SRT

TECHNOLOGY | PRODUCTS | SYSTEMS

MARITIME SURVEILLANCE, MONITORING & MANAGEMENT SOLUTIONS

2019 REPORT

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2019

SRT Marine Systems plc

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SRT

2019 REPORT

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2019**

DIRECTORS AND ADVISORS

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

Secretary
Richard Hurd

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Company's registered number
05459678

Website
www.srt-marine.com

ABOUT SRT MARINE SYSTEMS PLC

SRT Marine Systems plc (SRT) is a global leader in maritime domain awareness products and systems. Our solutions provide enhanced surveillance, security, safety and management for vessel owners and national authorities such as coastguards and fishery authorities.

TRANSCEIVERS: We develop, produce and sell advanced vessel identification (AIS) and information communication transceivers that use both terrestrial and satellite communication systems. These enable real time data communication between multiple marine entities such as vessels, buoys and coast stations in real time and facilitate a wide range of functionality such as vessel identification and status, vessel safety, search and rescue, and environment monitoring – all in real time. These are sold via a global network of value-added resellers under our own brands as well as third party brands as OEM solutions.

SYSTEMS: We deliver complex turn-key maritime surveillance, monitoring and management systems that are used by coastguards, fishery authorities and infrastructure owners to enhance security and safety. At the heart of our systems is our state-of-the-art GeoVS systems application that enables multiple system users to display, analyse and manage large amounts of real time and historical data derived from extensive satellite and terrestrial networks. This enables coastguards to automatically detect and manage potential threats, and fishery authorities to detect illegal, unlicensed and unregulated fishing on a national scale.

ANNUAL REPORT HIGHLIGHTS

FINANCIAL:

- Revenue increased by 286% to £20.6m (2018: £5.3m)
- Improvement of Gross profit margin to 45% (2018: 43%)
- Profit before tax of £3.2m (2018: Loss before tax of £4.2m)
- £3.9m cash as at year end

OPERATIONAL:

- £32m systems contract with the Philippine Government Fisheries (BFAR)
- Strong pipeline of system business opportunities
- Senior Management team strengthened
- Expansion of GeoVS development and Systems Delivery teams
- Development of new products and functionalities

CHAIRMAN'S STATEMENT

I am delighted with the progress made by SRT this year as we have started to capitalise on the strategic decisions and investments we have made in maritime surveillance and management over many years. This has resulted in major contracts being won and excellent progress being made in advancing our pipeline of contract opportunities. With a significant pipeline of near and medium-term opportunities in active negotiation, existing ongoing systems contracts, all of which is underpinned by our steadily growing transceivers business I believe this year's performance sets a clear financial direction for the future.

Group revenues increased significantly year on year from £5.3 million to £20.6 million, generating a gross profit margin of 45% (2018: 43%) and a profit before tax of £3.2 million (2018: loss before tax and exceptional items of £4.2 million). Our transceivers business generated revenues of £6.0 million which is a 19% year on year increase, with the balance of £14.6 million coming from our systems business.

During the year we successfully raised £7.0 million of new equity to invest in the acceleration of system product development and the expansion of our systems delivery team and, as at year end, our gross cash balance was £3.9 million (2018: £1.4 million). During the year we fully repaid our outstanding bank loan, leaving outstanding three-year term loans of £5 million with a further £5 million of optional borrowing head room on our £10 million loan note programme facility. Our receivables balance increased significantly to £18.0 million (2018: £4.4 million) primarily due to major project milestone completions towards the end of the year, and subsequent to the year-end we have received over £4 million of cash payments as per agreed project payment schedules. As our systems business ramps up, due to the very high invoice value of project payment milestones, we expect to see a normalised situation of much greater value movements in our cash balances, debtors and creditors commensurate with the increasing scale of our business.

Our raw cash overheads, exclusive of adjustments such as exchange rate adjustments, depreciation, amortisation and development capitalisation were £6.6 million for the year compared to £6.1 million for the previous year. This reflects our increased activities, particularly across systems development and project delivery support. Following required accounting adjustments, the reported administrative expenses for the year amounted to £5.9 million (2018: £6.5 million), which is a 10% decrease year on year, the reduction being due to a profit in respect of foreign exchange gains rather than a loss reported in the previous year.

Given the scale of SRT's business operations, we have and continue to maintain, a tight control on overheads. This has included us focusing our resources on the most beneficial and surest opportunities and where appropriate deciding to terminate smaller contracts such as a small contract in Ecuador so as to ensure that our limited resources are always focussed where we can obtain the maximum financial return. However, with such growth in prospects, we expect a gradual growth in the year ahead to support and enable expected new business. This will include the expansion of our Product Management Team to accelerate the creation of new and innovative product functionality and linked to this growth in our Product Development Teams to accelerate functionality implementation. Furthermore, we are expanding our Delivery Team so we can simultaneously manage multiple system projects across the globe as well as investing in additional resources in sales and marketing as we seek to deliver against the increasing number of opportunities.

Our transceivers business which sells maritime communication devices based on AIS achieved year on year growth of 19% to £6.0 million. The OEM & Module division contributed £3.7 million after annual growth of 12% and our em-trak division £2.3 million after annual growth of 34%. This growth is a result of a combination of factors including continued voluntary adoption of AIS by leisure and commercial vessel owners, increased sales distribution, and market recognition of the quality and performance of our product range.

In the year ahead, through the continued execution of our long-term strategy, we see a variety of new growth opportunities. These include the general growth in adoption of AIS, expansion of our distribution network, new products, marketing initiatives and special projects with partners such as sales deriving from the supply of blue-force encrypted AIS devices to a large government agency in North America, a contract that was signed earlier in the year, and the supply of larger batch quantities of specialist products such as our fishing buoy tracker device.

CHAIRMAN'S STATEMENT – CONTINUED

Our systems business which provides integrated maritime surveillance and management systems to coastguards, fishery and other maritime agencies was the main driver of growth this year. Each of our systems vary in exact configuration and scale, but are based on our core SRT-MDA system platform which continues to evolve with new functionality being added every few months. Every system supplied comprises of multiple different components operating together as a single system and will comprise SRT hardware and GeoVS software as well as third party sourced components such as radars, surveillance cameras and satellite data.

We believe that in the future, the supply of data derived from satellite systems to our customers will develop into a profitable recurring revenue stream. This data will be purchased by SRT from the increasing number of competing satellite system operators and aggregated into a single satellite data solution tailored for a specific customer's requirements. This will allow them to fuse this data with data obtained from their terrestrial sensor systems and use the analytic functionality in GeoVS to identify situations of interest at longer ranges. In addition to this, we expect each customer to become a source of further contracts in the future as they continue to expand and evolve their systems once the initial baseline is installed.

Following an extended international tender process, in December 2018 we signed a contract worth £32 million (at current exchange rates) with the Philippine government to deliver the SRT-VMS system configured and architected to their specific requirements. The SRT-VMS system is our standard SRT-MDA system configured for fisheries monitoring and management. The contract is over four years with the monitoring system infrastructure expected to be delivered and commissioned within the first twelve to eighteen months, and thereafter the continued provision of satellite surveillance data into the system for use by the integrated analytics. During the year we made good progress with the project, completing a number of delivery milestones and expect the system to gradually come on-line over the next nine months to become the world's largest single fisheries and marine environment monitoring system. The system, which is architected to be scalable in the future, will provide an impressive array of sophisticated functionality such as electronic fish catch reporting and IUU detection analytics that will enable the customer to significantly enhance the control and management of their fisheries and marine environment.

