seeks to meet with the external auditor without the Executive Directors in attendance. In the year, the Committee met once with representatives from Mazars LLP without others being present.

The role and responsibilities of the Committee are set out in its terms of reference, which are available on the Company's website and from the Company Secretary on request. The terms of reference are reviewed annually by the Committee.

The principal responsibilities of the Committee are:

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Advising the Board on whether the Committee believes the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Considering and making recommendations to the Board as to the appointment, reappointment or removal of the external auditors and the approval of their remuneration and terms of engagement;
- Assessing the external auditors' independence and objectivity and the effectiveness of the audit process;
- Reviewing the policy on the engagement of the external auditors to supply non-audit services.

During the year, the Committee reviewed the appropriateness of the Group's interim and full year financial reporting, including the consideration of significant financial reporting judgements made by management taking into account reports from management and the external auditors.

The main area of focus considered by the Committee during the year were as follows:

Area of focus	**Conclusion**
Adoption of IFRS16	IFRS 16 applied to the Company's financial statements for the first time in the year to 31 December 2019. This is a complex standard which seeks to disclose certain commitments as financial commitments and to be treated as a debt like instrument.
The Capitalisation of IHT development activities	The policies adopted are appropriate and have been consistently applied.
The Amortisation of accumulated development costs	The polices are consistently applied with previous years and are considered appropriate for the industry timescales that the company is addressing.
Goodwill and Intangible Asset Impairment assessment	These impairment reviews are based on future cashflows and therefore are inherently judgemental. The Audit Committee considered the key judgements underpinning the impairment reviews performed. The Committee is satisfied that the impairments recognised in the year are appropriate and the remaining carrying value of Goodwill is appropriate. Management carry out annual impairment reviews of the carrying value of the Intangible Assets.

The Committee has reviewed the sensitivity disclosures in note 2.1 and concluded that they are appropriate.

Inventory

The Audit Committee reviewed management's estimates in relation to inventory ageing and obsolescence. The Committee was satisfied that the presentation of adjusted profit before tax provides a reasonable view of the underlying performance of the Group and that there was transparent and consistent disclosure of items shown separately as non-underlying items. This was based on a review of the items added back in arriving at underlying profit.

Fair, Balanced, Understandable and Comprehensive Reporting

The Audit Committee has provided advice to the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy. Each Director was also asked to provide this confirmation.

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits and for making a recommendation to the Board regarding the appointment, reappointment or removal of the auditors on an annual basis.

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the auditors. In doing this the Committee does not approve any non-audit expenditure. The Company has a policy that the auditors will not perform any other work for the Company and thus do not compromise their independence. To ensure compliance with this policy, the Audit Committee reviewed and approved the remuneration received by Mazars LLP for the audit service.

The Remuneration Committee

The Remuneration Committee is chaired by Lesley Jackson and its other members are Ian Griffiths and Mark Hodgkins. The Remuneration Committee is expected to meet at least twice each year. It will have responsibility for determining, within the agreed terms of reference, the Company's policy on remuneration packages of the Company's Chairman, the Executive Directors, Senior Managers and such other members of the executive management as it is designated to consider. The Remuneration Committee will also have responsibility for determining (within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the Chief Executive officer) the total individual remuneration package for each Executive Director and other designated senior executives (including bonuses, incentive payments and share options or other share awards). The remuneration of Non-Executive Directors will be a matter for the Chairman and Executive Directors of the Board. No Director or Manager will be allowed to partake in any discussions as to their own remuneration. In addition, the Remuneration Committee will have the responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and giving full consideration to succession planning. It will also have responsibility for recommending new appointments to the Board.

The Nomination Committee

The Nomination Committee is chaired by Ian Griffiths and its other members are Lesley Jackson and Philip Johnston. The Nomination Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary, taking into account the skills and expertise that will be needed on the Board in the future. The Nomination Committee will meet as and when required but at least once a year.

The Committees met during the year as part of its standard schedule and attendance at those meetings is summarised below:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
I Griffiths	11	3	3	1
P Johnston	11	2	2	1
M Hodgkins	11	3	3	1
L Jackson	11	3	3	1

Board Effectiveness Review

The Chairman carries out an annual review of the effectiveness of the Board. Results of a Board circulated questionnaire and other feedback are discussed and evaluated by the Board as a whole and areas requiring improvement are addressed with actions agreed to promote increased effectiveness. During the year the first Board effectiveness review was carried out and the results are being actioned.

Internal Controls and Financial Management

The Board has responsibility for establishing and monitoring the maintenance of the Company's internal financial and non-financial controls. The Board is cognisant that whilst internal controls reduce risk it cannot eliminate the risk entirely.

The key procedures which the Directors have established to enable them to have confidence that the controls are working and minimising risk are set out below.

- The Board sets policies which are regularly reviewed both by executive management and the Audit Committee and gains assurance that these policies are appropriate to address the key financial, operational, compliance and reputational risks.
- Authorisation limits are in place:
  - The Board ensures that appropriately qualified people are in place to exercise the controls that are in place;
  - Company performance is measured against diligently prepared budgets and variations are reviewed on a monthly basis;
  - The business has appropriate segregation of duties and limits to individual's ability to authorise transactions;
- Financial planning and monitoring:
  - The Company sets annual budgets which cover operating performance and balance sheet management including working capital;
  - The Board reviews the performance monthly and re-evaluates future performance;
- Policies, procedures and authorisation limits:
  - The Company has sufficient authorisation limits in place which cover the key areas for the business.

Quality and Integrity of Personnel

The Company aims to recruit the highest calibre employees that it is able to do with high recruitment standards. Employees with integrity and strong workplace ethics are considered essential to the operation of the control environment.

Identification of business risks

The Directors are responsible for identifying the significant business risks and their execution for this task is monitored by the Audit Committee as well as the main Board.

Going Concern

The Directors have prepared the financial statements on a going concern basis as explained in note 2.1 to the financial statements. As at 31 December 2019 the Company had cash deposits of £0.567m. In particular management have carried out an assessment of the economic impact of Corona Virus upon the near-term results and the suitability of the assumption that the business remains a going concern with a conclusion that affirms the appropriateness of preparing the financial statements on a going concern basis.

Principal Risks and Uncertainties Report

KEY: ● High risk ● Medium risk ● Low risk

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
The impact of Covid-19	**Potential to change** INCREASED Effect: Loss of market, staff reduced sales volumes and profitability over a long period.	The rapid spread of the Covid-19 virus in early 2020 together with the lockdown of many economies in the world has led to an unprecedented increase in business risk and uncertainty which could potentially have a significant impact on the company. The negative impact will be felt as a consequence of delayed investment decisions, customer downsizing, margin pressure as customers seek to protect their own business and maybe the loss of customers completely. However, it is possible that the outcomes of the pandemic are that behaviours might change such that new trends might gain favour. There could be an increased positivity for the adoption of new technologies that would reflect on IHT; medical innovations might increase which would be a positive for the Company in the medical markets which are already showing interest. It's quite possible that one trend that will gain favour is the recast of global supply chains and this would enable opportunities for the company's skills and IP. Customers could well want supply chains that are less reliant on labour and have more automation and Trackwise's technology roadmap is to move to a much more automated platform.	Management have followed the Government guidelines as to our response to the Virus but this does not reduce risk. As a manufacturing business, many staff are largely unable to 'work from home' and, supported by several letters from customers who deem Trackwise to be an essential supplier to their defence and critical product lines, have focused as much as possible on keeping the manufacturing team safe and healthy in the work place – so as to continue to serve our customers in as a near-normal manner as possible. Those who can work from home have done so and, with VPN keys and Microsoft Teams, have adapted well to a new way of working. For the production site we have followed best practice identified by Public Health England; avoided non-essential third party visitors to the site; changed shift patterns where possible to minimise person to person contact; provided enhanced PPE; employed a temporary worker to disinfect all commonly touched surfaces on a near-continual basis. Management have carried out an assessment of the economic impact of Corona Virus upon the near-term results and the suitability of the assumption that the business remains a going concern. In the immediate short term, the group have orders to support the trading plans to the end of July and we have maintained our plans for this period. The significant risk to that assumption is that material supplies become unavailable, though there is no evidence of this at the time of the review. Any shortage of supply would impact August through October. We have therefore modelled the assumption that we will not be able to achieve any revenues through September and October and that in August and November we will only achieve 50% of our plan. As a worse case outlook, we have assumed that the Government schemes for furloughing is not available and we retain all our labour expense and also that we are ineligible for the Government backed CBILS's facility. Furthermore, we have assumed we might be subjected to credit losses of 10% of revenues.

