kromek
detect image identify

7 October 2020

Kromek Group plc
("Kromek" or the "Group")

Final Results

Kromek (AIM: KMK), a worldwide supplier of detection technology focusing on the medical, security screening and nuclear markets, announces its final audited results for the year ended 30 April 2020.

Financial Summary

- Revenue of £13.1m (2018/19: £14.5m)
- Gross margin was 47.3% (2018/19: 57.2%)
- Adjusted EBITDA* of £0.4m loss (2018/19: £2.0m earnings)
- Loss before tax excluding exceptional items was £5.2m (2018/19: £1.3m loss)
- Exceptional loss in respect of trade receivables and amounts recoverable on contract due to the economic and operational impacts of COVID-19 was £13.1m (2018/19: £nil)
- Loss before tax including exceptional items was £18.3m (2018/19: £1.3m loss)
- Cash and cash equivalents at 30 April 2020 were £9.4m (30 April 2019: £20.6m) following planned investment in property, plant and equipment totalling £7.0m

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, other income, exceptional items, early settlement discounts and share-based payments. For further details, see the Financial Review below.*

Operational Summary

- Solid progress was made in the early part of the year with Kromek reporting record H1 2019/2020 revenues. However, the COVID-19 pandemic caused disruption in Q4 2019/2020 causing some projects to be delayed into the new financial year
- Substantial expansion programme implemented at UK headquarters to increase CZT manufacturing capacity and D3S production
- Significant commercial traction with D3S family of products with sales in 22 countries:
    - Successfully delivered orders of £2.1m from a European government-related company, a new customer
    - Expanded the geographic reach with the win of a competitive tender to provide the D3S platform to the Irish Civil Defence under a three-year contract
    - Further contracts won from the US government and European Commission
- Commenced delivery on a significant $58.1m contract to provide an OEM customer with CZT detectors and associated advanced electronics for its state-of-the-art medical imaging systems
- Won contracts with the Canadian Nuclear Safety Commission and Curaçao government for civil nuclear solutions and sold radiation mapping solution for drones to UKAEA (1) and Sellafield (2)
- Key milestone reached in security screening with OEM customer achieving the highest level of European liquid explosive detection certification for cabin baggage for its scanner. Received first commercial order post-period
- Five new patents were filed and 20 were granted during the year

Current Trading and Outlook

- Impact of pandemic has continued into the first four months of the new financial year
- Two key customers whose material contracts were postponed from the previous year have now issued instructions to recommence
- Business patterns now returning to normal and detector shipments are being scheduled

- Post-period, awarded a $5.2m contract extension, by the Defense Advanced Research Projects Agency ("DARPA"), an agency of the US Department of Defense, to work on a mobile wide-area bio-security system capable of detecting airborne pathogens
- Increased visibility from customers as evidenced by largest customer in medical imaging segment providing the Group with their plans for the full fiscal year
- Demand for D3S family of products continues to increase and there is renewed procurement activities in the US, Asia and Europe
- New emerging segment of biological-threat detection has significant long-term implications
- Board cautiously optimistic for the year ahead

Dr Arnab Basu, CEO of Kromek, said:

"We entered 2019/20 in a stronger position than ever before, increasing revenues by 43% in the first half. However, the pandemic caused markets to shut down and materially impacted both our global customer base and supply chain resulting in overall revenues for full year 2019 to be lower than the previous year. However, the mitigation measures and operational progress we have made during the year means we are well-positioned to rebound strongly.

"We have significantly expanded our production capacity and increased sales of our popular D3S platform that is being deployed in 22 countries, including new contracts with the US Government and European Commission. We have also deepened our relationship with DARPA to build a bio-surveillance system for detecting airborne pathogens. In medical, we expect product cycles to continue to refresh as early and better diagnostics is increasingly recognised as critical to more effectively managing diseases like cancer and cardiac conditions. These are substantial addressable markets underpinned by fundamental long-term growth drivers.

"I am immensely proud of the resilience and attitude of our staff as we have all adapted to new ways of working. It is greatly encouraging that we are now starting to see a return to normal business patterns, and this is feeding through into increased activity from our customers around the world. As a result, the Board is cautiously optimistic for the year ahead and will provide updates to the market as the outlook becomes clearer moving forward."

This announcement contains inside information.

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About Kromek Group plc

Kromek Group plc is a technology group (global HQ in County Durham) and a leading developer of high performance radiation detection products based on cadmium zinc telluride ("CZT") and other advanced technologies. Using its core technology platforms, Kromek designs, develops and produces x-ray and gamma ray imaging and radiation detection products for the medical, security screening and nuclear markets.

The Group's products provide high resolution information on material composition and structure and are used in multiple applications, ranging from the identification of cancerous tissues to hazardous materials, such as explosives, and the analysis of radioactive materials.

The Group's business model provides a vertically integrated technology offering to customers, from radiation detector materials to finished products or detectors, including software, electronics and application specific integrated circuits ("ASICs").

The Group has operations in the UK and US (California and Pennsylvania), and is selling internationally through a combination of distributors and direct OEM sales.

Currently, the Group has over one hundred full-time employees across its global operations. Further information on Kromek Group is available at www.kromek.com and https://twitter.com/kromekgroup.

Overview

Kromek entered 2019/20 in a stronger position than ever before, increasing revenue by 43% in the first half over the previous period. The pandemic caused markets to shut down and materially impacted both the Group's global customer base and supply chain resulting in overall revenues for full year 2019/20 to be lower than the previous year. However, the mitigation measures and operational progress that Kromek made during the year mean the Group is well-positioned to rebound strongly.

Notwithstanding the impact of the pandemic, the Group made notable progress during the year in the strengthening of its operations. Kromek implemented a substantial expansion programme at its UK headquarters in Sedgefield to increase its cadmium zinc telluride ("CZT") manufacturing capacity. The Group also continued to gain traction for its next-generation molecular imaging single photon emission computed tomography ("SPECT") products in medical imaging and its D3S family of products in nuclear detection – which management believe are the key drivers of the Group's future growth along with newly emerging segment of biological-threat detection.

COVID-19 Impact

The COVID-19 pandemic presented unprecedented challenges to Kromek's supply chains and operations while adversely impacting demand from certain customers. Some contracts were postponed to the new financial year and two key customers have now issued instructions to recommence their contracts.

The Group was fast to respond to the evolving public health emergency and by the middle of March 2020, it had activated its business continuity plan and transitioned most of its employees in the UK and US to remote working in order to protect the health and safety of the workforce.

The Group undertook a number of temporary mitigation measures to bolster the liquidity of the business and its financial position. Actions taken included the implementation of some organisational restructuring; ceasing all discretionary capital expenditure; curtailing all travel and non-essential spend; and securing short- and medium-term rent concessions on some of the Group's leased properties. Kromek has undertaken job reductions in the US and engaged the Job Retention Scheme in the UK, furloughing a number of staff. These measures, along with others in the pipeline, are expected to reduce running costs and cash outflow. In addition, the Group has secured further loans with HSBC of £1.4m and, in the US, Paycheck Protection loans of around $1m. The Group has also varied the bank covenants on the Revolving Credit Facility with HSBC to ensure the continued availability of this instrument.

In April 2020, Kromek entered a licensing agreement with Metran Co., Ltd, a Japan-based leading developer of medical ventilator products and technology, with the intention to manufacture and sell invasive emergency ventilators to support the COVID-19 crisis. Kromek continues to see interest in the product and signed an agreement for the supply of ventilators in a European country, which will become effective following receipt of appropriate certifications in that jurisdiction. The Group anticipates this market to remain active over the next 12-18 months as countries continue to build capacity in the fight against COVID-19 and build resilience against any similar pandemics in the future.