Our validated pipeline of new system sales opportunities has continued to grow and comprises of multiple opportunities varying in size from under £1 million to over £100 million, providing SRT with a clear future direction. Each is at a different phase and status in the sales process with some expected to be some years from contracting and others in their final contract phase. These are typically government projects of significant size and complexity requiring extensive planning and preparation by the end customer. As such they usually take considerable time to reach the point of contracting and forecasting exact dates is impossible. However, this lengthy process is also an important and valuable part in the sales process as it allows a relationship to develop between SRT, the end customer and the necessary network of local installation partners.

Of particular note, within our sales opportunity pipeline are six pending system contracts in the Middle East and SE Asia which we expect to be contracted in the relatively near future. Upon contracting these six have an aggregate value of over £220 million over an expected delivery timeframe of one to three years depending on the specific project scale and customer requirements. These projects are a combination of Coastguards and Fisheries and include both existing and new customers where we have developed close working relationships over many years.

We therefore see considerable and growing opportunities across the globe for sophisticated large scale fisheries monitoring and management systems (VMS) and integrated coast guard surveillance command and control systems (MDM). We have also identified new opportunities in areas such as environment monitoring and plan to develop a dedicated sales division to address this and will again use our core SRT-MDA system with customised configuration to deliver a robust and innovative solution. Our considerable and sustained investments over many years have endowed SRT with a unique combination of proven technology, know-how and market presence in these markets which we believe are only just starting and offer a long term sustained opportunity.

CHAIRMAN'S STATEMENT – CONTINUED

The biggest challenge for SRT in the coming period is the practical day to day management of this rate of growth. System contracts take a long time to mature yet once contracts are signed, our customers expect prompt action, quick implementation, continued support as well as engagement for follow-on contracts. Your Board recognises this fact and has worked with management to structure the business accordingly and increase resources prudently in key areas such as Systems Delivery and Product Development. As the business progresses, this process will continue to ensure that we remain a reliable and trusted supplier.

Looking to the year ahead and beyond, our target market of maritime domain awareness presents SRT with numerous opportunities and appears to be at the beginning of a new technology adoption cycle that started only a few years ago and we expect to significantly expand in the years to come. Our transceivers business has established a solid pattern of annual growth which we expect to continue. Our systems business has existing contracts to complete and a backlog of opportunities, some of which we expect to contract in the coming months. I therefore believe that our Company will continue along the growth path established this year.

Finally, I would like to thank everyone at SRT and our shareholders for their long term and exceptional support for the Company, without which we would not be in this exciting position.

Kevin Finn
Chairman

Date: 17 July 2019

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The directors present their strategic report for the year ended 31 March 2019.

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

The financial Key Performance Indicators (KPIs) used by the Board to monitor progress are revenue growth, gross margin, profit before tax and cash flow. These are used because they best indicate performance against the Group's strategic objective of delivering profitable growth which in turn will drive shareholder value. Non-financial KPIs used include status of customer and development projects against milestone targets, warranty returns and on-time customer delivery. Performance against the financial metrics has been discussed in the Chairman's Statement on pages 5-7.

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

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

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

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

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

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

Approved by the Board of Directors and signed on behalf of the Board on 17 July 2019

S Tucker
Director

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

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

Results for the year and dividends
The Group incurred a profit after tax of £3,408,371 (2018: loss £5,227,568). The directors have not recommended the payment of a dividend (2018: £nil).

Future developments and strategy
These are considered in the Chairman's Statement on pages 5-7.

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

Directors
The directors who served during the year were:

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

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

Going concern
The directors have prepared the financial statements on a going concern basis. They believe that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future.

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

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

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

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

Approved by the Board of Directors and signed on behalf of the Board on 17 July 2019

S Tucker
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The directors recognise the importance of, and are committed to, high standards of corporate governance. Changes to the AIM rules as of 30 March 2018 require AIM companies to apply a recognised corporate governance code. Of the two widely recognised formal codes, the directors have decided to adhere to the Quoted Companies Alliance's Corporate Governance code for small and mid-size quoted companies. The Group's compliance with this code is summarised below and can be found in full on the Group's website at: www.srt-marine.com/corporate-governance.

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

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

The key risks and challenges faced by the Group are set out in the Strategic Report on page 8.

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

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

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

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

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

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

During the year ended 31 March 2019 there were six board meetings and a further board call to discuss specific matters. All the executive directors and the Chairman, Kevin Finn attended all the meetings during the year, while the non executive director, Simon Rogers, attended five out of the six meetings. Simon Barrell was appointed to the board subsequent to the year end.

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

CORPORATE GOVERNANCE REPORT - CONTINUED

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

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

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

Audit Committee
The Audit Committee comprises the three Non-Executive directors: Kevin Finn (Chairman), Simon Rogers and Simon Barrell since his appointment on 3 July 2019. It meets at least once per year. The meeting to review feedback from the 2019 audit took place on 9 July 2019.

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

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

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

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

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

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

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

e) **Other benefits**
Other benefits include private health insurance.

CORPORATE GOVERNANCE REPORT - CONTINUED

f) Non-Executive Directors

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

Nomination Committee

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

Corporate Culture

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

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

We have audited the financial statements of SRT Marine Systems plc (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 March 2019 which comprise Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Material uncertainty related to going concern
We draw attention to note 1 in the financial statements concerning the Group and Company's ability to continue as a going concern, which is dependent on certain level of income being generated from the Group's system business. The level of future income to be generated is uncertain and is highly dependent on the timing of the awarding of contracts and cash receipts from the Group's systems customers.

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

Emphasis of matter – recoverability of receivables and accrued income
We draw attention to note 14 in the financial statements concerning the recoverability of £1.1m of trade receivables and £2.6m of accrued income, which are more than twenty-four months old.

As described in note 14, the directors are confident that the trade receivables balance will be paid in full and the accrued income balance recovered in accordance with the contract, which is currently being renegotiated, however the exact timing of the resolution of these matters is uncertain. The financial statements do not reflect any impairment that may be required if the aggregate receivable balance of £3.7m is not recoverable. Our opinion is not modified in respect of this matter.

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

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

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

Revenue recognition - for Group only

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

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

- Significant contracts with customers on long-term overseas projects were obtained and reviewed against the steps referenced by IFRS 15. Assessment of management's conclusions was performed on each contract sampled in respect of:
    - performance obligations identified
    - determination and allocation of transaction price for each of those
    - determination of revenue recognition method for satisfying those performance obligations.

Management were challenged, where appropriate, on judgements made.

- The project deliverables for the contracts sampled were carefully reviewed, and overall price was assessed against criteria that the Group used to allocate revenue to each stage of the contract. Most of the allocation was done on either a cost-plus mark-up basis or relative to stand alone prices used in similar contracts. Analysis was undertaken for each stage to understand and corroborate the mark-up used or the relative stand-alone prices. Cost was traced back to supporting documents from suppliers for similar products and stand-alone prices were observed in past contracts used. Where it was not possible to use either of these two methods, the remaining transaction price was allocated using the residual method, which was reviewed against the standard to ensure compliance.
- The revenue recognised in the year was assessed against the criteria specified in the standard that demonstrates control has passed to the customer and they have an obligation to pay the Group for performance to date.
- Considering the appropriateness and completeness of the disclosures made in the financial statements in respect of revenue recognition in accordance with the new standard.