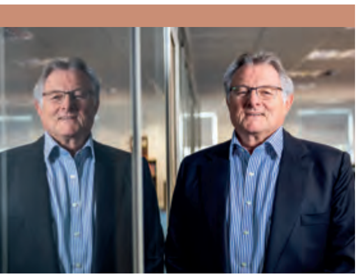
RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
			As a consequence of applying these stresses, management are confident that the Company has sufficient working capital resources to meet its commitments with a satisfactory level of headroom. Management also modelled an additional stress test, reducing all revenues in the period to 30 June 2021 by 50% and holding all other stress conditions in place and management have confidence that the company has sufficient working capital resources to meet all its commitments with a satisfactory level of headroom.
Protection of intellectual property	**Potential to change** INCREASED Effect: The cost of IPR infringement could lead to lost revenues, reduced profits & possibly significant legal costs.	The Company's technology includes specific manufacturing techniques for IHT manufacture. The process has been developed and is owned by the Company. Trademarks of the Company are registered and unregistered. The Company is dependent on proprietary rights in relation to this technology process, which relies on laws governing copyrights, trademarks and confidentiality. The Company is also dependent on contractual provisions regarding intellectual property ownership and licensing. These laws enable the Company to protect and/or enforce intellectual property rights, including the ability to restrict use of the manufacturing process to those who have obtained relevant authorisation. If the Company cannot successfully enforce its intellectual property rights, this could have a material adverse effect on the Company's business, financial condition and prospects. As the Company increases its penetration of the various markets which it is addressing, then there is risk that others may seek to copy and or imitate the Company's technology which could lead to the loss of market share.	The Company remains vigilant as to whether others are adopting processes that infringe our IPR. This review is applied regularly, and any potential infringement is pursued.

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Attraction and retention of key employees	**Potential to change** INCREASED Effect: Will lead to increased capital expenditure to reduce reliance on labour resource which in turn over time should enhance margins.	Like many other companies the Company seeks to recruit skilled, trained team members and like those other companies the demand for those scarce resources is intense. The Company depends upon the continued service and performance of its key employees and whilst it has entered into contractual arrangements with them to secure their services, the demand for this type of labour resource ensures that it cannot be guaranteed that they can all be retained. The loss of key employees and the failure or difficulty in attracting new team members will impact the efficiencies of the company's business and will lead to sub-optimal profitability.	Management have renewed and improved the environment within which a labour force is engaged and have increased communication in both directions with the workforce to improve motivation, integration and remuneration. Company-wide surveys have become part of the culture with a focus on support and mentoring alongside training to encourage engagement, motivation and effectiveness. Management will continue to increase these engagement processes and be vigilant to ensure all things possible are enacted to reduce the impact of labour resource scarcity.
Cybersecurity	**Potential to change** INCREASED Effect: Exposure, hacking or DOS could impact adversely on profitability & cash generation.	Global cybersecurity threats to the Company could lead to unauthorised access to the Company's information technology systems, products, customers, suppliers and third-party service providers. Cybersecurity incidents could potentially result in the disruption of our business operations and the misappropriation, destruction, or corruption of critical data and confidential or proprietary technological information. During the current Covid-19 lockdown a significant number of our staff are working from home.	The Company implements preventative security measures to prevent, detect, address to mitigate these threats. The Company has increased its spend on IT cybersecurity, have carried out an audit of threats and have upgraded all aspects of their IT security. The Company retains its Cyber Security Certification (1744727378687299) which is an industry leading accreditation. All access to our server from these remote locations are managed through a secure Virtual Private Network facility.
Failing to successfully implement our growth strategies	**Potential to change** UNCHANGED Effect: Loss of market share, reduced sales volumes & profitability.	The future success of the Company is dependent upon the effective implementation of our growth strategy. This success may be adversely impacted by factors that the Company cannot currently foresee, such as unanticipated market forces, costs and expenses or technological developments. Failure to implement its strategy or the eventuality that it takes longer than expected to achieve implementation could adversely impact future financial results.	Management focus efforts to address the Company's strategic goals on a regular basis and has clear actions focussed on their achievement. Management regularly monitors their capacity as well as the progress towards achievement reviewing consistently the changes in the market place and their impact on our strategy. The Board monitors strategic achievement on a quarterly basis.

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Customer concentration	**Potential to change** UNCHANGED Effect: As the Company moves to service IHT customers with the attendant adoption timescale the Company could be at risk of loss of significant revenues compared to expectations.	The Company has historically had a concentrated customer base which in 2018 saw 44% of revenues being attributed to 4 customers. The top 4 customers in 2019 accounted for only 27% of revenues reflecting the much larger number of IHT customers. However, the Company remains exposed to the loss of any one of a number of customers. As the adoption of IHT gathers pace it will be inevitable in the short-term that early adopting customers could initially be responsible for concentration of revenues. Any deterioration of the Company's relationship with any one of their key customers, or the loss of orders from any one of them, would have a potentially material adverse impact on the Company's business and financial position.	The increasing acceptance of IHT removes historical concentration. Management continues to broaden the customer base of IHT. Furthermore we pay good attention to monitoring our relationship with our key customers to moderate any adverse reaction from these customers.
The Company is dependent on the communications industry, the aerospace industry and the automotive industry	**Potential to change** UNCHANGED Effect: Loss of market share, reduced sales volumes & profitability.	The Company has traditionally been dependent on the communications industry. The development and market penetration of IHT have added Aerospace and Automotive as two industries that the company is exposed to. The Communications industry is highly competitive and is particularly impacted by the dominance of Chinese operators who aggressively compete with the Company's customers. The Automotive industry is a significant opportunity for the Company as it struggles with the move from carbon-based combustion motorisation to electric motorisation however, the Automotive industry is highly competitive and is extremely challenging. The Aerospace industry will benefit greatly from the new technology of IHT but the adoption of the product by the industry will inevitably be on a longer timescale due to approval processes which are extended. In particular, the risk appetite for new products in the Aerospace sector is at a relative low. With these three industry foci the Company needs to ensure a balance of the risks within these industries.	The Company seeks to balance its exposure to these industries such that overall risk is reduced, whilst at the same time recognising that from time to time one or other industry might become more dominant within the Company's portfolio or less active. The Company will continue to adopt a balanced approach to the servicing of these different industries.
Exposure to exchange rate fluctuations	**Potential to change** UNCHANGED Effect: Loss of market share, reduced sales volumes & profitability.	The Company is exposed to exchange rate fluctuations, principally the GBP, the US$ and the Euro. Changes in foreign currency exchange rates may affect the Company's pricing of products sold and materials purchased in foreign currencies.	The Directors believe that its use of certain derivative financial instruments, including foreign currency forward contracts used to hedge sale commitments denominated in foreign currencies, reduces the Company's exposure to this risk.

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Competition	**Potential to change** UNCHANGED Effect: Loss of market share, reduced sales volumes & profitability.	The economic environment within which we all work has become one that is constantly tested by disruptive technologies. Indeed, IHT itself is such a technology but it is recognised that it is possible for new competitive products, designs or solutions to enter the market which might bring different benefits. It is possible that competitors may also be able to devote greater resources to the promotion and sale of their products, designs and solutions than the Company can compete with.	The Company will continue to explore, research and develop new applications for the IHT technology to meet the competitive challenges as well as the ever-changing demands of its customers. The Company has a globally unique product and will continue to demonstrate the applicability of that technology to various industry groupings making existing solutions redundant and obsolete. The company continues to provide resources with the aim of improving each generation of products it develops. If the Group is unable to compete successfully with existing or new competitors, it may have to reduce prices on products, which would lead to reduced profits
The impact of BREXIT	**Potential to change** UNCHANGED Effect: Loss of market share, reduced sales volumes & profitability.	Whilst the UK has now left the European Union the economic impact remains totally unknowable and still presents significant risk to the Company. The Company's product, IHT, has a wide range of applications in a large number of disruptive industries and provides an environmentally sensitive contribution to our customers challenges.	The risk of a "No Deal" Brexit is now a strong possibility, the consequences of which cannot be known. The Company has incorporated an Irish subsidiary (details below) to manage the import/export of material which may prevent disruption but in this uncertain time we cannot predict its efficacy. Trackwise Europe Limited Company no: 635429 Date of Incorporation: 9.10.2018
IHT market adoption	**Potential to change** DECREASED Effect: Could lead to under-achievement of revenues & profitability.	The Company is growing its IHT business steadily but remains at a relatively early stage of engagement with IHT market participants. The Company depends upon increasing adoption by market participants and increasing orders from them over the medium-term. The Directors have confidence that the developments in our know how made to date ensures that the applications for the technology are wide and varied. However, it is possible that IHT market development could be slower than anticipated and the financial results of the Company negatively impacted.	The Company has accelerated its marketing and communications activities to develop existing customers and potential new ones giving rise to a constant increase in the number of IHT customers. This process gradually reduces the risk of a lack of market adoption.

