

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2021



Trackwise Designs plc

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2021

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TRACKWISE
CONNECTING TECHNOLOGY

Registered in England and Wales, Registration no: 3959572

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

Operating & Strategic Highlights

- Acquisition of dedicated site for roll-to-roll IHT production
- Initiation of installation of roll-to-roll production facility
- Delay in start of EV OEM contract
- Post Covid supply chain challenges
- Total of £6M deposits placed on capital equipment

Financial Highlights

- Revenues £8M (2020: £6M) increase of 33%
- IHT Revenues £1.5M (2020: £0.6M) increase of 150%
- Operating loss £1.7M (2020: £0.5M)
- Adjusted EBITDA £0.81M (2020: £0.77M)
- Statutory loss £(1.65M) (2020: profit £1.23M)
- Loss per share (5.78)p per share (2020: eps 5.7p per share)



Ian Griffiths
Non-Executive Chair

Chair's Statement

Building for Growth - Improving Performance

Dear Shareholders

The strong strategic milestones achieved in 2020 provided a sound base from which to realise strategic and operational progress during 2021.

Key to delivering on those targets was the acquisition of a manufacturing facility in Stonehouse, Gloucestershire in June to prepare for our roll-to-roll volume production for the EV OEM contract awarded last year.

A major refurbishment programme for the facility was completed and a project to install state-of-the-art, roll-to-roll flex capital equipment was initiated. Positive progress was achieved against a difficult background of Covid disruption to both our own activities and those of our equipment suppliers. Pandemic delays were further exacerbated by global silicone chip shortages negatively affecting the construction of the sophisticated equipment on order. Despite these constraints we were well placed by the end of the period to start production in the third quarter of 2022, with space prepared to double capacity as future IHT products come on-line.

We are grateful for the support and additional funding we have received from our shareholders in enabling us to execute this crucial step in our strategic plan.

Meanwhile our Tewkesbury facility concentrated on development, manufacture and supply of a record level of IHT products. This was facilitated in part by the capacity released from the RF rationalisation programme carried out last year following the acquisition of Stevenage Circuits Ltd ('SCL') and creation of the Advanced PCB facility.

2022 Outlook

In tandem with our efforts to build for future growth, our people were heavily engaged in supporting and improving production efficiency and performance in both costs and quality at our facilities in Tewkesbury and at SCL. This was achieved despite the Covid disruptions and against the increasing macro-economic issues of material cost increases and supply interruptions.

During the period our Ashvale facility was heavily engaged in finalising the design standard and pre-volume production supply of roll-to-roll EV product for our UK OEM customer. Our people additionally focussed on development of potential future IHT products for our target industries. Whilst progress in the development of sophisticated new technology is frustratingly challenging, the results we are achieving are establishing a solid foundation to support solutions for future customer demands.

SCL experienced a degree of disruption as many of its products are destined for customer applications which themselves suffered from the global silicone chip shortages and consequent changes in demand.

Board, Senior Management and Employees

In September 2021 we announced that the Chief Financial Officer, Mark Hodgkins, would be retiring from the Board at the AGM in June 2022. He is to be replaced by Paul Cook who is working in tandem with Mark during the first half of 2022 to ensure a smooth transition.

On behalf of the Board, I would like to thank Mark for his work with Trackwise during the past six years, which included a successful listing on the AIM market and the transition to operating as a public company. During this period Mark's experience and capability has been central to supporting a young business as it undergoes the financial demands associated with rapid growth. We wish him well in the future.

During the year we also appointed a Chief Operating Officer, Steve Hudson. He has been instrumental in leading the transformation of the newly acquired Stonehouse facility, including capital equipment, and importantly recruiting and training a strong management team and operational staff.

The continuing safety of our staff has remained our priority since the onset of the pandemic. In line with UK Government guidelines, we have taken steps to protect our teams from the impact of Covid 19 across our business. I would like to thank all our staff for their continued dedication and achievements throughout a difficult year.

Dividend

In line with the previously stated Policy, the Board does not recommend the payment of a dividend and reaffirms our intention to pay a progressive dividend only once the Group has demonstrated the establishment of the interconnector technology as a stable revenue generator.

Our impact on Society

The benefits and relevance of our IHT product to the sustainability agenda are clear and we are confident it will continue to play an important role in helping our customers meet their own carbon reduction goals in the future.

Last year, for the first time, we reported on our ESG impact and the measures we had introduced to demonstrate our commitment to acting responsibly and to contributing a sustainable future. Further information can be found in our ESG Engagement Report on page 22.

Looking ahead

Last year I highlighted the uncertainty in both the global and UK economies. This year we have the added uncertainty of the impact of the war in Ukraine which will inevitably have impacts on various supply chains. The directors are keeping these and the other impacts under constant review and adjusting our plans and forecasts as necessary. We have reviewed our trading outlook and the impacts of the delays in business from our principal EV customer and have addressed our funding needs and our costs as set out in the CFO's report. It remains the case, that the Company has good prospects for growth in our IHT division and solid foundations within our Advanced PCB division, the Board remains encouraged by the medium-term and long-term outlook and looks forward to reporting on further progress in due course.

Ian Griffiths
Non-Executive Chair
29 July 2022



Philip Johnston
Chief Executive Officer

Chief Executive's Review

Overview

2021 has seen major progression towards what has been a long-term objective for the business, to see the output of our first production contract being delivered at scale into a live project: 'Quantity, Quality, Qualified'.

As a result of securing the long-term supply agreement with a UK EV OEM, we acquired a 77,000 sq.ft. freehold premises at Stonehouse, Gloucestershire and ably led by our new COO, Steve Hudson, have been growing the operational team to deliver a world-class, roll-to-roll FPC manufacturing capability.

The decision to acquire a freehold facility larger than initially needed for the UK EV OEM contract has, at least in part, been driven by the growing understanding of the scale and timeline of the opportunity that is cell connection circuits for electric vehicles.

The year has not been without its challenges (is there ever one?), most notably customer delays, global supply chain issues as well as the ongoing threat to staff welfare caused by Covid – and now significant price inflation. These challenges contributed to our need to call for further equity towards the year end.

Despite these challenges, we completed 2021 in line with market expectations, and report here record IHT sales, a record order book, solid APCB operations and good progress towards facility completion and start of production at Stonehouse.

I would very much like to thank all of our stakeholders, our supportive shareholders, both new and existing, our customers and suppliers – and above all our staff. As manufacturers we have continued to be unable to work from home and therefore have had to deal with the risk and uncertainty of coming to work every day throughout the pandemic. This has not been easy, but the challenge has continued to be met collectively with stoicism and understanding: **Thank You.**

I would also like to take this opportunity to say thank you to our retiring CFO, Mark Hodgkins. Mark has worked tirelessly in the business since 2016 and has been a massive part of the transformation of the business and its prospects, up to and including the IPO in 2018, the subsequent acquisition of Stevenage Circuits, and fund raising in support of delivering the UK EV OEM contract. It has not been a straightforward period, with Brexit, Covid and global supply chain challenges – on top of the home-grown challenges of delivering a globally innovative product to market. On behalf of all Trackwise stakeholders - **Thank You.**

We were delighted to announce the appointment of Paul Cook as CFO-designate in January 2022. Paul is an experienced finance professional with a track record of success across senior positions at several technology-driven manufacturing businesses selling into international markets, including Access IS, a manufacturer of scanning devices, and Sonatest, a manufacturer of portable non-destructive testing equipment. Most recently he was Chief Operating and Compliance Officer at YFM Equity Partners, a leading private equity and venture capital investor, where he worked for a period of more than eight years.

In April 2021 we were also delighted to welcome Steve Hudson as COO, a new position to the business. Steve has over 20 years' experience in the automotive and aerospace industry. He started his career at MG Rover, before moving onto operational and programme leadership roles at Bentley Motors and Rolls Royce Aerospace. He was most recently at Williams Advanced Engineering, where his responsibilities included growing battery manufacturing capability.

Trackwise's mission and strategy to deliver growth

Trackwise's Vision is 'To be the pre-eminent interconnect partner of the world's leading innovators' and its Mission Statement is 'To develop and deliver the new generation of interconnect; for our customers to realise their ambitions, thereby achieving all stakeholder expectations.'

The Group's strategy to achieve this is to drive growth by increasing capability and capacity to deliver IHT, by improving traction through targeted worldwide sales and marketing and by delivering operational excellence – all based upon the sustainable foundation of profitable supply of Advanced PCBs.

World-leading, length-agnostic, flex PCB manufacturing capability

While such statements are hard to verify, there are good reasons to state that, as a result of the cumulated development work, learning and capital investment, Trackwise is well underway to becoming one of the, if not the, world's leading manufacturer of long flex PCBs.

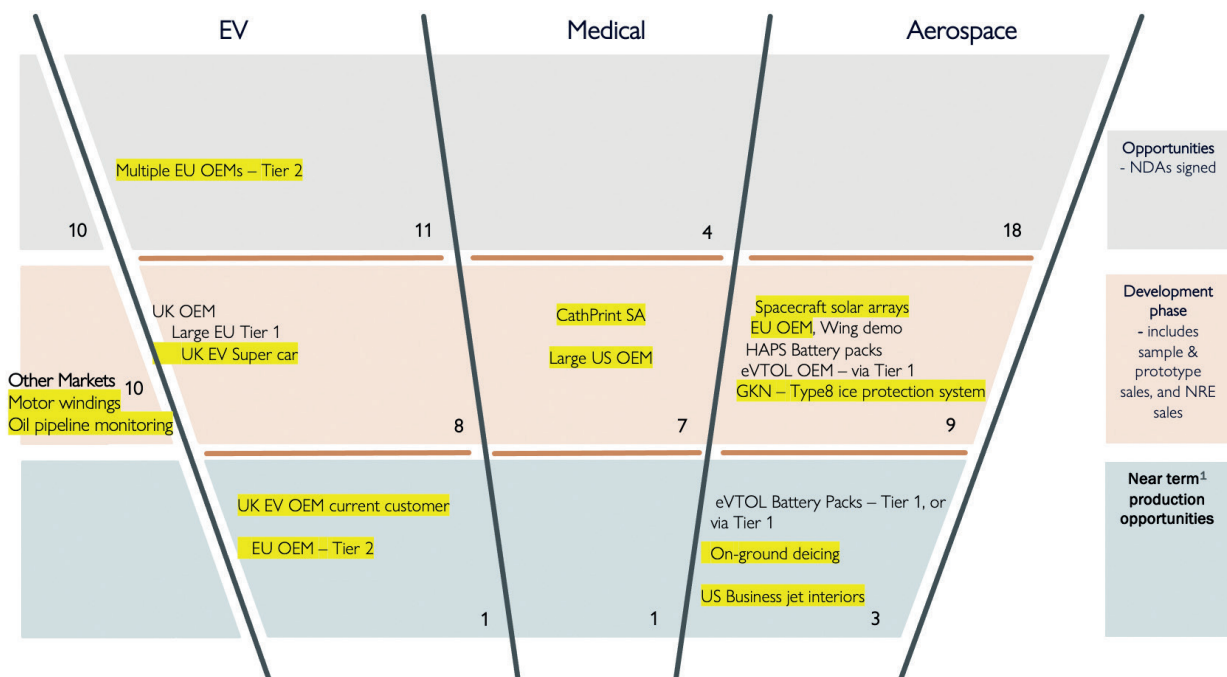
We describe above our June 2021 delivery of a 72 metre long multilayer flex and we know of no other company worldwide that could have manufactured such a product. Such extreme length products are, by definition, unusual in nature, however the development know-how that has led to such a delivery is key to the ongoing development of our roll-to-roll, length-unlimited, length-agnostic, IHT manufacturing capability that we believe is our USP.

The development know-how and manufacturing assets have cross-sectoral applicability. Trackwise started its IHT journey in aerospace and the length-agnostic roll-to-roll manufacturing capability that we initially developed to deliver long aerospace circuits now allow us also to make smaller EV battery parts at scale. The EV learning is now feeding back into the manufacture of aerospace and medical products.

Almost all of our sales pipeline – for the EV, medical and aerospace sectors – has come to Trackwise from around the world because of our ability to deliver long flex; a globally unique manufacturing capability.

IHT SALES PIPELINE

IN TOTAL, 82 CUSTOMERS AND OPPORTUNITIES; THIS EXCLUDES EARLY STAGE OPPORTUNITIES



¹ Based on Directors' belief

Note: The number in each segment of the sales pipeline reflects the number of opportunities or customers within that segment e.g., aerospace 10 opportunities, 9 customers, 3 near-term production opportunities.

Double Belt Press (DBP)

With the (post year-end) delivery and commissioning of the Double Belt Press (DBP), the length-unlimited multilayer flex PCB manufacturing process envisaged in the original IHT patent* application in January 2012 has now been realised as an in-house capability. This is a major milestone for the business.

The DBP is a key strategic asset, providing a state-of-the-art capability to manufacture our own metal-clad laminates, as well as allowing us to bond together individual circuit layers to form the patented length-unlimited multilayer circuits.

Bringing this unique capability 'up to speed' is a key strategic priority. A number of customer developments have been held until such time as we have this capability in-house, and, more generally, our rate of development will now be able to speed up immeasurably.

*The process patent is now granted worldwide:

- UK Patent Number GB2498994 – granted March 2014
- US Patent Number US2015108084 – granted January 2016
- China Patent Number ZL201380011859.6 – granted April 2018
- EU Patent Number 2810543 – granted August 2019
- Canada Patent Number 2862772 – granted July 2020
- Brazil Patent Number BR1120140190330 – granted December 2021

Stonehouse Start of Production

The Stonehouse facility was acquired in order to deliver our UK EV OEM contract and while they – and consequently we – have suffered some delays, this remains a transformational opportunity for Trackwise. 2022 will see Start of Production, leading to PSW (Part Submission Warrant) – formal confirmation that the supply of components meets the customer requirements and specifications – and then full rate production.

This demonstration of 'Quantity Quality Qualified' is a key milestone for the business.

We very much look forward to welcoming investors to view the Stonehouse facility at a Capital Markets Day to be arranged later in the year.

This state-of-the-art roll-to-roll flex PCB manufacturing facility is discussed in further detail below.



Stonehouse Phase 2



The initial implementation at Stonehouse will by no means be its full capacity; we have laid out the factory with specific plans for a 'Phase 2' – to be implemented as and when justified by incremental demand.

We continue to be very hopeful for further production contracts for EV cell connection systems, some of which are potentially considerably larger in scale than the current UK EV OEM contract. The Stonehouse facility is an important showcase for our capability for UK and European EV OEMs who are seeking a local supply solution.

Trackwise is very well positioned – both with key technology and with first mover advantage – to capitalise on this very sizeable opportunity.

We are convinced that Stonehouse is the right investment at the right time, and that 'Phase 2' will be taken up by one or more cell connection system customers.

Trackwise is in active bidding discussions for supply contracts with multiple UK and EU OEMs and securing one or more of these production contracts is a key objective.

- OEM A – Lifetime volume 30M pcs / SoP 2024 5 years – Tier 1
- OEM B – Lifetime volume 3M pcs / SoP 2024 4 years – Tier 2
- OEM C – Lifetime volume 2M pcs / SoP 2025 9 years – Tier 2
- OEM D – Lifetime volume 1M pcs / SoP 2026 5 years – Tier 2
- OEM E – Lifetime volume 1M pcs / SoP 2022 3 years – Tier 3

Start of Production (SoP) will be preceded by pre-production builds and (earlier) supplier selection.

We refer in our Risk Review on page 15 that 'It is possible that competitors may also be able to devote greater resources to the promotion and sale of their products, designs and solutions than the Group can compete with.' An example of this risk is CelLink Corporation, a Californian-based 'leading manufacturer of high-conductance, large-area flexible circuits for automotive applications' who announced in February 2022 the closing of a \$250M Series D funding.

While on one hand this significant investment into a global competitor represents a manifestation of the risk, it also indicates the scale of the opportunity identified by CelLink and its investors.

Operational review

Stonehouse

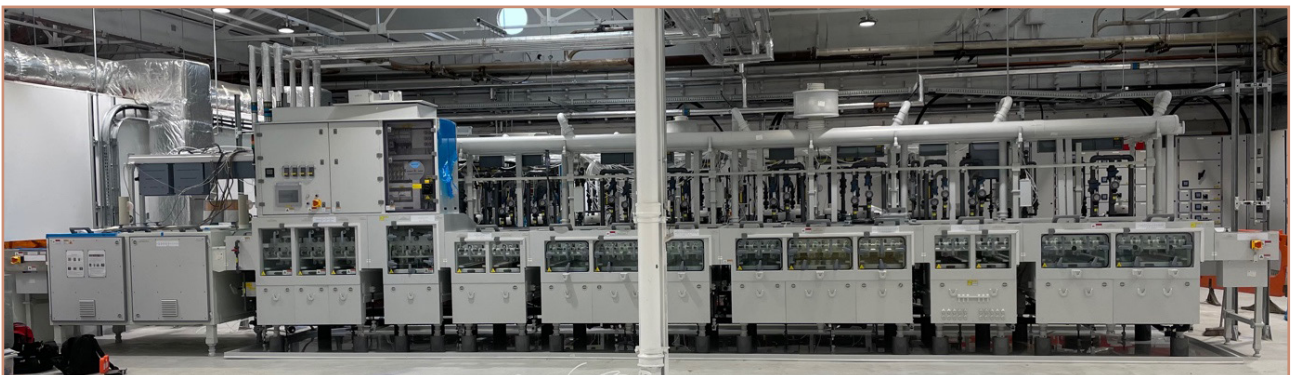
In early 2021, the scale of the UK OEM EV contract, with its guaranteed minimum volumes, as well as the need to maintain progress with, and capacity for, the increasing range of other IHT developments and opportunities, meant that we needed to secure additional manufacturing capacity.

For this reason, in the middle of 2021 we acquired a new manufacturing facility, a 77,000 sq.ft. freehold property in Stonehouse Gloucestershire, approximately 20 miles south of Tewkesbury, adjacent to M5 junction 13.

At Stonehouse we are implementing a scaled-up version of the roll-to-roll FPC manufacturing capability developed and qualified in Tewkesbury in a set up arranged for high volume, low mix – rather than the low volume, high mix in Tewkesbury.



The Stonehouse facility will be a state-of-the-art roll-to-roll flex PCB manufacturing facility – unique in the UK with the investment underpinned by the guaranteed minimum demand of the UK EV OEM contract.



Stevenage Circuits Limited

2021 saw the first full year of operation of Stevenage Circuits Limited (SCL) within the Trackwise group of companies.