Intangible assets – for Group only

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

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

Intangible assets – for Group only (continued)

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

- Obtaining and agreeing the breakdown of intangible assets by ongoing/finalised projects to the note in the financial statements.
- Assessing the most significant costs capitalised per each project at year end against the stringent recognition criteria of IAS 38 and corroborating the explanations received from management with information obtained elsewhere, such as corroborating sales levels and margins obtained on the projects for which amortisation is being charged to work performed on the respective sales area.
- Substantive testing of a sample of costs capitalised during the year by agreeing to supporting documents and assessing them against the recognition criteria of IAS 38.
- Reviewing the amortisation charged during the year, to ensure it has been calculated in accordance with the Group's amortisation policy, and consideration of whether the amortisation period is appropriate for the specific costs capitalised.
- Reviewing management's assessment of the value of the intangible assets against the impairment indicators of IAS 36, including management's conclusion whether there is any indication that the assets might be impaired.
- Reviewing and challenging the impairment review conducted to ensure the value of intangible assets not yet in use were more than covered by the recoverable amount.
- Considering the appropriateness of the disclosures made in the financial statements in respect of these assets.

Materiality
The materiality for the Group financial statements as a whole was set at £411k. This has been determined with reference to the benchmark of the Group's total revenue, which we consider to be an appropriate measure for a trading Group of companies. Materiality represents 2.0% of Group total revenue as presented on the face of the Consolidated Statement of Profit or Loss and Other Comprehensive income.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £21k (0.1% of Group total revenue), in addition to other identified misstatements that warrant reporting on qualitative grounds.

The materiality for the Company financial statements as a whole was set at £329k. This has been determined with reference to the net assets of the Company, which we consider to be one of the principal considerations for members of the Company in assessing the performance of a holding entity. Materiality represents 2.7% of Company net assets as presented on the face of the Company Statement of Financial Position.

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

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

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

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

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

We have nothing to report in this regard.

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

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Carl Deane
Senior Statutory Auditor, for and on behalf of

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

Date: 17 July 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Revenue	2	20,559,699	5,331,559
Cost of sales		(11,229,754)	(3,026,374)
Gross profit		9,329,945	2,305,185
Administrative costs		(5,877,445)	(6,469,102)
Operating profit / (loss) before exceptional items	7	3,452,500	(4,163,917)
Impairment charge	3	-	(1,490,315)
Operating profit / (loss) after exceptional items		3,452,500	(5,654,232)
Finance expenditure	6	(275,195)	(125,426)
Finance income	6	363	224
Profit / (loss) before tax and after exceptional items		3,177,668	(5,779,434)
Income tax credit	8	230,703	551,866
Profit / (loss) for the year after tax		3,408,371	(5,227,568)
Total comprehensive income / (expense) for the year		3,408,371	(5,227,568)
Earnings / (loss) per share:			
Basic	23	2.43p	(4.09)p
Diluted	23	2.36p	(4.09)p

The notes on pages 26-48 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Intangible assets	10	6,625,203	6,222,819
Property, plant and equipment	11	355,509	177,479
Deferred tax	8	54,297	272,688
Total non-current assets		7,035,009	6,672,986
Current assets			
Inventories	13	2,234,378	3,443,685
Trade and other receivables	14	18,012,279	4,433,000
Cash and cash equivalents		3,942,167	1,364,437
Total current assets		24,188,824	9,241,122
Liabilities			
Current liabilities			
Trade and other payables	15	(6,318,987)	(2,529,630)
Financial liabilities	16	(18,055)	(1,650,000)
Total current liabilities		(6,337,042)	(4,179,630)
Net current assets		17,851,782	5,061,492
Total assets less current liabilities		24,886,791	11,734,478
Long term liabilities			
Financial liabilities	16	(5,016,981)	(2,000,000)
Total long term liabilities		(5,016,981)	(2,000,000)
Net assets		19,869,810	9,734,478
Shareholders' equity			
Share capital	17	153,223	127,743
Share premium account	19	11,510,773	4,905,549
Retained earnings / (loss)	19	2,715,218	(789,410)
Other reserves	19	5,490,596	5,490,596
Total shareholders' equity		19,869,810	9,734,478

The financial statements were approved by the Board of Directors on 17 July 2019 and were signed on its behalf by:

S Tucker
Director

The notes on pages 26-48 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Investments in subsidiaries	12	932,593	932,593
Property, plant and equipment	11	115,102	27,306
Total non-current assets		1,047,695	959,899
Current assets			
Other receivables	14	13,291,100	8,899,240
Cash and cash equivalents		2,769,540	1,036,849
Total current assets		16,060,640	9,936,089
Liabilities			
Current liabilities			
Trade and other payables	15	(501,351)	(1,522,544)
Financial liabilities	16	(18,055)	(1,650,000)
Total current liabilities		(519,406)	(3,172,544)
Net current assets		15,541,234	6,763,545
Total assets less current liabilities		16,588,929	7,723,444
Long term liabilities			
Financial liabilities	16	(5,016,981)	(2,000,000)
Net assets		11,571,948	5,723,444
Shareholders' equity			
Share capital	17	153,223	127,743
Share premium account	19	11,510,773	4,905,549
Retained (loss) / earnings	19	(154,448)	627,752
Other reserves	19	62,400	62,400
Total shareholders' equity		11,571,948	5,723,444

The loss for the year ended 31 March 2019 was £878,457 (2018: loss £5,073,568).

The financial statements were approved by the Board of Directors on 17 July 2019 and were signed on its behalf by:

S Tucker
Director
Company's registered number: 05459678

The notes on pages 26-48 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £	2018 £
Cash used in operating activities	22	(3,636,473)	(993,536)
Corporation tax received		449,094	-
Net cash used in operating activities		(3,187,379)	(993,536)
Investing activities			
Expenditure on product development		(1,690,516)	(1,876,920)
Purchase of property, plant and equipment		(240,247)	(83,666)
Interest received		363	224
Net cash used in investing activities		(1,930,400)	(1,960,362)
Financing activities			
Gross proceeds on issue of shares		7,031,530	32,900
Costs of issue of shares		(400,826)	-
Repayments on loan		(500,000)	(500,000)
New loans issued		1,840,000	3,150,000
Interest paid		(275,195)	(125,426)
Net cash generated from financing activities		7,695,509	2,557,474
Net increase / (decrease) in cash and cash equivalents		2,577,730	(396,424)
Net cash and cash equivalents at beginning of year		1,364,437	1,760,861
Net cash and cash equivalents at end of year		3,942,167	1,364,437

Reconciliation of financing activities for the year ended 31 March 2019 and 31 March 2018

	2019 £	Cash flow/ New leases £	2018 £
Bank loan	-	(500,000)	500,000
Other loan	4,990,000	1,840,000	3,150,000
Finance leases	45,036	45,036	-
Financial liabilities	5,035,036	1,385,036	3,650,000

	2018 £	Cash flow £	2017 £
Bank loan	500,000	(500,000)	1,000,000
Other loan	3,150,000	3,150,000	-
Financial liabilities	3,650,000	2,650,000	1,000,000

During the year ended 31 March 2019, £1,150,000 of other loans were transferred from short term to long term liabilities. In addition, the short term bank loan of £500,000 was repaid during the year.