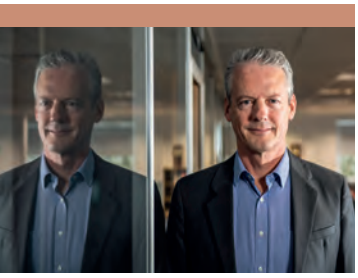
Trackwise Board



Ian Griffiths
Non-Executive Chairman

Ian brings wide-ranging international experience of the engineering business-to-business sector at both strategic and operational levels, having spent nearly 30 years with GKN plc.

He is currently Non-Executive Director of AIM listed Autins Group plc and was previously on the Boards of Ultra Electronics Holdings plc, Renolds plc and Hydro International Limited.

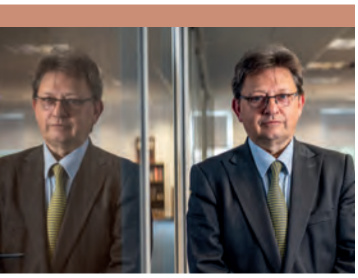


Philip Johnston
Chief Executive Officer

Philip's early career was in the space industry which included a key management role in the Prime Contractor team for Envisat, a large European satellite.

Philip joined Trackwise in 1999 and acquired the Company in 2000.

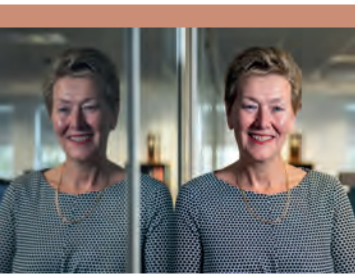
Philip is named inventor on several UK and international patents including Improved Harness Technology™. As well as fulfilling the CEO function, Philip leads the company's research and development activities, managing Trackwise's participation in UK and International Government supported R&D consortiums.



Mark Hodgkins
Chief Financial Officer & Company Secretary

Mark is a member of the Institute of Chartered Accountants and a former partner with both Grant Thornton and Ernst & Young. In the last fifteen years he has served as CFO of a large private business as well as CEO of several engineering businesses and a private industrial holding company.

As well as his role with the Company which began in May 2016, Mark is a Non-Executive Director of EnSilica Limited a growing private fabless chip design business where he is responsible for overseeing the management's delivery of its growth strategy.



Lesley Jackson
Non-Executive Director

Lesley is the former CFO and Executive Director of Stock Spirits Group plc a position which she had held since 2011.

Before Stocks Spirit Group plc, Lesley was the CFO of United Breweries Ltd from 2005 to 2008 and the group Finance Director of William Grant & Sons Distillers Limited from 2008 to 2011.

Lesley is a Chartered Accountant and a Non-Executive Director of Aberforth Split Level Trust PLC and a Non-Executive Director and Chair of the Audit Committee of Devro PLC.

Directors' Remuneration Report

The remuneration of senior executives is subject to the approval and oversight of the Remuneration Committee which is chaired by Lesley Jackson.

The remuneration policy of the Company is designed to promote steady development towards its strategic goals with regard to exploiting the IHT technology and maintaining the underpinning RF revenue stream.

In setting the measurement of executive performance careful observation is given to the risk profile of the business to reward solid dependable progress. The committee believe that the executive team should be rewarded for growth that endures and provides a good long-term growth path for investor returns.

Fixed pay is based on a market-based approach which takes into account the size of the Company, peer review of compensation packages and the experience and qualifications of the executive in question. Variable pay is designed to promote out-performance, which is both achievable, repeatable and sustainable.

During the final quarter the directors took a voluntary pay cut of 10% to reflect the difficult trading conditions the company was experiencing.

Directors

The Directors of the Company are:

Philip Johnston
Mark Hodgkins
Ian Griffiths
Lesley Jackson

The appointments of both Ian Griffiths and Lesley Jackson expire at the end of the 2020 Annual General Meeting which is to be held on 16 July 2020.

Directors' Interests – Interests in shares (audited)

	Holding Balance at 31 December 2019	Percentage of Share Capital at 31 December 2019	Holding Balance at 31 December 2018	Percentage of Share Capital at 31 December 2018
Philip Johnston	4,815,775	32.60%	4,815,775	32.60%
Mark Hodgkins	56,619	0.33%	47,619	0.38%
Ian Griffiths	14,286	0.10%	14,286	0.10%
Lesley Jackson	28,571	0.19%	28,571	0.19%

Directors' Interests – Interests in share options (audited)

Details of options held by Directors who were in office at 31 December 2019 are set out below. Details of the Company's option schemes are set out in note 21 to the financial statements.

The market price of the Company's shares at 31 December 2019 was 88.5 pence. The range of market prices during the year was 60.5 pence to 150 pence.

	Date of Grant	Number	Exercise Price	Expiry Date
M Hodgkins	15 June 2018	78,690	£0.28	15 June 2028

Contracts of service

The Executive Directors, Philip Johnston and Mark Hodgkins each have a service agreement containing one year's notice and claw back and malus clauses with regard to any paid or unpaid bonuses.

The Non-Executive Directors, Ian Griffiths and Lesley Jackson, have a service agreement with a three-month notice period.

Salaries and benefits

The Remuneration Committee meets at least once a year in order to consider and set the remuneration packages for Executive Directors. The remuneration packages are benchmarked annually to ensure comparability with companies of a similar size and complexity. Remuneration comprises basic salary, pension contributions and benefits in kind. In addition, certain Directors are paid a car allowance or receive a contribution to their travel expenses.

Remuneration also includes share options as detailed above.

	Salary £	Bonus £	Benefits & Car Allowance £	Pension £	Total 2019 £	Total 2018 £
P Johnston	184,812	-	21,571	7,200	213,583	187,777
M Hodgkins	145,875	-	15,000	-	160,875	*198,243
I Griffiths	43,875	-	-	-	43,875	18.750
L Jackson	34,125	-	-	-	34,125	14,583

*included in the remuneration of M Hodgkins are payments made to his personal services company of £112,238. M Hodgkins was appointed a director of the company on the 23 December 2017 and became an employee on 1 June 2018. His salary since 1 August 2018, the day after flotation, as disclosed in the Company's admission document, is £150,000 per annum and there have been no alterations to that since flotation.

On behalf of the Board

Mark Hodgkins
Company Secretary
22 June 2020

Principal Activities

The principal activity of the Company is the design and manufacture of a full suite of advanced PCB's including the Company's patented technology Improved Harness Technology™, Microwave and RF, short flex, flex rigid and rigid multi-layer boards.

The Directors have set out their update on strategy and its development in the Chief Executive's Strategic Review on page 5 and that includes a review of the markets that the Company is addressing as well as the actions being taken to meet the strategic goals of the Company.

The Directors of the Company are:

Ian Griffiths	Non-Executive Chairman
Philip Johnston	Chief Executive Officer
Mark Hodgkins	Chief Financial Officer and Company Secretary
Lesley Jackson	Non-Executive Director

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

The Directors are required to prepare Financial Statements for each financial year. The Directors have elected to prepare the Company Financial Statements in compliance with IFRSs as adopted by the European Union as it applies to the Financial Statements of the Company for the year ended 31 December 2019.

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 profit or loss of the Company for that period. In preparing these Financial Statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the Financial Statements have been prepared in accordance with IFRS;
- Provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

Dividends

The Company's ability to pay dividends in the future is affected by a number of factors, principally the generation of distributable profits within the Company. The Board has adopted a progressive dividend policy for the Company subject to the availability of sufficient distributable profits. The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so and expect to pay interim and final dividends in the approximate ration of 1/3 interim and 2/3 final.

Research and Development

The Company continues to develop their products to ensure that they remain at the forefront of their markets. The detail and cost of those developments are set out in the Chief Executive's Strategic Review and Chief Financial Officer's Report.

Director's indemnity

The Company's Articles of Association provide, subject to the provisions of United Kingdom legislation, for an indemnity for Directors and Officers of the Company with regard to liabilities that they may incur in the discharge of their duties or in the exercise of their powers, including any liability relating to proceedings brought against them which relates to anything done, or omitted, or anything alleged to have been done or omitted by them as officers or employees of the Company or Group.

Directors' Liability Insurance is in place in respect of all the Company's Directors.

Donations

The Company made no charitable or political donations during the year.

Independent Auditor

The Auditor, Mazars LLP, has indicated its willingness under section 489 of the Companies Act 2006 to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at the Company premises – 1 Ashvale, Alexandra Way, Tewkesbury, Gloucestershire GL20 8NB on 16 July 2020 at 11.00am.

Matters covered elsewhere

As permitted by Paragraph 1A of Schedule 7 to the large and medium sized companies and groups (Accounts and Reports) Regulations 2008 certain matters that are required to be disclosed in the Directors' Report have been omitted as they have been included in either the Chief Executive's Strategic Review or the Chief Financial Officer's Report or the Principal Risks and Uncertainties Report. These matters relate to the business review, principle risks and uncertainties, key performance indicators, future developments and research and development activity.