SCL was hard-hit by supply chain challenges, notably the shortage of Dupont AP copper clad laminates, a key element in the supply of circuits to its largest customer, Ion Science Limited, a leading manufacturer of technologically advanced gas detection equipment. Thanks go to our hard-working SCL sourcing team, working closely with the customer to manage the supply challenge and requalify some parts using different raw materials.



I would like to thank very much the senior management team and all staff at SCL for their hard work and positive attitude in this year of significant challenge.

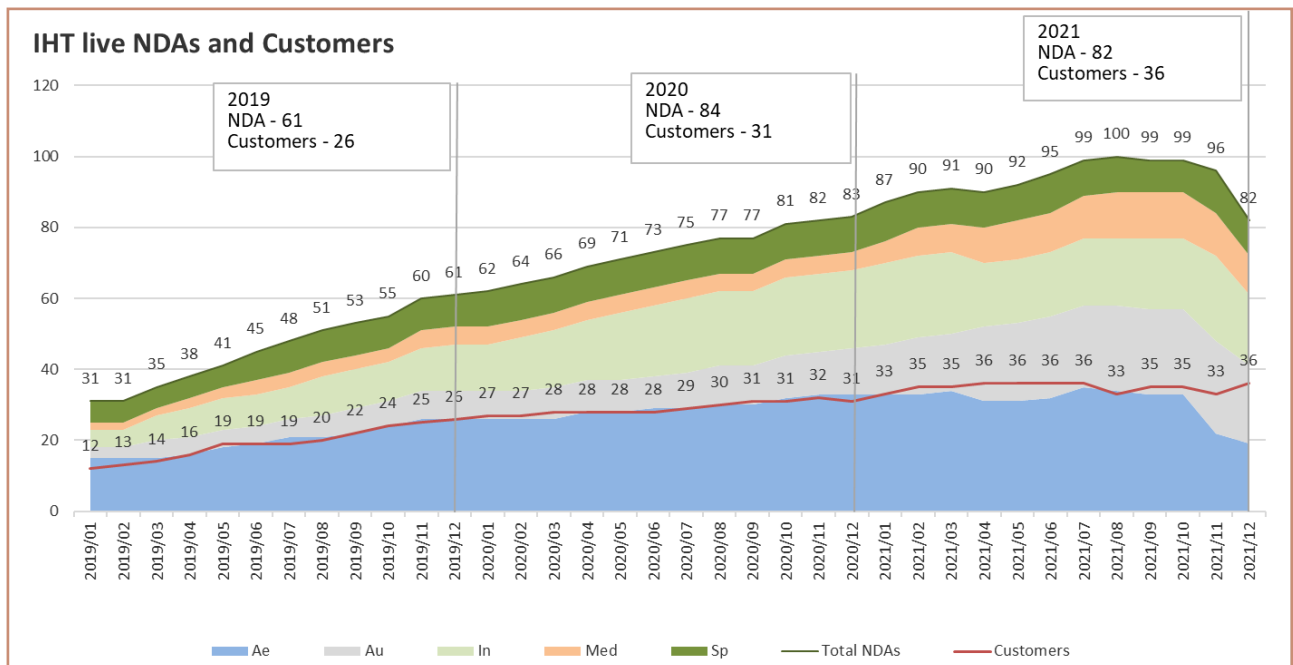
Stevenage Circuits Limited marks its 50th anniversary in June 2022, a major milestone for any business, and one that we will be marking appropriately.

Improved Harness Technology™ (IHT)

Ashvale – our site in Tewkesbury – remains an engineering-led facility, focussed on IHT product development, new product introduction; leading customers through to the point where, like the UK EV OEM, they are ready to manufacture at scale.

The Group’s IHT activities are based on three verticals (electric vehicles, medical and aerospace), in terms of pursuing new business, though for segmental reporting the group looks at its performance on a geographical basis which is highlighted in note 3.

There has been significant and sustained growth in all three key IHT verticals during 2021. 30 NDAs (Non-Disclosure Agreements) have been signed - 9 Aerospace, 7 Automotive, 9 Medical – demonstrating that there continues to be keen interest for IHT across the board. Of these, 9 have already converted into customers bringing the total number of IHT customers to 36 at the year end.



2021 saw the business deliver record IHT sales, more than 2.5x prior year levels and included completion, of what we believe, is by far the largest multilayer PCB ever made worldwide, 72m long parts for a nuclear fusion customer.

While such extreme length products are, by definition, unusual in nature their development and delivery are key to advancing maturity of the roll-to-roll, length-unlimited, length-agnostic, IHT manufacturing capability that we believe is our USP.

IHT sales were strong across all market verticals, with only Aerospace not posting a record year.

This is discussed further below.

Electric Vehicles (EV)

2021 saw a 2.8x increase in IHT EV sales over prior year, dominated by increasing sales to the UK EV OEM.

Trackwise announced in September 2020 that it had secured a multi-year Product Manufacture and Supply Agreement with a UK EV OEM. In a contract amendment announced in June 2021 the start date for this transformational deal was delayed by one quarter and extended by one year – with a corresponding increase in value from £38m to £54m.

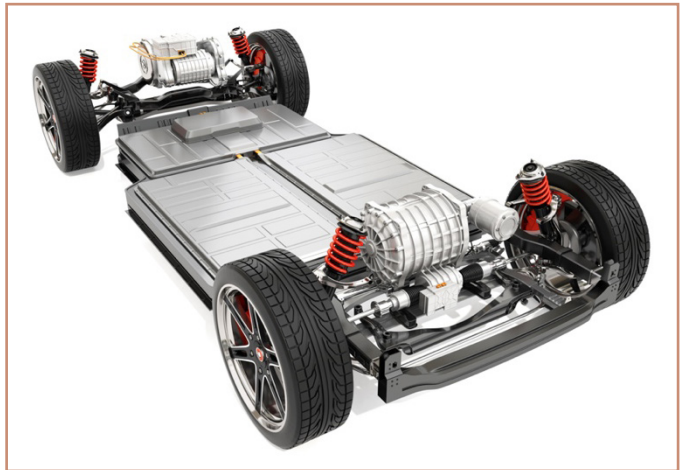
The OEM is building electric vans and buses – as well as other commercial vehicles. All these vehicles are based around a common core High Voltage Battery Module (HVBM) into which Trackwise is providing two key components, a power flex – connecting all the cells for primary power collection and a balancing flex, part of the essential battery management system.

These are roughly one-foot square parts – manufactured in rolls – using our IHT-enabled manufacturing know-how.

We are also supplying vehicle level parts into our customer's electric bus vehicle, with parts for further vehicles under discussion.

2022 sees the start of production under this contract. This underpins the significant growth in revenue forecast for this year.

Beyond this important contract with the UK EV OEM, there is a very large opportunity in the developing UK and European EV supply chain. As indicated above Trackwise is in active bidding discussions for supply contracts with multiple UK and EU OEMs.



Medical

2021 saw a 2.1x increase in IHT Medical sales over prior year; still currently at relatively low levels as customers progress their products through their design verification phase and into production but 9 new NDAs and 5 new customers in the year encourage us as to the wider opportunity.

Trackwise was pleased to announce in May that it had signed a multi-year agreement with CathPrint AB, the Stockholm-based company with expertise in the development and manufacturing of medical device products. The agreement is for the supply of Trackwise's IHT component parts for use in CathPrint's products. CathPrint has been a Trackwise customer for some time and the agreement paves the way for a longer-term ramp-up in volume.



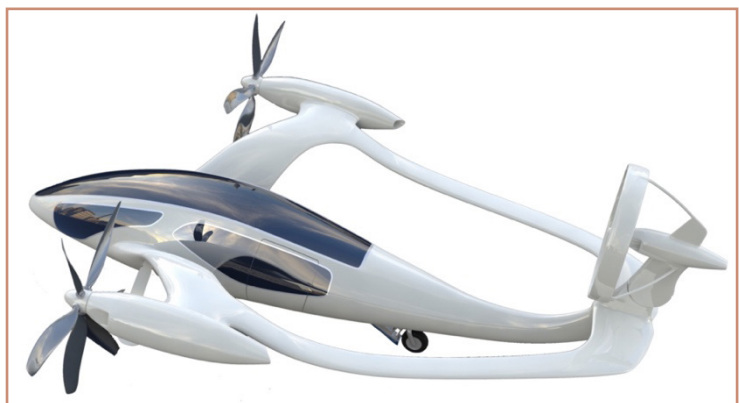
These are challenging products to manufacture – large format (up to several metres in length), narrow (only a few mm in width), very fine circuit features (down to 40um), novel substrates, demanding surface finish requirements – but IHT capabilities are fully suited to these demanding products and multiple samples for multiple different products have been delivered to US and EU OEMs.

This is an exciting sector with significant upside potential for the business. In my opinion it is only a matter of time that one or more of these partners moves to full production. We expect to see strong further growth in our sales into this sector.

Supply into the medical device sector requires our Quality Management System (QMS) – currently based upon the Aerospace standard AS9100D – to be accredited to ISO13485 'a quality management system where an organisation needs to demonstrate its ability to provide medical devices and related services that consistently meet customer and applicable regulatory requirements.' We are actively working towards ISO13485 accreditation.

Aerospace - including Space

As mentioned above, Aerospace was the only sector in which Trackwise did not post record IHT sales in 2021. Even before the pandemic the UK aviation industry has pledged to cut its net carbon emissions to zero by 2050. In any mobile application weight = fuel = cost = carbon and the weight reduction opportunity offered by IHT is a key enabler for OEMs to realise their ambitions in these rapidly changing markets where carbon reduction is a strategic necessity.



2021 saw good progress with the AISA Innovate UK grant funded development program (a consortium led by GKN Aerospace) tasked with taking IHT to 'TRL6' – a technology readiness milestone that effectively enables the product to be sold into mainstream programmes.

Trackwise is working with a very wide and growing portfolio of world-leading aerospace innovators on next-generation products; of UAM - 'flying taxis', business jets, high altitude pseudo-satellites, as well as spacecraft solar array transfer harnesses.

For all of these OEMs and Tier 1 or Tier 2 suppliers, IHT benefits of reduced weight and reduced space are key attributes for delivering their objectives for emission-reducing aircraft.

2021 has seen the emergence of a key opportunity for Trackwise, aerospace battery modules – where aerospace customers, who are using batteries to power their electric aircraft, are coming to Trackwise, to understand how to use FPCs as cell contacting system (CCS).

As these aerospace customers are at an early stage of their development/learning, Trackwise is ideally positioned to guide them specifically towards the know-how that we have captured from our EV work. While current and near-term aerospace revenue will remain developmental in nature, a clear path to production programmes is emerging. Several programmes are indicating an entry into service in 2-3 years. Trackwise and IHT must be ready for these customers – and for this reason the timely progression of IHT to TRL6 is key.

Current trading and outlook

Managing the COVID-19 pandemic

While seeking to continue operations as normally as possible, the safety and welfare of all staff has been our utmost priority. We have followed government guidelines throughout.

While hopefully diminishing in importance, Covid is an additional risk the company now has to factor and I would draw your attention to the Risk review on page 15 and in particular the heightened attention the Board is giving to certain areas, cybersecurity, customer concentration, the ongoing supply chain issues and risks associated with the establishment of our new site at Stonehouse.

Supply chain

Well publicised supply chain problems have made the task of procuring the advanced manufacturing equipment for the Stonehouse facility from global suppliers (UK, France, Germany, Italy, Japan, China) a complex and challenging exercise.

While it is hoped and expected that the worst impacts of the pandemic itself and the global post-Covid start-up shock are behind us, it seems to be clear that some components and commodities will remain in short supply for the foreseeable future, driving both price and lead-time. For example, the above-mentioned growth in EV cell demand will continue to underpin global demand for metal foils. Our supply chain strategy is being planned to try to mitigate this risk. We have continued to work closely with customers and suppliers alike to mitigate the impact of these challenges, where possible entering into long term supply agreements and sourcing and qualifying alternative sources of supply.

Order book and outlook

Trackwise closed the year with a record order book, underpinned by the £2.4m order received from the UK EV OEM prior to the year end. While delays to the UK EV OEM's own progression mean that revenue originally forecast for the year will not materialise, 2022 is still expected to see a further increase on 2021, continuing the sales growth in the business, in particular IHT. It remains a difficult time to be in business, with labour supply, inflation, supply chain dislocation and Brexit-related customs issues all posing their own challenges to the business. However, these challenges are being, can be, and will be met by pro-active management of the issues across the three sites.

Beyond the contract with the UK EV OEM, we are actively pursuing the very large market opportunity – which could total many £100m of business - in the developing UK and European EV supply chain for battery CCS. Stonehouse Phase 2 is – in our opinion – a unique and well-positioned resource to deliver that opportunity. We are confident of further material developments, regardless of the macro-economic situation.

The APCB division remains an important underpinning of the business, but the principal growth will continue to come from IHT. The investments that we have made – the building for growth – are and will continue to deliver, across the three principal IHT market verticals.

At the top end of our capability, Trackwise is one of, if not the, leading supplier of long flex PCBs worldwide. I am very grateful for all stakeholders for their part in helping the business to achieve its potential.

Cautionary statement

This report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts.

Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning.

Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Trackwise plc's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.


There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. These risks and uncertainties include, among other factors, changing economic, financial, political, business or other market conditions.




Trackwise plc is under no obligation to revise or update any forward-looking statement contained within these financial statements, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

The strategic report on pages 7 to 21 has been approved by the Board of Directors and signed on its behalf by:

Principal Risks and Uncertainties

KEY: ● High risk ● Medium risk ● Low risk

RISK	POTENTIAL TO CHANGE	DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
<p>Outbreak of Russo/Ukraine war</p>  <p>INCREASED Effect: Significant downward impact on profitability.</p>	<p>Potential to change</p>	<p>During the final months of the financial year under review the Russian government initiated the build-up of potential invasion forces on the border of their neighbour, Ukraine. Following the year end, to which these financial statements refer, an invasion took place leading to a conflict between Russia and Ukraine.</p> <p>This conflict has the potential for serious impact upon the global economy, for inflation and other unspecified economic impacts including the impact of economic sanctions (see below).</p> <p>At this time, it is not certain what those impacts will be but a significant material for the company's current order book is nickel foil, and 50% of the nickel available in the global market is mined in Russia or Ukraine. It is possible therefore that this material might be very difficult to obtain and the price of it is bound to increase.</p> <p>This is likely to affect the Group's ability to service its customer and although we have mitigation in place to limit its impact on profitability this situation could of itself seriously threaten the Group's profitability in 2022.</p>	<p>Our contracts with our customers who have a significant use of nickel contain provision for the automatic increase in prices of our product to our customer in line with the London Metal Exchange (LME) price index for nickel. Whilst a significant portion of nickel supply is from Russia and Ukraine and supplier is not based in either of these countries. The forecasts for the business have been prepared such that our terms of trade with our supplier are normalised and not disrupted by the Ukrainian conflict.</p>

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
<p>Imposition of economic sanctions</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect: Significant downward impact on profitability.</p>	<p>As a consequence of the conflict between Russia and Ukraine the Group is exposed to risk as a consequence of the imposition of economic sanctions posed by a number of governments on Russia, its people and institutions.</p> <p>Our largest customer, a NASDAQ listed entity, is under the control of a Russian citizen who could potentially be identified as an individual who could be sanctioned.</p> <p>Furthermore, as mentioned above the Group sources a significant quantity of nickel to be able to execute its business and it is likely, given that Russia and Ukraine produce 50% of the world's nickel that supplies of this product may be blocked because of economic sanctions.</p> <p>It is unclear at this time that any sanctions have been specifically targeted in such a way as to present problems for the Group but it is likely that Global trade will suffer and decrease as a result of economic sanctions and this may lead to loss of profits for the Group.</p>	<p>The imposition of economic sanctions is an arguable and unknowable action for which no specific mitigation can be planned.</p> <p>We do not have any significant trading relationship with either Russia or any country currently on known embargo listings.</p> <p>The Directors keep this under constant review. The supply chain risk is under constant review, and we maintain a good and open relationship with our suppliers to ensure that any possible delay or pricing impacts can be managed appropriately.</p> <p>Whilst this has impacted the price of Nickel and resulted in delays in supply, from indirect global pressure, our source of supply is not directly from the Ukraine.</p>
<p>Failing to successfully implement our growth strategies</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect: Loss of market share, reduced sales volumes and profitability</p>	<p>The future success of the Group is dependent upon the effective implementation of our growth strategy.</p> <p>This success may be adversely impacted by factors that the Group cannot currently foresee, such as unanticipated market forces, costs and expenses, technological developments, or the impact of the conflict between Russia and Ukraine. Failure to implement its strategy or the eventuality that it takes longer than expected to achieve could adversely impact future financial results.</p>	<p>Management focus efforts to address the Group's strategic goals on a regular basis and has clear actions focussed on their achievement.</p> <p>Management regularly monitors their capacity as well as the progress towards achievement reviewing consistently the changes in the marketplace and their impact on our strategy.</p> <p>The Board monitors strategic achievement on a quarterly basis.</p>
<p>Completion of new productive capacity</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect: Delayed revenues and contribution reducing profitability and cash inflows</p>	<p>The Group is in the middle of establishing its roll-to-roll production facility at Stonehouse in Gloucestershire.</p> <p>The impacts of Covid on supply chains has led to a constant flow of delays and difficulties suffered by our suppliers of machinery for our new site. We continue to suffer supply chain difficulties which have pushed back the start date. We are broadly on target to begin production in H2 2022 but it is possible that the supply chain difficulties may delay the start of production and consequently lead to reduced profits in the short-term until these blockages are released.</p>	<p>Management have enlisted the support of experienced project managers and other external professionals to advise and manage the project.</p>

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
<p>Cybersecurity</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect: Exposure, hacking or Denial Of Service could impact adversely on profitability and cash generation.</p>	<p>Global cybersecurity threats to the Group could lead to unauthorised access to its information technology systems, products, customers, suppliers and third-party service providers. Cybersecurity incidents could potentially result in the disruption of our business operations and the misappropriation, destruction, or corruption of critical data and confidential or proprietary technological information.</p> <p>Since the onset of the Covid-19 pandemic a number of our staff work from home.</p> <p>New production equipment installed at the Company's new premises in Stonehouse will rely heavily on information technology for its accurate operation and functioning. This will give rise to a potential vulnerability to cyber-attack.</p>	<p>The Group implements preventative security measures to prevent, detect, address to mitigate these threats.</p> <p>The Group has increased its spend on IT cybersecurity, have carried out an audit of threats and have upgraded all aspects of their IT security.</p> <p>The Group retains its Cyber Security Certification which is an industry leading accreditation.</p> <p>All access to our server from remote locations are managed through a secure Virtual Private Network facility.</p> <p>The Company is planning to install additional two-tier verification and bespoke password protection procedures to mitigate the threat of cyber-attack at its Stonehouse plant.</p>
<p>Attraction & retention of key employees</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect: Will lead to increased capital expenditure to reduce reliance on labour resource which in turn over time should enhance margins.</p>	<p>Like many other companies the Group seeks to recruit skilled, trained team members and like those other companies the demand for those scarce resources is intense.</p> <p>The Group depends upon the continued service and performance of its key employees and whilst it has entered into contractual arrangements with them to secure their services, the demand for this type of labour resource ensures that it cannot be guaranteed that they can all be retained.</p> <p>The loss of key employees and the failure or difficulty in attracting new team members will impact the efficiencies of the Group's business and will lead to sub-optimal profitability.</p>	<p>Management continues to renew and improve the environment within which the labour force is engaged and have increased communication in both directions with the workforce to improve motivation, integration and remuneration.</p> <p>We have established a management and employee forum which it intends to develop into a yet more frequent feed-back loop for both management and employees.</p> <p>Group-wide surveys have become part of the culture with a focus on support and mentoring, alongside training, to encourage engagement, motivation and effectiveness. Management will continue to increase these engagement processes and be vigilant to ensure all things possible are enacted to reduce the impact of labour resource scarcity.</p>

RISK

Protection of intellectual property

Potential to change



UNCHANGED

Effect:

The cost of IPR infringement could lead to lost revenues, reduced profits and possibly significant legal costs.