With the lifting of lockdowns in the UK and the US, Kromek's workforce that are required to be onsite have been able to return to the Group's facilities as Kromek now starts to resume full scale production. Business is showing signs of returning to normal trading, with orders being issued and shipments, once again, being scheduled. However, this still remains a challenge for certain parts of the world where both movement of people and goods continue to be hindered by restrictions.

Medical Imaging

Medical imaging represents a significant market opportunity for Kromek with SPECT and molecular breast imaging ("MBI") as key target growth areas for the Group's CZT-based detector solutions.

Kromek continued to make progress in this market during the year. In particular, the Group commenced delivery on one of its most significant contracts to date, which had been awarded in H2 2018/19, to provide an OEM customer with CZT detectors and associated advanced electronics to be used in its state-of-the-art medical imaging systems. The contract is expected to be worth a minimum of $58.1m over an approximately seven-year period.

In recent years, leading OEMs in medical imaging have been increasingly adopting CZT detector platforms as the enabling technology for their product roadmaps – leading to growing demand for Kromek's solutions. However, because of COVID-19 related factors, hospital resources have been temporarily redirected and logistics constraints hamper new system installations. Consequently, some orders were postponed as medical OEM customers were required to delay new systems sales and product introductions. While this disruption has had a significant impact on Kromek's medical imaging business, the Group expects this to be short-term and believes the market opportunity remains substantial. In addition, normal business patterns are returning and some customers are now beginning to resume orders with detector production and shipments being scheduled.

The Group also progressed the development of its ultra-low dose MBI technology based on its CZT-based SPECT detectors. Under this three-year project, which commenced in 2018, Kromek is working alongside partners in the Newcastle-upon-Tyne Hospitals NHS Foundation Trust in the UK and an OEM partner.

Nuclear Detection

Nuclear Security

Kromek continued to see opportunities and demands for its D3S platform, which is attracting business interest across the globe – and has been sold in more than 22 countries.

A key achievement was the award of a strategically significant contract, worth £1.1m, by a European-government related company, a new customer, for the provision of D3S-related technologies, which was subsequently extended by £1.0m to provide technology integration. The customer works with a European government to detect and protect against potential nuclear threats. The Group has successfully delivered this contract and its solutions are being actively deployed by the customer for wide-area threat monitoring.

Kromek was awarded a new and an extension contract worth over $1m in total under two initiatives by the US government:

- The Countering Weapons of Mass Destruction Office, which is a component within the US Department of Homeland Security, has awarded Kromek a $0.7m extension contract to add further technical innovation capability to the D3S family of products.
- The Joint Program Executive Office for Chemical, Biological, Radiological and Nuclear Defense (JPEO-CBRND) awarded Kromek a $0.4m contract to provide D3S-related customisation for military operational transition, which will leverage the DARPA SIGMA Program sensor and technology.

The D3S platform was used in active deployments and field-tests in multiple locations of strategic importance and high risk across the US, Asia and Europe. This includes deployment under an initiative, for which the Group was awarded a €0.2m contract, by the European Commission's Directorate-General for Migration and Home Affairs, working alongside security authorities in Belgium, Luxembourg, The Netherlands and Spain, to allow the law enforcement authorities to validate new and emerging technologies for homeland protection. The European Commission used the D3S-ID and D3S Drone radiation detectors for the protection of public spaces across multiple European locations covering high-risk venues such as airports, train stations and other public areas. Following this initiative, the Group has received an additional order for software development to expand the capabilities of the D3S Drones as well as more detectors for a new trial application.

Kromek also continued to expand the geographic reach of the D3S with the win of a competitive tender to provide its D3S platform to the Irish Civil Defence under a three-year contract worth up to €0.2m. The first units are now in use and further orders are expected shortly. In addition, the Swiss Government has listed the D3S-ID for use at waste and recycling sites.

The Group's business and product development pipeline have remained good. During the year, Kromek launched the latest version of the D3S for first responders, the D3M PRD. The Group has continued to execute on multiple US government sponsored programmes, including the development of a fully ruggedised radio isotope identification device (RIID), which is expected to be launched later this calendar year. The Group is starting to see renewed procurement activities in the US, Asia and Europe after a period of slowdown over the last six months. The Group has continued to strengthen and expand its distribution network both in Europe and Asia. This includes new in-country partners for the D3S in France, Spain, Italy, Poland and Serbia.

Civil Nuclear
In the civil nuclear markets, the Group won several new contracts globally for its portfolio of high-resolution detectors and measurement systems used in nuclear power plants, research and for other applications. This included contracts with the Canadian Nuclear Safety Commission as well as other government customers. This was supplemented by the home market, where the Group's radiation mapping solutions for drones were sold to UKAEA and Sellafield. Kromek's markets in civil nuclear continue to expand with new customers and repeat orders from existing customers.

Security Screening

In security screening, the Group continued to provide its OEM and government customers with components and systems for cabin and hold luggage scanning applications. This includes delivery on the $2.7m expansion order, which was received at the end of the 2018/19 year, under Kromek's long-term contract to provide key components for a US-based customer's security screening system for the detection of explosives. The order expansion reflects the growing recognition of the strength of Kromek's detection solution and credentials as a high-quality product supplier. The Group continues to receive increasing interest in its technologies that can meet the high-performance standards demanded by customers to ensure passenger safety while increasing the convenience and efficiency of the security process.

The Group also reached a key milestone with another OEM customer in the security screening market, which achieved the highest level of European liquid explosive detection certification for cabin baggage for their new generation scanner that is based on Kromek technologies. This certification enabled commercial deployment of the product and, post period, the Group has received the first commercial order from its customer.

Biological-Threat Detection

Post period, Kromek was awarded a contract extension worth up to $5.2m by DARPA, a long-standing customer, to advance the development of a solution for the detection and identification of pathogens in an urban environment via a vehicle-mounted biological-threat identifier. However, in response to the outbreak of COVID-19, the project is expected to be expanded beyond the development of a mobile wide-area bio-surveillance system against possible bioterrorism.

Once fully developed over the next few months, the technology should be able to sample air and identify the presence of any biological pathogen – including COVID-19 or any mutant version that may emerge over time. It is intended that the technology will be used to immediately flag the presence of someone with a contagious disease and allow effective mitigation of the risk of transmission. By placing samplers in high footfall areas, such as airports and hospitals, or where people are in close proximity for long periods, for example in transport vessels such as aircraft and care homes, threats can be identified without having to individually test people. Knowing a carrier is infected with a disease before they infect further individuals is key to halting the onset of an outbreak and before it causes major global disruption.

The Group expects to continue further development, piloting, and commercial deployments of this solution over the coming months.

Manufacturing Facilities

In order to meet growing demand for Kromek's products, the Group continued its planned programme to significantly increase its production capacity and optimise the manufacturing process. During the year, Kromek successfully completed a substantial expansion programme at its UK headquarters in Sedgefield by increasing both the number of furnaces for growing CZT and material processing tools. In addition, the Group expanded the product assembly space for new and existing handheld radiation detector products in its existing UK factory.

The CZT manufacturing process capability was enhanced with advanced automated sensor assembly capability, significantly improving both process capability and operational capacity. As part of the process, Kromek will be introducing new CZT processing technology, which is expected to further enhance process quality, yield and manufacturing throughput.