Other Information

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- In so far as the Directors are aware there is no relevant audit information of which the Company's Auditor is unaware;
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

Mark Hodgkins
Company Secretary
22 June 2020

Independent Auditor's Report to the members of Trackwise Designs plc

Opinion

We have audited the financial statements of Trackwise Designs plc (the 'Company') for the year ended 31 December 2019 which comprise the Company Statement of Comprehensive Income, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- and 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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

– the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

– the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Area of focus	How our audit addressed the area of focus
Revenue recognition: The Company's accounting policy for revenue recognition is set out in the accounting policy notes on "Revenue" on page 40. Revenue is a material balance for Trackwise Designs Plc and represents the largest balance in the Statement of Comprehensive Income. An error in this balance could significantly affect users' interpretation of the financial statements. Due to the potential to inappropriately record revenue in the incorrect period, we consider cut-off to be a key audit matter.	Our procedures performed over revenue recognition included, but were not limited to: – Review and walkthrough of the systems and controls in place surrounding revenue recognition, in particular cut-off; – Testing a sample of revenue transactions around the year end to ensure they were accounted for in the appropriate period; and – Reviewing post year end credit notes that may reverse revenue previously reported during the year. No material misstatements were identified in cut-off as a result of the audit procedures performed.
Going Concern assessment including the impact of COVID-19 During the early months of 2020, there has been a global pandemic resulting from the outbreak of COVID-19. The impact of COVID-19 on the global economy quickly became significant and has caused widespread disruption to normal patterns of daily life, including in the UK. The directors' consideration of the impact of COVID-19 on Trackwise Designs PLC is disclosed in the strategic report on page 8 and the going concern assessment on page 14. Whilst the situation is still evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate. They have also concluded that COVID-19 is a non-adjusting post balance sheet event as set out in note 23.	We assessed the directors' conclusion that the going concern basis for preparation of the financial statements is appropriate. We consider: – The timing of the development of the outbreak across the world and in the UK, – How the business operations of the group might be impacted by the disruption; and – How the Directors have disclosed these matters in the financial statements. In forming our conclusions over the above matters, we evaluated how management's going concern assessment considered the impacts arising from COVID-19 as follows: – We reviewed management's revised going concern assessment including COVID-19 implications based on a 'reverse stress check scenario' (worst case) as approved by the Audit Committee. We made enquiries of management to understand the completeness of the criteria taken into account and implication of those when assessing the 'worst case scenario' on the group's forecast financial performance; – We evaluated the key assumptions in the worst case forecast and considered whether these appeared reasonable. – We examined the available working capital under the revised monthly cash flow forecasts and evaluated whether the directors' conclusion that sufficient working capital remained in all but the most remote of events was reasonable; and – We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, in particular disclosures within principal risks & uncertainties, post balance sheet events and going concern. ***Key observations*** Based on the work performed, we are satisfied that the matter has been appropriately reflected in the financial statements. Our conclusions on going concern are set out above.

Area of focus	How our audit addressed the area of focus
Capitalisation and recoverability of research and development expenditure: The Company has a significant intangible asset arising from the capitalisation of expenditure in respect of the development of its Improved Harness Technology ('IHT') product. The carrying value at 31 December 2019 was £4.3m. Management exercise significant judgement when assessing the apportionment of costs to the development of the IHT product, and the expected future economic benefits through sale of the product. An error in the carrying value due to applying inappropriate judgement has the potential to have a material impact on the financial statements. Therefore capitalisation of capitalised development cost is considered a key audit matter.	Our procedures performed over capitalisation of research and development expenditure included, but were not limited to: – Testing a sample of additions to ensure they meet the recognition criteria of IAS 38. This included reviewing and challenging the apportionment of overhead costs; – Reviewing the level of sales in the period relating to the capitalised asset and the forecasted IHT revenue and cashflows to help assess the technical and commercial feasibility of the product and the overall recoverability of the intangible asset. ***Key observations*** No material misstatements in capitalised costs or the recoverability thereof were identified as a result of the audit procedures performed.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£52,300
How we determined it	This has been calculated with reference to the Company's revenue, of which it represents approximately 1.8%.
Rationale for benchmark applied	Revenue has been identified as the most relevant measure of the underlying performance of the Company and is considered to be the focus of the shareholders and therefore has been selected as the materiality benchmark.
Performance materiality	£40,800 calculated as 78% of overall materiality.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,600 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the group and company, the structure of the company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Company's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

– adequate accounting records have not been kept by the 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 28, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit 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.

Louis Burns (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

45 Church Street
Birmingham
B3 2RT
22 June 2020

Company Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	3	2,906	3,468
Cost of sales		(1,805)	(2,416)
Gross profit		1,101	1,052
Administrative expenses excluding exceptional costs and share based payment		(900)	(727)
Exceptional severance and move costs	4	(28)	(45)
Share based payment charge		(224)	(155)
Total administrative expenses		(1,152)	(927)
Operating (loss)/profit	4	(51)	125
Finance income	6	5	8
Finance costs	6	(83)	(65)
(Loss)/profit before taxation		(129)	68
Taxation	7	81	7
(Loss)/profit and total comprehensive income for the year		(48)	75
Earnings per share (pence)			
Basic	8	(0.32)	0.63
Diluted	8	(0.32)	0.61

IFRS 16 was adopted on 1 January 2019 for statutory reporting, without restating prior year figures. As a result, the primary statements are shown on an IFRS 16 basis for 2019 and an IAS 17 basis for 2018. Note 2.14 explains the change and the impact of the two measures.

The notes on pages 19 to 56 form part of these financial statements.

Company Statement of Financial Position

For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Intangible assets	9	4,268	2,619
Property, plant and equipment	10	2,547	1,264
		6,815	3,883
Current assets			
Inventories	11	555	380
Trade and other receivables	12	1,657	846
Current tax receivable		338	156
Cash and cash equivalents		567	2,786
		3,117	4,168
Total assets		**9,932**	**8,051**
LIABILITIES			
Current liabilities			
Trade and other payables	13	(1,046)	(815)
Borrowings	14	(339)	(161)
		(1,385)	(976)
Non-current liabilities			
Deferred income – grants	13	(856)	(539)
Borrowings	14	(1,253)	(357)
Deferred tax liabilities	16	(401)	(308)
		(2,510)	(1,204)
Total liabilities		**(3,895)**	**(2,180)**
Net assets		**6,037**	**5,871**
EQUITY			
Share capital	18	591	591
Share premium account		4,234	4,234
Retained earnings		1,045	840
Revaluation reserve		167	206
Total equity		**6,037**	**5,871**

The financial statements on pages 35 to 38 were approved and authorised for issue by the Board and were signed on its behalf by:

Mark Hodgkins
Director
22 June 2020

Company Statement of Changes in Equity

For the year ended December 2019

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Total equity £'000
At 1 January 2018	**14**	**–**	**600**	**245**	**367**	**1,226**
Profit and total comprehensive income for the year	–	–	75	–	–	75
Bonus issue of shares	367	–	–	–	(367)	–
Issue of shares (net of £1,056,000 of issue expenses)	210	4,234	–	–	–	4,444
Share based payment	–	–	126	–	–	126
Revaluation realised in year	–	–	39	(39)	–	–
At 31 December 2018	**591**	**4,234**	**840**	**206**	**–**	**5,871**
Loss and total comprehensive income for the year	–	–	(48)	–	–	(48)
Share based payment	–	–	214	–	–	214
Revaluation realised in year	–	–	39	(39)	–	–
At 31 December 2019	**591**	**4,234**	**1,045**	**167**	**–**	**6,037**

Company Statement of Cash Flows

For the year ended December 2019

	Notes	2019 £'000	2018 £'000
Cash flow from operating activities			
(Loss)/profit for the year before taxation		(129)	68
Adjustment for:			
Employee share based payment charge		224	155
Depreciation of property, plant & equipment	4	225	196
Profit on sale of fixed assets		–	(1)
Amortisation of intangible assets	9	183	97
Net finance costs	6	78	57
Changes in working capital:			
(Increase) in inventories	11	(175)	(67)
(Increase) in trade and other receivables		(268)	(275)
Increase in trade and other payables		496	(337)
Cash generated from/(used in) operations		634	(107)
Income tax received		21	36
Net cash from/(used in) operating activities		655	(71)
Cash flow from investing activities			
Purchase of property, plant and equipment		(951)	(214)
Proceeds from sale of property, plant & equipment		–	11
Purchase of intangible assets	9	(1,736)	(1,067)
Grant received		175	128
Interest received		5	8
Net cash used in investing activities		(2,507)	(1,134)
Cash flow from financing activities			
Share capital issued		–	5,500
Expenses relating to share capital issue		–	(1,056)
Interest paid		(83)	(65)
Repayment of borrowings	14	–	(515)
Lease payments	14	(89)	–
Repayment of capital element of hire purchase contracts	14	(195)	(39)
Net cash from financing activities		(367)	3,825
(Decrease)/increase in cash and cash equivalents		(2,219)	2,620
Cash and cash equivalents at beginning of the year		2,786	166
Cash and cash equivalents at end of year (all cash balances)		567	2,786

The cash outflow in respect of purchase of property, plant and equipment include the payment of any related deposits included in prepayments until the asset is acquired.

