

  
Kromek®

20

CELEBRATING 20 YEARS

2003 - 2023

Kromek Group plc  
Annual report and accounts  
for the year ended 30 April 2023

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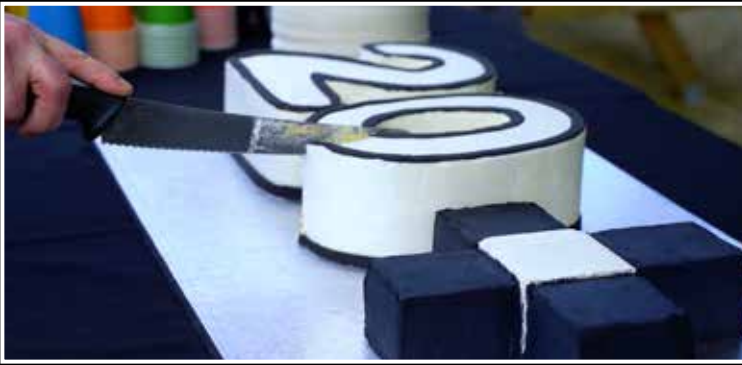
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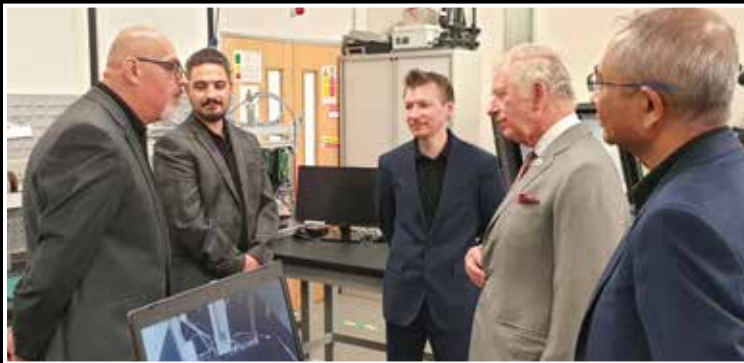
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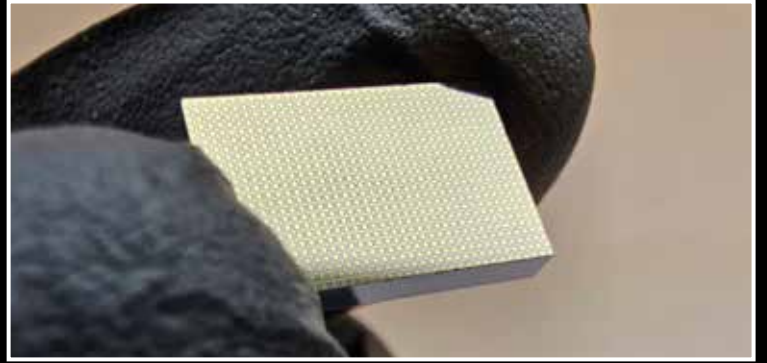
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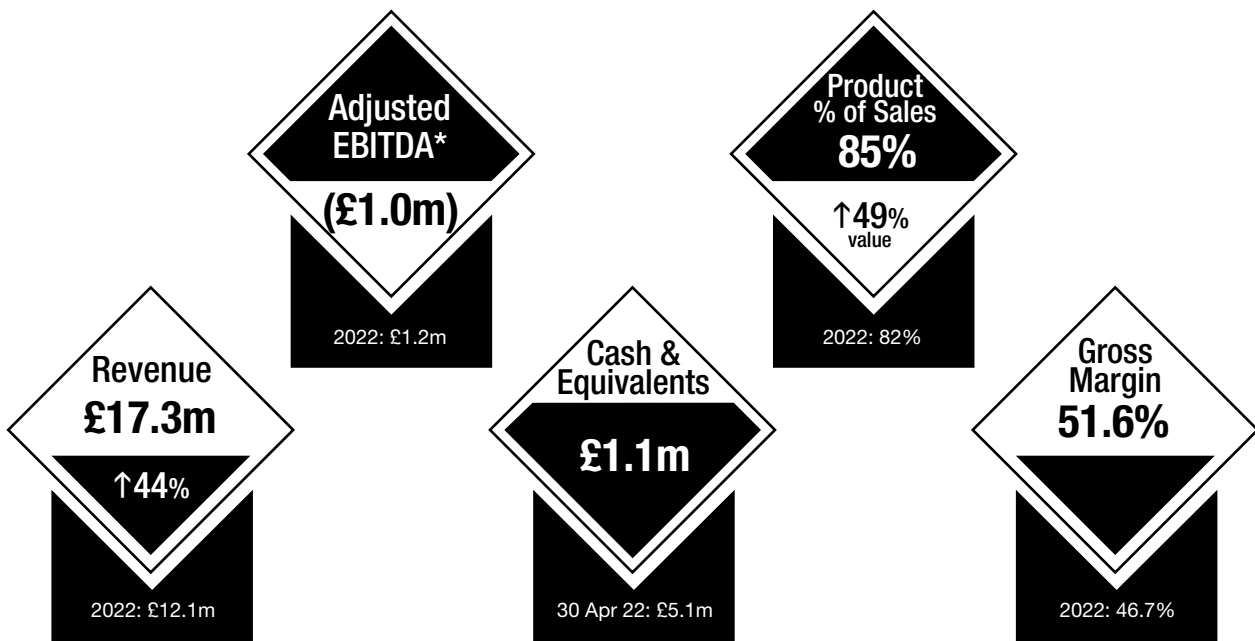