This investment in the UK headquarters follows the relocation of the Group's US operations to a new purpose-built premise near Pittsburgh, Pennsylvania. The site move was completed during the year with the operation moving in its entirety during June 2019, which has enabled a ramp-up in production for CZT-based cameras to serve the SPECT market. Both the UK and US manufacturing sites are certified to ISO9001:2015 through the annual ISO audit cycle.

R&D, Product Development and IP

The Group conducts continuous appraisal of a global supply chain for electronics components, critical materials and partner capabilities to ensure readiness for both changing customer and market demands. Kromek has continued to expand its IP portfolio through its core technology and product developments, in line with its key aims for IP protection: protect products; create market position and freedom to operate; and increase property value.

During the year, the Group applied for five new patents and had 20 patents granted across 10 patent families. The new applications cover innovations across Kromek's nuclear, medical and biological-threat detection offerings and, while relating to targeted product developments, will also provide value beyond these fields. For example, the patent applications in the nuclear field can apply to multiple uses of scintillator detectors; the medical application will provide valuable IP, which underpins a key benefit of CZT; and the biological applications cover components that will have uses far beyond CBRN detection.

Financial Review

Kromek started the year well, with half-year revenue increasing by 43% to £5.3m (H1 2018/19: £3.7m), and the Group felt confident of delivering another year of strong growth. However, the Group's financial year end of 30 April 2020 was at the height of global lockdown measures following a highly disrupted Q4 2019/2020 from January 2020 onwards. As noted in the announcement of 1 May 2020, the Group experienced a material impact on its operations because of the COVID-19 outbreak with delays in certain projects due to constraints imposed upon sub-contractors, suppliers, and customers. The Group was also informed that two of its key contracts would be delayed until the new financial year. Both customers have now issued instruction to re-commence, though initially at lower levels than originally contracted.

As a result, revenue was reduced by 10% to £13.1m (2018/19: £14.5m) and gross margin to £6.2m (2018/19: £8.3m). Due to higher administration costs of £10.6m (2018/19: £9.0m), the adjusted EBITDA decreased to a loss of £0.4m compared with earnings of £2.0m for the prior year.

Revenue

The Group generated total revenue of £13.1m (2018/19: £14.5m). The split between Product sales and revenue from R&D contracts is detailed in the table below:

Revenue Mix	**2019/20**		**2018/19**	
	£'000	**% share**		**% share**
Product	10,314	79%	**12,060**	83%
R&D	2,806	21%	**2,467**	17%
Total	**13,120**		**14,517**	

Revenue was directly affected in Q4 2019/2020 by the impact of COVID-19. To strengthen its cash position, the Group negotiated an early payment from a specific customer in exchange for an early settlement discount. In line with IFRS 15 accounting standard, these discounts (amounting to £0.7m; 2018/19: £nil) have been netted off against revenue. Without this discount, revenue would have been £13.8m and gross profit would have been £6.9m with a gross margin of 50.0%.

Gross Margin

The year-on-year decrease in revenue, combined with a reduction in gross margin, resulted in a fall in gross profit to £6.2m (2018/19: £8.3m). The fall in gross margin to 47.3% (2018/19: 57.2%) is attributable to three key elements. Firstly, a lower margin yield associated with the initial year of the commencement of production of the seven-year medical imaging contract announced in early 2019. The second key element, as noted above, results from a discount on an early settlement to one key customer in airport security relating to a substantial call-off and payment ahead of schedule. This both de-risked this commercial opportunity, but also ensured that the Group could record further receipts of $2m at the year-end and thus strengthen its cash position. The third key element to the reduction in gross margin was the cost impact of bought in goods where alternative suppliers had to be sought to complete the products and services that could be shipped during the final two months of the year.

Administration Costs

Administration costs and operating expenses increased by £1.6m to £10.6m (2018/19: £9.0m). This increase is substantially the net result of:

- £1.2m additional staff costs due to the planned expansion of the sales and production teams, plus technology personnel to support the biological detection project.
- £0.3m additional costs of depreciation largely relating to the capital expenditure on the furnace and fabrication expansion of £6.1m.
- £0.3m additional costs of amortisation due to continued investment in the technology platform and product applications.
- £(0.7)m foreign exchange credit largely due to a surplus realised on the Group's US$ overdraft facility settled during the year.
- £0.5m relating to a combination of other items, including an increase in the US cost base, largely compensated by the foreign exchange gain noted above.

Exceptional Items

The Group has recorded an exceptional Item of £13.1m being substantially the write down of Amounts Recoverable On Contract ("AROC") brought about by the uncertainty of COVID-19. As set out last year, the Group had planned to reduce the significant debtor balance regarding AROC and the Group's management had undertaken several visits to China to effect this. That process looked very promising during the period up to January 2020, but the onset of COVID-19 in China, and subsequently the rest of the world, resulting in the financial status of the Group's customers becoming uncertain. Consequently, the Board has prudently chosen to take a full provision against the AROC balance.

The Board is confident that once there is greater clarity on the flow of funds through investment and movement of goods and people, both globally and within China, this position will reverse, and the Group will see the opportunities materialise. The Group has secured a contract addendum for medical imaging systems with its major customer that sets out clear call-off schedules and a commitment to a multi-year opportunity, which also assists in monitoring any changes in deemed credit status. As the Chinese economy reopens and this contract addendum becomes effective, the Board remains committed to creating value from this relationship, but also more widely from the investment in the underlying technology. Kromek's exposure and reputation for this technology in China is growing and the Group's network and support structures in the region will ensure that it can effectively work with its customers and expand its opportunities.

Adjusted EBITDA* and Result from Operations

Primarily due to the impact of COVID-19 on the Group's operations, adjusted EBITDA for 2019/20 was a loss of £0.4m compared with earnings of £2.0m for the prior year as set out in the table below:

	2019/20	**2018/19**
	£'000	**£'000**
Revenue	13,120	14,517
Gross profit margin	6,208	*8,309*
Gross margin (%)	*47.3%*	*57.2%*
Loss before Tax	(18,345)	(1,270)

***EBITDA* Adjustments:**		
Non- COVID-19 Related Items:		
Net interest	544	364
Depreciation of PPE and Right of Use assets	1,185	879
Amortisation	2,142	1,806
Share-based payments	225	195
COVID-19 Related Items:		
Early settlement discount	**746**	**-**
Exceptional Item	**13,062**	**-**
Adjusted EBITDA*	**(441)**	**1,974**

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, other income, exceptional items and share-based payments. The impact of COVID-19 has resulted in an exceptional item of £13.1m relating to receivables and AROC and a specific airport security customer early settlement discount of £0.7m as neither are in the normal course of events and are significant in their size, practice and nature. Share-based payments are added back when calculating the Group's adjusted EBITDA as this is currently an expense with a zero direct cash impact on financial performance. Adjusted EBITDA is considered a key metric to the users of the financial statements as it represents a useful milestone that is reflective of the performance of the business resulting from movements in revenue, gross margin and the costs of the business. This definition has changed from 2018/19 to include the exceptional item and early settlement discount. However, in 2018/19 there were no exceptional items or such specific early settlement discounts meaning the Adjusted EBITDA from 2018/19 has not changed.*

The £2.4m decrease in adjusted EBITDA in 2019/20 compared with 2018/19 is substantially a result of a loss in gross profit of £2.1m due to the lower revenue and reduction in gross profit margin noted above.

Loss before tax for the year increased to £18.3m (2018/19: £1.3m loss), largely due to the loss in gross profit of £2.1m, additional administration costs of £1.6m and the exceptional item of £13.1m.