Notes to the Company Financial Statements

For the year ended December 2019

1 Corporate information

Trackwise Designs Plc ("the Company") is a Public Company limited by shares incorporated in the United Kingdom. The registered address of the Company is 1 Ashvale, Alexandra Way, Ashchurch, Tewkesbury, Gloucestershire, GL20 8NB.

The principal activity of the Company is the design and manufacture of a full suite of advanced PCB's including the Company's patented technology Improved Harness Technology™, Microwave and RF, short flex, flex rigid and rigid multi-layer boards.

2 Accounting policies

2.1 Basis of preparation

Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with the applicable provisions of the Companies Act 2006. These policies have been applied consistently to all periods presented, unless otherwise stated. IFRS 16 'Leases' has been adopted in these financial statements as set out in note 2.14.

Basis of measurement

The Financial Statements have been prepared on the historical cost basis as modified for the revaluation of plant on transition to IFRS and for certain financial instruments at fair value.

Going concern

The Directors have considered the principal risks and uncertainties facing the business, together with the Company's objectives, policies and processes for managing its exposure to financial risk. In making this assessment the Directors have prepared cash flows for the foreseeable future, being a period of at least 12 months from the expected date of approval of the financial statements. These forecasts show that the Company should be able to manage its working capital and existing resources to enable it to meet its liabilities as they fall due. These forecasts have incorporated elevated stress tests to meet the impacts of Covid 19 as set out in the CFO report on page 12.

Based on the above factors, the Directors have prepared the Financial Statements on a going concern basis.

Consolidation

The Company is exempt by virtue of Section 402 of the Companies Act 2006 from the requirement to prepare group Financial Statements as the Directors consider its dormant subsidiary which has not yet traded is not material for the purposes of giving a true and fair view. These Financial Statements present information about the Company as an individual undertaking and not about its Group.

Functional and presentational currency

These financial statements are presented in Pound Sterling ("Sterling") rounded to the nearest thousand pounds.

Use of estimates and judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property, plant and equipment

Management have estimated the useful life of assets based upon the period that the assets are able to and expected to generate revenue. These estimates are reviewed annually for continued appropriateness and events which may cause the estimate to be revised. (Note 10)

Share Based Payments

The Company uses the Black-Scholes option-pricing model where applicable, with inputs, in particular volatility, requiring significant judgement in application. (Note 8)

Right of use assets
The application of IFRS16 Involves a degree of judgement in respect of the applicable discount rate and in respect of any lease options or variable payments. The discount rate is reviewed in conjunction with the rates on similar borrowings and lease extension periods by reference to business plans and the most likely outcome. (Note 2.14)

Intangible assets
Management have used their judgement in respect of the capitalisation of development costs. The viability of the new technology and know-how supported by the results of testing and customer trials and by forecasts for the overall value and timing of sales supports the approach taken. (Note 9)

Amortisation commences once management consider that the asset is available for use, i.e. when it is judged to be in the location and condition necessary for it to be capable of operating in the manner intended by management and the cost is amortised over the estimated useful life of the know-how based on expected customer product cycles and lives.

2.2 Revenue
Revenue comprises income from the sale of printed circuit boards and represents the amount receivable for the sale of goods, excluding VAT and trade discounts. Revenue is recognised when all the following steps have been satisfied:

I. The Company has received and accepted the purchase order from the customer.

II. Sales prices are based on quotes for each customer's unique product and include transport which is insignificant in the context of the sale price. The sales price is determined after submission of a quote to each customer for their unique product and which has been agreed with them and includes transport which is also agreed with the customer.

III. All performance obligations are met which is at a point in time when the goods have been despatched to the customer.

IV. Invoicing typically occurs once performance obligations are met. On occasion, customers are invoiced in advance and these amounts are included in deferred income as contract liabilities. Contract liabilities held at the balance sheet date are expected to be released in the following period when the performance obligation is satisfied.

2.3 Grants
Income based grants
Income based grants are recognised in other operating income based on the specific terms related to them as follows:

– A grant is recognised in other operating income when the grant proceeds are received (or receivable) provided that the terms of the grant do not impose future performance-related conditions.

– If the terms of a grant do impose performance-related conditions, then the grant is only recognised in income when the performance-related conditions are met.

– Any grants that are received before the revenue recognition criteria are met are recognised in the Statement of Financial Position as another creditor within liabilities.

Capital grants
Grants received relating to tangible and intangible fixed assets are treated as deferred income and released to the Statement of Comprehensive Income over the expected useful lives of the assets concerned.

2.4 Share based payment
The Company operates an equity-settled share-based compensation plan in which the Company receives services from employees as consideration for share options. The fair value of the services is recognised as an expense, determined by reference to the fair value of the options granted.

2.5 Income tax
Current income tax assets and/or liabilities comprise obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid/due at the reporting date. Current tax is payable on taxable profits, which may differ from profit or loss in the Financial Statements. Calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

2.6 Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable and separately recognised. After initial recognition, goodwill is measured at cost less accumulated impairment losses. See note 2.11 for a description of impairment testing procedures.

2.7 Research and development cost

An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- It is technically feasible to complete the development such that it will be available for use, sale or licence;
- There is an intention to complete the development;
- There is an ability to use, sell or licence the resultant asset;
- The method by which probable future economic benefits will be generated is known;
- There are adequate technical, financial and other resources required to complete the development;
- There are reliable measures that can identify the expenditure directly attributable to the project during its development.

The amount recognised is the expenditure incurred from the date when the project first meets the recognition criteria listed above. Expenses capitalised consist of employee costs incurred on development, direct costs including material or testing and an apportionment of appropriate overheads.

Where the above criteria are not met, development expenditure is charged to the Statement of Comprehensive Income in the period in which it is incurred.

Capitalised development costs are initially measured at cost. After initial recognition, they are recognised at cost less any accumulated amortisation and any accumulated impairment losses.

The depreciable amount of a development cost intangible asset with a finite basis useful life is allocated on a straight-line basis over its useful life, currently expected to be 20 years. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for the assets with a finite useful life is reviewed at least each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly.

2.8 Patent costs

Patent cost assets are initially measured at cost. After initial recognition, they are recognised at cost less any accumulated amortisation and any accumulated impairment losses. The costs are amortised in the Statement of Comprehensive Income over the15-year life of the patent.

2.9 Software

Software assets are capitalised at the purchase cost. Subsequent to initial recognition it is stated at cost less accumulated amortisation and accumulated impairment. Software is amortised in the Statement of Comprehensive Income on a straight line basis over its estimated useful life of five years. These costs are recognised in Cost of Sales.

2.10 Property plant and equipment

Property, plant and equipment is recognised as an asset only if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost. Cost of an item of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. On transition to IFRS, plant and equipment was revalued, and this amount has been used as the deemed cost with no further revaluations.

After recognition, all property, plant and equipment (including leasehold improvements and plant and machinery) is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided at rates calculated to write down the cost of assets, less estimated residual value, over their expected useful lives on the following basis:

Leasehold improvements	Straight line over the period of the lease
Plant and machinery	10-33% straight line

The residual value and the useful life of an asset is reviewed at least at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying value of the asset and are recognised in profit or loss.

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, under IFRS 16, leases are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the company. Assets and liabilities arising from a lease are initially measured at the present value of the lease payments and payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principal, presented as a separate category within borrowings, and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and are presented as a separate category within tangible fixed assets.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On transition to IFRS 16 at 1 January 2019, the company has adopted the modified approach whereby the net present value of the remaining property lease payments at this date are recognised as the opening liability with an equal right to use asset of £814,000 depreciated over the remaining lease period. This represents the full 10-year length of the lease amounting to £1,050,000 discounted by £236,000 at the assessed incremental borrowing rate of 6% and assumes a break option will not be exercised (note 21 discloses the minimum commitment at 31 December 2018 of £438,000 with the benefit of a break option after 5 years). Depreciation of £93,000 has been charged in respect of the asset for the year and finance charges of £51,000 compared with £120,000 of rent that would have been charged under the previous basis, an increase of £24,000 in the total charges included in the income statement. The comparatives for the year ended 31 December 2018 have not been adjusted and are prepared in accordance with IAS17.