The notes on pages 26-48 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
Cash used in operating activities	22	(5,888,592)	(2,245,259)
Investing activities			
Purchase of property, plant and equipment		(74,512)	(20,252)
Investment in subsidiary		-	(90)
Interest received		286	224
Net cash used in investing activities		(74,226)	(20,118)
Financing activities			
Gross proceeds on issue of shares		7,031,530	32,900
Costs of issue of shares		(400,826)	-
Repayments on loan		(500,000)	(500,000)
New loans issued		1,840,000	3,150,000
Interest paid		(275,195)	(125,426)
Net cash generated from financing activities		7,695,509	2,557,474
Net increase in cash and cash equivalents		1,732,691	292,097
Net cash and cash equivalents at beginning of year		1,036,849	744,752
Net cash and cash equivalents at end of year		2,769,540	1,036,849

Reconciliation of financing activities for the year ended 31 March 2019 and 31 March 2018

	2019	Cash flow/ New leases	2018
	£	£	£
Bank loan	-	(500,000)	500,000
Other loan	4,990,000	1,840,000	3,150,000
Finance lease	45,035	45,035	-
Financial liabilities	5,035,035	1,385,035	3,650,000

	2018	Cash flow	2017
	£	£	£
Bank loan	500,000	(500,000)	1,000,000
Other loan	3,150,000	3,150,000	-
Financial liabilities	3,650,000	2,650,000	1,000,000

During the year ended 31 March 2019, £1,150,000 of other loans were transferred from short term to long term liabilities. In addition, the short term bank loan of £500,000 was repaid during the year.

The notes on pages 26-48 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
At 1 April 2017	127,613	4,872,779	4,138,891	5,490,596	14,629,879
Total comprehensive expense for the year	-	-	(5,227,568)	-	(5,227,568)
Transactions with owners:					
Issue of equity share capital	130	32,770	-	-	32,900
Share based payment charge	-	-	299,267	-	299,267
At 31 March 2018	127,743	4,905,549	(789,410)	5,490,596	9,734,478
Total comprehensive income for the year	-	-	3,408,371	-	3,408,371
Transactions with owners:					
Issue of equity share capital	25,480	7,006,050	-	-	7,031,530
Costs of issue of equity share capital	-	(400,826)	-	-	(400,826)
Share based payment charge	-	-	96,257	-	96,257
At 31 March 2019	153,223	11,510,773	2,715,218	5,490,596	19,869,810

The notes on pages 26-48 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
At 1 April 2017	127,613	4,872,779	5,402,053	62,400	10,464,845
Total comprehensive expense for the year	-	-	(5,073,568)	-	(5,073,568)
Transactions with owners:					
Issue of equity share capital	130	32,770	-	-	32,900
Share based payment charge	-	-	299,267	-	299,267
At 31 March 2018	127,743	4,905,549	627,752	62,400	5,723,444
Total comprehensive expense for the year	-	-	(878,457)	-	(878,457)
Transactions with owners:					
Issue of equity share capital	25,480	7,006,050	-	-	7,031,530
Cost of issue of equity share capital	-	(400,826)	-	-	(400,826)
Share based payment charge	-	-	96,257	-	96,257
At 31 March 2019	153,223	11,510,773	(154,448)	62,400	11,571,948

The notes on pages 26-48 form part of these financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES

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

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

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

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

The level of future income to be generated is uncertain and is highly dependent on the timing of the awarding of contracts and cash receipts from the Group's systems business. The directors consider there to be a reasonable basis to forecast the timing of these types of cash receipts, but the nature of these systems' customers does mean that the awarding of future contracts can be unpredictable, difficult to forecast and subject to change. Accordingly, this may cast significant doubt over the Group's and Company's ability to continue as a going concern.

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

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES – CONTINUED

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

Judgements

- **Development costs capitalised as intangible assets**
  Management exercises judgement in determining whether the costs can be capitalised, and this is done by reference to a number of criteria as set out in these accounting policies. During the year, the Group has capitalised intangible assets development costs of £1,690,516 (2018: £1,876,920).

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

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES – CONTINUED

Critical accounting judgements and key sources of estimation uncertainty - continued

Key sources of estimation uncertainty

- **Bad debt provision**
  Trade receivables are impaired when the asset meets one of the following criteria: the financial asset is credit-impaired; or credit losses are expected on the asset. Any loss allowance relating to trade receivables has been calculated with reference to historical experience in the recoverability of such receivables, taking into consideration current conditions and forecasts of future economic conditions. The provision for bad debt includes estimated potential credit losses. At 31 March 2019, the Group's bad debt provision was £3,004,900 (2018: £3,091,929).

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES – CONTINUED

Revenue recognition - continued

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

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

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

The Group recognises revenue from the sale of maritime system solutions over the time as the monitoring system is built on the customer's territory and therefore the asset is deemed under the customer's control.

The Group uses either output methods or input methods to measure the progress towards completion of a performance obligation satisfied over time, depending on which method is considered to faithfully depict the entity's performance.

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

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

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

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

Contracts are deemed to be complete, and hence performance obligations fully satisfied, post customer acceptance of the goods. Amounts disclosed as current deferred income reflect revenue that will be recognised on performance obligations that will be satisfied within a year. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, as of the end of the reporting period is £16,732,318. This amount will be recognised in future accounting periods.

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES – CONTINUED

Taxation

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

Deferred tax is provided for on a full provision basis on all temporary differences, which have arisen but not reversed at the statement of financial position date. Temporary differences represent the accumulated differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated at the tax rates that are expected to apply when the related deferred tax balance is settled. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity. Deferred tax assets are recognised to the extent that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Pension costs

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

Leases

Leases other than finance leases are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease term.

Foreign currencies

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

Inventories

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

Share based payments

The Group operates an equity settled share-based compensation plan whereby the Company grants share options to employees of all Group companies. The fair values of the options granted under this plan are calculated using an appropriate valuation model which takes into account assumptions about future events and market conditions. Further details are provided in note 18.

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

1 ACCOUNTING POLICIES – CONTINUED

Financial instruments

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

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

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

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

Changes in accounting policies and disclosures

The following new and revised Standards and Interpretations have been issued and are effective for the current financial period of the Group and Company

IFRS 9 'Financial Instruments' took effect from 1 January 2018 and has been adopted for the year ended 31 March 2019 using the full retrospective method. The Group has reassessed the classification and measurement of financial instruments and this has not given rise to any changes in the financial statements. The change in approach to accounting for impairment losses which requires expected losses to be provided for, has not affected amounts recognised in the current or comparative periods.

IFRS 15 'Revenue from Contracts' with Customers also took effect from 1 January 2018 and has been adopted for the year ended 31 March 2019 using the modified retrospective method. There were no active contracts at 1 April 2018, which were affected by the changes in the revenue recognition policy.

The application of the other revised Interpretations, Amendments and Annual Improvements has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 16 "Leases" will be effective for the year ending March 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise the future liability reflecting the future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (£774,570 on an undiscounted basis, as shown in Note 20 of the financial statements) would be brought onto the Consolidated Statement of Financial Position and amortised and depreciated separately. There will be no impact on cash outflows, although presentation of the Consolidated Statement of Cash Flows will change significantly.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

2 REVENUE AND SEGMENT INFORMATION

Business and geographical segments

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

As in previous years, it has been concluded by management and the board that the organisation is structured as a single business segment, the Marine technology business, which therefore reflects the results presented in the primary statements. Individual contracts are specifically considered by management and the board if their magnitude is considered significantly large to warrant such consideration.

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

Revenue by geographical destination:	**2019** **£**	**2018** **£**
Europe	4,405,024	3,586,406
Middle East	145,084	98,214
North America	478,657	449,523
UK	977,820	499,156
South East Asia	14,178,393	340,814
Other	374,721	357,446
	20,559,699	5,331,559

Included within revenue are 2 customers (2018: 1) with an amount exceeding 10% of the Group's total revenue. In both years, these customers were within the Marine business segment. Sales to the Group's largest customer from the Philippines amounted to £13,818,251 and to the second largest customer from Belgium amounted to £2,263,865 (2018: largest customer from Belgium amounted to £1,648,246).