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## Preface

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## Financial Summary



\*A reconciliation of adjusted EBITDA can be found in the Chief Financial Officer's Review.

## Operational Highlights

### Advanced Imaging

- Significant progress in medical imaging:
  - Signed a landmark 7-year collaboration agreement with a tier 1 OEM to provide CZT-based detectors for use in the customer's advanced medical imaging scanners
  - Entered a collaboration agreement with Analogic Corporation to develop CZT-based detectors for photon counting computed tomography ("CT") applications in medical imaging and security screening
  - Launch by Spectrum Dynamics Medical of the world's first digital single-photon emission computed tomography ("SPECT")/CT scanner for higher energy imaging, which uses Kromek's CZT technology
  - Received repeat orders totalling over \$2.0m for the supply of detectors for bone mineral densitometry ("BMD") and SPECT applications and the gamma probes market
  - Awarded £2.5m from Innovate UK for two programmes to further develop a low dose molecular breast imaging technology based on Kromek's CZT-based detectors
  - Further contract win of \$1.4m post year end from a new Asia-based OEM customer for CZT-based detectors to be used in the customer's SPECT systems

# Operational Highlights

## Medical Imaging

*“Strong revenue growth with delivery under component supply agreements; secured new milestone contracts; and end products launched into the market”*

## CBRN Detection

*“Record revenue in nuclear security, with the winning and delivery of new and repeat orders”*

# CBRN Detection

## Nuclear

- Record revenue in nuclear security, with the winning and delivery of new and repeat orders, including:
  - A \$1.3m contract from a US customer for the D3M and two orders totalling \$1.5m from US government customers for the D3S-ID
  - Two contracts, totalling £1.5m, for D3M and D3S-based products for European government end-users
- Established distribution partnership with Smiths Detection for the distribution of the Group’s nuclear security products to North and South American markets, the Middle East and certain key markets in Asia and Australasia
- Post year end, awarded a \$1.5m contract in Asia for a new product in the civil nuclear market

## Biological Threat Detection

- Concluded long-running programme with the Defense Advanced Research Projects Agency to develop a biological-threat detection solution
- Received a £4.9m contract from a UK government department for a three-year programme to deliver bio-security solutions

# Manufacturing and IP

- Significant progress in improving yield and cost efficiency in CZT crystal growth and detector manufacturing
- Nine new patents were filed and four were granted during the year