2.11 Impairment of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash flows. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset or cash-generating unit is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is measured as the higher of fair value less cost of disposal and value in use. The value in use is calculated as being net projected cash flows based on financial forecasts discounted back to present value.

The impairment loss is allocated to reduce the carrying amount of the asset, first against the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.12 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and an appropriate proportion of fixed and variable overheads incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price less costs to complete and sell. Where necessary, provision is made to reduce cost to no more than net realisable value having regard to the nature and condition of inventory, as well as its anticipated utilisation and saleability.

2.13 Financial instruments

The Company classifies all its financial assets at amortised cost. Financial assets do not include prepayments. Management determines the classification of its financial assets at initial recognition.

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold their assets in order to collect contractual cash flows and the contractual cash flows are solely payments of the principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company's financial assets held at amortised cost comprises trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Financial assets

Financial assets are recognised in the Statement of Financial Position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value, which is usually the cost, plus directly attributable transaction costs.

Financial assets are measured at amortised cost using an effective interest method and discounting is omitted where the effect is immaterial.

Impairment provisions are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and reward are transferred.

Financial liabilities

Financial liabilities include borrowings, trade and other payables and derivatives in respect of forward foreign exchange contracts.

Financial liabilities are obligations to pay cash or other financial assets and are recognised in the Statement of Financial Position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities, other than derivatives, are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities, other than derivatives, are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

Derivatives are measured at fair value through profit and loss for any movements.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

2.14 Leased assets

The following policies were applied for periods to 31 December 2018. From 1 January 2019 IFRS 16 was applied with additional right of use assets and related liabilities recognised as set out in note 2.9. Hire purchase and finance lease liabilities were previously combined but as the agreements all relate to hire purchase terms where loans are advanced or used to finance specific tangible fixed assets, these have now been presented as hire purchase obligations within borrowings.

Finance leases and hire purchase obligations

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Company is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease or hire purchase payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease or hire purchase liability.

This liability is reduced by payments net of finance charges. The interest element of lease payments represents a constant periodic rate of interest on the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases were treated as operating leases for periods ending 31 December 2018. Where the Company was a lessee, payments on operating lease agreements were recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, were expensed as incurred.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

2.16 Foreign currencies

Transactions entered into by the Company in a currency other than the functional currency of sterling are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Statement of Comprehensive Income.

The Company does not apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies. The Company utilises forward exchange contracts to mitigate the risk of adverse exchange rate movements on foreign currency denominated revenue. These derivatives are measured at the fair market value, at the reporting date, with the fair value gain or loss movements arising being recognised within administrative expenses in the Statement of Comprehensive Income.

2.17 Equity and reserves

Share capital represents the nominal value of shares that have been issued. Share premium represents the excess consideration received over the nominal value of share capital upon the sale of shares, less any incidental costs of issue.

Retained earnings include all current and prior period retained profits.

The revaluation reserve represents the extent to which a revaluation of plant on transition to IFRS exceeded the historical net book value. Transfers are made to retained earnings in respect of the depreciated element of the revaluation.

Capital redemption reserves are non-distributable reserves relating to the redemption or purchase of the Company's own shares.

2.18 Standards, amendments and interpretations in issue but not yet effective

There are no new standards, interpretations and amendments that are in issue but not yet effective which are expected to have a material effect on the Company's future Financial Statements.

3 Segmental reporting

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker. The chief operating decision maker is considered to be the Board of Directors.

The Company comprised only one operating segment until 31 December 2017 for the sale of printed circuit boards. Since January 2018 the RF and IHT activities have begun to be separately reviewed and monitored. Revenue of £1,968,000 (2018: £2,862,000) arose from RF and £938,000 (2018: £606,000) from IHT in the year ended 31 December 2019. The operating segments are monitored by the chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

All assets, liabilities and revenues are located in, or derived from, the United Kingdom. The material assets and liabilities relate to overall activity with the exception of the intangible development costs and deferred grants which are solely in respect of IHT.

In 2018 the Company had no customer representing in excess of 10% of revenue (2018: one major customer represented 26% of revenue reported in the Europe segment).

Turnover by geographical destination

	2019 £'000	**2018 £'000**
UK	1,046	866
Europe	1,332	2,368
Other	528	234
	2,906	3,468

Operating (loss)/profit by geographical destination

	2019 £'000	2018 £'000
UK	(18)	31
Europe	(23)	85
Other	(10)	9
	(51)	125

4 Operating (loss)/profit

	2019 £'000	2018 £'000
Operating (loss)/profit is stated after charging/(crediting):		
Amortisation of intangible assets	183	97
Depreciation of property, plant and equipment		
(net of £100,000 of capitalised development costs in 2019)	132	196
Depreciation of right of use assets	93	–
Cost of inventory sold	937	1,331
Foreign exchange loss	57	14
(Gain) on fair valued derivative	–	(49)
Operating lease expenses	–	125
Severance costs	28	–
Costs of moving main premises	–	45
Share based payment charges	224	155
Staff payroll costs (net of capitalised development costs)	1,431	1,178

The Auditors remuneration for audit services was £30,000 (2018: £31,000) and £nil for non-audit services (2018: £132,423 of which £120,000 was related to the flotation of the company on AIM).

5 Staff and key management personnel

Average monthly number of employees	2019 Number	2018 Number
Management and administration	14	13
Production	34	29
	48	42

Payroll costs	£'000	£'000
Gross salaries	1,775	1,401
Social security costs	174	139
Share based payment	224	155
Other pension contributions	63	58
	2,236	1,753

The Directors' and key management remuneration were as follows:

Year ended 31 December 2019	Salary £'000	Benefits £'000	Pension £'000	Total £'000
P Johnston	185	22	7	214
M Hodgkins	146	15	–	161
I Griffiths	44	–	–	44
L Jackson	34	–	–	34
	409	37	7	453

Year ended 31 December 2018	Salary £'000	Benefits £'000	Pension £'000	Total £'000
P Johnston	156	19	12	187
M Hodgkins	186	6	6	198
I Griffiths	19	–	–	19
L Jackson	15	–	–	15
	376	25	18	419

6 Finance income and Expense

	2019 £'000	2018 £'000
Finance income		
Interest receivable on bank deposits	5	8
Finance expense		
Interest payable on loans and overdrafts	–	30
Interest payable on hire purchase obligations	32	35
Interest payable in respect of right of use assets	51	–
	83	65

7 Income tax

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax:	134	61
Adjustment for prior periods	40	
Total current tax credit	174	61
Deferred tax:		
Origination and reversal of temporary differences	(68)	(39)
Adjustment for prior periods	(25)	(15)
Total deferred tax expense	(93)	(54)
Total tax credit	81	7

The tax rate used for the reconciliation is the corporate tax rate of 19% (2018: 19%) payable by corporate entities in the UK on taxable profits under UK tax law. Changes to reduce the corporation tax rate to 17% from 1 April 2020 have been substantively enacted. The tax rate used to calculate deferred tax is 17% (2018: 17%), being the rate at which the timing differences are expected to unwind based on currently enacted UK corporate tax legislation.

The credit for the year can be reconciled to the (loss)/profit for the year as follows:

	2019 £'000	2018 £'000
(Loss)/profit before taxation	(129)	68
Income tax calculated at 19% (2018: 19%)	25	(13)
Disallowable expenses including share-based payment	(20)	(27)
Enhanced research and development allowances	94	37
Adjustment for prior periods	15	(15)
Differing deferred tax and R&D tax credit rates	(33)	25
Total tax credit	81	7

In addition to the tax credit, a further development expenditure tax related credit of £29,000 (2018: £35,000) is included in operating expenses.

8 Earnings per share

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

Earnings	2019 £'000	2018 £'000
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to the shareholders	(48)	75

Number of shares	2019	2018
Weighted average number of ordinary shares for the purposes of basic earnings per share	14,772,372	11,830,427
Weighted average number of ordinary shares for the purposes of diluted earnings per share	14,772,372	12,370,189
Earnings per Share (pence)		
Basic	(0.32)	0.63
Diluted	(0.32)	0.61

The earnings per share is calculated from the number of £0.04 ordinary shares in issue. This reflected the 14,176 £1 shares allotted as of 31 December 2017, an issue of 367,195 £1 ordinary shares to existing shareholders utilising the capital redemption reserve on 28 June 2018 and a subdivision of £1 shares into £0.04 shares on 28 June 2018. On 24 July 2018, 5,238,097 £0.04 ordinary shares were issued at £1.05 per share.

Options over 990,015 shares were granted to employees on 15 June 2018 which are included in the calculation of potentially dilutive shares in respect of a profit. 915,360 remained exercisable as at 31 December 2019. They are exercisable at 28.25 pence per share after a period of 3 years. The share-based payment charge of 72.25 pence per option share has been measured using the Black Scholes model applying the three-year vesting period, a volatility of 50% and annual risk-free rate of 1.5%.