DESCRIPTION AND POTENTIAL IMPACT

The Group's technology includes specific manufacturing techniques for IHT manufacture. The process has been developed and is owned by the Group. Trademarks of the Group are registered and unregistered.

The Group is dependent on proprietary rights in relation to this technology process, which relies on laws governing copyrights, trademarks and confidentiality. The Group is also dependent on contractual provisions regarding intellectual property ownership and licensing. These laws enable the Group to protect and/or enforce intellectual property rights, including the ability to restrict use of the manufacturing process to those who have obtained relevant authorisation.

If the Group cannot successfully enforce its intellectual property rights, this could have a material adverse effect on the Group's business, financial condition, and prospects.

As the Group increases its penetration of the various markets which it is addressing, then there is risk that others may seek to copy and or imitate the Group's technology which could lead to the loss of market share.

MITIGATION

The Group remains vigilant as to whether others are adopting processes that infringe our IPR.

This review is applied regularly, and any potential infringement is pursued.

The impact of Covid 19

Potential to change



DECREASED

Effect:

Loss of market, staff, reduced sales volumes and profitability over a long period

During the year Covid 19 continued to be a challenge for business generally. The incidence and severity of the pandemic began to reduce in the second half of 2021 but still presents a potential risk to performance for the Group.




The negative impact will be felt as a consequence of delayed investment decisions, customer downsizing, margin pressure as customers seek to protect their own business and maybe the loss of customers completely.




As indicated above the outcomes of the pandemic are such that the virus could develop new trends that might prove to be a threat to the business. There could be an increased positivity for the adoption of new technologies that would reflect on IHT; medical innovations might increase which would be a positive for the Group in the medical markets which are already showing interest. It's quite possible that one trend that will gain favour is the recast of global supply chains and this would enable opportunities for the Group's skills and IP. Customers could well want supply chains that are less reliant on labour and have more automation and Trackwise's technology roadmap is to move to a much more automated platform.


Management continues to follow the Government guidelines as to our response to the virus, but this does not reduce risk. As a manufacturing business, many staff are largely unable to 'work from home'. The Group have focused as much as possible on keeping the manufacturing team safe and healthy in the workplace – so as to continue to serve our customers in as a near-normal manner as possible.

For the production site we have followed best practice identified by Public Health England; avoided non-essential third-party visitors to the site; changed shift patterns where possible to minimise person to person contact; provided enhanced PPE; employed a temporary worker to disinfect all commonly touched surfaces on a near-continual basis.

Management have carried out an assessment of the economic impact of Coronavirus upon the near-term results and the suitability of the assumption that the business remains a going concern.

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
<p>Customer concentration</p>	<p>Potential to change</p>  <p>INCREASED</p> <p>Effect:</p> <p>As the Group moves to service IHT customers with the attendant adoption timescale the Group could be at risk of loss of significant revenues compared to expectations.</p>	<p>The Group has historically had a concentrated customer base which in 2021 saw 33.4% of revenues being attributed to 4 customers. The top 4 customers in 2020 accounted for only 27% of revenues reflecting the larger number of IHT customers. However, the Group remains exposed to the loss of any one of a number of customers.</p> <p>As the adoption of IHT gathers pace it will be inevitable in the short-term that early adopting customers could initially be responsible for concentration of revenues.</p> <p>The EV OEM contract will in the short term through 2022 increase our customer concentration.</p> <p>Any deterioration of the Group's relationship with any one of their key customers, or the loss of orders from any one of them, would have a potentially material adverse impact on the Group's business and financial position.</p>	<p>The increasing acceptance of IHT removes historical concentration. Management continues to broaden the customer base of IHT.</p> <p>Furthermore we pay good attention to monitoring our relationship with our key customers to moderate any adverse reaction from these customers.</p>
<p>The Company is dependent on the aerospace industry and the automotive industry</p>	<p>Potential to change</p>  <p>UNCHANGED</p> <p>Effect:</p> <p>Loss of market share, reduced sales volumes and profitability</p>	<p>The development and market penetration of IHT have added Aerospace and Automotive as two industries that the Group is exposed to.</p> <p>The Automotive industry is a significant opportunity for the Group as it struggles with the move from carbon-based combustion motorisation to electric motorisation however, the Automotive industry is highly competitive and is extremely challenging. The Aerospace industry will benefit greatly from the new technology of IHT but the adoption of the product by the industry will inevitably be on a longer timescale due to approval processes which are extended. In particular, the risk appetite for new products in the Aerospace sector is relatively low. With these three industry foci the Group needs to ensure a balance of the risks within these industries.</p>	<p>The Group seeks to balance its exposure to these industries such that overall risk is reduced, whilst at the same time recognising that from time to time one or other industry might become more dominant within the Group's portfolio or less active.</p> <p>The Group will continue to adopt a balanced approach to the servicing of these different industries.</p>
<p>Exposure to exchange rate fluctuations</p>	<p>Potential to change</p>  <p>UNCHANGED</p> <p>Effect:</p> <p>Loss of market share, reduced sales volumes and profitability</p>	<p>The Group could be exposed to exchange rate fluctuations, principally the GBP, the US\$ and the Euro.</p> <p>Changes in foreign currency exchange rates may affect the Group's pricing of products sold and materials purchased in foreign currencies.</p>	<p>The Directors believe that its use of certain derivative financial instruments, including foreign currency forward contracts used to hedge sale commitments denominated in foreign currencies, reduces the Group's exposure to this risk. At the year end the Company had no derivatives in place as at that time there was no exposure (2020: none).</p>

RISK	Potential to change	DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
Competition	 <p>UNCHANGED</p> <p>Effect: Loss of market share, reduced sales volumes and profitability</p>	<p>The economic environment within which we all work has become one that is constantly tested by disruptive technologies.</p> <p>Indeed, IHT itself is such a technology but it is recognised that it is possible for new competitive products, designs or solutions to enter the market which might bring different benefits.</p> <p>It is possible that competitors may also be able to devote greater resources to the promotion and sale of their products, designs and solutions than the Group can compete with (see reference page 10).</p>	<p>The Group will continue to explore, research and develop new applications for the IHT technology to meet the competitive challenges as well as the ever-changing demands of its customers. The Group has a globally unique product and will continue to demonstrate the applicability of that technology to various industry groupings making existing solutions redundant and obsolete.</p> <p>The Group continues to provide resources with the aim of improving each generation of products it develops. If the Group is unable to compete successfully with existing or new competitors, it may have to reduce prices on products, which would lead to reduced profits.</p>
The impact of BREXIT	 <p>UNCHANGED</p> <p>Effect: Loss of market share, reduced sales volumes and profitability</p>	<p>The UK is now outside the European Union and the economic impact still remains unclear and could still present risk to the Group.</p> <p>The Group's product, IHT, has a wide range of applications in a large number of disruptive industries and provides an environmentally sensitive contribution to our customers' challenges.</p>	<p>The Board of Directors remain vigilant to the impacts of Brexit and as difficulties emerge we are developing solutions. To date these have mostly been administrative and have not caused significant loss to the business or presented significant risk.</p>
IHT market adoption	 <p>DECREASED</p> <p>Effect: Could lead to under-achievement of revenues and profitability</p>	<p>The Group is growing its IHT business steadily but remains at a relatively early stage of engagement with IHT market participants.</p> <p>The Group depends upon increasing adoption by market participants and increasing orders from them over the medium-term.</p> <p>The Directors have confidence that the developments in our knowhow made to date ensures that the applications for the technology are wide and varied. However, it is possible that IHT market development could be slower than anticipated and the financial results of the Group negatively impacted.</p>	<p>The Group has accelerated its marketing and communications activities to develop existing customers and potential new ones giving rise to a constant increase in the number of IHT customers.</p> <p>This process gradually reduces the risk of a lack of market adoption.</p>

RISK		DESCRIPTION AND POTENTIAL IMPACT	MITIGATION
<p>Receivables & credit risk</p>	<p>Potential to change</p>  <p>UNCHANGED</p> <p>Effect: There could be a loss of profit and cash suffered by the Group by the failure to collect all receivables</p>	<p>The Group extends credit facilities to most of its established customers. There is a risk that some of these receivables due from customers may not be paid.</p> <p>Certain customers, either trading with the Group for the first time or with higher than acceptable risk, are required to trade on a pro-forma basis.</p>	<p>Each customer’s credit worthiness is assessed at the time the debtor initially becomes a customer. Unacceptable credit risk, as indicated by an independent credit risk advisor, is required to trade on a pro-forma basis.</p> <p>Other customers are monitored on a monthly basis to assess any increase in risk and are monitored by reference to established trading patterns, renewed credit risk assessments and by direct dialogue with the customer concerned. These procedures have ensured to date a low incidence of credit loss.</p>

Philip Johnston
Chief Executive Officer
29 July 2022

Corporate and Social Responsibility Report

Trackwise recognises that for it to be sustainable, success cannot be at the expense of the environment, its employees or wider society.

Governance has been the lead focus of the ESG 'trilogy' but with the climate emergency and the major societal upheaval caused by the Covid-19 pandemic, Environmental and Social sustainability actions are rightly being brought to the fore.

Environment/Carbon Footprint Report

Care for the environment is an integral part of the group's business activities.

Trackwise recognises that its operations result in emissions to air and water, the generation of waste and consumption of natural resource and therefore realise the importance of environmental protection. Trackwise has implemented an environmental management system (accredited to ISO14001 since 2001) and is committed to operating its business responsibly and in compliance with all environmental regulations, legislation and approved codes of practice relating to its industry and activities.

As part of the process of continuous improvement of environmental performance, Trackwise has calculated and reports here its greenhouse gas (GHG) emissions.

Methodology

Trackwise has calculated its greenhouse gas (GHG) emissions in accordance with internationally accepted approaches, including the Greenhouse Gas Protocol and ISO14064.

Standard carbon emission factors for particular activities or sources, published annually by the Department of Business, Energy and Industrial Strategy (BEIS) and the Department for Environment, Food and Rural Affairs (DEFRA) have been referred to. For electricity the assessment considers market-based factors (based on emission factors reported by the contracted electricity supplier).

- Scope 1 Emissions occur from sources that are owned or where Trackwise has operational control.
- Scope 2 Includes indirect emissions from consumption of purchased electricity at facilities owned or controlled by Trackwise.
- Scope 3 Emissions include other emissions that occur within Trackwise's value chain. The Greenhouse Gas Protocol identifies 15 different categories of emission in the Scope 3 value chain, both upstream and downstream of the reporting organisation. Not all categories are applicable and relevant to every organisation and therefore Trackwise reports those which are material to operations, including water usage, employee commuting data and waste data.

Data

TRACKWISE

	Source	Total GHG tCO ₂ e	
		2021 Market-based	2020 Market-based
Scope 1	Heating Oil		9
Scope 2	Electricity	223	282
Scope 3			90
	Water Usage		5
	Employee Commuting		57
	Waste		27
Total		346	381
tCO₂e/£m		161	171

The total carbon footprint for 2021, based on the defined scope, was calculated to be 346 tonnes **CO₂e**, with an intensity ratio (emissions per £m turnover) of 161 tCO₂e/£m. Location-based Scope 2 value of 154 tonnes **CO₂e** indicates that there is further potential to reduce the impact of electricity consumption through improved sourcing.

The impact of employee commuting has, Covid working from home notwithstanding, increased due to the recruitment of personnel for Stonehouse.

STEVENAGE

	Source	Total GHG tCO ₂ e		
		2021 Market-based	2021 Location-based	2020 Market-based
Scope 1	Gas		22	17
Scope 2	Electricity	0		717
Scope 3			78	81
	Water Usage		4	8
	Employee Commuting		60	47
	Waste		15	26
Total		100		815
tCO₂e/£m		17		153

The total carbon footprint for 2021, based on the defined scope, was calculated to be 100 tonnes **CO₂e**, with an intensity ratio (emissions per £m turnover) of 70 tCO₂e/£m, a significant reduction in impact of electricity consumption through improved sourcing.

Actions

Over the next year Trackwise will look to take the following actions:

- Continued engagement with staff regarding commuting. Promotion of cycling to work through Cycle scheme. A salary sacrifice scheme has been implemented, enabling tax-efficient purchase of electric vehicles.
- Establish a strategy towards becoming carbon neutral – adopting an approach that invests in third-party projects that capture and or prevent carbon emissions from occurring.

Improved Harness Technology™

Improved Harness Technology™ or IHT has been developed as a replacement for conventional wire harness – with the main benefits or improvements of reduced weight and space.

In any mobile application weight = fuel = cost = carbon

Two out of our three primary target markets - EV and Aerospace - are undergoing fundamental change:

- Automotive: Regulatory change driving EV adoption. The UK has announced the end of the sale of new petrol and diesel cars in the UK by 2030.
- Aerospace: The UK aviation industry has pledged to cut its net carbon emissions to zero by 2050

The weight reduction opportunity offered by IHT is a key enabler for OEMs to realise their ambitions in these rapidly changing markets where carbon reduction is a strategic necessity. We continue to promote the weight and therefore carbon-saving potential of IHT.

Code of business conduct

Trackwise's Code of business conduct sets out the values and standards of behaviour expected from all employees and also deals with how employees and business partners can report any concerns that may arise.

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

The Code promotes corporate social responsibility across the business. It sets out the responsibilities of employees in ensuring that they carry out their business activities in a manner aligned with the Group's values and business principles. All staff are required to ensure that they comply with all relevant laws and regulations. The Code sets out behaviours that are unacceptable and which could bring Trackwise Designs plc's reputation into disrepute. It contains guidance on avoiding conflicts of interest, confidentiality, our approach to gifts and hospitality, bribery and corruption.

Upholding the Code is the responsibility of all Trackwise Designs plc employees. All those working for, or on behalf of, Trackwise Designs plc are required to confirm that they have read and understood the Code of business conduct, and a copy is readily available to all employees.

A confidential reporting line has been set up as part of our Whistleblowing policy via "SeeHearSpeakUP". Employees are able to report any wrongdoing via phone, email, or an online portal, completely confidentially.

Dealings with customers

We work closely with customers and prospects to help us improve the value that we can add to their businesses through our products and services and in the manner that these products and services are delivered.

We are open and honest about our products and services, communicating with customers all appropriate information that they need in order to ensure that we consistently meet their expectations;

We seek regular feedback from our customers as to our performance against their expectations and against the benchmark performance of our competitors, so as to help us to continue to deliver continuous and sustained improvement; We ensure that any issues or problems are dealt with in a timely manner, openly, efficiently and with fairness.

Dealings with suppliers

We recognise that we cannot deliver our products and services without a functioning and sustainable supply chain. We work with our suppliers to improve the value of the products and services that they deliver to us and thereby to improve the value of the products and services that we offer to our customers. We identify and select suppliers to work in partnership with Trackwise using fair and reasonable methods.

We identify and work only with suppliers who operate to ethical business standards. As discussed above in the Environmental section, EV OEMs are bringing much attention to bear in the sourcing process to the subject of Environmental performance, both in-house operations and in our supply chain. We are therefore seeking to engage with, to encourage and where necessary, to educate our suppliers to be ready to support us with the Environmental performance metrics and improvement programmes required by our customers.

Our relationships with our employees

Our success depends on our people. Trackwise recognises the vital role that our employees play, and that effective teamwork is critical for us to achieve our corporate goals.

We ensure that our employment practices are fair and in full compliance with UK employment legislation. We strive to make Trackwise Designs plc a "great place to work" where our actions demonstrate this via values that the team deliver each and every day. These values 'Proactive, Driven, Open-minded, Supportive, Friendly' are available to all on our website <https://www.trackwise.co.uk/about-us/core-vision-mission-and-values/> and are promoted to all staff as part of our

day-to-day management of the business. No new member of staff is recruited without having read our values booklet and agreeing to work in accordance with those values.

We maintain equality of opportunity in all employment practices, policies and procedures regardless of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs. We recognise the importance of a healthy age balance within the business and maintain succession plans for all business units, identifying and investing in future leaders. We continue to invest in apprentices, to provide work experience opportunities for school age and undergraduate learners, and also to participate in government schemes such as Kickstart UK.

We have initiated the Trackwise Employee Forum. Four members of staff have been elected to fulfil the following mandate:

- To give employees a platform to voice their opinions and concerns
- Over-seeing employee governance and development of employee-related policies
- Oversight of the implementation of the TW Organisational Development Plan
- Organising social and staff well-being events

The full circle of feedback is also supported by our annual employee survey which covers all aspects life within the Trackwise group and is presented and discussed at quarterly 'Town Hall' meetings alongside business performance and future plans.

Confidentiality

Our Code of business conduct emphasises the need for confidentiality to be maintained in all of our business activities.

Our policy and practices help to ensure that all staff understand what constitutes confidential information and restricts internal access based on a "need to know basis". Information relating to third parties is not disclosed without the third parties' written consent.