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## Strategic Report

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# Krommek

## Rakesh Sharma

*“We are most excited about securing a long-term agreement with a tier 1 OEM to provide CZT-based detectors for the customer’s advanced medical imaging scanners. To have our solutions designed into the products of a world leading health-technology company represents a substantial commercial opportunity and is what we have been striving towards.”*

*“We aim to build on the excellent progress of 2023 by continuing to capitalise on the growth opportunities with which we are presented and delivering on the significant contracts that we have already secured.”*

We recently celebrated Kromek’s 20th anniversary and it is apt that this milestone has coincided with the business reaching what we believe to be an inflection point in our history. In both advanced imaging and CBRN detection, there have been notable achievements this year that move us significantly towards the realisation of our strategy.

That being said, the year wasn’t without its challenges, particularly the inflationary environment and currency pressures experienced in the first half. However, we saw an easing of this in the second half of the year which, combined with our cost control measures and strong revenue performance, enabled Kromek to generate positive adjusted EBITDA and be cash neutral for H2.

Our CEO, in his statement, discusses some of the finer details of the year, but the development that we are most excited about is securing a long-term agreement with a tier 1 OEM to provide CZT-based detectors for the customer’s advanced medical imaging scanners. To have our solutions designed into the products of a world leading health-technology company represents a substantial commercial opportunity and is what we have been striving towards. As the only independent commercial supplier of CZT at scale, which is recognised as the enabling technology for next-generation medical imaging, and with very few of the major OEMs having in-house capabilities, we believe that we will win further substantial customers in this sector.

### **Substantial market demand & opportunity**

This year, we experienced our highest levels of customer engagement – which reflects the ever-growing demand for solutions such as ours across the markets in which we operate.

Nuclear imaging modalities, such as SPECT, CT and BMD, which utilise CZT detector platforms, address a number of diseases including Alzheimer’s, cardio-vascular illnesses and osteoporosis that particularly affect aging populations. With improved imaging quality, they lead to earlier and more reliable diagnoses to promote better patient outcomes and reduced costs of care. As noted, we are well-positioned within this market as the only independent commercial supplier at scale, with the added advantage that barriers to entry are high, entailing significant investment, specialised knowledge and lengthy validation – all of which Kromek has through our prior engagement with OEMs. Accordingly, we believe that our addressable market in SPECT/CT alone is over \$400m annually.

Continuing global insecurity from war, inter-state nuclear tensions, the COVID-19 pandemic, and other health and security threats, underline that we are operating in markets where there is a real and pressing need for our CBRN solutions. This is supported by commensurate increases in national defence budgets. Based on currently visible procurement programmes, we believe that the total addressable market for our nuclear security product portfolio is in excess of \$500m annually.

### **People**

Across the Group, we employ over 160 colleagues, who are critical to Kromek’s success. We have continued to invest in our colleagues and are committed to developing individuals through supporting professional development, helping with targeted training courses including leadership and other skills. We have an extensive wellbeing support package available to our employees and their families in addition to private healthcare. We also believe that our success as a business depends on the strength of the communities in which we live and work. We are excited to have launched a new initiative that encourages our employees to spend up to 20 hours a year volunteering – whether it’s working with a local charity, environmental organisation or any other kind of community service. As a company, we have always been committed to making a positive impact in the sectors in which we operate. By giving our time and efforts to local communities, we can extend our reach and have an even greater impact.

### **Sustainability**

We are committed to reducing our environmental impact and establishing sustainable practices, including reaching net zero by no later than 2050. We are also working with the University of Durham to develop a heat recycling process that will make our crystal growth processes more environmentally friendly and sustainable. We encourage sustainable practices across our organisation, and we are working on developing a detailed strategy and plan to achieve our sustainability and net zero targets.