9 Intangible assets

	Goodwill £'000	Patent costs £'000	Computer Software £'000	Development costs £'000	Total £'000
Cost					
As at 1 January 2018	104	55	78	1,503	1,740
Additions	–	7	11	1,049	1,067
As at 31 December 2018	104	62	89	2,552	2,807
Additions	–	14	6	1,816	1,836
Reclassification	–	–	(18)	–	(18)
As at 31 December 2019	104	76	77	4,368	4,625
Amortisation or Impairment					
As at 1 January 2018	–	16	75	–	91
Charge	–	3	2	92	97
As at 31 December 2018	–	19	77	92	188
Charge	–	5	2	176	183
Reclassification	–	–	(14)	–	(14)
As at 31 December 2019	–	24	65	268	357
Carrying amount					
As at 31 December 2018	104	43	12	2,460	2,619
As at 31 December 2019	104	52	12	4,100	4,268

The carrying amount of goodwill relates to the acquisition of the original RF technology based business, whilst all the capitalised development costs relate to projects in respect of the Company's Improved Harness Technology™ ('IHT') process for unlimited length printed circuit boards and know-how which has since been developed by the Company with amortisation on the initial development projects commencing in 2018.

To determine the values of the costs capitalised management include the actual cost of purchase for all materials which are acquired for product development purposes, they collect daily time analyses of work performed by design or product engineers which captures the time spent on development activities which is then evaluated using a labour rate appropriate for the engineer who has worked the time and finally an element of direct relevant overhead cost is incorporated to reflect the additional cost of operating the developmental department of the Company.

Impairment tests for goodwill

The Company tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The carrying values are assessed on a value in use basis for impairment purposes by calculating the net present value (NPV) of future cash flows arising from the original acquired business. The goodwill impairment review assessed whether the carrying value of goodwill was supported by the NPV of future cash flows based on management forecasts for 5 years, an assumed growth rate of 1% (2018: 1%) for the next 5 years and a discount rate of 12% (2018: 12%). There is significant headroom in the assessment from a range of reasonable sensitivities.

Government grants

The Company has received aggregate grants from UK and European government research and development initiatives amounting to £908,547 (2018: £633,000) which fund a proportion of development work and which have been deferred in line with the capitalised development cost assets above that they relate to. They are released to profit and loss in line with the amortisation of the costs. There are no unfulfilled conditions or contingencies attached to the grants.

10 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Right of use asset – buildings £'000	Total £'000
Cost				
As at 1 January 2018	221	1,891	–	2,112
Additions	154	60	–	214
Disposals	–	(44)	–	(44)
	375	1,907	–	2,282
Additions	88	702	–	790
On transition to IFRS 16	–	–	814	814
Reclassification	–	18	–	18
As at 31 December 2019	463	2,627	814	3,904
Depreciation				
At 1 January 2018	62	793	–	855
Charge	29	167	–	196
Disposals	–	(33)	–	(33)
As at 31 December 2018	91	927	–	1,018
Charge	32	200	93	325
Reclassification	–	14	–	14
As at 31 December 2019	123	1,141	93	1,357
Carrying amount				
As at 31 December 2018	284	980	–	1,264
As at 31 December 2019	340	1,486	721	2,547

Included within the carrying amount of the above, are assets held subject to hire purchase contracts of £1,184,000 (2018: £692,000) relating to plant and machinery.

11 Inventories

	2019 £'000	2018 £'000
Raw materials	364	222
Work in progress	142	58
Finished goods	49	100
	555	380

There is no material difference between the value of inventories stated and their replacement cost. There are no material stock provisions at any period end, neither have material amounts of stock been written off in any of the periods presented.

12 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	831	524
Other receivables	7	26
Prepayments	819	296
	1,657	846

Trade receivables are stated net of impairment for estimated irrecoverable amounts of £1,000 (2018: £nil). There has been no material write off or change in impairment throughout the periods covered nor in the continuing assessment of the credit risk in the customer base and as a result no expected credit loss provision is made for these. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Prepayments includes £743,000 (2018: £200,000) in respect of deposits for capital equipment.

Trade receivables past their due dates but not impaired were:

	Less than 60 days overdue £'000	60 to 120 days overdue £'000	More than 120 days overdue £'000
31 December 2018	15	12	–
31 December 2019	22	60	104

The Directors consider the credit quality of trade and other receivables that are neither past due nor impaired to be of good quality. Substantially all overdue amounts have been collected since the year end.

13 Trade and other payables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade payables	652	332
Taxes and social security costs	52	49
Other payables	51	44
Accruals and deferred income	291	390
	1,046	815
Amounts falling due after more than one year:		
Deferred income – grants	856	539

The Directors consider that the carrying amount of trade and other payables approximates to their fair values. Accruals and deffered income include Contract Liabilities totalling £139k (2018: £nil) in relation to customer payments received in advance.

14 Borrowings

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Lease liabilities	73	–
Hire purchase contract obligations	266	161
	339	161
Amounts falling due between one and five years:		
Lease liabilities	364	–
Hire purchase contract obligations	601	357
	965	357
Amounts falling due in more than five years:		
Lease liabilities	288	–
Total borrowings	1,592	518

Hire purchase obligations are secured on the specific tangible fixed assets to which they relate.

Financing activities and movements in total borrowings	**£'000**
As at 1 January 2018	1,072
Cash movements:	
Repayment of revolving loan	(515)
Hire purchase contract payments	(164)
Interest paid	(65)
Non-cash movements:	
Interest accrued	65
New hire purchase contracts	125
As at 31 December 2018	518
Cash movements:	
Lease payments in respect of right of use assets	(89)
Hire purchase contract payments	(195)
Interest paid	(83)
Non-cash movements:	
Interest accrued	83
Lease liability on transition to IFRS 16	814
New hire purchase contracts	544
As at 31 December 2019	1,592

	2019 £'000	2018 £'000
Payments due under lease liabilities are as follows:		
In one year or less	434	185
Between one and five years	1,179	414
	1,613	599
Over five years	335	0
Future finance charges	(356)	(81)
Present value of liabilities	1,592	518

15 Financial instruments and capital management

Risk management

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's innovation and flexibility. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Company is exposed to financial risks in respect of market, credit, foreign exchange, liquidity and interest rate risk.

Capital management

The Company's capital comprises all components of equity which includes share capital, retained earnings and other reserves as indicated in the Statement of Financial Position.

The Company's objectives when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders, and to provide an adequate return to Shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Company consists of Shareholders equity with all working capital requirements financed from cash and revolving credit facilities and capital expenditure utilising term hire purchase contracts.

The Company sets the amount of capital it requires in proportion to risk. It manages its capital structure and makes adjustments to it in the light of changes in economic conditions, terms of borrowing facilities and the risk characteristics of the underlying assets and activity. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets to reduce debt.

Market risks

These arise from the nature and location of the customer markets, foreign exchange and interest rate risks.

The Company trades within the UK, European and US aeronautical and communications markets, and accordingly there is a risk relating to the underlying performance of these markets. The Directors monitor this and the foreign exchange risk closely with the intention to foresee downturns in trade or changes in the use of technology.

Foreign exchange risk

The Company trades in overseas markets and, whilst it has net foreign currency balances, has forward contracts in place with an option to sell sufficient foreign currency receipts at a fixed rate which it uses to manage pricing and the exposure to currency risks. There has therefore been limited sensitivity to exchange rate risks. It is not considered to be a material sensitivity to the range of fluctuations in exchange rates experienced within the last year..

The Company had the following net cash, sales ledger and purchase ledger balances denominated in foreign currencies:

	2019 £'000	2018 £'000
Euro denominated	178	92
US dollar denominated	222	11

Interest rate risk

The Company entered into a revolving credit facility with Growth Street in 2017, in order to finance development of the key technology, upon which interest was charged at a variable market rate for facilities of this nature. The outstanding value of this facility at 31 December 2017 was £515,000 on which the variable interest charged has typically been at a rate of 10%. This was fully repaid in 2018 and the Company now holds cash balances. The Directors do not consider that the Company is exposed to a material risk from fluctuations in these interest rates;

The Company makes use of fixed rate finance lease or hire purchase agreements to acquire property, plant and equipment; this ensures that the Company maintains its existing working capital and ensures certainty of costs at the point of acquisition of those assets. The Directors therefore do not consider that the Company is exposed to a material risk or sensitivity from fluctuations in interest rates as all lease liabilities have fixed interest rates. These liabilities are set out in note 14.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from credit sales and attempts to mitigate credit risk by assessing the creditworthiness of customers and closely monitoring payments history. Given the long experience of the Company with its customers and in view of the systems and relations with customers that the Company has, the Directors do not consider there is any significant risk at the balance sheet date.