Bribery Act

We implement and enforce effective systems to uphold our zero-tolerance approach to bribery and corruption. To ensure that we only work with third parties whose standards are consistent with our own, all third parties who act on behalf of Trackwise are obliged by written agreement to comply with the standards set out in the Code.

Human rights

Trackwise Designs plc is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards.

Modern slavery

Trackwise has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act 2015.

Trackwise Designs plc has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains.

Health and Safety

Trackwise Designs plc places health and safety at the core of all business activities in order to ensure a safe working environment for everyone involved in the business. As a corner stone of our business operations Health and Safety reporting is a standing item on the local management teams and Board agendas. All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by actively reporting all safety observations and incidents, being involved in safety audits, risk assessments and regular awareness training sessions.



Mark Hodgkins
Chief Financial Officer

Difficult Backdrop to Roll-to-Roll Investment Programme

The financial performance of the business in 2021 was affected by our plans to commence the investment programme to support the establishment of the roll-to-roll volume production facility at Stonehouse Gloucestershire, whilst addressing the uncertainties caused by Covid to the various supply chains we rely on to operate efficiently.

Covid impacted both our businesses in the year with delays to production due to illness, delays to machine repairs because engineers were deterred from attending site, a major supplier delay which added six months to the working capital cycle and many delays to machine deliveries due to delays suffered by our suppliers' suppliers. The progress we report reflects these challenges and we are grateful to our shareholders for their support.

The new year has started with continued difficulties with supply chains and the added uncertainty that the Ukraine War has created.

Financial Position and Performance

During the uncertain times created by the pandemic we have placed even more focus on short-term planning as well as control over costs. Inflation has been evident in the latter part of the year, and this has created additional pressure on machine deliveries and operating margins.

At the end of the year, it was necessary to bolster our cash position due to a sudden and dramatic change in our terms of trade imposed upon us by a key supplier which changed the financing model of IHT roll-to-roll production significantly by lengthening the working capital cycle from an assumed 3 months to an assumed 9 months. The change indicated that to be able to continue production in the second half of 2022 we would need to buy material six months in advance and pay a significant proportion of this with order.

Despite these challenges, we have seen growth in revenues during the year, in particular IHT revenue, which had its best ever year. These were below our original expectations due to the change in timing of the start of the contract for our EV customer's build programme announced in June. We anticipate a further increase in revenues in 2022, notwithstanding the continuance of supply side difficulties.

Year-on-year sales growth, adjusted operating margin and EBITDA

In the year under review these KPIs, measured to last year, are as follows:

	2021	2020
Year on Year Sales Growth	32%	108.8%
Adjusted Operating Margin (note 25)	(7.2%)	(3%)
Adjusted EBITDA (note 25)	£807K	£773K

During the year we began the process of establishing the new 77,000 sq.ft. site at Stonehouse, acquired for £2.8M with the help of a mortgage from HSBC plc of £1.9M. The installation of the production equipment was delayed in the latter part of 2021 due to machine supplier's difficulties in sourcing componentry which included silicon chips.

The programme continues and in the first half of 2022 a significant proportion of the ordered equipment has been delivered and installed.

There remains some equipment that is yet to be completed and delivered and we anticipate being in production by August 2022. In total we have had capital expenditure related to the site bringing it up to standard of £15.4M. There will be further capital expenditure in 2022 before production commences.

At the same time, we have increased our cost base as we have recruited further experienced engineers, both for production and quality, to ensure that we have all the systems in place to begin production once the physical assets have been accepted.

At the end of the year we had net debt excluding IFRS16 lease liabilities of £2.9M though the completion of the equity raise immediately post year end returned us to a net cash position. Our plans will see net debt increase during 2022 as we complete our investment programme. Trading cash inflows are predicted to be strong during 2023 and 2024 and should return our position to net cash by year end 2025.

The acceleration of plans towards production for our UK EV OEM necessitated the increase in associated development costs which have been capitalised and which has led to an increase in intangible assets of £3.8M. This level of development expenditure, whilst large, does support a tax credit in cash of £800K which assists in the funding of this investment. We anticipate that development costs will begin to reduce over the next 12 months as we move to production. Our accumulated development costs are amortised in accordance with our accounting policies (Note 2).

Cash flow

The Impacts of Covid held back some production and led to supply delays both of which impacted adversely on revenues and therefore EBITDA. Despite this, we continued to fund our development programme though the significant change to our terms of trade with a number of important suppliers made dramatic changes to our cash flow in the latter part of the year.

During the latter part of 2021 the Company was adversely impacted by two major events which caused a significant deviation from our planned working capital management. In particular, the delayed start of the EV OEM production contract dealt a significant blow to cash generation anticipated in Q4. The most significant impact was the dramatic change to the working capital cycle caused by the shortage of nickel foil where our terms of trade changed from 60 days post invoice date to 300 days pre invoice date. At the same time both Trackwise Designs and Stevenage Circuits experienced significant changes to suppliers' performance caused by supply chain disruption post the Covid 19 pandemic. This necessitated an equity raise in Q4 2021. Since the year end, we have raised a further £6.5M of asset finance secured against our asset base.

In response to the enforced changes to our working capital needs it was necessary to raise additional equity funds for this unexpected requirement. In December 2021 we raised an additional £5.5M to meet the known revised requirements at that time. We continue to use equity and asset finance to meet our capital expenditure requirements and we are confident that all our needs can be met from these sources of finance.

Working capital management continues to be a top priority for the Company which will only be properly alleviated once the OEM EV production contract begins.

Our bankers, HSBC plc, have been supportive and have provided us with working capital and asset finance facilities which we believe will be sufficient to see us through to the positive cashflows from trading that the production contract with the EV OEM will deliver.

Going Concern Review

The last few years have been subject to several disruptions with increased frequency and severity and many of these have overlapping consequences.

These various disruptions, whether the pandemic, supply chain complications, the global economic climate, resultant delays to machine deliveries, or the demand from our OEM EV customer have created significant pressures for the Group and have contributed to an increased risk environment within which we work. The Directors are keeping a constant review of the Group's trading environment and the impact on the Group's cashflows and forecasts to determine that the going concern assumption for the preparation of these accounts continues to be the correct assumption.

The Directors have prepared a detailed Base Case cash flow forecast using the following major assumptions:

- the Group delivers its EV customer's 2022 orders in full in Q4 2022 and Q1 2023. These volumes are significantly below the guaranteed minimum volumes (GMV) set out in the contract with the OEM EV customer;
- there are no further orders from the OEM EV customer for delivery in 2022, a further order for delivery in Q2 of 2023 is expected in September 2022;

- the volumes for delivery to the OEM EV customer in 2023 are based on the OEM EV customer's indicative forecast, which is significantly below the GMV set out in the contract;
- no further new volume production contracts are secured before August 2023;
- there is a delay of more than twelve months from the date of these accounts in recovering any sums owed under the compensation arrangements for a shortfall of orders compared to the GMV set out in the contract with the OEM EV customer;
- there is an improvement in the operating performance of Stevenage Circuits Limited, the group's other trading subsidiary, compared to the year ended 31 December 2021;
- there is an improvement in the trading terms with the nickel foil supplier, switching from up-front deposits of 25% and 50%, to payment on 30 days following the month of delivery;
- that our machinery suppliers have no further delays over and above those already notified to us and consequently the capital expenditure programme for the Stonehouse facility is completed in 2022;
- that the Group's bankers maintain the invoice discounting facilities that are currently in place;
- further asset-based financing of £4.4M is completed no later than 31 December 2022; and
- a trade finance facility of £1.9M is completed no later than 30 September 2022.

At 31 December 2021 the Group had cash and cash equivalents of £2.9M and in the six months ended 30 June 2022 the Company raised £5.5M from shareholders and secured asset-backed funding totalling £6.5M. At 30 June 2022 cash and cash equivalents were £2.36M net debt was £7.85M, representing gearing of 28.2% of shareholders' funds.

The Group is in active discussions with a number of funders to provide additional asset-based financing of £4.4M which are expected to be in place by 30 September 2022. The Group is also in advanced discussions with its bankers for the provision of a trade facility of £1.9M which is expected to be in place by the end of August 2022. The nickel foil supplier has agreed in principle to the revised terms of trading and the Group is in advanced discussions with them to formalise this as part of a supply agreement.

Whilst the Base Case represents, in our view, the most likely scenario there may be continuing impacts from all of the risks identified above and so consequently there will be risks that trading performance will be below our expectations. Therefore, the Directors have also prepared a severe but plausible downside scenario which assumes the following:

- that the trading terms with the nickel foil supplier require up-front deposits of 25% and 50%;
- that the further asset-based financing of £4.4M is not completed; and
- the trade finance facility of £1.9M is not completed.

In these circumstances the Group would face a funding shortfall of £7.7M. This together with the risk surrounding some of the assumptions within the models indicates that there are circumstances that give rise to a material uncertainty related to going concern. This could be mitigated by actions such as a sale-and-leaseback of the facility at Stonehouse, further asset-backed funding, a sale of Stevenage Circuits Limited or further equity raising.

On the basis of the Base Case assumptions noted above, most notably that the Group can raise the further £6.3m of facilities and that the Group retains the improved trading terms from its nickel foil supplier, the Base Case forecast shows that the Group will be able to continue as a going concern for the next twelve months.

Results and Dividend

Reported Loss after taxation of £1.67M (2020: Profit After Taxation £1.23M) means the Group is reporting a Fully Diluted Earnings loss per Share of 5.78 pence (2020: Diluted Profit per Share of 5.70 pence). The Board has previously set out its dividend policy which has not changed. It is the Board's intention that when commercial conditions allow, a progressive dividend policy will be adopted, consequently there will be no dividend paid for 2021.

Mark Hodgkins
Chief Financial Officer
29 July 2022

Set out below is the Group's report in accordance with s.172 of the Companies Act 2006. The board of directors ("the Board") of Trackwise Designs plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members, as a whole, in decisions taken during the year-ending 31 December 2021.

In doing so the board of directors have regard (amongst other matters) to:

A. The likely consequences of any decision in the long term:

Investing in significant capability and capacity to promote the success of IHT as a product which has benefit for our customers, our suppliers and for the environment.

Focussing on every area of cost to ensure maximum return to our shareholders.

The directors took action at the end of the year to strengthen the finances of the company by the raising of fresh equity to be prepared for the impacts of the supply chain difficulties being faced by business globally and changes to working capital requirements as a consequence a supplier changing its terms of trade dramatically and at short notice.

Referenced in the report – page 28

B. The interests of the Group's employees:

We have introduced enhanced employee responsiveness and commitment to training which benefits the individuals within our team as well as benefitting the overall efficiency of the Group.

Engaging in regular employee surveys to assess employee engagement and well-being.

Referenced in the report – page 24

C. The need to foster the Group's business relationships with suppliers, customers and others:

We promote strong relationships with our customers through an interactive key account programme and focus closely on quality to ensure that the customer has a high regard for the Group.

We manage our supplier base closely to promote levels of business that meet our quality standards and gives the supplier a chance to interact with the Group to be able to expand his business with us if it is mutually suitable.

D. The impact of the Group's operations on the community and the environment:

We have a strong record of managing successfully our waste processes which have been effective and audited for many years.

Our product IHT has the potential to significantly enhance energy conservation and carbon usage by reducing weight and size in a variety of industries.

Our aims for growth are locally focussed and it is our aim to provide well-paid interesting and challenging employment to our local community.

The Group's environmental policies recognise the protection of the environment and natural resources as one of the principal business responsibilities.

We continue to develop our focus and reporting on this aspect of our activities.

Referenced in the report – page 24

E. The desirability of the Group maintaining a reputation for high standards of business conduct:

The Board is committed to complying with all applicable regulations and provides training and monitoring across the Group to all employees to encourage and ensure compliance.

Referenced in the report – page 24

F. The need to act fairly as between members of the Group.

The Group is quoted on the London AIM market and interacts regularly with its members. The Board is committed to enhance that dialogue with a developing programme of investor related communications and events

Mark Hodgkins
Chief Financial Officer
29 July 2022

Corporate Governance Overview

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

The Directors of Trackwise Designs plc (“**Company**”) acknowledge the importance of good corporate governance and the requirement for companies admitted to trading on AIM to apply a recognised corporate governance code and explain compliance with that code.

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

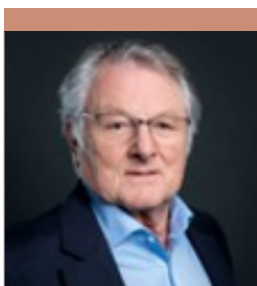
The Board meets at least ten times a year to review, formulate and approve the Company’s strategy, budgets, corporate actions and oversee the Company’s progress towards its goals.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee with formally delegated duties and responsibilities.

From time to time, additional Board Committees may be set up by the Board to consider specific issues when the need arises.

Attendance at meetings during 2021	Meetings attended/eligible to attend				
	Scheduled Board	Ad-hoc Board	Audit Committee	Remuneration Committee	Nomination Committee
I Griffiths	10/10	18/19	3/3	3/3	2/2
P Johnston	10/10	22/22	3/3	2/3	2/2
M Hodgkins	10/10	21/22	3/3	2/3	1/2
S McErlain	10/10	19/19	3/3	3/3	2/2
C Cattaneo	10/10	18/19	3/3	3/3	2/2

BOARD OF DIRECTORS

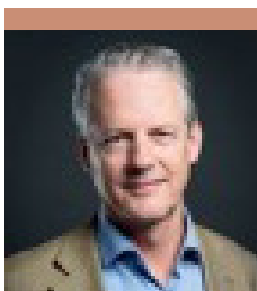


Ian Griffiths

Non-Executive Chair

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

Ian previously served as a Non-Executive Director on the Board of Ultra Electronics Holdings plc, Renold plc and Autins Group plc, also as Chair of Hydro International plc which he joined as Non-Executive Director and Chair-elect.



Philip Johnston

Chief Executive Officer

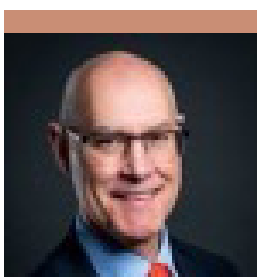
Philip's early career was in the space industry which included a key management role in the Prime Contractor team for Envisat, a large European scientific satellite. Philip joined Trackwise in 1999 and acquired the Company in 2000. Under his stewardship the Company has enjoyed sustained growth based largely through export success and innovation. Philip is named inventor on a number of UK and international patents, including that of Improved Harness Technology™ and he has led several government supported R&D consortiums including a European CleanSky programme. Philip holds degrees in both Aeronautical Engineering and Law.



Mark Hodgkins

Chief Financial Officer & Company Secretary

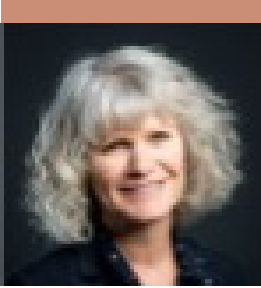
Mark is a qualified Chartered Accountant and a former partner with both Grant Thornton and Ernst & Young. He joined Trackwise in 2016. Mark, as well as a career within the profession, has also been Group Finance Director of a large private company and was responsible for managing a balance sheet of over £120M of gross assets; he has also served as a CEO of engineering businesses and as a partner with a privately held investment business. He brings an increased level of direction to financial planning and financial control as well as strategic input in support of Philip Johnston.



Charles Cattaneo

Non-Executive Director

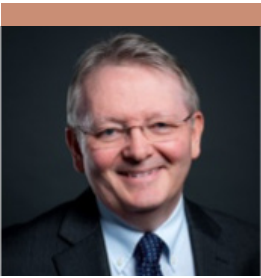
A chartered accountant, Charles has over 30 years' corporate finance experience gained in the investment banking industry and as a corporate finance partner with both KPMG and Grant Thornton. Charles is currently a partner at corporate finance advisory firm Cattaneo, a business he founded in 2005. He has previously held director roles with several AIM companies and is currently Chair of the West Midlands Regional Advisory Group of the London Stock Exchange.



Susan McErlain

Non-Executive Director

Susan has over 30 years' experience in business and corporate communications. She co-founded, financial PR company, Square Mile Communications and ran the business until its sale in 2000. Susan became Chair of Weber Shandwick's financial services division until 2007 after which she continued to provide senior advisory services to listed manufacturing groups. In 2014 she became Director of Corporate Affairs for Ultra Electronics plc until 2019, with responsibilities for investor & stakeholder communications, M&A, and government affairs. Susan is currently NED of AIM listed Dewhurst Group plc, a manufacturer of electrical components & control equipment for commercial & industrial sectors, also NED of AIM listed Brickability Group plc, a building materials company, and has several mentoring roles.



Paul Cook

Chief, Financial Officer & Company Secretary (Designate)

Paul is an experienced finance professional with a track record of success across senior positions at several technology-driven manufacturing businesses selling into international markets, including Access IS, a manufacturer of scanning devices, and Sonatest, a manufacturer of portable non-destructive testing equipment. Paul was also Project Manager for PCB manufacturer, SMS Electronics. Most recently Paul was Chief Operating and Compliance Officer at YFM Equity Partners (YFM), a leading private equity and venture capital investor where he worked for more than eight years. At YFM he played an important role in the strategic development of the company while overseeing the key financial functions and financial reporting of its two listed British Smaller Companies VCTs.

OPERATIONAL MANAGEMENT



Steve Hudson

Chief Operating Officer

Steve has over 20 years' experience in senior leadership roles in both the Automotive and Aerospace sectors.

He started his career at MG Rover and was later responsible for Production and Quality, then moving to Bentley Motors where he became the Programme Director for the Continental series. He then moved to aerospace and was Operations Director for Rolls Royce Defence. After some time with Williams Advanced Engineering, focussing on leading EV battery production set up, he joined Trackwise in 2021.

Board & Committee Independence

The Board consists of three independent non-executive directors (including the Chair) and two executive directors. The Company regards the non-executive directors as “independent non-executive directors” within the meaning of the UK Corporate Governance Code and free from any relationship that could materially interfere with the exercise of their independent judgement, notwithstanding that the non-executive directors each hold a small number of shares in the Company.

The Audit Committee

The Audit Committee comprises three independent non-executive directors. It is chaired by Charles Cattaneo, a chartered accountant, and its other members are Ian Griffiths and Susan McErlain. The Chief Executive Officer and Chief Financial Officer and the Company’s external auditors will be invited to attend meetings of the Audit Committee as appropriate. The Audit Committee is expected to meet formally at least four times a year and otherwise as required.