During 2019/20, the Group recognised other comprehensive income of £1.0m (2018/19: £1.2m income) that arose in respect of exchange differences on a net investment in a foreign operation as described in note 2 to the financial statements. Unlike the £0.7m gain resulting from foreign exchange on consolidation and revaluations and realisation of working capital balances noted above that were expensed to the profit and loss account, this gain has been treated as a reserve movement, consistent with the prior year.

Tax

The Group continues to benefit from the UK Research and Development Tax Credit, resulting from the investment in technology developments, and recorded a credit of £0.9m for the year (2018/19: £1.0m).

Following a review, the Group has revisited the historical treatment of deferred tax in relation to development costs capitalised in Kromek's US operations since reporting under IFRS. As a result, through a prior year adjustment, a deferred tax liability has now been recognised on the Group's balance sheet as at 30 April 2019 totalling £0.9m with the corresponding adjustments made to the profit and loss account and retained earnings. This liability has subsequently been fully eliminated during the year ending 30 April 2020 following an offset with a deferred tax asset arising in the Group's

US operations relating to accumulated losses to date. Please refer to note 2 to the financial statements for a summary of the adjustments made.

Due to the elimination of the deferred tax liability and the UK Research and Development Tax Credit, the tax charge for the year is a credit of £1.8m (2018/19: £0.6m credit).

Earnings per Share ("EPS")

Due to a £3.5m loss after tax from continuing operations (after excluding exceptional Items) for the year, the EPS is recorded in the year on a basic and diluted basis as 1.0p loss per share (2018/19 restated: 0.2p loss per share). Due to a £16.5m loss after tax from continuing operations (including exceptional items) for the year, the EPS is recorded in the year on a basic and diluted basis as 4.8p loss per share (2018/19 restated: 0.2p loss per share).

R&D

The Group invested £5.3m in the year (2018/19: £2.7m) in technology and product developments that were capitalised on the balance sheet, reflecting the ongoing investment in new products and new applications for the future growth of the business. This capitalisation is higher in the current year because of two key factors. Firstly, last year the figure was artificially reduced due to the facility move in the US during the first half of 2018/19 and the restrictions this disruption placed on development work. Secondly, the Group has chosen to pursue the opportunity in automated wide-area detection of biological pathogens, involving portable DNA sequencing. It is the Board's belief that this technology will enable the identification of the COVID-19 threat in public spaces and offers opportunities for the Group in this critical market. This is a position endorsed by the US government with DARPA awarding Kromek a major contract in May 2020 as part of the development of this platform and product applications.

The other key areas of development continue to be the expansion in the D3S suite of products and the SPECT platforms. All such investments in research and development are linked to contract deliverables and the Board's belief in the significant future revenue opportunities that the Group's technology offers. The Group continues to undertake this investment to strengthen its commercial advantage.

During the year, the Group undertook expenditure on patents and trademarks of £0.2m (2018/19: £0.2m) with five new patents filed and 20 patents granted across 10 patent families.

Capital Expenditure

Capital expenditure in the year amounted to £7.0m (2018/19: £3.6m). As previously stated, this planned increase relates primarily to the expansion of the CZT growth facility, manufacturing processes and capacity in both the UK and US. Over recent years, the Group has demonstrated that it can now replicate this capability on multiple sites and significantly implement and scale up operations. This is a major achievement by the Group and the many members of Kromek's team that have worked on this project. The capital project is now installed, commissioned and in operation – delivering against multiple projects, but particularly against the major medical imaging contract announced in early 2019.

Cash Balance

Cash and cash equivalents were £9.4m as of 30 April 2020 (30 April 2019: £20.6m). The decrease in cash during 2019/20 was a combination of the following:

- An adjusted EBITDA loss for the year of £0.4m.
- Net cash used in financing activities of £0.9m.
- £0.4m reduction in working capital, excluding the exceptional write off of the AROC balance of £13.1m.
- R&D Tax Credit receipts of £0.9m.
- Investment in product development and other intangibles, with capitalised development costs of £5.3m and IP additions of £0.2m.
- Capital expenditure of £7.0m, as noted above.
- £1.3m conversion of the Investment in long-term cash deposits into a more liquid form.

The movement in key working capital balances is analysed as follows:

- A £3.2m increase in inventories held on 30 April 2020 to £6.4m (30 April 2019: £3.2m). Following the $58.1m medical imaging contract awarded in January 2019, the Group is holding more component stock and work in progress to meet the call-off plan of the contract. Due to delays driven by COVID-19, a substantial element of shipments intended for March and April 2020 were held back due to customer requests. A revised call-off plan has been received during August 2020 and it is anticipated that this inventory will begin to flow into a monthly rolling production and shipment plan.
- A £1.3m increase in trade and other receivables (excluding exceptional items) reflecting the timing of invoicing and payments during the strict lockdown of the Group's Q4.
- A £3.9m increase in trade and other payables to £8.8m (2018/19: £4.9m). This increase is due to capital expenditure in the year and the timing of invoicing around the year end. Additionally, there has been a build-up of inventory to meet the needs of the medical imaging contract noted above. The Group also secured a £0.7m grant during the year regarding job creation in County Durham following the aforementioned $58.1m medical imaging contract, which is currently recognised on the balance sheet as deferred income.
- As noted last year, in March 2019 the Group renewed its existing Revolving Credit Facility with HSBC. The facility was extended to £5.0m from £3.0m and the renewal period was increased to a minimum of three years, with an additional option for up to five years. At 30 April 2020, £3.1m of the facility was drawn (30 April 2019: £3.0m) to support the working capital expansion. A further £1.8m of the facility has been used to fund plant and machinery. Given the downward impacts on immediate outlook because of COVID-19, Kromek has renegotiated the bank covenants to ensure that the Group can continue to rely on the flexibility of this facility.

Outlook

Kromek's position as a leading manufacturer of next-generation CZT-based products, supplying substantial growing markets and multi-year contracts, gives the business a degree of resilience.

The disruption in the final quarter of the 2019/20 year carried through to the first four months of the new financial year. Normal business patterns are now returning and some customers are beginning to resume orders with detector production and shipments being scheduled. Two customers who had postponed their contracts have now issued instructions to recommence work. Additionally, the Group is experiencing increasing visibility from its customers, including from Kromek's largest customer in the medical imaging segment who has provided it with visibility on their plans for the full fiscal year. Demand for D3S family of products continues to increase and there is renewed procurement activities in the US, Asia and Europe after a period of slowdown over the past six months. As a result, the Board is cautiously optimistic for the year ahead and will provide updates to the market as the outlook becomes clearer moving forward.

From a long-term perspective, Kromek's key addressable markets benefit from fundamental growth drivers. The Group expects to see the refresh of product cycles continue in the medical sector, which is being transformed by CZT-based radiation detection. Early and better diagnostics is recognised as one of the means to deal more effectively with diseases like cancer and cardiac conditions. This pandemic has shown some of the vulnerabilities in the western healthcare systems and the lack of resilience due to under-investment over the last decade, which is expected to drive growth in addition to new demands in countries like China, India and Brazil. In the nuclear detection segment, security authorities continue to invest in sophisticated technologies, while bio-security is an emerging focus with significant long-term implications and monitoring and surveillance is expected to become the only way to deal with threats from novel viruses such as COVID-19.

With substantial long-term market drivers and significantly expanded production capacity in place, Kromek is well positioned to deliver on demand from around the world for next-generation radiation detection technologies.