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

3 IMPAIRMENT CHARGE

During the previous year, the Company was advised by its customer that the contract to supply an MDM system in SE Asia had been postponed due to an internal project review and budget issues in the current year. The Board therefore considered the project indefinitely suspended from an accounting point of view and incurred an impairment charge of £1,490,315 during the previous year as set out below. The trade receivables balance was fully provided against. No such impairment charge was recognised in the current year.

Impairment charge:	**2018** **£**
Provision against trade receivables	2,998,771
Write off deferred income	(833,222)
Write off prepayment and accrued income	67,935
Write off accruals	(743,169)
	1,490,315

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

4 DIRECTORS' EMOLUMENTS

The remuneration of the individual Directors was as follows:

Year ended 31 March 2019	Salary	Bonus	Pension	Total 2019
	£	£	£	£
Executive Directors				
S Tucker	184,000	64,400	-	248,400
N Peniket	115,000	40,250	5,750	161,000
R Hurd	90,000	31,500	4,500	126,000
Non Executive Directors				
K Finn	50,000	-	-	50,000
S Rogers	20,000	-	-	20,000
Total	459,000	136,150	10,250	605,400

Year ended 31 March 2018	Salary	Bonus	Pension	Total 2018
	£	£	£	£
Executive Directors				
S Tucker	184,000	-	-	184,000
N Peniket	115,000	-	5,750	120,750
R Hurd	90,000	-	4,500	94,500
Non Executive Directors				
K Finn	31,250	-	-	31,250
S Rogers	20,000	-	-	20,000
A Lapping	7,667	-	-	7,667
Total	447,917	-	10,250	458,167

Share options at 31 March 2019

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

4 DIRECTORS' EMOLUMENTS - CONTINUED

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

There were no movements from the previous year.

An insurance premium of £4,092 (2018: £3,665) was paid in respect of directors' and officers' liability. Retirement benefits are accruing to two directors (2018: two) under the money purchase pension scheme.

5 EMPLOYEE INFORMATION

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

	2019 **No.**	**2018** **No.**
Technical	36	35
Administration and sales	22	21
	58	56

Staff costs for the above persons were:	**2019** **£**	**2018** **£**
Wages and salaries	2,215,887	2,066,000
Social security costs	241,137	203,085
Pension costs - defined contributions	70,132	67,976
	2,527,156	2,337,061

Total amounts payable for wages and salaries include costs capitalised as development expenditure within intangible assets, amounting to £1,058,461 (2018: £1,021,728). Total amounts payable for wages and salaries exclude £96,257 (2018: £299,267) in respect of share-based payment charges.

The Company employed an average of 7 persons within administration and sales (2018: 7) with total wages and salaries of £731,053 (2018: £778,816), including social security costs of £64,367 (2018: £46,763) and pension costs of £7,358 (2018: £7,186). The wages and salaries of the Company also include £96,257 (2018: £299,267) in respect of share-based payment charges.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

6 FINANCE INCOME AND EXPENDITURE

Group	2019 £	2018 £
Bank interest payable	11,171	33,215
Other interest payable	264,024	92,211
Total interest payable	275,195	125,426
Bank interest receivable	(363)	(224)

7 OPERATING PROFIT / (LOSS)

Operating profit / (loss) for the year is stated after charging/(crediting):	2019 £	2018 £
Inventories recognised as an expense	10,906,353	2,787,169
Amortisation of intangible assets	1,288,132	1,465,055
Depreciation	107,253	91,041
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the parent Company's accounts	18,000	16,500
Fees payable to the Company's auditor for other services:		
- audit of the Company's subsidiaries	36,250	28,150
- audit-related assurance services	11,670	4,395
- tax compliance services	20,900	15,000
- tax advisory services	4,000	26,320
Exchange loss / (gain)	(271,946)	485,093
Operating lease rentals - land & buildings	124,262	123,172
Research costs not capitalised	153,704	99,058

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

8 TAXATION

Income tax credit	**2019**	**2018**
UK corporation tax at 19% (2018: 19%):	**£**	**£**
Adjustments in respect of prior periods	449,094	-
Deferred tax (charge) / credit	(218,391)	551,866
Total tax credit for the year	230,703	551,866
Factors affecting tax charge for the year		
Profit / (loss) on ordinary activities before tax	3,177,668	(5,779,434)
(Profit) / loss on ordinary activities multiplied by standard rate of corporation tax in the UK 19% (2018: 19%)	(603,757)	1,098,092
Effects of:		
Expenses not deductible for tax purposes	(20,921)	(4,172)
Other differences	144,521	(137,912)
Additional deduction for R&D expenditure	343,975	332,943
Patent Box additional deduction	23,923	-
Adjustment to tax charge in previous periods	449,094	-
Adjustment to tax charge in previous periods - deferred tax	(511,752)	14,179
Temporary differences in relation to share options	157,723	(158,581)
Deferred tax not recognised	252,683	(475,471)
Effect of change of tax rates	(4,786)	(117,212)
Tax credit for the year	230,703	551,866
Losses carried forward	6,422,751	10,304,437
Movement in deferred tax asset:		
At 1 April, 2018	(272,688)	279,178
Deferred tax charge	218,391	(551,866)
At 31 March, 2019	(54,297)	(272,688)
Deferred tax asset:		
Fixed asset temporary differences	1,054,797	974,407
Short term temporary differences	(363,867)	(225,086)
Losses and other deductions	(745,227)	(1,022,009)
Deferred tax (asset) / liability (note 14)	(54,297)	(272,688)
Unprovided deferred tax:		
Fixed asset temporary differences	15,333	2,703
Short term temporary differences	(3)	(103)
Losses and other deductions	237,353	(478,071)
Unprovided deferred tax asset	252,683	(475,471)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

9 COMPANY LOSS FOR THE FINANCIAL YEAR

The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 not to publish its individual income statement. The loss for the year ended 31 March 2019, dealt with in the financial statements of the Company, was £878,457 (2018: loss £5,073,568). The Company made no gains or losses which would be reported in other comprehensive income in the years ended 31 March 2019 and 2018 and therefore the Company has not published its individual Statement of Comprehensive Income.

10 INTANGIBLE ASSETS

	Patent	Development costs	Goodwill	Total
	£	£	£	£
Cost				
At 1 April 2017	54,160	14,494,166	633,645	15,181,971
Additions	-	1,876,920	-	1,876,920
At 31 March 2018	54,160	16,371,086	633,645	17,058,891
Additions	-	1,690,516	-	1,690,516
At 31 March 2019	54,160	18,061,602	633,645	18,749,407
Amortisation				
At 1 April 2017	54,160	9,316,857	-	9,371,017
Charge for the year	-	1,465,055	-	1,465,055
At 31 March 2018	54,160	10,781,912	-	10,836,072
Charge for the year	-	1,288,132	-	1,288,132
At 31 March 2019	54,160	12,070,044	-	12,124,204
Net book value				
At 31 March 2019	-	5,991,558	633,645	6,625,203
At 31 March 2018	-	5,589,174	633,645	6,222,819
At 1 April 2017	-	5,177,309	633,645	5,810,954

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

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

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

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

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

11 PROPERTY, PLANT AND EQUIPMENT

	Company Plant & Equipment £	Group Plant & Equipment £
Cost		
At 1 April 2017	213,634	869,104
Additions	20,252	83,666
At 31 March 2018	233,886	952,770
Additions	119,548	285,283
At 31 March 2019	353,434	1,238,053
Depreciation		
At 1 April 2017	188,155	684,250
Charge for the year	18,425	91,041
At 31 March 2018	206,580	775,291
Charge for the year	31,752	107,253
At 31 March 2019	238,332	882,544
Net book value		
At 31 March 2019	115,102	355,509
At 31 March 2018	27,306	177,479
At 1 April 2017	25,479	184,854