The Audit Committee has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed and its role includes: monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements); reviewing internal control and risk management systems; reviewing the adequacy and security of the Company’s whistleblowing arrangements, fraud detection procedures and controls for the prevention of bribery; reviewing any changes to accounting policies; reviewing and monitoring the extent of the non-audit services undertaken by external auditors; and advising on the appointment of, and relationship with, the Company’s external auditors.

The Audit Committee has been closely involved in the going concern review and has critically reviewed the assumptions made and the stress tests that have been applied. The Committee has concurred with the decision that the going concern basis is appropriately adopted by the board.

The Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors. It is chaired by Susan McErlain and its other members are Ian Griffiths and Charles Cattaneo. The Chief Financial Officer, Chief Executive Officer, Head of Human Resources, and external advisers will be invited to attend meetings of the Remuneration Committee as appropriate. The Remuneration Committee is expected to meet at least twice each year.

The Remuneration Committee will have responsibility for determining (within the terms of the Company’s and its group’s remuneration policy and in consultation with the Chair of the Board and/or the Chief Executive Officer) the total individual remuneration package for the Company’s Chair, each Executive Director, the Company Secretary and each member of the Senior Management Team (including bonuses, incentive payments and share options or other share awards). The Remuneration Committee shall also: review the appropriateness and relevance of the Company’s and its group’s directors’ and workforce remuneration and related policies; appoint remuneration consultants and commission reports or surveys, where it deems necessary and within agreed financial limits; and review the design of all share incentive plans prior to Board or shareholder approval, and annually determine whether awards are to be made under share incentive plans by the Company or its group.

The remuneration of Non-Executive Directors will be a matter for the Board or the shareholders (within the limits set out in the Articles of Association). No Director or manager will be allowed to partake in any decisions as to their own remuneration.

The Nomination Committee

The Nomination Committee is chaired by Charles Cattaneo and its other members are Ian Griffiths and Susan McErlain. The Chief Executive Officer, Head of Human Resources and others may be invited to attend meetings of the Nomination Committee as appropriate. The Nomination Committee will meet at least twice a year.

The Nomination Committee is responsible, amongst other things, for considering and making recommendations to the Board in respect of appointments to the Board, the Board Committees and the Chairmanship of the Board Committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary or training required, taking into account the skills and expertise that will be needed on the Board in the future and the independence of the Non-Executive Directors, and giving full consideration to succession planning.

The Nomination Committee took a full part in the identification and recruitment of the Chief Financial Officer, Paul Cook who replaces Mark Hodgkins who is stepping down.

Anti-Bribery and Anti-Corruption Policy

The Company has a robust anti-bribery and anti-corruption policy which applies to the Board, all employees of the Company and persons associated with the Company (such as consultants, contractors or agency staff). The Company's anti-bribery and anti-corruption policy requires such persons to observe and uphold a zero-tolerance position on bribery and corruption, as well as providing guidance on how to recognise and deal with bribery and corruption issues and their potential consequences, while preserving acceptable boundaries of corporate hospitality and entertainment.

The Company expects all employees and persons associated with the Company to conduct their day-to-day business activities in a fair, honest and ethical manner; to be aware of, and refer to, this policy in all of their business activities worldwide; and to conduct business on the Company's behalf in compliance with it.

Management at all levels are responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

Share Dealing Policy

The Company has adopted, with effect from admission of its shares to trading on AIM, a share dealing policy regulating trading and confidentiality of inside information for the Directors and other persons discharging managerial responsibilities (and their closely associated persons) which contains provisions appropriate for a company whose shares are admitted to trading on AIM.

The Company will take all reasonable steps to ensure compliance by the Directors and any relevant employees with the terms of that share dealing policy.

In accordance with the Market Abuse Regulation (as applied in the UK), details of inside information released by the Company will be posted under "Regulatory News and Alerts" as soon as possible after release. All Regulatory News and Alerts will remain available on the Company's website for a minimum of five years.

Modern Slavery

The Company has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act 2015.

The Company has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. The Company is implementing a code of conduct for its suppliers and has embedded the required standards of behaviour in its standard terms and conditions of supply and purchase.

Health and Safety

The Company places health and safety at the core of all business activities in order to ensure a safe working environment for everyone involved in the business.

As a cornerstone of its business operations, health and safety reporting is a standing item on Senior Management Team and Board meeting agendas.

All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by:

- behaving in such a way as to avoid incidents and agreeing to adhere to the Company's policies and procedures;
- actively reporting all safety observations and incidents;
- being involved in safety audits and risk assessments; and
- undertaking regular awareness training sessions.

Board Effectiveness Review

The Chair has carried out an annual review of the effectiveness of the Board, the results of which were circulated to the Board and formed the basis of renewed assessment of the impact of the review. Consequently, the Board has decided to take a much more integrated approach to Board effectiveness and will now have an ongoing Board effectiveness and improvement process which will be guided by external consultants with the goal to improve Board performance.

Internal Controls and Financial Management

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

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

- The Board sets Group-wide policies and procedures
 - The Board has approved a number of policies and procedures, which are intended to address key financial, operational, compliance and reputational risks of the Group. They are regularly reviewed both by the Senior Management Team and the Audit Committee to confirm that they are appropriate and effective in managing the risks of the Group.
 - The Group's policies and procedures are brought to the attention of the Group's staff at induction and via the Group's extranet.
- Authorisation limits are in place across the Group
 - The Board has approved and implemented a delegation of authority matrix to ensure transparent delegation of authority to appropriately qualified persons across the Group.
 - Group performance is measured against diligently prepared budgets and variations are reviewed by the Board on a monthly basis.
 - There is appropriate segregation of duties across the Group and limits on an individual's ability to authorise transactions.
- Financial planning and monitoring
 - The Group sets annual budgets which cover operating performance and balance sheet management, including working capital.

Quality and Integrity of Personnel

The Group has high recruitment standards and aims to recruit the highest calibre of employees that it is able to. Employees with integrity and strong workplace ethics are considered essential to the operation of the Group's business.

Identification of business risks

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

Going Concern

The Directors have prepared the financial statements on a going concern basis as explained in note 2.1 to the financial statements. As at 31 December 2021, the Group had cash deposits of £2.9M. In particular, management have carried out an assessment of the economic impact of the supply chain changes post the Covid pandemic as well as the impacts of the Ukraine war that began in February 2022. The auditors have indicated within their audit report that they consider there to be a material uncertainty concerning use of the going concern basis. The outlook for the appropriateness of the Going Concern basis is set out in the Chief Finance Officers review.

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

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

Area of Focus	Conclusion
Revenue recognition	The policies adopted and set out on page 61 are in line with the requirements of IFRS and it was agreed that the Auditors would focus on this area and that the Company adopted the correct policies and procedures to ensure inclusion of the revenues in compliance with those accounting standards.
Capitalisation of development costs	The Committee acknowledged that this is a recurring focus by the Auditors due to its materiality. The accounting policies were reviewed and the Committee was satisfied that the processes and procedures in regard to this capitalisation process remained unaltered from previous years and were appropriate.
Going Concern	<p>The Committee acknowledged that given the impacts of the pandemic and the changes to the working capital cycle that Going Concern would be a focus for the Auditors. The Committee was satisfied that the focus on Going Concern by the executive directors was sufficient and that the review had been thorough in assessing where the threats to the assumption might come from. They noted that in particular management had exercised judgement in assessing</p> <ul style="list-style-type: none"> • The level of revenues from its principal customer • The likely level of compensation from its principal customer under the terms of its supply agreement • Assumptions with regard to credit terms and work in progress capital consumption <p>And had made estimates of various costs as a consequence of those judgements and these were</p> <ul style="list-style-type: none"> • The level of the cost of nickel included in the Company's pricing and costing • The level of non EV OEM revenues • The levels of labour usage to meet the revised production plans
Treatment of Exceptional items	Due to the significant investment in the new site for roll-to-roll production at Stonehouse the Committee recognised that there would be expenditure of an exceptional nature as they represent costs that are non underlying costs related to operational performance of the business are material and an emphasis should be placed upon identifying those costs accurately and in accordance with accounting standards.
Inventory ageing and obsolescence	Whilst the Committee recognised that stock obsolescence was an important aspect to be aware of it was felt that the Company did not have a significant obsolescence given the long shelf-life of the raw materials that the company uses and the lack of stockholding of finished goods. None the less the Committee accepted that a thorough review at this time was no more than would be required on an annual basis on the preparation of the audited financial statements.

Fair, Balanced, Understandable and Comprehensive Reporting

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

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

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the external auditors. In doing this the Committee does not approve any non-audit expenditure.

The Group has a policy that the external auditors will not perform any other work for the Group and thus do not compromise their independence. To ensure compliance with this policy, the Audit Committee reviewed and approved the remuneration received by Mazars LLP for the audit service.

Charles Cattaneo

Audit Committee Chair

29 July 2022

Key Activities for 2021

During 2021 the Remuneration Committee met three times.

The key activities undertaken were:

- Review and update of the Committee's Terms and References
- Appointment of an external adviser to conduct a benchmarking exercise to review executive remuneration and consider structures
- As part of this exercise the Committee worked with the external adviser to consider potential structure for future executive bonus incentive schemes
- Supporting the executives in their review of the Company's remuneration and employment policies for the senior management and employees

At the start of 2021, the Remuneration Committee undertook a benchmarking exercise to review executive remuneration and consider structures of any future bonus incentive plans for the executives. PricewaterhouseCoopers LLP were appointed to work with the Remuneration Committee to provide market guidelines, based on publicly available data for AIM listed companies of a similar size to Trackwise. The finding of this benchmarking showed that the Chief Executive's base pay was below the lower quartile of the companies in the benchmarking exercise, while the base pay of the Chief Financial Officer was between the lower quartile and median. The Remuneration Committee concluded, having taken into account the report as well as the broad roles undertaken by the executive team, that above inflation pay increases were merited so as to bring the individuals more into line with the market.

PWC also reviewed proposed structures for an executive bonus plan which would reward the growth in IHT revenues and the Company's adjusted operating profit, as well as the achievement of certain personal targets. Aligning the interests of shareholders and executive directors would be key in any bonus scheme, which would have a maximum potential bonus payable. Due to the current stage of the Company's development, the Committee did not feel it appropriate to introduce an executive bonus plan for 2021.

Directors' Interests – Remuneration (audited)

Remuneration for executive directors comprises base salary, pension contributions to personal pension plans and benefits in kind. In addition, certain directors are paid a car allowance or receive a contribution to their travel expenses. There is a variable element to remuneration which is designed to promote out-performance and the achievement of the specific measurable goals which are reviewed annually.

The Executive and Non-Executive directors' remuneration for 2021 is set out in the table below:

	Base Salary £	Benefits & Car Allowance £	Pension £	Fixed Pay Total £	Bonus £	Remuneration Total £	Total 2020 £
Executive							
P Johnston	217,000	19,950	21,700	258,650	0	258,650	234,522
M Hodgkins	165,000	16,061	16,500	197,561	0	197,561	180,984
Non-Executive							
I Griffiths	45,000	0	0	45,000	0	45,000	45,000
S McErlain	35,000	0	0	35,000	0	35,000	17,500
C Cattaneo	35,000	0	0	35,000	0	35,000	17,500

Directors' Interests – Interests in share options (audited)

The Company operates a Share Option scheme for all its employees. Since the Company's IPO, there have been two issues of options. Details of the Group's option schemes are set out in note 22 to the financial statements. Details of options held by Directors who were in office at 31 December 2021 are set out below.

No options were exercised during the year (2020: nil).

The market price of the Group's shares at 31 December 2021 was 95 pence. The range of market prices during the year was 345 pence to 80 pence.

	Date of Grant	Number	Exercise Price	Expiry Date
M Hodgkins	15 June 2018	78,690	£0.28	15 June 2028
M Hodgkins	24 June 2020	290,000	£0.875	24 June 2030

Directors' Interests – Interests in shares

During the year M Hodgkins acquired a further 25,922 shares in the Group at an average price of £1.91, I Griffiths acquired a further 25,000 shares in the Group at an average price of £0.80, S McErlain acquired a further 1184 shares at an average price of £0.80 and C Cattaneo acquired a further 2,368 shares at an average price of £0.80.

The interests of directors, who were serving as at 31 December 2021, in the ordinary shares of the Group are set out below:

	Holding Balance at 31 December 2021	Percentage of Share Capital at 31 December 2021	Holding Balance at 31 December 2020	Percentage of Share Capital at 31 December 2020
Executive				
Philip Johnston	4,815,775	16.94%	4,815,775	16.94%
Mark Hodgkins	174,791	0.58%	148,869	0.52%
Non-executive				
Ian Griffiths	39,286	0.13%	14,286	0.05%
Charles Cattaneo	17,368	0.05%	15,000	0.05%
Susan McErlain	8,684	0.03%	7,500	0.03%

Service Contracts

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

The Non-Executive Directors, Ian Griffiths, Susan McErlain and Charles Cattaneo, have a service agreement with a three-month notice period.

Susan McErlain

Remuneration Committee Chair
29 July 2022

Principal Activities

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

The Directors have set out their update on strategy and its development in the Chief Executive's Review and Strategic Report on pages 6 and 7 and that includes a review of the markets that the Group is addressing, as well as the actions being taken to meet the strategic goals of the Group.

The Directors of the Group

Ian Griffiths	Non-Executive Chair
Philip Johnston	Chief Executive Officer
Mark Hodgkins	Chief Financial Officer and Company Secretary
Susan McErlain	Non-Executive Director
Charles Cattaneo	Non-Executive Director

Statement of Directors' Responsibilities

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

The Directors are required to prepare Financial Statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, for the year ended 31 December 2021.

The Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and 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 judgements and estimates that are reasonable and prudent;
- state whether the Financial Statements have been prepared in accordance with IFRS;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

Dividends

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

Research and Development

The Group continues to develop its products to ensure that they remain at the forefront of their existing markets and are tested in new or emerging markets. The detail and cost of those developments are set out in the Chief Executive's Review and Chief Financial Officer's Review.

Director's indemnity

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

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

Donations

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

Independent Auditor

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

Annual General Meeting

The Group's Annual General Meeting will be held at 1 Ashvale, Alexandra Way, Tewkesbury, Gloucestershire GL20 8NB on 22 August at 9.00am.

Matters covered elsewhere

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

By order of the Board

Mark Hodgkins

Company Secretary
29 July 2022

Opinion

We have audited the financial statements of Trackwise Designs Plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise Consolidated Statement of Comprehensive Income and Equity, Consolidated Statement of Financial Position, Parent Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Parent Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent Company financial statements, as applied in accordance with the provisions of the 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 parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.1, page 59, to the financial statements concerning the Group's and the parent Company's ability to continue as a going concern.

The business has faced significant financial challenges during the financial period resulting from delays in the customer production schedule linked to orders from the Group's largest customer, a start up electric vehicle ('EV') company, and from reductions to the credit terms imposed by one of the Group's major suppliers, requiring up front payments of 25% and 50% of the order value with a 6 month lead time.

To assist with the resultant cash shortfall on 16 December 2021 the parent Company announced an equity fundraising and received a cash injection from shareholders of £1.0m in December 2021 followed by a further £5.5M in January 2022 to support the working capital needs of the Group.

In the period following the receipt of the equity issue proceeds the Group has continued to experience significant cash outflows arising from additional capital expenditure at the Stonehouse manufacturing plant, a continuation of supply chain issues due to COVID-19, and further delays in expected order volumes from the Group's largest customer. All of these factors have resulted in pressure on working capital and a significant reduction in the availability of cash funds.

In light of these ongoing pressures as stated in note 2.1 there remains a material uncertainty over the ability of the parent Company and the Group to operate as a going concern in the short term and over the next 12 months.

The parent Company has discussed various refinancing arrangements with lenders and, in addition to the equity funds disclosed above, has secured £6.5M of asset backed financing since 31 December 2021, as disclosed in note 26, and is in the process of seeking further funding facilities to support the working capital and financing needs over the next 12 months.

Management's evaluation of cashflows and going concern is disclosed on page 59 of the financial statements. The disclosures set out the key assumptions in respect of both the Base Case and severe but plausible downside forecasts. There is inherent judgement around the ability to forecast future trading cashflows in a business such as Trackwise Designs plc given its limited trading history and the nature of its reliance on the one large EV customer. The forecast production volumes have been reduced in line with the latest communicated sales volumes which are significantly lower than those agreed at the outset of the contracted arrangement. The Base Case is sensitive to the timing of receipt of future sales orders from this large EV customer. There is a six month lead time, with the next order expected in September 2022.

The sales agreed at the outset of the contract were supported by contractual guaranteed minimum volumes ('GMV') and as such payments are due to compensate for these missed volumes. The timing of the compensation payments have yet to be formally agreed and as a result the model excludes the receipt of the GMV compensation within the going concern period. The base case assumes that the major supplier terms revert to 30 day credit terms and whilst, as at the date of approval of the financial statements, a formal agreement has not been signed, a letter of intent has been provided by the supplier. The base model also assumes that £6.3M of the additional funding currently being sought is secured before 31 December 2022.

The severe but plausible downside scenario, in addition to the reduced sales volumes already included within the base case the model also assumes that the major supplier's terms require up-front payment of 25% and 50% of the order value with a 6 month lead time, that the additional financing currently being negotiated is not received and that the compensation payments expected from the main EV customer are not received within the going concern assessment period. In this downside scenario should all of the above factors combine the Group would be facing a cash shortfall of £7.7M for which additional funds would need to be secured. Possible mitigating actions open to management include the sale and leaseback of the Stonehouse facility, continued efforts in securing asset backed financing, reductions in headcount and shift patterns (matched to order volumes) and finally further support from investors.

As stated in note 2.1, page 59, these events or conditions, along with the other matters as set forth in this note to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The financial statements do not include the adjustments that would result if the Group and the parent Company were unable to continue as a going concern.

Our evaluation of the Directors' assessment of the Group's and the parent Company's ability to continue to adopt the going concern basis of accounting included, but was not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern;
- Evaluating the Directors' method to assess the Group's and the parent Company's ability to continue as a going concern;
- Reviewing the Directors' going concern assessment, which incorporates severe but plausible downside scenarios;
- Evaluating the key assumptions used and judgements applied by the Directors in forming the going concern models together with their resultant conclusions on going concern;
- Reviewing severe but plausible downside scenarios prepared by the Directors together with mitigating actions that could be implemented should any such scenarios crystallise.
- Discussions with management over supply chain issues and the impact this has had on the business and the forecasting assumptions thereon within the going concern evaluation;
- Discussions with management over the delay to the anticipated sales to the largest customer that were forecast for early 2022 and how this has impacted the business and working capital forecasts.