### **Acknowledgements**

I would like to thank everyone who has contributed to the Group’s success in the past year, including employees, customers, suppliers, partners, other stakeholders and the Board. In particular, I want to thank our executive management team and all of our colleagues for their hard work and dedication to the Group. Without them, our achievements would not be possible. I would also like to extend my gratitude to our shareholders – both long-standing and those who we recently welcomed to the register in our fundraising – for their support, which is very much appreciated.

### **Looking forward**

In the coming year we aim to build on the excellent progress of 2023 by continuing to capitalise on the growth opportunities with which we are presented and delivering on the significant contracts that we have already secured. The drivers of our core markets persist – whether it is threats to national security or public need for medical diagnostics that will provide better patient outcomes at a reduced cost of care. Accordingly, we continue to look to the future with confidence and I look forward to updating you on our progress.



## Chief Executive Officer's Review



**Arnab Basu**

*“We achieved our highest ever revenue – reflecting record revenue in both advanced imaging and CBRN detection respectively – and were adjusted EBITDA positive for the second half of the year.”*

*“This has been a milestone year in terms of our medical imaging activity. Most notably, we signed collaboration agreements with a recognised tier 1 OEM and with Analogic to develop CZT-based detectors for use in their advanced imaging scanners.”*

This has been a strong year for Kromek. We achieved our highest ever revenue – reflecting record revenue in both advanced imaging and CBRN detection respectively – and were adjusted EBITDA positive for the second half of the year. We delivered on our existing contracts and development programmes, won new and repeat orders across the business and from around the world, and experienced significantly increased customer engagement regarding future projects. Importantly, some of this engagement transitioned to significant agreements during the year – most notably, with a tier 1 OEM and Analogic Corporation (“Analogic”) in the advanced imaging segment and Smiths Detection in the CBRN detection segment. These agreements are great endorsements of our technology and solutions, but are also tangible demonstrations of our strategy coming to fruition. Accordingly, we are delivering on our strategy, and ended the year strongly with a foundation for continued growth.

## ADVANCED IMAGING SEGMENT

In the advanced imaging segment, we primarily operate in the medical imaging market with some opportunities in the security screening and industrial screening sectors. Kromek provides OEM customers with detector components, based on our core cadmium zinc telluride (“CZT”) platform, to enable better detection of diseases such as cancer and Alzheimer’s, contamination in industrial manufacture and explosives in aviation settings. We design, develop and produce CZT detectors and solutions along with specialist electronics, which, when incorporated into our customers’ systems, significantly enhance imaging quality to provide high resolution information on material composition and structure, which enables more effective identification and analysis.

In this segment, commercial engagement with customers consists of an initial design phase followed by incorporation of our detectors and technologies into a customer’s system and then the award of a multi-year supply contract, which provides long-term revenue visibility.

### Medical Imaging

As the only independent commercial producer of CZT at scale, Kromek is well-positioned in the medical imaging market. The rate of introduction by leading OEMs of new medical imaging products that include CZT detector platforms as the enabling technology has been increasing in recent years. GE Healthcare and Siemens Healthineers introduced new products in their clinical single-photon emission computed tomography (“SPECT”) and computed tomography (“CT”) businesses in 2021 and Spectrum Dynamics launched the VERITON-CT 400 Series in 2022. SPECT and CT, as well as molecular breast imaging (“MBI”) and bone mineral densitometry (“BMD”), are key target areas for future growth as they address diseases particularly associated with an ageing population such as cancer, Alzheimer’s, Parkinson’s,

cardiovascular illnesses and osteoporosis – with higher resolution images enabling earlier diagnosis for better patient outcomes and reduced overall cost of care. Kromek also serves the gamma probes market in this sector, which are used during surgeries for the removal of lymph nodes.

This has been a milestone year in terms of our medical imaging activity. Most notably, we signed collaboration agreements with a recognised tier 1 OEM and with Analogic to develop CZT-based detectors for use in their advanced imaging scanners. The agreement with the tier 1 OEM, which is a leading health-technology company, has an initial period of seven years. This comprises a short development phase when the parties will work together to integrate Kromek’s CZT-based detectors into the customer’s medical imaging scanners, with the agreement then transitioning to a longer commercial supply phase.