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

12 INVESTMENT IN SUBSIDIARIES – COMPANY

Cost - Shares in group undertakings

At 31 March 2019 and 2018	932,593

Holdings of more than 20%

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

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

* not consolidated as non-trading

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

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

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

13 INVENTORIES

Group	2019 £	2018 £
Raw materials and consumables	1,080,281	1,133,051
Finished goods	1,154,097	2,310,634
	2,234,378	3,443,685

14 TRADE AND OTHER RECEIVABLES

Group	2019 £	2018 £
Trade receivables	15,065,778	1,648,114
Other receivables	128,791	213,516
Prepayments and accrued income	2,817,710	2,571,370
	18,012,279	4,433,000

As at 31 March 2019 and 31 March 2018 the following movements in the provision account for credit losses were recognised during the year:-

Group	2019 £	2018 £
Balance at 1 April	3,091,929	95,768
Impairment during the year (note 3)	-	2,998,771
Other amounts charged during the year	6,130	13,788
Amounts written off during the year	(93,159)	-
Amounts released during the year	-	(16,398)
	3,004,900	3,091,929

As at 31 March 2019 trade receivables of £1,269,817 (2018: £1,133,146) were past due but not impaired. The provision for bad and doubtful debts includes estimated potential credit losses. No adjustment was required to the provision on transition to IFRS 9.

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

Group	2019 £	2018 £
Up to 3 months past due	112,116	64,008
3 to 6 months past due	7,835	-
Over 6 months past due	1,149,866	1,069,138
	1,269,817	1,133,146

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

14 TRADE AND OTHER RECEIVABLES - CONTINUED

Included in trade receivables is a debt due from a customer of £1.1m and included in prepayments and accrued income is a balance related to the same customer of £2.6m. The trade receivables balance has been outstanding for twenty-four months and remains unpaid, while the accrued income balance has not been recovered for the same period because the contract it relates to has been placed on hold. Due to the length of time that has passed, there is a potential risk to the recoverability of these balances. Based on information provided by SRT's customer, the directors are confident that the trade receivables balance will be paid in full and the accrued income balance recovered in accordance with the contract, which is currently being renegotiated. The exact timing of the resolution of these matters is uncertain. The financial statements do not reflect any additional provision that may be required, if the aggregate receivable balance of £3.7m is not recoverable.

Company	**2019**	**2018**
	£	**£**
Amounts owed by group undertakings	13,163,900	8,725,650
Prepayments and accrued income	86,707	70,094
Other receivables	40,493	103,496
	13,291,100	8,899,240

The amounts owed by group undertakings are unsecured, interest free and have no fixed dates for repayment. During the previous year an impairment provision of £4,326,113 was made against the Amounts owed by group undertakings. Prepayments and accrued income and other receivables do not contain impaired assets.

15 TRADE AND OTHER PAYABLES

Group	**2019**	**2018**
	£	**£**
Trade payables	1,236,238	1,906,032
Other tax and social security payable	108,906	95,302
Other payables	22,910	16,878
Accruals and deferred income	4,950,933	511,418
	6,318,987	2,529,630

Company	**2019**	**2018**
	£	**£**
Amounts owed to group undertakings	-	701,716
Trade payables	274,212	732,361
Other tax and social security payable	15,012	15,268
Accruals and deferred income	212,127	73,200
	501,351	1,522,545

The amounts owed to group undertakings are unsecured, interest free and have no fixed dates for repayment.

The directors consider that the carrying amount of trade and other payables approximates to fair value.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

16 FINANCIAL LIABILITIES

Group & Company	**2019**	**2018**
	£	**£**
Less than one year:		
Other loan	-	1,150,000
Bank loan	-	500,000
Finance lease	18,055	-
	18,055	1,650,000
More than one year:		
Other loan	4,990,000	2,000,000
Finance lease	26,981	-
	5,016,981	2,000,000

Other loans all relate to drawdowns on a £10 million secured loan note programme which has been arranged by LGB Corporate Finance and which is secured by a floating charge over the Group's assets. The loan has a 3-year term and an interest rate of 8%. The loan is subject to covenants relating to gearing as at 31 March 2018 and beyond and debt service cover as at 31 March 2019 and beyond.

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

17 CALLED UP SHARE CAPITAL

Allotted: Ordinary shares of 0.1p each	**2019**	**2018**
	No.	**No.**
Number of shares allotted	153,222,419	127,742,419
	£	**£**
Value of shares allotted	153,223	127,743

Reconciliation of movements in share capital:

Shares outstanding at 31 March 2017	127,612,419
Exercise of share options (a)	130,000
Shares outstanding at 31 March 2018	127,742,419
Share placing May 2018 (b)	12,000,000
Share placing January 2019 (c)	13,400,000
Exercise of share options (d)	80,000
Shares outstanding at 31 March 2019	153,222,419

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

17 CALLED UP SHARE CAPITAL - CONTINUED

Notes:

a) 30,000 share options were exercised at a price of 25p in May 2017, 40,000 at an exercise price of 23p in June 2017, 20,000 at an exercise price of 29p in June 2017 and 40,000 at an exercise price of 26p in December 2017.

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

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

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

18 SHARE BASED PAYMENT

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

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

	No. of options	**Weighted average exercise price**
Balance at 1 April 2017	8,533,000	6.8p
Exercised during the year	(130,000)	25.3p
Lapsed during the year	(50,000)	10.5p
Balance at 31 March 2018	8,353,000	6.5p
Granted during the year	100,000	0.1p
Exercised during the year	(80,000)	14.4p
Lapsed during the year	(230,000)	10.2p
Balance at 31 March 2019	8,143,000	6.3p
Balance exercisable at 31 March 2019	6,025,500	8.1p
Balance exercisable at 31 March 2018	5,974,667	8.4p

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

18 SHARE BASED PAYMENT - CONTINUED

The value of the options granted during the year has been measured by using the Black Scholes pricing model as adjusted where applicable for market based performance criteria. The inputs into the Black Scholes model included an expected life of 3 years as well as the relevant share price, exercise price, volatility and risk-free rate at the date of grant. The options granted during the year had an exercise price of 0.1p and a share price on the date of issue was 35p.

Expected volatility was determined by referencing volatility data received and using historical data for similar sized companies over the previous five years and amounted to 67% for the grant made during the year. Risk free rates were determined using government bonds and amounted to 1.4%. The expected dividend yield was 0%.

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

Vesting date/criteria	**Number issued**	**Exercise price**	**Expiry date**
Vested and exercisable immediately	1,384,000	2.5p	July 2019
Vested and exercisable immediately	2,200,000	9p	Feb 2020
Vested and exercisable immediately	30,000	32p	Oct 2021
Vested and exercisable immediately	500,000	20p	Dec 2022
Vested and exercisable immediately	180,000	18p	Dec 2022
Vested and exercisable immediately	60,000	23p	Jan 2023
Vested and exercisable immediately	174,000	25p	Dec 2023
Vested and exercisable immediately	50,000	29p	Feb 2025
Vested and exercisable immediately	160,000	26p	Dec 2025
Vested and exercisable immediately	187,500	0.1p	July 2026
Vested and exercisable immediately	900,000	0.1p	Aug 2026
Vested and exercisable immediately	180,000	0.1p	Dec 2026
Vested and exercisable immediately	20,000	0.1p	Feb 2027
Share price criteria not met	30,000	37p	May 2021
Share price criteria not met	30,000	23p	May 2021
Share price criteria not met	1,800,000	0.1p	May 2026
Not exercisable before:			
May 2019	33,000	0.1p	May 2028
September 2019	62,500	0.1p	July 2026
December 2019	95,000	0.1p	Dec 2026
May 2020	33,000	0.1p	May 2028
May 2021	34,000	0.1p	May 2028
Total outstanding options	8,143,000		

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

19 RESERVES

Reserves for the Group and Company are set out in the Statement of Changes in Equity on pages 23 and 24 respectively. Other reserves consist of a capital redemption reserve, warrant reserve and a merger reserve as set out below:

	Capital redemption reserve	Warrant reserve	Merger reserve	Total
	£	£	£	£
At 31 March 2017, 2018, 2019	2,857	62,400	5,425,339	5,490,596

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

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

20 OPERATING LEASE COMMITMENTS

At 31 March 2019, the Group has lease agreements in respect of properties and equipment for which the payments extend over a number of years.