- Understanding the likely outcome and timing of the compensation claims against the largest customer in respect of guaranteed minimum volume agreements.
- Reviewing the previous forecasts and budgets against actual results to complete a retrospective review on the accuracy of the Group's and parent Company's forecasts.
- Understanding the asset financing options which had not been secured before signing of the financial statements and assessed the likelihood of the group being able to raise the necessary funding.
- Reviewing the appropriateness of the Directors disclosures in the Annual Report and Financial Statements;

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

Key audit matters

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

The matters set out below are in addition to going concern which, as set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

Key Audit Matter

How our scope addressed this matter

Revenue Recognition

The Group's accounting policy for revenue recognition is set out in the accounting policy note 2.2 on "Revenue" on page 53.

Revenue is a material balance for the Group and represents the largest balance on the Consolidated Statement of Comprehensive Income. An error in this balance could significantly affect users' interpretation of the financial statements.

Due to the potential to inappropriately record revenue in the incorrect period, we consider cut-off to be a key audit matter.

Our procedures performed over Revenue Recognition included, but were not limited to:

- Review and walkthrough of the systems and controls in place surrounding Revenue Recognition, in particular, cut-off;
- Testing a sample of revenue transactions around the year end to ensure they were accounted for in the appropriate period; and
- Reviewing post year end credit notes that may reverse revenue previously reported during the year;
- Reviewing the accounting policy for the Group and assessing whether this is consistently applied.

Our observations

No material misstatements were identified in cut-off as a result of the audit procedures performed.

Capitalisation of research and development expenditure

The Group and Company has a significant intangible asset arising from the capitalisation of expenditure in respect of the development of its Improved Harness Technology ("IHT") product. The carrying value at 31 December 2021 was £9.7m

Management exercise significant judgement when assessing the apportionment of costs to the development of the IHT product, and the expected future economic benefits through sale of the product. An error in the carrying value due to applying inappropriate judgement has the potential to have a material impact on the financial statements.

Therefore capitalisation of such development costs is considered to be a key audit matter.

Our procedures performed over capitalisation of research and development expenditure included, but were not limited to:

- Testing a sample of additions to ensure they meet the recognition criteria of IAS 38. This included reviewing and challenging the apportionment of overhead costs;
- Reviewing the level of sales in the period relating to the capitalised asset and the forecasted IHT revenue and cashflows to help assess the technical and commercial feasibility of the product and the overall recoverability of the intangible asset.

Our observations

No material misstatements in capitalised costs or the recoverability thereof were identified as a result of the audit procedures performed.

Our application of materiality and an overview of the scope of our audit

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

Group materiality

Overall materiality	£135,375
How we determined it	1.7% of Revenue
Rationale for benchmark applied	Revenue has been identified as the most relevant measure of the underlying performance of the Group and Company and is considered to be the focus of the shareholders and therefore has been selected as the materiality benchmark. Trackwise is historically loss making and the loss can vary significantly year on year therefore loss before tax did not seem a reasonable benchmark to use.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £101,531, which represents 75% of overall materiality.
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £4,061 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Parent Company materiality

Overall materiality	£36,534
How we determined it	1.7% of Revenue
Rationale for benchmark applied	Revenue has been identified as the most relevant measure of the underlying performance of the Group and Company and is considered to be the focus of the shareholders and therefore has been selected as the materiality benchmark. Trackwise is historically loss making and the loss can vary significantly year on year therefore loss before tax did not seem a reasonable benchmark to use.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £28,497, which represents 78% of overall materiality.
Reporting threshold	We agreed with the Directors that we would report to them misstatements identified during our audit above £1,096 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Group and the parent Company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our Group audit scope included an audit of the Group and the parent Company financial statements. Based on our risk assessment, all components of the Group, including the parent Company, were subject to full scope audit performed by the Group audit team.

At the parent Company level, the Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The other information comprises the information included in the annual report 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.

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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the Directors' report for the financial year to 31 December 2021 which are included in the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and the parent Company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation and anti-money laundering regulation.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the Group and the parent Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Group and the parent Company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to capitalisation of research and development expenditure, revenue recognition (which we pinpointed to the cut off assertion) and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

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

Use of the audit report

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

Jennifer Birch (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Two Chamberlain Square
Birmingham
B3 3AX
29 July 2022

Consolidated Statement of Comprehensive Income and Equity

For the year ended 31 December 2021

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	Notes	2021 £'000	2020 £'000
Revenue	3	8,011	6,068
Cost of sales		(5,699)	(4,350)
Gross profit		2,312	1,718
Other operating income	4	57	
<i>Administrative expenses excluding exceptional costs and share based payment</i>		(2,953)	(1,903)
<i>Exceptional costs</i>	4	(941)	(128)
Share based payment charge		(153)	(228)
Total administrative expenses		(4,047)	(2,259)
Operating loss	4	(1,678)	(541)
Negative goodwill arising on acquisition	23	–	1,642
Acquisition expenses	23	–	(226)
Exceptional integration costs		–	(278)
Finance income	6	3	4
Finance costs	6	(301)	(195)
(Loss)/Profit before taxation		(1,976)	406
Taxation	7	324	828
(Loss)/Profit and total comprehensive (expense)/income for the year		(1,652)	1,234
(Loss)/Earnings per share (pence) attributable to the owners of the parent during the year			
Basic	8	(5.78)	5.96
Diluted	8	(5.78)	5.70

The notes on pages 59 to 82 form part of these financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
ASSETS			
Non-current assets			
Intangible assets	9	9,932	6,482
Property, plant and equipment	10	13,131	8,175
		23,063	14,657
Current assets			
Inventories	12	2,022	2,010
Trade and other receivables	13	7,795	1,752
Current tax receivable		858	804
Cash and cash equivalents		2,897	13,930
		13,572	18,496
Total assets		36,635	33,153
LIABILITIES			
Current liabilities			
Trade and other payables	14	(3,015)	(1,956)
Borrowings	15	(1,850)	(1,055)
		(4,865)	(3,011)
Non-current liabilities			
Deferred income - grants	14	(1,067)	(910)
Borrowings	15	(5,514)	(4,078)
Deferred tax liabilities	17	(623)	(206)
Provisions	14	(115)	(79)
		(7,319)	(5,273)
Total liabilities		(12,184)	(8,284)
Net assets		24,451	24,869
EQUITY			
Share capital	19	1,207	1,137
Share premium account		22,000	20,989
Retained earnings		1,155	2,615
Revaluation reserve		89	128
Total equity		24,451	24,869

The financial statements on pages 53 to 58 were approved and authorised for issue by the Board and were signed on its behalf by:

Phillip Johnston

Director

29 July 2022

Trackwise Designs plc

Registered in England and Wales, Registration no: 3959572

Parent Company Statement of Financial Position

For the year ended 31 December 2021

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	Notes	2021 £'000	2020 £'000
ASSETS			
Non-current assets			
Intangible assets	9	9,871	6,467
Property, plant and equipment	10	8,312	3,471
Investments	11	2,172	2,172
Trade and other receivables	13	2,589	–
		22,944	12,110
Current assets			
Inventories	12	445	593
Trade and other receivables	13	6,610	2,727
Current tax receivable		641	530
Cash and cash equivalents		2,848	13,382
		10,544	17,232
Total assets		33,488	29,342
LIABILITIES			
Current liabilities			
Trade and other payables	14	(1,713)	(631)
Borrowings	15	(1,257)	(677)
		(2,970)	(1,308)
Non-current liabilities			
Deferred income - grants	14	(1,067)	(910)
Borrowings	15	(3,080)	(1,673)
Deferred tax liabilities	17	(958)	(206)
Provisions	14	(36)	–
		(5,141)	(2,789)
Total liabilities		(8,111)	(4,097)
Net assets		25,377	25,245
EQUITY			
Share capital	19	1,207	1,137
Share premium account		22,000	20,989
Retained earnings		2,081	2,991
Revaluation reserve		89	128
Total equity		25,377	25,245

The Company has elected to take the exemption under section 408 of the Companies Act not to present the parent Company profit and loss account. The loss for the parent Company for the year was £1,102,000 (2020: profit of £1,610,000 including dividends receivable of £2,000,000 from the subsidiary).

The financial statements on pages 53 to 58 were approved and authorised for issue by the Board and were signed on its behalf by:

Phillip Johnston

Director

29 July 2022

Trackwise Designs plc

Registered in England and Wales, Registration no: 3959572

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Revaluation reserve £'000	Total equity £'000
At 1 January 2020	591	4,234	1,045	167	6,037
Profit and total comprehensive income for the year	–	–	1,234	–	1,234
Share based payment (note 21)	–	–	263	–	263
Revaluation realised in the year	–	–	39	(39)	–
Prior year tax adjustment	–	–	34	–	34
Shares issued in the year net of £1,191,000 of issue expenses (note 19)	546	16,755	–	–	17,301
At 31 December 2020	1,137	20,989	2,615	128	24,869
Loss and total comprehensive expense for the year	–	–	(1,652)	–	(1,652)
Share based payment (note 21)	–	–	153	–	153
Revaluation realised in the year	–	–	39	(39)	–
Shares issued in the year net of £149,000 of issue expenses (note 19)	70	1,011	–	–	1,081
At 31 December 2021	1,207	22,000	1,155	89	24,451

Parent Company Statement of Changes in Equity

For the year ended 31 December 2021

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	Share capital £'000	Share premium account £'000	Retained earnings £'000	Revaluation reserve £'000	Total equity £'000
At 1 January 2020	591	4,234	1,045	167	6,037
Profit and total comprehensive income for the year	–	–	1,610	–	1,610
Share based payment (note 21)	–	–	263	–	263
Revaluation realised in the year	–	–	39	(39)	–
Prior year tax adjustment	–	–	34	–	34
Shares issued in the year net of £1,191,000 of issue expenses (note 19)	546	16,755	–	–	17,301
At 31 December 2020	1,137	20,989	2,991	128	25,245
Loss and total comprehensive expense for the year	–	–	(1,102)	–	(1,102)
Share based payment (note 21)	–	–	153	–	153
Revaluation realised in the year	–	–	39	(39)	–
Shares issued in the year net of £149,000 of issue expenses (note 19)	70	1,011	–	–	1,081
At 31 December 2021	1,207	22,000	2,081	89	25,377

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flow from operating activities			
(Loss)/Profit for the year before taxation		(1,976)	406
<i>Adjustment for:</i>			
Negative goodwill credit		–	(1,642)
Employee share based payment charge		153	263
Depreciation of property, plant & equipment	4	965	693
Amortisation of intangible assets	9	426	265
Net finance costs	6	298	191
<i>Changes in working capital:</i>			
(Increase) in inventories	11	(12)	(584)
(Increase) in trade and other receivables		(375)	374
Increase in trade and other payables		1,003	(362)
Cash generated/(used in) from operations		482	(396)
Income tax received		687	669
Cash from operating activities		1,169	273
Cash flow from investing activities			
Purchase of property, plant and equipment		(10,649)	(911)
Purchase of intangible assets	9	(3,553)	(2,246)
Purchase of new subsidiary (net of cash acquired)	23	–	(1,628)
Grant received		214	109
Interest received		3	4
Cash used in investing activities		(13,985)	(4,672)
Cash flow from financing activities			
Share capital issued		1,230	18,492
Expenses relating to share capital issue		(149)	(1,191)
Interest paid		(301)	(195)
Lease payments	15	(187)	(87)
Bank loan advanced		1,960	–
Loan repayments		(23)	–
Cash inflow from invoice discounting and other short-term financing	15	184	–
Repayment of short-term financing		(128)	–
Advance of hire purchase finance against assets already purchased		–	1,139
Repayment of capital element of hire purchase contracts	15	(801)	(396)
Cash from financing activities		1,785	17,762
(Decrease)/Increase in cash and cash equivalents		(11,033)	13,363
Cash and cash equivalents at beginning of the year		13,930	567
Cash and cash equivalents at end of year (all cash balances)		2,897	13,930

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

1 Corporate information

Trackwise Designs Plc ("the Company") is a Public Company limited by shares incorporated in the United Kingdom. The registered address of the Company is 1 Ashvale, Alexandra Way, Ashchurch, Tewkesbury, Gloucestershire, GL20 8NB. The Companies ordinary shares are publicly traded on AIM and the Group is not under the control of any single shareholder.

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

2 Accounting policies

2.1 Basis of preparation

Statement of compliance

These Financial Statements have been prepared in accordance with international accounting standards ("IFRS") in conformity with the requirements of the Companies Act 2006. No new policies have been adopted in the year. These policies have been applied consistently to all periods presented, unless otherwise stated.

The parent company financial statements have been prepared under applicable United Kingdom Accounting Standards (FRS101) in order to apply International Accounting Standards in conformity with the requirements of the Companies Act 2006. The following FRS 101 disclosure exemptions have been taken in respect of the parent company only information:

- IAS 7 Statement of cash flows;
- IFRS 7 Financial instruments disclosures;
- IAS 24 Key management remuneration.

As permitted by Section 408(3) of CA2006 no profit and loss account has been presented for the Company.

Basis of measurement

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

Going concern

The Directors have considered the principal risks and uncertainties facing the business, together with the Group's objectives, policies and processes for managing its exposure to financial risk. In making this assessment the Directors have prepared cash flows for the foreseeable future, being a period of at least 12 months from the expected date of approval of the financial statements. These forecasts show that the Company and Group should be able to manage their working capital and existing resources to enable it to meet their liabilities as they fall due. These forecasts have considered the risks that the Company faces, notably:

- the Group delivers its EV customer's 2022 orders in full in Q4 2022 and Q1 2023. These volumes are significantly below the guaranteed minimum volumes (GMV) set out in the contract with the OEM EV customer;
- there are no further orders from the OEM EV customer for delivery in 2022, a further order for delivery in Q2 of 2023 is expected in September 2022;
- the volumes for delivery to the OEM EV customer in 2023 are based on the OEM EV customer's indicative forecast, which is significantly below the GMV set out in the contract;
- no further new volume production contracts are secured before August 2023;
- there is a delay of more than twelve months from the date of these accounts in recovering any sums owed under the compensation arrangements for a shortfall of orders compared to the GMV set out in the contract with the OEM EV customer;
- there is an improvement in the operating performance of Stevenage Circuits Limited, the Group's other trading subsidiary, compared to the year ended 31 December 2021;
- there is an improvement in the trading terms with the nickel foil supplier, switching from up-front deposits of 25% and 50%, to payment on 30 days following the month of delivery;
- that our machinery suppliers have no further delays over and above those already notified to us and consequently the capital expenditure programme for the Stonehouse facility is completed in 2022;
- that the Group's bankers maintain the invoice discounting facilities that are currently in place;
- further asset-based financing of £4.4M is completed no later than 31 December 2022; and
- a trade finance facility of £1.9M is completed no later than 30 September 2022.

Further narrative in respect to the going concern evaluation performed by management is disclosed within the Strategic report on page 7.

The risk surrounding some of the assumptions within the models indicates that there are circumstances that give rise to a material uncertainty related to going concern, however the directors remain confident that the group remains a going concern and as such have prepared the Financial Statements on a going concern basis.

Consolidation

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets (both tangible and intangible), liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Functional and presentational currency

These financial statements are presented in Pound Sterling ("Sterling"), the functional and presentational currency, rounded to the nearest thousand pounds.

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgement: In assessing whether a cost or revenue is exceptional, the Directors exercise their judgement based upon the quantum and the nature of the cost or revenue that is being considered. In making that assessment, the Directors also identify those costs which are none underlying costs and which represent non-trading expenditure. The Directors consider that costs incurred on a one-off basis that are necessary to bring an operating facility to a state that renders it capable of producing product, to be a non-trading expense and does not represent an underlying cost of trading. (Note: 4).

The Directors exercise their judgement in assessing whether to or not recognise any deferred tax asset. At 31 December 2021, that judgement was that there is an unrecognised deferred tax asset in respect of losses carried forward of approximately £465,000 (2020: £460,000).

Fair values

Estimate: Business combinations require the evaluation of fair values in respect of the assets and liabilities acquired. The most significant valuation applied related to plant acquired which was valued based on management's experience of similar plant, the value of used plant and a reassessment of useful lives to derive a depreciated replacement cost. (Note: 23)

Fixed Asset Lives

Estimate: Management have estimated the useful life of tangible and intangible fixed assets at 31 December 2021 based upon the period that the assets are able to and expected to generate revenue. These estimates are reviewed annually for continued appropriateness and events which may cause the estimate to be revised. (Note 2.7).

Deferred Tax Asset Recognition

Judgement: Whilst deferred tax assets are offset against deferred tax liabilities were applicable for timing differences reversing in the same tax jurisdiction, the recognition of any separate deferred tax is subject to judgement over the reversal. They are only recognised when they are sufficiently probable based on future forecasts.

Share Based Payments

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

Right of use assets

Judgement: The application of IFRS16 Involves a degree of judgement in respect of the applicable discount rate and in respect of any lease options or variable payments. The discount rate is reviewed in conjunction with the rates on similar borrowings and lease extension periods by reference to business plans and the most likely outcome (Note 2.17).

Intangible assets

Judgement: Management have used their judgement in respect of the capitalisation of development costs amounting to £9,674,000 at 31 December 2021. The viability of the new technology and know-how supported by the results of testing and customer trials and by forecasts for the overall value and timing of sales supports the approach taken. (Note 9)

Estimate: Management estimate the appropriate amortisation period and method of amortisation for each category of assets and set a finite useful life. This is reviewed at least each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly. The expenses and costs that are capitalised in accordance with this policy, represent know how, learned and techniques that are developed all of which are relevant to the manufacture of IHT irrespective of use.

Investments

Estimate: Investments held by the Company are subject to reviews for impairment. Any consequential impairment tests for investments are based on risk adjusted future cash flows discounted using appropriate discount rates which are based on forecasts and are inherently judgemental. (Note: 23)

2.2 Revenue

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

- I. The Group has received and accepted the purchase order from the customer.
- II. Sales prices are based on quotes for each customer's unique product and include transport which is insignificant in the context of the sale price. The sales price is determined after submission of a quote to each customer for their unique product and which has been agreed with them and includes transport which is also agreed with the customer.
- III. All performance obligations are met which is at a point in time when the goods have been despatched to the customer

2.2.2 Deferred revenue

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

2.3 Grants

Income based grants

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

- A grant is recognised in other operating income when the grant proceeds are received (or receivable) provided that the terms of the grant do not impose future performance-related conditions.
- If the terms of a grant do impose performance-related conditions, then the grant is only recognised in income when the performance-related conditions are met.
- Any grants that are received before the revenue recognition criteria are met are recognised in the Statement of Financial Position as another creditor within liabilities.