Kromek Group plc
Consolidated income statement
For the year ended 30 April 2020

	Note	2020 £'000	Restated* 2019 £'000
Continuing operations			
Revenue	3	13,120	14,517
Cost of sales		(6,912)	(6,208)
Gross profit		6,208	8,309
Other operating income	3	-	-
Distribution costs		(336)	(184)
Administrative expenses		(10,611)	(9,031)
Operating loss (before exceptional items)		(4,739)	(906)
Exceptional impairment losses on trade receivables and amounts recoverable on contract	6	(13,062)	-
Operating results (post exceptional items)		(17,801)	(906)
Finance income		60	155
Finance costs		(604)	(519)
Loss before tax	4	(18,345)	(1,270)
Tax	7	1,805	637
Loss for the year from continuing operations		(16,540)	(633)
Loss for the year from continuing operations (before exceptional items)		(3,478)	(633)
Loss per share	8		
- basic (p)		(4.8)	(0.2)
- diluted (p)		(4.8)	(0.2)

*see notes 2 and 9 in the accounts

Kromek Group plc
Consolidated statement of comprehensive income
For the year ended 30 April 2020

	2020 £'000	Restated* 2019 £'000
Loss for the year	(16,540)	(633)
Items that are or may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	1,047	1,189
Total comprehensive (loss)/income for the year	(15,493)	556

*see note 2 in the accounts

Kromek Group plc
Consolidated statement of financial position
As at 30 April 2020

	Note	2020 £'000	Restated* 2019 £'000
Non-current assets			
Goodwill		**1,275**	1,275
Other intangible assets		**21,878**	18,165
Investments – long-term cash deposits		**-**	1,250
Property, plant and equipment		**12,551**	6,252
Right-of-use asset		**3,852**	3,975
		39,556	30,917
Current assets			
Inventories		**6,416**	3,227
Trade and other receivables		**8,210**	19,997
Current tax assets		**1,031**	987
Cash and bank balances		**9,444**	20,616
		25,101	44,827
Total assets		**64,657**	75,744
Current liabilities			
Trade and other payables		**(8,795)**	(4,884)
Borrowings	10	**(3,669)**	(3,133)
Lease obligation		**(324)**	(273)
		(12,788)	(8,290)
Net current assets		**12,313**	36,537
Non-current liabilities			
Deferred tax liability	2, 9	**-**	(868)
Deferred income		**(1,021)**	-
Lease obligation		**(3,844)**	(3,938)
Borrowings	10	**(1,937)**	(2,313)
		(6,802)	(7,119)
Total liabilities		**(19,590)**	(15,409)
Net assets		**45,067**	60,335
Equity			
Share capital		**3,446**	3,446
Share premium account		**61,600**	61,600
Merger reserve		**21,853**	21,853
Translation reserve		**1,981**	934
Accumulated losses		**(43,813)**	(27,498)
Total equity		**45,067**	60,335

*see notes 2 and 9 in the accounts

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 6 October 2020. They were signed on its behalf by:

Dr Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Consolidated statement of changes in equity
For the year ended 30 April 2020

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Translation reserve £'000	Accumulated income/ (losses) £'000	Total equity £'000
Balance at 1 May 2018 as previously reported	**2,604**	**42,625**	**21,853**	**(269)**	**(26,557)**	**40,256**
Prior year adjustment (see notes 2 and 9)	-	-	-	14	(503)	(489)
Balance at 1 May 2018 restated	**2,604**	**42,625**	**21,853**	**(255)**	**(27,060)**	**39,767**
Restated loss for the year (see notes 2 and 9)	-	-	-	-	(633)	(633)
Restated exchange difference on translation of foreign operations (see notes 2 and 9)	-	-	-	1,189	-	1,189
Total comprehensive income/(losses) for the year	-	-	-	1,189	(633)	556
Issue of share capital net of expenses	842	18,975	-	-	-	19,817
Credit to equity for equity-settled share-based payments	-	-	-	-	195	195
Balance at 30 April 2019 restated	**3,446**	**61,600**	**21,853**	**934**	**(27,498)**	**60,335**
Loss for the year	-	-	-	-	(16,540)	(16,540)
Exchange difference on translation of foreign operations	-	-	-	1,047	-	1,047
Total comprehensive income/(losses) for the year	-	-	-	1,047	(16,540)	(15,493)
Issue of share capital net of expenses	-	-	-	-	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	225	225
Balance at 30 April 2020	**3,446**	**61,600**	**21,853**	**1,981**	**(43,813)**	**45,067**

Kromek Group plc
Consolidated statement of cash flows
For the year ended 30 April 2020

	Note	2020 £'000	2019 £'000
Net cash inflow/(used in) operating activities	11	**179**	(4,777)
Investing activities			
Investment receipts from money market account		**1,250**	-
Interest received		**60**	155
Purchases of property, plant and equipment		**(6,965)**	(3,644)
Purchases of patents and trademarks		**(243)**	(210)
Capitalisation of development costs		**(5,256)**	(2,731)
Net cash used in investing activities		**(11,154)**	(6,430)
Financing activities			
Net proceeds on issue of shares		**-**	19,817
New borrowings		**2,100**	2,557
Payment of borrowings		**(2,105)**	(111)
Payment of lease liability		**(539)**	(486)
Interest paid		**(365)**	(293)
Net cash (used in)/generated from financing activities		**(909)**	21,484
Net (decrease)/increase in cash and cash equivalents		**(11,884)**	10,277
Cash and cash equivalents at beginning of year		**20,616**	9,488
Effect of foreign exchange rate changes		**712**	851
Cash and cash equivalents at end of year		**9,444**	20,616

Kromek Group plc
Notes to the consolidated financial statements
For the year ended 30 April 2020

1. General information

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

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

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 May 2018 and revenue is recognised in accordance with this standard. IFRS 16 'Leases' became mandatory for adoption on 1 January 2019 and was early adopted from 1 May 2018. IFRS 9 'Financial Instruments', which is mandatory for years commencing on or after 1 January 2018, was also adopted last financial year. For further analysis in relation to the adoption of these standards, refer to the 2018/19 annual report.

There were no other new standards or amendments or interpretations to existing standards that became effective during the year that were material to the Group.

The financial information set out above does not constitute the company's statutory accounts for the years ended 30 April 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Significant accounting policies

Basis of preparation

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

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

Restatement

Following a review, management revisited the historical treatment of deferred tax in relation to development costs capitalised in the US subsidiaries since reporting under IFRS. As a result of management's review, a prior year adjustment has been made to recognise a non-current deferred tax liability of £868k as at 30 April 2019 (30 April 2018: £503k).

The adjustment reduced the tax credit for the year ending 30 April 2019 by £350k to £637k (previously reported as £987k) and, consequentially, increased the loss for the year from continuing operations by £350k (previously reported as a loss of £283k). As a result, restatements were made as at 30 April 2018 and 30 April 2019 to adjust the translation reserve by £14k from a debit balance of £269k to £255k and £29k from £949k to £934, respectively. The comprehensive losses for the year set out in the total comprehensive income on the consolidated statement of comprehensive income for the year ended 30 April 2019 were restated by a net amount of £379k to £556k (previously reported as £935k).

The impact was to reduce net assets and equity as at 30 April 2019 by £868k (1 May 2018 by £489k).

There was no impact to the statement of cash flows.

As the effect of the restatement is limited to deferred tax liabilities and equity and has no impact on the loss before tax, no third balance sheet has been presented.

This deferred tax liability accrued to 30 April 2019 has been fully eliminated during the year ending 30 April 2020 following an offset with a deferred tax asset arising in the Group's US operations relating to accumulated losses accrued in the year to 30 April 2020.