Group	2019	2018
	£	£
Due:		
Within one year	129,708	127,155
Between two and five years	378,908	249,902
After five years	265,954	318,105
	774,570	695,162

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

21 RELATED PARTY TRANSACTIONS

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the directors of SRT Marine Systems plc. The compensation of the directors of SRT Marine Systems plc is disclosed in note 3. In addition, a total share-based payment expenses of £37,195 (2018: £190,920) was recognised during the year in respect of share options granted to directors, together with an aggregate charge relating to directors' employer's national insurance contributions of £69,538 (2018: £52,578).

During the year, there were expenses charged from the Company to its subsidiaries which are related parties for services provided. These transactions amounted to £843,000 (2018: £797,720). As at 31 March 2019, the Company had an outstanding receivables balance from SRT Marine Technology Ltd of £10,443,977 (2018: £13,049,527 which was impaired during the year to £8,723,415) and an outstanding receivables balance with SRT Marine System Solutions Ltd of £2,717,687 (2018: payables £701,716).

During the year goods and services amounting to £973,961 (2018: £1,328,713) were transferred between subsidiaries.

22 CASH GENERATED FROM OPERATIONS

Group	2019 £	2018 £
Operating profit / (loss) before exceptional item	3,452,500	(4,163,917)
Depreciation of property, plant and equipment	107,253	91,041
Amortisation of intangible fixed assets	1,288,132	1,465,055
Share based payment charge	96,257	299,267
Decrease / (increase) in inventories	1,209,307	(162,164)
(Increase) / decrease in trade and other receivables	(13,579,279)	426,980
Increase in trade and other payables	3,789,357	1,050,202
	(3,636,473)	(993,536)

Company	2019 £	2018 £
Operating loss before exceptional item	(603,548)	(772,020)
Depreciation of property, plant and equipment	31,752	18,425
Share based payment charge	96,257	299,267
Decrease/ (increase) in trade and other receivables	46,390	(83,359)
(Increase) in amounts owed by/to group undertakings	(5,139,966)	(1,984,354)
(Decrease) / increase in trade and other payables	(319,477)	276,782
	(5,888,592)	(2,245,259)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

23 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE

The basic earnings per share has been calculated on the profit on ordinary activities after taxation of £3,408,371 (2018: loss £5,227,568) divided by the weighted number of ordinary shares in issue of 140,059,460 (2018: 127,701,597).

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

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

24 FINANCIAL INSTRUMENTS

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

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

Credit risk
The Group's credit risk is primarily attributable to its trade receivables. The Company had no trade receivables at 31 March 2019 (2018: £nil). The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by each subsidiary's management team. The carrying amount of financial assets represents the maximum credit exposure.

The maximum credit exposure to credit risk has increased significantly during the year due primarily to balances outstanding from the Group's largest customer (note 2). None of these balances were overdue as at 31 March 2019. The maximum credit exposure as at the reporting date was:-

	2019	2018
	£	£
Trade receivables	15,065,778	1,648,114
Cash and cash equivalents	3,942,167	1,364,437
	19,007,945	3,012,551

The Company has cash and cash equivalents of £2,769,540 (2018: £1,036,849).

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

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

The Group and Company's cash and cash equivalents earned interest at a variable rate totalling £363 (2018: £224) during the year. Interest payable on the short and medium term loans at a variable rate amounted to £275,196 (2018: £125,426) for the Group and Company.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

24 FINANCIAL INSTRUMENTS - CONTINUED

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

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

At the year end this exposure comprised £4,497,013 (2018: £4,140,643) of assets denominated in US Dollars, £364,218 (2018: £222,640) of assets denominated in Euros and £13,856,691 (2018: £nil) of assets denominated in Philippine Peso. Furthermore, the Group at year end had £294,869 (2018: £452,376) of liabilities denominated in US Dollars, £9,620 (2018: £28,625) of liabilities denominated in Euros and £4,384,796 (2018: £ nil) of liabilities denominated in Philippine Peso.

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

Positive figures represent an increase in profit and equity.

Year-end exchange rates applied in the analysis below are US Dollar 1.30 (2018: 1.40), Euro 1.16 (2018: 1.14) and Philippine Peso 68.64.

	2019	2018
Sterling strengthens by 10%	**£**	**£**
US Dollar	(382,013)	(335,297)
Euro	(32,236)	(17,368)
Philippine Peso	(861,081)	-
Sterling weakens by 10%		
US Dollar	420,214	368,827
Euro	35,460	19,402
Philippine Peso	947,190	-

25 CAPITAL RISK MANAGEMENT

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

26 FINANCIAL COMMITMENTS

As at 31 March 2019, the Group had financial purchase order commitments with its contract manufacturer amounting to £910,185 (2018: £738,502).

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your ordinary shares in the Company, please forward this document to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of SRT Marine Systems plc (the "Company") will be held at the Centurion Hotel, Charlton Lane, Radstock, England BA3 4BD at 11.00 a.m. on September 4th, 2019 for the purpose of considering and, if thought fit, passing the following ordinary resolutions (in the case of resolutions 1 to 7 inclusive) and special resolution (in the case of resolution 8):

ORDINARY RESOLUTIONS

1. To receive the audited annual accounts and reports of the Company for the financial year ended 31 March 2019.

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

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

4. To re-appoint Richard Hurd as a director of the Company.

5. To re-appoint Neil Peniket as a director of the Company.

6. To appoint Simon Barrell as a director of the Company.

7. THAT the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot shares, and to grant rights to subscribe for or to convert any security into shares up to an aggregate nominal amount of £51,598 provided that this authority shall expire (unless previously varied as to duration, revoked or renewed by the Company in general meeting) on December 4th, 2020, or, if earlier, at the conclusion of the Annual General Meeting in 2020, except that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or such rights to be granted after such expiry and the directors may allot shares or grant such rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired, and this authority shall be in substitution of any such previous authorities.

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

SPECIAL RESOLUTION

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

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

b) any such allotment and/or sale, otherwise than pursuant to sub-paragraph (a) above, of equity securities having, in the case of ordinary shares, an aggregate nominal value or, in the case of other equity securities, giving the right to subscribe for or convert into ordinary shares having an aggregate nominal value, not exceeding the sum of £15,479.

This authority shall expire, unless previously revoked or renewed by the Company in general meeting, at such time as the general authority conferred on the directors by resolution 7 above expires, except that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

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

On behalf of the Board

Richard Hurd
Company Secretary

July 17, 2019

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

Registered in England and Wales No. 05459678

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

NOTES:

1. A shareholder is entitled to appoint another person as that shareholder's proxy to exercise all or any of that shareholder's rights to attend and to speak and vote at the Annual General Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy does not need to be a shareholder of the Company.