Capital grants

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

2.4 Share based payment

Where equity settled share options have been issued to employees, the fair value of options at the date of grant is charged to the income statement over the period that the options are expected to vest. The number of ordinary shares expected to vest at each balance sheet date is adjusted to reflect non-market vesting conditions such that the total charge recognised over the vesting period reflects the number of options that ultimately vest.

Market vesting conditions are reflected within the fair value of the options granted. If the terms and conditions attaching to options are amended before the options vest any change in the fair value of the options is charged to the income statement over the remaining period to the vesting date.

2.5 Income tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. To the extent that there is any residual asset or liability due to the lack of taxable profits charge then the treatment of that asset or liability is to leave it as unrecognised within the accounts.

2.6 Goodwill

Goodwill arising on acquisitions is the excess of the fair value of the cost of acquisition, over the fair value of identifiable net assets acquired. Any direct costs are expensed in the income statement. Goodwill on acquisition is recorded as an intangible fixed asset and represents the residual amount remaining after taking account of the fair values attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to align the accounting policies of acquired businesses with those of the Group.

Goodwill is assigned an indefinite useful economic life. Impairment reviews are performed annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the goodwill calculation results in a negative amount (bargain purchase) this amount is taken to the income statement in the period in which it is derived.

2.7 Research and development cost

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

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

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

The costs capitalised in relation to IHT are treated as one category, as the accumulation of further knowledge and know-how in the production of IHT is sector-agnostic and applies to all applications. Automotive (EV) products may come to production first, with medical and aerospace later but the body of knowledge being built is a body of knowledge that has long term use in a business with long term horizons.

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

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

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

The amortisation period and the amortisation method for the assets with a finite useful life is reviewed at least each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly. The expenses and costs that are capitalised in accordance with this policy represent know how learned and techniques developed that are all relevant to the manufacture of IHT irrespective of use.

2.8 Patent costs

Patent cost assets are initially measured at cost. After initial recognition, they are recognised at cost less any accumulated amortisation and any accumulated impairment losses. The costs are amortised in the Statement of Comprehensive Income over the 15-year life of the patent.

2.9 Software

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

2.10 Property plant and equipment

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

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

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

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

Freehold property	2% straight line
Leasehold improvements	Straight line over the period of the lease
Plant and machinery	8-33% straight line

Freehold property is only depreciated once it is fit for production and assets under construction are also not depreciated until they are fully installed and available for productive use.

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

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

2.11 Accounting treatment of leases

Assets and liabilities arising from a lease are initially measured at the present value of the lease payments and payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Lease payments are allocated between principal, presented as a separate category within borrowings, and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs and are presented as a separate category within tangible fixed assets.

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

Short term and low value leases

Payments associated with short-term leases of property, plant and equipment and leases of low-value assets are recognised on a straight-line basis as an expense. Short-term leases are leases with a lease term of 12 months or less. Associated costs of all leases, such as maintenance, service charges and insurance, are expensed as incurred.

2.12 Hire purchase obligations

The Group utilises hire purchase asset backed finance to fund tangible fixed assets, drawing down finance against individual assets or bundles of assets, which may directly finance the asset purchase or be drawn down retrospectively. The economic ownership of assets subject to hire purchase agreements are transferred to the Group if the Group bears substantially all the risks and rewards of ownership of the asset.

The related asset is recognised and measured in accordance with the tangible fixed asset policy with initial cost being the fair value of the asset. A corresponding hire purchase liability is recognised in respect of the capital repayments to be made. This liability is reduced by payments net of finance charges. The interest element of lease payments represents a constant periodic rate of interest on the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

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

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

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset or cash-generating unit is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is measured as the higher of fair value less cost of disposal and value in use. The value in use is calculated as being net projected cash flows based on financial forecasts discounted back to present value.

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

2.14 Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for any impairment.

2.15 Inventories

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

2.16 Financial instruments

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

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

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

Financial assets

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

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

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

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

Impairment provisions for receivables from other group companies are recognised based on a forward-looking expected credit loss model taking account of the expected manner of recovery including assessment of future cashflows. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve-month expected credit losses are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses are recognised based on the probability of projected outcomes.

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

Financial liabilities

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

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

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

After initial recognition, financial liabilities, other than derivatives, are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial. Derivatives are measured at fair value through profit and loss for any movements.

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

2.17 Exceptional Items

The Group exercises judgement in assessing whether certain items should be classified as exceptional. This assessment covers the nature of the item, cause of occurrence and scale of impact of that item on the reported performance.

For an item to be considered as an allowable adjustment to IFRS measures, it must initially meet at least one of the following criteria:

- It is a significant item, which may cross one or more accounting period.
- It has been directly incurred as a result of either an acquisition, divestiture, or arises from the termination of benefits without condition of continuing employment related to a major business change or restructuring programme.
- It is unusual in nature, e.g., outside the normal course of business or considered to be non-underlying. Non-underlying items are defined as those that by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group.

If an item meets at least one of the criteria, the Board, through the Audit and Risk Committee, then exercises judgment as to whether the items should be classified as an allowable adjustment to IFRS performance measures.

The separate items are disclosed separately to provide further understanding of the financial performance of the group

2.18 Cash and cash equivalents

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

2.19 Foreign currencies

Transactions entered into by the Group in a currency other than the functional currency of sterling are recorded at the rates ruling when the transactions occur.

The Group does not apply hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures

of forecast transactions denominated in foreign currencies. The Group utilises forward exchange contracts to mitigate the risk of adverse exchange rate movements on foreign currency denominated revenue. These derivatives are measured at the fair market value, at the reporting date, with the fair value gain or loss movements arising being recognised within administrative expenses in the Statement of Comprehensive Income. At 31 December 2021 and 2020 the Company did not hold any foreign exchange derivatives.

2.20 Equity and reserves

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

Retained earnings include all current and prior period retained profits.

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

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

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

3 Segmental reporting

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

The Group's Advanced PCB ('APCB') and IHT activities for the sale of printed circuit boards are separately reviewed and monitored at a revenue level. Revenue of £6,531,000 (2020: £5,467,000) arose from APCB and £1,480,000 (2020: £601,000) from IHT in the year ended 31 December 2021. The revenue segments are monitored by the chief operating decision maker and strategic decisions are made on the basis of forecast adjusted segment revenue results. All assets, liabilities and revenues are located in, or derived from, the United Kingdom. The material assets and liabilities relate to overall activity with the exception of the intangible development costs and deferred grants which are solely in respect of IHT.

In 2021 the Group had one customer representing 12.7% of revenue, a UK based customer of our APCB division, and one customer representing 9.5% of revenue, a UK based customer of our IHT division. (2020: three customers with similar revenue levels together representing 29% of revenue).

Turnover by geographical destination

	2021 £'000	2020 £'000
UK	6,065	3,693
Europe	1,309	1,688
Rest of the world	637	687
	8,011	6,068

Operating loss by geographical destination

	2021 £'000	2020 £'000
UK	(1,266)	(329)
Europe	(277)	(150)
Rest of the world	(135)	(62)
	(1,678)	(541)

4 Operating loss

	2021	2020
	£'000	£'000
Operating loss is stated after charging/(crediting):		
Government job retention scheme income	–	(16)
Amortisation of deferred grant income	(57)	(53)
Amortisation of intangible assets	426	265
Depreciation of property, plant and equipment (net of £323,000 of capitalised development costs, 2020: £220,000)	666	446
Depreciation of right of use assets	299	247
Cost of inventory sold	–	1,907
Foreign exchange (losses)/gains	53	(27)
Non-recurring set up costs for new product	–	128
Share based payment charges	153	229
Staff payroll costs (net of capitalised development costs)	4,227	2,515
Exceptional costs:		
New facility set-up costs		–
Property costs	86	–
Labour costs	676	–
Professional fees	61	–
Utilities	44	–
Overheads	74	–
Sub Total	941	–
Non recurring set up costs for new product	–	128

The Auditors remuneration for audit services was £30K for the Company and £30K for subsidiary undertakings (2020: £35K for the Company and £25K for subsidiary undertakings) and £Nil for non-audit services (2020: £Nil).

The exceptional facility costs relate to the new freehold manufacturing site and the preparation and set up costs to make this ready for production. The costs incurred relate to labour costs that have arisen through employing engineers who were not engaged on company production for customers and were used for the refurbishment and the reinstalling of essential services and infrastructure. The property costs relate to local taxes and costs relating to the property during refurbishment and therefore not trading expenses. Likewise, the utilities incurred were consumed to support the refurbishment and finally associated overheads and professional fees incurred during the process.

5 Staff and key management personnel

	Group 2021 Number	Company 2021 Number	Group 2020 Number	Company 2020 Number
Average monthly number of employees				
Management and administration	39	21	28	15
Production	93	45	68	37
	132	66	96	52
Payroll costs	£'000	£'000	£'000	£'000
Gross salaries	4,746	2,795	3,303	2,095
Social security costs	464	299	332	222
Share based payment	153	153	272	272
Other pension contributions	171	112	120	85
	5,534	3,359	4,027	2,674

The Directors' and key management remuneration was as follows:

Year ended 31 December 2021	Salary £'000	Benefits £'000	Pension £'000	Total £'000
P Johnston	217	20	22	259
M Hodgkins	165	16	17	198
I Griffiths	45	0	0	45
S McErlain	35	0	0	35
C Cattaneo	35	0	0	35
	497	36	39	572
Year ended 31 December 2020	Salary £'000	Benefits £'000	Pension £'000	Total £'000
P Johnston	205	23	7	235
M Hodgkins	165	16	–	181
I Griffiths	45	–	–	45
L Jackson	19	–	–	19
S McErlain	18	–	–	18
C Cattaneo	18	–	–	18
	470	39	7	516

6 Finance income and expense

	2021 £'000	2020 £'000
Finance income		
Interest receivable and similar income	3	4
Finance expense		
Interest payable on loans and overdrafts	36	3
Interest payable on hire purchase obligations	119	63
Interest payable in respect of lease liabilities	146	129
	301	195

7 Income tax

	2021 £'000	2020 £'000
<i>Current tax:</i>		
UK corporation tax	769	547
Adjustment for prior periods	(29)	86
Total current tax credit	740	633
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(252)	297
Change in rate from 19 to 25% (2020: 19 to 17%)	(168)	(53)
Adjustment for prior periods	4	(49)
Total deferred tax expense	(416)	195
Total tax credit	324	828

The tax rate used for the reconciliation is the corporate tax rate of 19% (2020: 19%) payable by corporate entities in the UK on taxable profits under UK tax law. The Finance Act 2016 included legislation to reduce the main rate of corporation tax from 19% to 17% from 1 April 2020. A change to the main rate of corporation tax announced in the 2020 Budget was substantively enacted on 17 March 2020. The rate from 1 April 2020 remained at 19% rather than the previously enacted reduction to 17%. In May 2021 a change in the rate of corporation tax to 25% from April 2023 was substantively enacted.

The tax rate used to calculate deferred tax is the enacted rate of 25% (2020: 19%), being the rate at which the timing differences are expected to unwind based on currently enacted UK corporate tax legislation.

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

	2021 £'000	2020 £'000
(Loss)/Profit before taxation	(1,976)	406
Income tax calculated at 19% (2020: 19%)	375	(77)
Negative goodwill credit not taxed	–	312
Disallowable expenses including share-based payment	(43)	(101)
Tax in respect of share options	(289)	440
Enhanced research and development allowances	557	471
Enhanced capital allowances	39	–
Deferred tax now recognised in group	131	–
Deferred tax not recognised	–	(29)
Adjustment for prior periods	(25)	37
Change in deferred tax rate	(168)	(53)
Differing deferred tax and R&D tax credit rates	(253)	(172)
Total tax credit	324	828

Deferred tax is recognised over the vesting period for share options in respect of the corporate tax deduction available under the EMI scheme for the difference between market value on exercise and the exercise price and the exceptional £289,000 expense (2020: £440,000 credit) arises in the year as a result of movements in the year end quoted share price to £0.95 at 31 December 2021 (2020: £3.22).

8 Earnings per share

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

	2021 £'000	2020 £'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net profit attributable to the shareholders	(1,652)	1,234
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	28,597,901	20,687,836
Potentially dilutive effect of share options exercisable below average share price in the year	–	971,330
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	28,597,901	21,659,166
Earnings per Share (pence)		
Basic	(5.78)	5.96
Diluted	(5.78)	5.70

The earnings per share is calculated from the number of £0.04 ordinary shares in issue.

Options over Ordinary Shares granted to employees are included in the calculation of potentially dilutive shares in respect of a profit. At 31 December 2021 there were 1,529,182 of unexercised options in place.

9 Intangible assets

Group	Goodwill £'000	Patent costs £'000	Computer Software £'000	Development costs £'000	Total £'000
Cost					
As at 1 January 2020	104	76	77	4,368	4,625
Additions	–	8	13	2,447	2,468
On acquisition	–	–	11	–	11
As at 31 December 2020	104	84	101	6,815	7,104
Additions	–	6	86	3,784	3,876
As at 31 December 2021	104	90	187	10,599	10,980
Amortisation or Impairment					
As at 1 January 2020	–	24	65	268	357
Charge	–	5	5	255	265
As at 31 December 2020	–	29	70	523	622
Charge	–	5	19	402	426
As at 31 December 2021	–	34	89	925	1,048
Carrying amount					
As at 31 December 2020	104	55	31	6,292	6,482
As at 31 December 2021	104	56	98	9,674	9,932

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

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

The costs that are capitalised are kept under review to determine the recoverability of the value so capitalised by reference to revenues generated for IHT together with ensuring there is a growing pipeline of projects with a range of customers under development using the IHT knowledge-base reflected by the value of the capitalised development costs.

Impairment tests for goodwill

The Group tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The carrying values are assessed on a value in use basis for impairment purposes by calculating the net present value (NPV) of future cash flows arising from the original acquired business. The goodwill impairment review assessed whether the carrying value of goodwill was supported by the NPV of future cash flows based on management forecasts for 5 years, an assumed growth rate of 1% (2020: 1%) for the next 5 years and a discount rate of 12% (2020: 12%). There is significant headroom in the assessment from a range of reasonable sensitivities.

Government Grants

The Group has received aggregate grants from UK and European government research and development initiatives amounting to £965,005 (2020: £965,005) which fund a proportion of development work and which have been deferred in line with the capitalised development cost assets above that they relate to.

They are released to profit and loss in line with the amortisation of the costs. There are no unfulfilled conditions or contingencies attached to the grants.

Company	Goodwill £'000	Patent costs £'000	Computer Software £'000	Development costs £'000	Total £'000
Cost					
As at 1 January 2020	104	76	77	4,368	4,625
Additions	–	8	9	2,447	2,464
As at 31 December 2020	104	84	86	6,815	7,089
Additions	–	6	29	3,784	3,819
As at 31 December 2021	104	90	115	10,599	10,908
Amortisation or Impairment					
As at 1 January 2020	–	24	65	268	357
Charge	–	5	5	255	265
As at 31 December 2020	–	29	70	523	622
Charge	–	5	8	402	415
As at 31 December 2021	–	34	78	925	1,037
Carrying amount					
As at 31 December 2020	104	55	16	6,292	6,467
As at 31 December 2021	104	56	37	9,674	9,871

10 Property, plant and equipment

Group	Freehold Property	Leasehold improvements £'000	Plant and machinery £'000	Right of use assets - Buildings £'000	Assets Under Construction £'000	Total £'000
Cost						
As at 1 January 2020	–	463	2,627	814	–	3,904
Additions	–	17	1,652	–	–	1,669
On acquisition (note 23)	–	–	2,960	1,914	–	4,874
As at 31 December 2020	–	480	7,239	2,728	–	10,447
Additions	3,002	12	958	36	2,236	6,244
Disposals	–	(62)	(47)	–	–	(109)
As at 31 December 2021	3,002	430	8,150	2,764	2,236	16,582
Depreciation						
As at 1 January 2020	–	123	1,141	93	–	1,357
Charge	–	38	630	247	–	915
As at 31 December 2020	–	161	1,771	340	–	2,272
Charge	–	42	947	299	–	1,288
Disposals	–	(62)	(47)	–	–	(109)
As at 31 December 2021	–	141	2,671	639	–	3,451
Carrying amount						
As at 31 December 2020	–	319	5,468	2,388	–	8,175
As at 31 December 2021	3,002	289	5,479	2,125	2,236	13,131

Included within the carrying amount of the above, are specific assets held subject to hire purchase contracts of £3,082,000 (2020: £2,806,000) relating to plant and machinery and £330,000 relating to assets under construction. Depreciation of £391,000 (2020: £289,000) was charged on these assets in the year. In addition, a lease contract with a liability of £313,000 (2020: £393,000) has a general charge over other plant assets.

Assets under construction relate to the fit out and new equipment for the freehold Stonehouse property and manufacturing facility purchased in the year.

Freehold property will be depreciated once the asset comes into use.

Company	Freehold Property	Leasehold improvements £'000	Plant and machinery £'000	Right of use assets - Buildings £'000	Assets Under Construction £'000	Total £'000
Cost						
As at 1 January 2020	–	463	2,627	814	–	3,904
Additions	–	17	1,315	–	–	1,332
As at 31 December 2020	–	480	3,942	814	–	5,236
Additions	3,002	12	61	36	2,236	5,347
Disposals	–	(62)	(175)	–	–	(237)
As at 31 December 2021	3,002	430	3,828	850	2,236	10,346
Depreciation						
As at 1 January 2020	–	123	1,141	93	–	1,357
Charge	–	38	277	93	–	408
As at 31 December 2020	–	161	1,418	186	–	1,765
Charge	–	42	352	93	–	487
Disposals	–	(62)	(156)	–	–	(218)
As at 31 December 2021	–	141	1,614	279	–	2,034
Carrying amount						
As at 31 December 2020	–	319	2,524	628	–	3,471
As at 31 December 2021	3,002	289	2,214	571	2,236	8,312

Included within the carrying amount of the above, are assets held subject to hire purchase contracts of £1,679,000 (2020: £2,122,000) relating to plant and machinery and £330,000 relating to assets under construction. Depreciation of £267,000 (2020: £204,000) was charged on these assets in the year. Disposals include plant with a net book value of £19,000 transferred to a subsidiary undertaking.