Basis of consolidation

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

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

Going concern

Assessment

The Directors have a reasonable expectation that the going concern basis of accounting remains appropriate and that the Group has adequate resources to continue in operation for the next 18 months based on its cash flow forecasts prepared.

The Group meets its day-to-day working capital requirements from cash receipts from sales as well as external borrowings comprising a Revolving Credit facility (RCF) and capex facility from HSBC for which there are certain covenants attached. During and as at the year ended 30 April 2020, the Group was not in breach of any of its covenants at any testing period. The RCF facility is subject to renewal in April 2022.

As previously set out, COVID-19 has represented a significant challenge for the Group and, as a result, post year-end the Board has revised its forecasts for the next 18 months taking into account the impact of COVID-19. This has resulted in a 'revised base case budget'. Under this revised base case budget in the period to 30 April 2022, the Group was forecasting:

- to breach its original EBIT:Finance charge covenant on 30 April 2021, which is tested on an annual basis; and
- to breach its original net debt:EBITDA covenant on 31 October 2020, which is tested on a quarterly basis.

In response to these potential breaches the Board has negotiated a waiver in respect of the first covenant, which will means the covenant will not be tested until April 2022, and a waiver in respect of the second covenant for the three periods ending 31 October 2020, 31 January 2021 and 30 April 2021.

As a result of obtaining these waivers, the revised base case forecast does not indicate any breaches of its covenants over the next 18 months.

The revised base case forecast indicates that the Group will continue to operate within the existing facilities, should they remain available, until the RCF renewal in April 2022.

Stress Testing

The Board has conducted a series of stress testing of future financial performance which model a range of future continued impacts following COVID-19. These stress tests typically focused on the level and timing of revenue and working capital requirement. In the Board's severe, but plausible downside scenario the following assumptions have been applied:

- 24% reduction in revenues when compared to the revised base case budget for year to 30 April 21.
- A return to revenue levels consistent with the revenue for the year ending 30 April 2019 between April 2021 and April 2022;
- An increase to 120 day working capital window from payment of direct cost suppliers to receipt of customer cash.
- Delayed cash inflows for specific instances in addition to extension to working capital cycle increase. The impact being to delay £0.7m to June 2021 and delay £3.2m from late in the forecast period to outside of the April 2022 window.

This severe but plausible downside scenario indicates a breach of the net debt: EBITDA covenant from the compliance quarter ending 31 July 2021 as well as breaching its covenant in relation to Group credit balances on 31 October 2021. The effect of which could be that the facilities would become repayable on demand. In addition, in this severe but plausible downside scenario the Directors have identified additional controllable mitigations (notably reducing payroll costs and discretionary expenditure on tangible and intangible assets), the effect of which is that the Group could continue to operate within the existing facilities, should they remain available.

Resilience/response to COVID-19

The Board has taken quick and effective action to protect the Group's cash flow including:

- Conducted a 30% cost rationalisation across the US operating sites, representing annual savings of more than $1.4m.
- Secured £0.8m of Paycheck Protection Program Loans in the US.
- Negotiated a commercial agreement with an existing customer in the security screening market, to forward purchase product with up-front payment terms, effectively bringing forward $2m of cash 12 months early.
- Secured grant funding in respect of expansion projects in County Durham to the value of £0.7m.
- Secured a new Term Loan with HSBC in the UK worth £1.4m, available for spend on capital projects. This was negotiated at a competitive rate with that available under the UK CBILs programme.
- Positioned the Group to be able to manufacture ventilators that can potentially be used as an emergency device in any second wave of COVID-19 or similar pandemic.

Material Uncertainty

In the severe but plausible downside scenario described above, the Group would be required to renegotiate its net debt:EBITDA bank covenant within the 12-month going concern period and, whilst the Directors believe that they would have the ability to renegotiate or waive this covenant, there is no certainty that this would be the case. Accordingly, the continued availability of the Group's bank facilities through the forecast period and the successful replacement on expiry of the RCF in April 2022 represents a material uncertainty that may cast significant doubt on the ability of the Group and Company to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

As noted, the Board has specifically excluded any significant upsides from the scenarios detailed above for the sole purposes of the parameters of this financial stress test. However, COVID-19 does represent significant opportunities for the Group. Kromek's biological detection capabilities have grown significantly over the last 24 months following successful extensions on contracts with US government agencies (DARPA) that build on the Group's existing SIGMA network offerings. The development of this unique and ground-breaking technology platform, which aims to identify airborne pathogens within 60 minutes, is in a standalone market. This technology has the potential to be significant in detecting, controlling, monitoring and mitigating the effects of future pandemics. Further, the Group has positioned itself under license agreements to manufacture ventilators that can be used as resources in future pandemics drawing on existing skills and capabilities of its workforce. These ventilators are currently going through a validation and homologation process in territories that the Group has contingent orders from.

Business combinations

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

Acquisitions on or after 1 May 2010

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

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

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

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

Goodwill

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

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

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

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

Contracts with customers

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 May 2018 and revenue is recognised in accordance with this standard. Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Board disaggregates revenue by sales of goods or services, grants and contract customers. Sales of goods and services typically include the sale of product on a run rate or ad-hoc basis. Grants include technology development with parties such as Innovate UK as detailed above. Customer contracts represents agreements that the Group have entered into that typically span a period of more than 12 months.

Performance obligations

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

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation and early settlements, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable standalone selling prices. Instead, standalone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles or based on market knowledge of selling prices relating to similar product.

Revenue and profit recognition

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

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

– the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

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

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment. Kromek's standard terms of delivery are Ex works sellers' site (incoterms@2010), unless otherwise stated.

The Group's contracts that satisfy the over-time criteria are typically product development contracts where the customer simultaneously receives and consumes the benefit provided by the Group's performance. In some specific arrangements, due to the highly specific nature of the contract deliverables tailored to the customer requirements and the breakthrough technology solutions that Kromek provides, the Group does not create an asset with an alternative use but retains an enforceable right to payment and recognises revenue over time on that basis.

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

Contract modifications

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

(a) prospectively as an additional, separate contract;

(b) prospectively as a termination of the existing contract and creation of a new contract; or

(c) as part of the original contract using a cumulative catch up.

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

Costs to obtain a contract

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

Costs to fulfil a contract

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

Inventories

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

Contract receivables

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

The Group does not plan, anticipate or offer extended payment terms within its contractual arrangements unless express payment interest charges are applied and represent a value over and above that contracted or invoiced with the customer.

Contract liabilities

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

Leases

IFRS 16 'Leases' became mandatory for adoption on 1 January 2019 and was early adopted by the Group from 1 May 2018. The Group recognises a Right of Use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

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

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

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

Foreign currencies

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

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

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

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

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

Government grants

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

Government grants towards job creation and growth are normally recognised as income over the useful economic life of the capital expenditure to which they relate.

Government grants are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Grants that relate to capital expenditure are offset against related depreciation costs. Where grants are received in advance of the related expenses, they are initially recognised in the balance sheet and released to match the related expenditure. Non-monetary grants are recognised at fair value.

Operating result

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

Exceptional items

Exceptional items are those items that, in the judgement of management, need to be disclosed separately by virtue of their nature, size or incidence. Exceptional items have been classified separately in order to draw them to the attention of the reader of the accounts and, in the opinion of the Board, to show more accurately the underlying results of the Group.

Retirement benefit costs

The Group operates a defined contribution pension scheme for employees.