2. A form of proxy for use in connection with the Annual General Meeting is enclosed with the document of which this notice forms part. Completion and return of a form of proxy will not prevent a shareholder from attending and voting at the Annual General Meeting. Addresses (including electronic addresses) in this document are included strictly for the purposes specified and not for any other purpose.

3. To appoint a valid proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or any other authority under which it is signed, or a notarially certified copy of such authority, to the Company Secretary at the Company's offices, or (b) a CREST Proxy Instruction (see note 4 below) in each case no later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

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

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent by the latest time for receipt of proxy appointments set out in paragraph 3 above.

For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

NOTICE OF ANNUAL GENERAL MEETING - CONTINUED

5. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those shareholders included in the register of members of the Company at 6.00 p.m. on September 2nd, 2019 being the time not less than 48 hours before the time fixed for the meeting or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be entitled to attend and to vote at the Annual General Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 p.m. on September 2nd, 2019 or, if the meeting is adjourned, in the register of members after 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

7. As at 17 July 2019, being the latest practicable date prior to the publication of this document, the Company's issued share capital consists of 154,793,919 ordinary shares of 0.1 pence each with each share carrying the right to one vote.

EXPLANATORY NOTES FOR SHAREHOLDERS

The notice of the Annual General Meeting of the Company to be held at 11.00 a.m. on September 4th, 2019 is set out on pages 49-52 of the annual report and accounts. The following notes provide an explanation as to why the resolutions set out in the notice are to be put to shareholders. Resolutions 1 to 7 are ordinary resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 – Directors' report and audited accounts for year ended 31 March 2019
The directors are required by the Companies Act 2006 to present to the shareholders of the Company at a general meeting the audited accounts and the reports of the directors and auditors for the year ended 31 March 2019. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and both reports are contained in the Company's Annual Report and Accounts.

Resolution 2 – Re-appointment of auditors
The Companies Act 2006 requires that auditors be appointed at each general meeting at which accounts are laid, to hold office until the next such meeting. This resolution seeks shareholder approval for the reappointment of Nexia Smith & Williamson Audit Limited. The Audit Committee keeps under review the independence and objectivity of the external auditors. After considering relevant information the Audit Committee recommended to the board of directors that Nexia Smith & Williamson Audit Limited be reappointed.

This resolution proposes the re-appointment of Nexia Smith & Williamson Audit Limited as auditors of the Company.

EXPLANATORY NOTES FOR SHAREHOLDERS - CONTINUED

Resolution 3 – Auditors' remuneration
This resolution gives authority to the directors to determine the remuneration of Nexia Smith & Williamson Audit Limited as auditors of the Company.

Resolutions 4,5 & 6 – Directors' re-appointment
Richard Hurd and Neil Peniket will retire at this year's Annual General Meeting and offer themselves for re-election.

Simon Barrell will stand for appointment, following the announcement of his appointment on July 5th of this year.

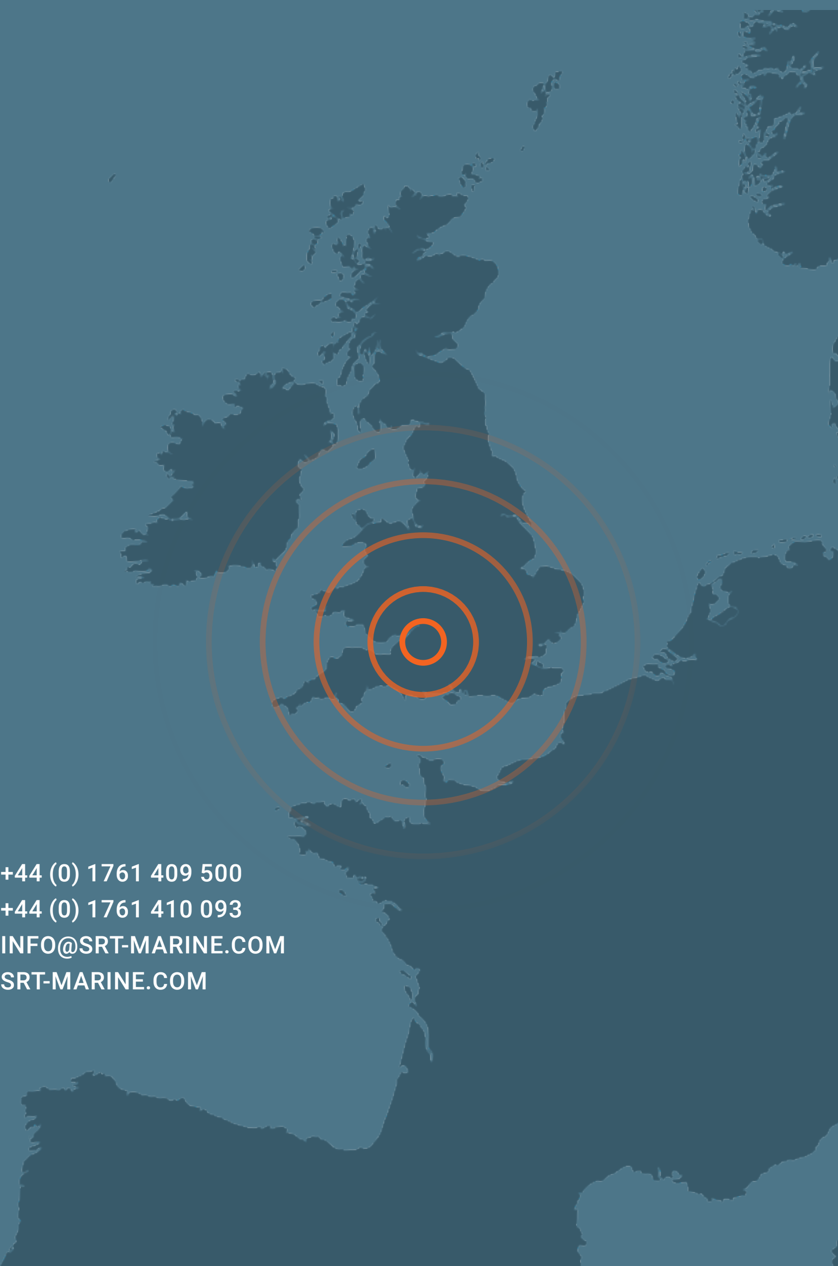
Resolution 7 – Authority to allot shares
The Companies Act 2006 provides that the directors may only allot shares or grant rights to subscribe for or to convert any security into shares if authorised by shareholders to do so. Resolution 7 will, if passed, authorise the directors to allot shares up to a maximum nominal amount of £51,598.

It is accordingly proposed that the directors be granted general authority at any time prior to December 4th 2020, or, if earlier, at the conclusion of the Annual General Meeting in 2020, to allot shares up to an aggregate nominal amount of £51,598, which represents an amount which is approximately equal to one-third of the issued ordinary share capital of the Company as at the date of the notice of Annual General Meeting. Passing this resolution will give the directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. The directors have no current plans to make use of this authority.

Resolution 8 is a special resolution. This resolution will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 8 – Dis-application of pre-emption rights
The Companies Act 2006 requires that, if the Company issues new shares, or grants rights to subscribe for or to convert any security into shares, for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. If passed, resolution 8 will authorise the directors to issue shares for cash and/or sell shares from treasury (if any are so held) up to an aggregate nominal amount of £15,479 (representing approximately 10% of the Company's issued share capital as at the date of the notice of Annual General Meeting) without offering them to shareholders first, and will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. If passed, this authority will expire at the same time as the authority to allot shares given pursuant to resolution 7. The Company does not at present hold any shares in treasury.

SRT



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