The ageing of debtors is included in note 12. There have been no material impairments to trade or other receivables invoiced within the 3 years included within these financial statements.

Credit risk on cash and cash equivalents is considered to be minimal as the counterparties are all substantial banks with high credit ratings.

Liquidity risk

The maturity of the Company's financial liabilities including borrowing facilities detailed above is as set out below. Current liabilities were payable on demand or to normal trade credit terms with the exception of hire purchase contract obligations payable monthly and leases payable quarterly.

Liquidity risk of the business is managed by the preparation of and monitoring of a rolling weekly cash forecast which is integrated with a regular review of credit risk exposure (as detailed above) and the Board level review of three-month rolling finance facility headroom.

At 31 December 2018	**Up to 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**
Trade and other payables	543	–	–
Hire purchase contracts (including interest)	185	180	234
	728	180	234

At 31 December 2019	**Up to 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**
Trade and other payables	855	–	–
Lease liabilities	118	120	672
Hire purchase contracts (including interest)	316	288	405
	1,289	408	1,077

Classification of financial instruments

All financial assets are held at amortised cost and all financial liabilities have been classified as other financial liabilities measured at amortised cost with the exception of any forward currency contracts that exist which are measured at fair value as a derivative instrument.

Financial assets	**2019 £'000**	**2018 £'000**
Trade and other receivables	838	550
Cash and cash equivalents	567	2,786
	1,405	3,336

Financial liabilities	**2019 £'000**	**2018 £'000**
At amortised cost		
Trade and other payables	855	543
Lease liabilities	725	–
Hire purchase contracts	867	518
	2,447	1,061

16 Deferred tax liabilities

Liability/(asset) in respect of:

	Accelerated capital allowances £'000	Intangible assets £'000	Share Based Payment £'000	Losses £'000	Total £'000
As at 31 December 2018	171	271	(36)	(98)	308
Debit to profit or loss	71	136	(12)	(102)	93
As at 31 December 2019	**242**	**407**	**(48)**	**(200)**	**401**

17 Defined contribution scheme

The Company contributes to personal pension plans for the benefit of certain employees. The pension cost charge represents contributions payable by the Company to the fund.

	2019 £'000	2018 £'000
Contributions payable by the Company for the year	63	58

18 Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
14,772,372 Ordinary Shares of £0.04 each	591	591

Ordinary shares have equal rights to votes in any circumstances and are non-redeemable.

Ordinary shares have rights to receive dividends and capital distributions.

No dividends have been declared or are proposed in respect of the year (2018: £nil).

Analysis of Movements of Shares in Issue	**2019**	**2018**
1 January	14,772,372	14,176
Bonus Issue	–	367,195
Sub-division	–	9,152,904
Share Issue	–	5,238,097
31 December	14,772,372	14,772,372

19 Contingent liabilities

At 31 December 2019, the Company had no contingent liabilities (2018: none).

20 Financial commitments

The Company's future minimum rentals payable under non-cancellable operating leases were as follows:

	2019 £'000	2018 £'000
Land and buildings		
In one year or less	–	110
Between one and five years	–	328
Total financial commitments	–	438

The Company leases its premises under a 10-year lease with a break option available after 5 years. Following the adoption of IFRS16 these commitments are now included in lease liabilities at 31 December 2019.

The Company had capital commitments of £706,000 at 31 December 2019 in respect of new plant with the majority to be financed under hire purchase agreements.

21 Share Option Plan

Introduction

The Company established the EMI Share Option Plan on 15 June 2018 which allows for the grant of enterprise management incentive share options which qualify for favourable tax treatment under the provisions of Schedule 5 to Income Tax (Earnings and Pensions) Act 2003 (ITEPA) (EMI Options) and awards of non-qualifying options (together Awards).

The awards are not transferable. Only the person to whom an Award is granted or his or her personal representatives may acquire Ordinary Shares pursuant to an Award

The Board and Remuneration Committee has overall responsibility for the operation and administration of the Share Option Plan and discretion to select the persons to whom Awards are to be granted.

Size of EMI Options grants/plan limits

The Company will grant EMI Options for as long as the Company satisfies the qualifying conditions set out in the EMI Code.

Under the EMI Code, an employee may hold EMI Options over Ordinary Shares with a value (as at the date of grant) up to £250,000. Where this threshold is exceeded, the employee may not receive EMI Options for three years. He may, however, receive non-qualifying Awards, subject to the limit as set out below.

Unless the Remuneration Committee otherwise determines, the aggregate number of Ordinary Shares over which Awards may be granted under the Share Option Plan on any date shall be limited so that the total number of Ordinary Shares issued and issuable pursuant to Awards granted under the Share Option Plan and any other share scheme operated by the Company in any rolling 10-year period will be restricted to 10% of the Company's issued Ordinary Share capital from time to time calculated at the relevant time.

Rights to attaching to shares

Ordinary Shares issued in connection with the exercise of Awards will rank equally with Ordinary Shares of the same class then in issue. Application will be made for admission to trading on AIM of new Ordinary Shares issued.

Malus and Clawback

The Remuneration Committee may apply clawback where at any time before or within a year of vesting it determines that the final results of the Company were misstated. The Remuneration Committee may also apply the clawback at any time if it is discovered that the participant engaged in fraudulent or dishonest conduct prior to vesting that justified, or would have justified, summary dismissal from office or employment.

Awards

Included in the awards are options over 78,690 Ordinary Shares granted to Mark Hodgkins, one of the Directors.

22 Ultimate controlling party and related party transactions

There was no individual controlling party as at 31 December 2019.

The key management personnel are considered to be the Directors. Please refer to Note 5 for details of key management personnel remuneration. M Hodgkins, a Director of the Company, holds options over 78,690 ordinary shares in the Company (see note 8). A company controlled by M Hodgkins, Manumit Strategies Limited, invoiced £nil of fees and expenses to the Company (2018: £75,420 in respect of consultancy services relating to the AIM listing).

A motor vehicle was sold to P Johnston, a Director of the Company, for £13,425 during the prior year.

23 Post Balance Sheet Event

On the 1 April 2020 the Company completed the acquisition of Stevenage Circuits Limited for a maximum consideration of £2.457m. On the 30 March 2020 the Company passed Ordinary and Special Resolutions increasing the issued share capital of the Company from 14,772,372 shares to 22,113,622 by the issuance of 7,341,250 ordinary shares at 80p raising £5.87m.

Stevenage Circuits Limited is well-established founded in 1972 focused on the manufacture of rigid multi-layer and flexi-rigid PCBs. The main market segments served by the Company include Aerospace, Space, Medical and Industrial Controls. In the year to 30 September 2019 the Company generated turnover of £6.5m and an adjusted EBITDA of £0.36m and reported a PBT of £0.38m.

Since the year end the economic environment has changed significantly as a consequence of the Corona Virus pandemic. Whilst the impact from the pandemic is difficult to be confident about the directors do not think that any adjustment is necessary to these financial statements. The liquidity and solvency of the Company has been stress tested and are set out in the CFO's report on page 12.

24 Adjusted Operating Profit and EBITDA

In monitoring the performance of the business, the Directors focus on operating profit adjusted for material non-recurring or non-trading expenses and the adjustments so made are set out below:

Adjusted operating (loss)/ profit:	**2019 £'000**	**2018 £'000**
Operating (loss)/profit	(51)	125
Add back share based payments	224	155
Severance costs	28	–
Costs relating to factory move	–	45
Brexit protection exchange loss	57	–
Adjusted operating profit	258	325
Finance income and expense	(27)	(57)
Adjusted Profit before taxation	231	268

The measure of EBITDA is not recognised by IFRS however it remains an important performance measure for management. [The adjusted operating profit in this measure as set out below excludes net depreciation and amortisation charged to the profit and loss with the exception of the 2019 depreciation charge of £93,000 in respect of right of use assets. If IFRS16 had not been adopted the measure would have been £27,000 lower from the inclusion of the property rent charge.]

Adjusted EBITDA:	**2019 £'000**	**2018 £'000**
Operating (loss)/profit	(51)	125
Depreciation (net of development cost capitalisation)	132	196
Amortisation	183	97
Share based payments	224	155
Severance costs	28	–
Costs relating to factory move	–	45
Brexit Protection cost	57	–
Adjusted EBITDA	573	618

Officers and Professional Advisers

DIRECTORS:	Ian Griffiths	Non-Executive Chairman
	Philip Johnston	Chief Executive Officer
	Mark Hodgkins	Chief Financial Officer
	Lesley Jackson	Non-Executive Director

SECRETARY: Mark Hodgkins

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Our Vision

To be the pre-eminent interconnect partner of the world's leading innovators

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