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

Taxation

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

i) Current tax

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

ii) Deferred tax

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

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

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

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

Property, plant and equipment

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

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

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

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

Patents and trademarks

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

Impairment of tangible and intangible assets excluding goodwill

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 14.86% (2019: 13.47%) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

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

Provisions for liabilities

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

Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

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

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

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

• It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

• Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and call deposits.

(b) Subsequent measurement and gains and losses

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

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

Financial liabilities and equity

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

(a) They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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

Intra-group financial instruments

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

(iii) Impairment

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

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

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

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

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

• The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

• The financial asset is more than 90 days past due.

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

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Write-offs

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

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of three years from grant date.

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

Cash

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

3. Operating segments

Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two geographical business units from which the Group currently operates (US and UK) and it is on these operating segments that the Group is providing disclosure. Both business units operate in the three key markets of the Group (nuclear detection, medical imaging and security screening). However, typically, the US business unit focuses on medical imaging and the UK on nuclear detection and security screening. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer.

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

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

Analysis by geographical area

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

	2020	**2019**
	£'000	**£'000**
United Kingdom	**2,541**	2,267
North America	**7,606**	4,869
Asia	**893**	5,452
Europe	**2,075**	1,905
Australasia	**5**	24
Total revenue	**13,120**	14,517

Total revenue from contracts with customers was £12,835k (2019: £13,497k).

The Group has aggregated its market sectors into two reporting segments being the operational business units in the UK and US. The UK operations consists of Kromek Group Plc and Kromek Limited. The US operations consists of Kromek Inc, eV Products Inc, and Nova R&D Inc. The Board currently consider this to be the most appropriate aggregation due to the main markets that are typically addressed by the UK and US and necessary skillsets and expertise.

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

Year ended 30 April 2020

	UK Operations £'000	US Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	8,312	7,205	15,517
-Revenue from grants	285	-	285
-Revenue from contract customers	811	342	1,153
Total sales by segment	9,408	7,547	16,955
Removal of inter-segment sales	(2,600)	(1,235)	(3,835)
Total external sales	6,808	6,312	13,120
Segment result – operating (loss)/profit before exceptional items	(1,906)	(2,833)	(4,739)
Interest received	60	-	60
Interest expense	(326)	(278)	(604)
Exceptional items	-	(13,062)	(13,062)
(Loss)/profit before tax	(2,172)	(16,173)	(18,345)
Tax credit	904	901	1,805
(Loss)/profit for the year	(1,268)	(15,272)	(16,540)
Reconciliation to adjusted EBITDA:			
Net interest	266	278	544
Other operating income	-	-	-
Tax	(904)	(901)	(1,805)
Depreciation of PPE and right-of-use asset	545	640	1,185
Amortisation	1,148	994	2,142
Share-based payment charge	225	-	225
One-off customer financing discount	-	746	746
Exceptional items	-	13,062	13,062
Adjusted EBITDA	12	(453)	(441)
Other segment information			
Property, plant and equipment additions	5,888	1,077	6,965
Right-of-use assets	1,136	3,429	4,565
Depreciation of PPE and right-of-use asset	545	640	1,185
Release of capital grant	(33)	-	(33)
Intangible asset additions	3,973	1,526	5,499
Amortisation of intangible assets	1,148	994	2,142
Statement of financial position			
Total assets	40,997	23,660	64,657
Total liabilities	(13,925)	(5,665)	(19,590)

Year ended 30 April 2019 as restated (see note 2)

	UK Operations £'000	US Operations £'000	Total for Group £'000
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	6,718	4,694	11,412
-Revenue from grants	1,020	-	1,020
-Revenue from contract customers	82	4,534	4,616
Total sales by segment	7,820	9,228	17,048
Removal of inter-segment sales	(1,251)	(1,280)	(2,531)
Total external sales	6,569	7,948	14,517
Segment result – operating loss	(1,652)	746	(906)
Interest received	155	-	155
Interest expense	(197)	(322)	(519)
Loss before tax	(1,694)	424	(1,270)
Tax credit	1,020	(383)	637
(Loss)/profit for the year	(674)	41	(633)
Reconciliation to adjusted EBITDA:			
Net interest	42	322	364
Other operating income	-	-	-
Tax	(1,020)	383	(637)
Depreciation of PPE and right-of-use asset	432	447	879
Amortisation	1,085	721	1,806
Non-recurring other income	-	-	-
Share-based payment charge	184	11	195
Adjusted EBITDA	49	1,925	1,974
Other segment information			
Property, plant and equipment additions	569	3,075	3,644
Right-of-use asset	1,051	3,257	4,308
Depreciation of PPE and right-of-use asset	432	447	879
Intangible asset additions	1,309	1,632	2,941
Amortisation of intangible assets	1,085	721	1,806
Statement of financial position			
Total assets	41,370	33,506	74,876
Total liabilities	(7,097)	(7,444)	(14,541)

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment (loss) represents the (loss) earned by each segment. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Revenues from major products and services

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

	2020 £'000	2019 £'000
Product revenue	**10,314**	12,060
Research and development revenue	**2,806**	2,457
Consolidated revenue	**13,120**	14,517

Information about major customers

Included in revenues arising from US operations are revenues of approximately £2,234k (2019: £4,092k) that arose from the Group's largest customer. Included in revenues arising from UK operations are revenues of approximately £1,542k (2019: £1,066k) that arose from a major customer.

4. Loss before tax for the year

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

	2020 £'000	2019 £'000
Net foreign exchange losses/(gains)	**(653)**	82
Research and development costs recognised as an expense	**5,457**	5,432
Depreciation of property, plant and equipment	**1,185**	879
Release of capital grant	**(33)**	-
Amortisation of internally-generated intangible assets	**2,142**	1,806
Cost of inventories recognised as expense	**4,654**	4,152
Exceptional items - impairment of trade receivables and AROC (see note 6)	**13,062**	-
Early settlement costs	**746**	-
Staff costs (see note 5)	**8,776**	7,696

5. Staff costs

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

	2020 Number	2019 Number
Directors (executive)	**2**	2
Research and development, production	**116**	95
Sales and marketing	**8**	7
Administration	**13**	12
	139	116

Their aggregate remuneration comprised:

	2020 £'000	Restated 2019 £'000
Wages and salaries	**7,432**	6,602
Social security costs	**754**	570
Pension scheme contributions	**365**	329
Share-based payments	**225**	195
	8,776	7,696

The current period classification of certain wage and salary expenses has been revised and comparatives have been represented on a consistent basis. There is no impact to the statement of profit and loss as all of the reclassifications occur within the administrative expense line item on the income statement.

The total Directors' emoluments (including non-executive directors) was £580k (2019: £728k). The aggregate value of contributions paid to money purchase pension schemes was £21k (2019: £21k) in respect of three directors (2019: three directors). There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2019: nil).

The highest paid director received emoluments of £221k (2019: £306k) and amounts paid to money purchase pension schemes was £10k (2019: £10k).

Key management compensation:

	2020 £'000	2019 £'000
Wages and salaries and other short-term benefits	**980**	1,127
Social security costs	**130**	136
Pension scheme contributions	**28**	27
Share-based payment expense	**185**	184
	1,323	1,474

Key management comprise the Executive Directors and senior operational staff.

6. Exceptional Items

Exceptional items, booked to operating costs, comprised the following:

	2020 £'000	2019 £'000
Impairment of trade receivables and AROC	**13,062**	-
Total exceptional items	**13,062**	-

The immediate and ongoing impact of the COVID-19 pandemic has created significant economic uncertainty on a global scale. The expected credit losses are reviewed annually, or when there is a significant change in external factors potentially impacting credit risk, such as COVID-19, and are updated where management's expectations of credit losses change.