With Analogic, who have been global leaders in CT detector technology for over 50 years, we are developing CZT-based detector solutions for photon counting CT applications in both the medical imaging and security screening sectors. Our CZT sensors will be integrated with Analogic’s detector designs and, as the project progresses towards commercialisation, we will ensure production capacity is available to support their demand.

Another key milestone during the year was the introduction by Spectrum Dynamics of the VERITON-CT 400 Series, the world’s first digital SPECT/CT scanner capable of high energy imaging, which uses Kromek’s CZT detector technology. We believe that this product is receiving wide-ranging interest, and our business with Spectrum Dynamics is tracking as expected.

We were also pleased to receive, post year end, an order worth \$1.4m from a new OEM customer that is an established player in the medical imaging sector in Asia. The order is for CZT-based detector-modules for use in the customer’s next generation SPECT systems. Delivery and revenue recognition are expected in the current financial year.

In total, we are now working with nine OEMs in SPECT and CT, including our current customers, and we expect some of the engagements to transition to formal significant contracts for final design and integration followed by the supply of CZT detectors and modules in the near term.

In our regular repeat business, we received two orders during the first half of the year worth £751k, with one being for the supply of detectors for BMD applications and the other for the gamma probes market. We have seen an increase in demand for detectors in the BMD segment and we expect that demand to grow significantly over the next two years as rapid adoption of our customer’s systems continue in China. In the second half, we received three further orders totalling \$1.1m, which were primarily for SPECT applications.

## Strategic Report *(Continued)*

### Chief Executive Officer's Review *(Continued)*

We continued to make progress under our development programme for ultra-low dose MBI technology based on our CZT-based SPECT detectors, which can significantly improve the early detection of breast cancer in women with dense breast tissue. We are expecting to enter the clinical study phase of this technology development with a US-based OEM customer over the next year. We also received approximately £2.5m in funding from Innovate UK for two programmes to further develop an MBI system. The projects are being conducted in collaboration with the Newcastle-upon-Tyne Hospitals NHS Foundation Trust, the University of Newcastle-Upon-Tyne and University College London.

#### Security and Industrial Screening

In security screening, our technologies are used in travel, primarily aviation, settings to enable our customers to meet the high-performance standards they require, and as demanded by regulatory bodies, to ensure passenger safety while increasing the convenience and efficiency of the security process. We provide OEM and government customers with components and systems for cabin and hold luggage scanning. In industrial screening, Kromek provides OEM customers with detector components for incorporating into scanning systems used during manufacturing processes to identify potential contaminants.

During the year, we continued to deliver under our existing component supply agreements and development programmes. As noted above, the detector solutions to be developed under our collaboration agreement with Analogic, that was entered during the year, will be for security applications as well as medical.

#### CBRN DETECTION SEGMENT

In CBRN detection, we provide nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation and solid-state readout technology, are primarily used to protect critical infrastructure, events, personnel and urban environments from the threat of 'dirty bombs'. Our portfolio also includes a range of high-resolution detectors and measurement systems used for civil nuclear applications, primarily in nuclear power plants and research establishments. In addition, we are developing biosecurity solutions, which consist of fully automated and autonomous systems to detect a wide range of airborne pathogens for the purposes of national security and protecting public health.

#### Nuclear Security

We experienced a significant increase in demand for our nuclear security products – with multiple new and repeat orders being won and delivered during the year – as geopolitical instabilities continued to drive greater global government defence and security spending. We also established key distribution partnerships to support continued expansion in this market.

Accordingly, we delivered record revenues in nuclear security in 2023. Our detector solutions were used in multiple high-profile sporting, political and state events in the UK, across Europe and in the US. In May 2023, for example, our D3S product range was used by the EU Commission Protective Security Advisor team to provide security at an event in Aachen, Germany where President Zelensky of Ukraine was awarded the Charlemagne Prize for work done in the service of European unification.