11 Investments

	Company £'000
As at 1 January 2020	–
Additions in 2020	2,172
As at 31 December 2020 and 2021	2,172

The Company holds all of the shares in Stevenage Circuits Limited, a company registered at 1 Ashvale, Alexandra Way, Ashchurch, Tewkesbury, Gloucestershire, GL20 8NB. The company is a manufacturer of PCBs.

12 Inventories

	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Raw materials	1,258	350	1,088	384
Work in progress	409	85	528	130
Finished goods	355	10	394	79
	2,022	445	2,010	593

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

13 Trade and other receivables

	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Amounts receivable within one year				
Trade receivables	1,531	450	1,381	370
Amounts owed by group undertakings	–	–	–	2,077
Other receivables	236	236	–	17
Prepayments	6,028	5,924	371	263
	7,795	6,610	1,752	2,727
Amounts receivable after more than one year				
Amounts owed by Group undertakings	–	2,589	–	–

Group trade receivables are stated net of impairment for estimated irrecoverable amounts of £54,000 (2020: £20,000). Company trade receivables are stated net of £31,000 (2020: £14,000). There has been no material write offs or other material movements in the impairment provision in the current or prior period.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Prepayments includes £5,956,000 (2020: £nil) in respect of deposits for capital equipment.

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

Amounts owed by group undertakings bear no interest and have no fixed date of repayment. They are not considered to be receivable within one year (2020: disclosed as on demand). There has been no impairment charge made against these balances.

14 Trade, other payables and provisions

	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Amounts falling due within one year:				
Trade payables	2,305	1,326	1,076	434
Taxes and social security costs	175	104	318	102
Other payables	33	20	0	0
Accruals and deferred income	502	263	318	95
Provisions	–	–	244	0
	3,015	1,713	1,956	631
Amounts falling due after more than one year:				
Deferred income – grants	1,067	1,067	910	910
Provisions	115	36	79	0

The Directors consider that the carrying amount of trade and other payables approximates to their fair values. Accruals and deferred income includes contract liabilities totalling £nil (2020: £118,000) in relation to customer payments received in advance. There are contingent liabilities of £79,000 relating to the acquisition of a subsidiary and £36,000 relating to dilapidation provisioning added during the year.

15 Borrowings (including lease liabilities)

	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Amounts falling due within one year:				
Lease liabilities	274	80	187	80
Hire purchase contract obligations	772	373	740	469
Bank loan	71	71	–	–
Invoice financing	184	184	–	–
Other short-term financing	549	549	128	128
	1,850	1,257	1,055	677
Amounts falling due between one & five years:				
Lease liabilities	1,308	410	1,258	411
Hire purchase contract obligations	1,557	723	1,713	1,101
Bank loan	1,866	1,866	–	–
	4,731	2,999	2,971	1,512
Amounts falling due in more than five years:				
Lease liabilities	783	81	1,107	161
Total borrowings	7,364	4,337	5,133	2,350

The bank loan of £1,937,000 bears interest at 3.25% over base rates and is repayable by quarterly instalments at £98,000 a year with the remaining £1,470,000 repayable in August 2026. It is secured on the freehold property.

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

The Group in a prior year has utilised lease contracts in respect of the factory and office property it uses in the UK, which have been entered into for terms of 10 years. A break is not expected to be exercised and accordingly the full term was accounted for on commencement in an earlier year. For property leases, it is customary for lease contracts to be reset periodically to market rental rates.

Right of use assets, additions and depreciation are included in note 10. Interest expenses relating to lease liabilities are included in note 6. The total cash outflows for leases including hire purchase arrangements in the year were £1,253,000 (2020: £675,000).

Financing activities and movements in total borrowings	£'000
As at 1 January 2020	1,592
Cash movements:	
Lease payments in respect of right of use assets	(87)
Hire purchase contract payments	(397)
Interest paid	(195)
Non-cash movements:	
Interest accrued	195
On acquisition of subsidiary	2,374
New hire purchase and financing contracts	1,651
As at 31 December 2020	5,133

Financing activities and movements in total borrowings	£'000
Cash movement	
Bank loan advanced	1,960
Bank loan repayments	(23)
Net movement in invoice and other short-term financing	605
Lease payments in respect of right of use assets	(187)
Hire purchase contract payments	(801)
Interest paid	(301)
Non-cash movements:	
Interest accrued	301
New hire purchase and financing contracts	677
As at 31 December 2021	7,364

	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
<i>Payments due under hire purchase contracts are as follows:</i>				
In one year or less	834	433	1,314	792
Between one and five years	1,869	844	3,649	1,772
In more than five years	–	–	1,232	184
	2,703	1,277	6,195	2,748
Future finance charges	(374)	(181)	(1,062)	(398)
Present value of liabilities	2,329	1,096	5,133	2,350

16 Financial instruments and capital management

Risk management

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

Capital management

The Group is financed by a mixture of equity, term loans and invoice discounting facilities as required for working capital purposes and with hire purchase finance used for certain capital projects. The capital comprises all components of equity which includes share capital, retained earnings and other reserves as indicated in the Statement of Financial Position.

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

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

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

Market risks

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

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

Foreign exchange risk

The Group trades in overseas markets and, whilst it has net foreign currency balances has both receipts and a degree of payments in matching currencies. It also enters into forward contracts with an option to sell sufficient foreign currency receipts at a fixed rate which it uses to manage pricing and the exposure to exchange rate risks. It is not considered to be a material sensitivity to the range of fluctuations in exchange rates experienced within the last year.

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

	2021 £'000	2020 £'000
Euro denominated	188	1,121
US dollar denominated	95	(12)

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales and attempts to mitigate credit risk by assessing the creditworthiness of customers and closely monitoring payments history. Given the long experience of the Group with its customers and in view of the systems and relations with customers that the Group has, the Directors consider the credit quality of trade receivables to be good and debts to be virtually fully recoverable. The credit quality of trade receivables can be assessed via external credit ratings (if available) or to historical information about default rates.

The Group considers a debtor to be in default when a decision has been made to commence legal proceedings for recovery. There have been no material impairments to trade or other receivables invoiced within the 3 years included within these financial statements.

Impairment provisions are also recognised based on the simplified approach within IFRS9 using the lifetime expected credit losses. To measure the expected credit losses, trade receivables are grouped based on shared credit risk and days past due. The expected loss rates are based on payment profiles and historical credit loss experience. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle receivables.

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

The maximum exposure to credit risk is the total of financial assets as set out in the table below.

Interest rate risk

The Group makes use of fixed rate finance lease or hire purchase agreements to acquire property, plant and equipment; this ensures that the Group maintains its existing working capital and ensures certainty of costs at the point of acquisition of those assets.

The Group has also drawn down a mortgage loan in the year with a floating rate and a 1% change in base rates would increase annual interest charges by approximately £18,000.

The Directors therefore do not consider that the Group is exposed to a material risk or sensitivity from fluctuations in interest rates. These liabilities are set out in note 14.

Liquidity risk

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

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

At 31 December 2020	Up to 1 year £'000	1-2 years £'000	2-5 years £'000	In more than 5 years £'000
Trade and other payables	1,956	–	–	–
Lease liabilities	334	415	1,244	1,232
Other short term financing	128	–	–	–
Hire purchase contracts (including interest)	962	738	1,252	–
	3,380	1,153	2,496	1,232

At 31 December 2021	Up to 1 year £'000	1-2 years £'000	2-5 years £'000	In more than 5 years £'000
Trade and other payables	2,768	–	–	–
Lease liabilities	415	415	1,244	816
Other short term financing	733	–	–	–
Bank loan	173	170	1,912	–
Hire purchase contracts (including interest)	834	757	1,112	–
	4,923	1,342	4,268	816

Classification of financial instruments

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

Financial assets	2021 £'000	2020 £'000
Trade and other receivables	1,767	1,381
Cash and cash equivalents	2,897	13,930
	4,664	15,311

Financial liabilities	2021 £'000	2020 £'000
At amortised cost		
Trade and other payables	2,768	1,956
Lease liabilities	2,365	2,552
Bank loan	1,937	–
Other short term financing	733	128
Hire purchase contracts	2,329	2,453
	10,132	7,089

17 Deferred tax liabilities

Group

Liability/(asset) in respect of:

	Accelerated capital allowances £'000	Intangible assets £'000	Share Based Payment £'000	Losses £'000	Total £'000
As at 31 December 2020	785	672	(493)	(758)	206
Debit/(credit) to profit or loss	323	670	414	(990)	417
As at 31 December 2021	1,108	1,342	(79)	(1,748)	623

There is an unrecognised deferred tax asset in respect of losses carried forward of approximately £465,000 (2020: £460,000).

Company

Liability/(asset) in respect of:

	Accelerated capital allowances £'000	Intangible assets £'000	Share Based Payment £'000	Losses £'000	Total £'000
As at 31 December 2020	467	672	(493)	(440)	206
Debit/(credit) to profit or loss	49	670	414	(381)	752
As at 31 December 2021	516	1,342	(79)	(821)	958

18 Defined contribution scheme

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

	2021 £'000	2020 £'000
Contributions payable by the Group for the year	171	120

19 Share capital

Group and Company	2021 £'000	2020 £'000
Allotted, called up and fully paid		
30,179,014 (2020: 28,426,122) Ordinary Shares of £0.04 each	1,207	1,137

1,421,285 shares were issued on 20 December 2021 at 80 pence each in order to fund capital expenditure and growth working capital. This was the first tranche of a larger fundraising completed in January 2022. In addition, 331,607 employee held share options were exercised in the year at 28.25 pence each.

7,341,250 ordinary £0.04 shares were issued on 30 March 2020 at 80 pence each in order to provide funds for the acquisition of SCL, investment and working capital. 6,312,500 £0.04 ordinary shares were issued on 9 December 2020 in order to provide funds for further investment in plant and manufacturing capacity required by manufacturing agreements and anticipated demand.

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

No dividends have been declared or are proposed in respect of the year (2020: £nil).

Analysis of Movements of Shares in Issue	2021	2020
1 January	28,426,122	14,772,372
Shares issued on 30 March 2020	–	7,341,250
Shares issued on 9 December 2020	–	6,312,500
Shares issued on 20 December 2021	1,421,285	–
Options exercised in the year	331,607	–
31 December	30,179,014	28,426,122

20 Contingent liabilities

At 31 December 2021, the Company and Group had no contingent liabilities (2020: none).

21 Financial commitments

The Company and Group had capital commitments of £7,662,000 at 31 December 2021 (2020: £3,511,000 in respect of the investment to be made in new plant).

The Company has given a debenture including a fixed charge over all freehold and leasehold property which secures the mortgage of £1.9M as well as the invoice discounting facility also with HSBC plc for £184K. The Company has also given specific asset security against its fixed plant and equipment. The company also has an import line facility which is covered by this security where there is an outstanding balance of £nil.

22 Share Option Plan

Introduction

The Group established the EMI Share Option Plan on 15 June 2018 which allows for the grant of enterprise management incentive share options which qualify for favourable tax treatment under the provisions of Schedule 5 to Income Tax (Earnings and Pensions) Act 2003 (ITEPA) (EMI Options) and awards of non-qualifying options (together Awards). The awards are not transferable. Only the person to whom an Award is granted or his or her personal representatives may acquire Ordinary Shares pursuant to an Award.

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

Size of EMI Options grants/plan limits

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

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

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

Rights attaching to shares

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

Malus and Clawback

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

Awards

Included in the awards are options over 368,690 Ordinary Shares granted to Mark Hodgkins, a director, both within the EMI scheme and further non qualifying options.

Share option movements

	2021 Weighted average exercise price (p)	2021 Number	2020 Weighted average exercise price (p)	2020 Number
1 January	57.5	1,885,945	28.25	915,360
Shares forfeited during the year		(25,426)	28.25	(13,415)
Options granted in the year		–	87.5	984,000
Options exercised in the year	28.25	(331,607)	–	–
31 December		1,528,912	57.5	1,885,945

Options over 990,015 shares were granted to employees on 15 June 2018. 331,607 were exercised in 2021 and remained exercisable as at 31 December 2021. They are exercisable at 28.25 pence per share after a period of 3 years. The share-based payment charge of 72.25 pence per option share has been measured using the Black Scholes model applying the three-year vesting period, a volatility of 50% and annual risk-free rate of 1.5%.

Options over 984,000 shares were granted to employees on 24 June 2020. They are exercisable at 87.5 pence per share after a period of 2 years and subject to performance conditions being met. None were exercisable at 31 December 2021 (2020; nil). The share-based payment charge of 30 pence per option share has been measured using the Black Scholes model applying an expected three-year vesting period, a volatility of 50% and annual risk-free rate of 1.0%.

23 Prior year business combination

The parent company acquired all of the share capital of Stevenage Circuits Limited ('SCL'), a UK-based designer and manufacturer of short flex and rigid printed circuit boards, on 1 April 2020. The acquisition primarily adds further manufacturing capacity to enable the demand-led ramp up of Trackwise Design's Improved Harness Technology production, as well as customers and technical, sales and operational expertise.

The assets were acquired at a discount to their fair value resulting in negative goodwill of £1,642,000 which has been credited to the income statement in accordance with IFRS 3 and represents an exceptional item in the period. This relates to the ability of the combined group to fully utilise the manufacturing capacity of SCL and enhance earnings from the specialist plant and equipment. The consolidated negative goodwill credit is not expected to be taxable.

The fair values of the assets and liabilities acquired are as follows:

	Fair value £'000
Property, plant and equipment	2,960
Right of use property assets	1,914
Intangible assets	11
Inventories	871
Trade receivables and prepayments	1,088
Tax	467
Cash	544
Trade and other payables	(1,588)
Lease liabilities	(1,914)
Hire purchase liabilities	(460)
Provisions	(79)
	3,814
Negative goodwill arising	(1,642)
Consideration paid	2,172

Consideration was paid in cash and there is no deferred or contingent consideration payable.

Gross trade receivables acquired were £897,000 all of which all was expected to be recovered. Right of use property assets are included in property, plant and equipment and lease liabilities within borrowings in the consolidated statement of financial position. Acquisition related expenses of £226,000, principally in respect of professional fees, have been charged as an exceptional item in the income statement together with £278,000 incurred in respect of the integration of SCL into the Group. This involved incremental project time and cost to bring processes and operations in line with Trackwise.

The negative goodwill, acquisition and integration expenses are considered highly material and significant non-recurring related items. They are therefore presented below operating loss in the consolidated income statement.

SCL contributed £3,920,000 of revenue and recorded a loss after tax of £13,000 included in the consolidated income statement from 1 April 2020 to 31 December 2020 (excluding acquisition expenses and negative goodwill).

Had SCL been consolidated from 1 January 2020 it would have contributed another £1,284,000 of revenue and a loss of £23,000 to the year.

24 Ultimate controlling party and related party transactions

There was no individual controlling party as at 31 December 2021.

The key management personnel are considered to be the Directors. Please refer to Note 5 for details of key management personnel remuneration. M Hodgkins, a Director of the Company, holds options over 368,690 Ordinary Shares in the Company (note 22).

25 Adjusted Operating Profit and EBITDA

In monitoring the performance of the business, the Directors focus on operating profit adjusted for material non-recurring or non-trading expenses which are not a reflection of the underlying cost base or represent one-off investment, together with share-based payments which are non-cash and, in a developing business, often more volatile and less representative of the potential value to employees of share options. The adjustments made are set out below:

Adjusted operating (loss)/profit:	2021 £'000	2020 £'000
Operating loss	(1,678)	(541)
Add back share-based payments	153	228
New facility set up costs	941	–
Non recurring set up costs for new product	–	128
Adjusted operating loss	(584)	(185)

The share-based payment is added back because the granting of options to employees is not a regular occurrence there having been none granted in 2021. As this is an irregular charge it is added back to better display the adjusted operating loss/profit.

The measure of EBITDA is not recognised by IFRS however it remains an important performance measure for management in adding back a non-cash expense in the context of a business utilising long term plant and equipment and manufacturing facilities with the major expenditure on initial purchase and at set up. During the year the Company incurred significant non-recurring non-underlying costs relating to the establishment of the facility at Stonehouse which do not relate to the generation of revenues for customers. These costs have been added back.

Adjusted EBITDA:	2021 £'000	2020 £'000
Operating loss	(1,678)	(541)
Depreciation (net of development cost capitalisation)	965	693
Amortisation	426	265
Share based payments	153	228
New facility set up costs	941	–
Non recurring set up costs for new product	–	128
Adjusted EBITDA	807	773

26 Post balance sheet events

The Company completed its equity fundraising with 7,329,051 new ordinary shares issued at 80 pence on 6 January 2022. In combination with the first tranche issued on 20 December 2021, this raised approximately £7m of cash for the Group to fund capital expenditure and growth working capital.

In June 2022 the Company's bankers approved a facility of £6.5m to enable the funding of working capital and asset equipment purchase secured by fixed and floating charges on the assets of the group (note 15).

APCB	Advanced Printed Circuit Board
BEIS	Department of Business, Energy and Industrial Strategy
CBILS	Coronavirus Business Interruption Loan Scheme
CCS	Cell Contacting System
CEM	Contract Electronics Manufacturer
DBP	Double Belt Press
DEFRA	Department for Environment, Food and Rural Affairs
DI	Direct Imaging
EMI	Enterprise Management Incentive
ESG	Environmental & Social Governance
EV	Electric Vehicle
eVTOL	Electric Vertical Take-off and Landing
EWIS	Electrical Wiring Interconnection Systems
FPC	Flexible Printed Circuit
GHG	Greenhouse Gas
HVBM	High Voltage Battery Module
IATA	International Air Transport Association
IFRS	International Financial Reporting Standards
IHT	Improved Harness Technology™
IPR	Intellectual Property Rights
MIS	Minimally Invasive Surgery
NDA	Non-Disclosure Agreement
NPV	Net Present Value
OEM	Original Equipment Manufacturer
PCB	Printed Circuit Board
PCBA	Printed Circuit Board Assembly
PPE	Personal Protective Equipment
PSW	Part Submission Warrant
QCA	Quoted Companies Alliance
QMS	Quality Management System
RF	Radio Frequency
SCL	Stevenage Circuits Limited
SoP	Start of Production
TCFD	Taskforce Climate-Related Financial Disclosures
TWD	Trackwise Designs plc
UAM	Urban Air Mobility
USP	Unique Selling Point

DIRECTORS:

Ian Griffiths	Non-Executive Chair
Philip Johnston	Chief Executive Officer
Mark Hodgkins	Chief Financial Officer
Charles Cattaneo	Non-Executive Director
Susan McErlain	Non-Executive Director

COMPANY SECRETARY:

Mark Hodgkins

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