Management group and measure the expected credit losses of trade receivables based on operational market and geographical region. As illustrated in note 3, the Group operates across a number of geographical areas.

This impairment relates to two separate contracts with specific customers within this geographical area who were identified as having a significantly elevated credit risk. The assessment carried out by management suggested delays in delivery due to travel restriction and subsequent doubt over expected future cash flow, increasing the likelihood of credit default by these specific debtors in the next 12 months due. This charge of £13,062k has therefore been presented as an exceptional item arising as a result of COVID-19 in accordance with the Group's accounting policy, as it is considered to be one-off in nature, size and incidence. It represents a full write down of invoiced debtors and AROC. The amounts have been fully written down as management have concluded that any collateral is not considered to be material.

From a tax perspective, this impairment has increased the taxable losses in the period, however no deferred tax asset has been recognised as it is not yet certain that there will be future taxable profits available.

Asia still represents a significant technology opportunity for the Group, however, the Group is currently uncertain of timescales to full market traction. Any subsequent reversal of the amount recognised in future years would also be recognised as an exceptional item.

7. Tax

Recognised in the income statement

	2020 £'000	Restated* 2019 £'000
Current tax credit:		
UK corporation tax on losses in the year	**1,030**	642
Adjustment in respect of previous periods	**(129)**	(5)
Foreign taxes paid	**-**	-
Total current tax	**901**	637
Deferred tax:		
Origination and reversal of timing differences	**904**	-
Adjustment in respect of previous periods	**-**	-
Total deferred tax	**904**	-
Total tax credit in income statement	**1,805**	637

*see note 2

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax asset at 30 April 2020 has been calculated at 19% (2019: 17%).

Reconciliation of tax credit

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

	2020 £'000	Restated* 2019 £'000
Loss before tax	**18,345**	1,270
Tax at the UK corporation tax rate of 19% (2019: 19.0%)	**3,486**	241
(Non-taxable income)/expenses not deductible	**(3,754)**	(223)
Effect of R&D	**553**	771
Rate differences effect of R&D	**(255)**	-
Share scheme deduction under Part 12 CTA 2009	**1**	9
Unrecognised movement on deferred tax	**239**	(96)
Adjustment in respect of previous periods	**(129)**	(5)
Effects of overseas tax rates	**1,664**	(60)
Total tax credit for the year	**1,805**	637

*see note 2

Further details of deferred tax are given in note 9. There are no tax items charged to other comprehensive income.

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

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

The rate of corporation tax for the year is 19% (2019: 19%). A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%.Accordingly, deferred tax has been provided in line with the rates at which temporary differences are expected to reverse.

The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 28.89% which represents the federal plus state tax rate.

8. Losses per share

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

Losses

	2020	**Restated* 2019**
	£'000	**£'000**
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	**(16,540)**	(633)

Number of shares	**2020 Number**	2019 Number
Weighted average number of ordinary shares for the purposes of basic losses per share	**344,644,492**	275,073,400
Effect of dilutive potential ordinary shares:		
Share options	**1,084,826**	2,581,104
Weighted average number of ordinary shares for the purposes of diluted losses per share	**345,729,318**	277,654,504

	2020	**2019**
Basic (p)	**(4.8)**	(0.2)
Diluted (p)	**(4.8)**	(0.2)

*see note 2

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

9. Deferred tax liabilities

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

	Restated fair value revaluation of acquired intangibles £'000	Restated accelerated capital allowances £'000	Restated short term timing differences £'000	Restated tax losses £'000	Restated total £000
At 1 May 2019	339	1,069	(154)	(1,254)	-
Prior year adjustment (note 2)	121	2,446	(168)	(1,531)	868
Restated at 1 May 2019	460	3,515	(322)	(2,785)	868
(Credit)/charge to profit or loss	(71)	1,441	(194)	(2,044)	(868)
At 30 April 2020	**389**	**4,956**	**(516)**	**(4,829)**	**-**

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

	2020 £'000	Restated* 2019 £'000
Deferred tax liabilities	**4,829**	3,974
Deferred tax assets	**(4,829)**	(3,106)
	-	868

*see note 2

At the statement of financial position date, the Group has unused tax losses of £27,614k (2019: £20,632k) available for offset against future profits. A deferred tax asset has been recognised in respect of £4,484k (2019: £6,763k) of such losses. The asset is considered recoverable because it can be offset to reduce future tax liabilities arising in the Group. No deferred tax asset has been recognised in respect of the remaining £23,130k (2019: £13,869k) as it is not yet considered sufficiently certain that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

10. Borrowings

	2020 £'000	2019 £'000
Secured borrowing at amortised cost		
Revolving credit facility and capex facility	**4,900**	3,000
Other borrowings	**706**	2,446
	5,606	5,446
Total borrowings		
Amount due for settlement within 12 months	**3,669**	3,133
Amount due for settlement after 12 months	**1,937**	2,313

During the prior year, the Group successfully renewed its revolving credit facility, which also incorporates a Capex facility. Previously a 24-month facility, this facility is now a 36 months deal with a plus 1, plus 1 option with regards to years 4 to 5. In addition to the extension of the renewal period, the quantum of the facility has increased from £3.0m to £5.0m. In October 2019, an additional £2.0m was drawn down to help facilitate capital expenditure purposes. This is repaid on a quarterly basis in an amount equal to 1/20th of the drawn Capex loan. Once repaid, the Group was able to draw down the repaid amount against the original RCF. This facility is secured by a debenture and a composite guarantee across the Group. The terms of the RCF are a nominal interest rate of LIBOR+2.5% and a repayment term of six months from date of drawdown. The fair value equates to the carrying value.

Other borrowings comprise a loan with the landlord in the US.

In the prior year, the Group secured a £2.3m loan with the landlord of the new Zelienople premises in relation to additional leasehold improvements. A proportion of this loan was repaid early during the year and the balance was rescheduled over a shorter time period. This loan is repaid in equal instalments on a monthly basis and attracts interest at 7.50% per annum. Following partial repayment in the year, this facility no longer requires a standby letter of credit.

As seen on the face of the Statement of Financial Position, the investment of £1.25m into a money market account at 30 April 2019 is zero at 30 April 2020.

At 30 April 2020, the total loan with the landlord was £0.7m (2019: £2.4m). Of this, £0.1m is due within 12 months (2019: £0.1m) and £0.6m (2019: £2.3m) is due after 12 months.

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

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

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

	2020 %	2019 %
Revolving credit facility	3.30	3.10
Other borrowing facilities	5.20	5.30

11. Notes to the cash flow statement

	2020 £'000	Restated* 2019 £'000
Loss for the year	**(16,540)**	(633)
Adjustments for:		
Finance income	**(60)**	(155)
Finance costs	**604**	519
Income tax credit	**(1,805)**	(637)
Depreciation of property, plant and equipment and ROU	**1,185**	879
Amortisation of intangible assets	**2,142**	1,806
Share-based payment expense	**225**	195
Operating cash flows before movements in working capital	**(14,249)**	1,974
(Increase) in inventories	**(3,189)**	(213)
Decrease/(increase) in receivables	**11,787**	(8,663)
Increase in payables	**4,932**	1,384
Increase/(decrease) in provisions	**-**	(424)
Cash used in operations	**(719)**	(5,942)
Income taxes received	**898**	1,165
Net cash used in operating activities	**179**	(4,777)

*see note 2

Cash and cash equivalents

	2020 £'000	2019 £'000
Cash and bank balances	**9,444**	20,616

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