During the year, we received, and delivered, a \$1.3m contract from a US customer for the D3M and two orders totalling \$1.5m from US government customers for the D3S-ID, all of which were repeat orders. We also received, and delivered, two contracts, totalling £1.5m, for the supply of the D3M and D3S-based nuclear security products to European government end-users – with the contracts having been secured through our distribution and procurement partners. The large proportion of repeat orders reflects the increasingly regular nature of our business in this market.

We expanded our channels-to-market for our nuclear security products, as well as supporting the generation of regular, repeat business, through the establishment of a distribution partnership with Smiths Detection, a global leader in threat detection and security screening technologies for aviation, ports and borders, defence and urban security markets. The initial agreement was to distribute our nuclear security products – with a focus on the D3 and D5 series – to North and South American markets, with a further agreement being signed for distribution to the Middle East and certain key markets in Asia and Australasia.

#### Civil Nuclear

Business in the civil nuclear market progressed as expected, with regular sales through our distributor network and direct to customer. In this sector, our products are used by over 450 customers around the globe.

Since year end, we were awarded a \$1.5m contract by one of our distribution partners in Asia, which is for a new product, based on our existing technology, in the civil nuclear market. The development of this new product was funded by the distribution partner. We believe that the product has a global market beyond our partner's targeted market in Asia.

#### Biological Threat Detection

We continued to deliver on our long-running programme with the Defense Advanced Research Projects Agency, an agency of the US Department of Defense, to develop a biological-threat detection solution. The solution developed under this programme, which concluded during the year, is intended to form part of a mobile wide-area bio-surveillance system deployed in urban environments. Our work with the UK government also resulted in the award of a contract by a UK government department for



a three-year programme worth £4.9m to develop and supply biological threat detection systems. The contract includes an option for extended maintenance services after the initial term.

The biosecurity strategies of the UK and US governments are aligned with the need for a national network of automated genomic sequencing systems for the early warning of pathogens, which was reiterated in the UK Biological Security Strategy published by the UK government in June 2023.

We continue to believe that biosecurity has significant market opportunities as our technologies align very well with major governments' biosecurity strategies to protect against future pandemics. In this sector, we may consider forming strategic or financial partnerships to further accelerate the time to market for this technology.

## R&D, IP AND MANUFACTURING

We continued to execute on our programmes for the expansion of production capacity and increased process automation, with particular progress being made at our CZT manufacturing facility in the US. These programmes are on track and are resulting in greater manufacturing productivity and cost efficiencies. We are making significant progress in our cost and productivity in CZT crystal growth and detector manufacturing. We have dedicated teams that are focussed on targeted improvements for every step in the manufacturing process, which directly contributes to yield and cost improvement.

As noted, during the year we continued to advance development programmes with a number of partners.

During the year, we applied for 9 new patents and had 4 patents granted across 12 patent families, with the total number of patents held by Kromek being in excess of 240. The new applications cover innovations in both of our segments.

*“Our detector solutions were used in multiple high-profile sporting, political and state events in the UK, across Europe and in the US.”*

## OUTLOOK

Kromek entered the 2024 financial year with heightened commercial momentum - winning new orders in addition to a growing and substantial opportunity funnel. We currently have visibility of 60% of full year 2024 revenue forecasts, comprising 45% contracted or already shipped, 4% awarded and going through contract negotiation and 11% being provided by our regular repeat order business. Accordingly, we anticipate a strong year-on-year increase in revenue, in line with market expectations, representing growth in both the advanced imaging and CBRN detection segments. Alongside the anticipated revenue growth, we remain on track to be adjusted EBITDA positive for full year 2024.

Looking further ahead, the macro-economic and market conditions continue to drive strong demand across both

segments. There is an ever-growing need for medical imaging solutions that facilitate earlier and more accurate diagnosis. The position of CZT as the enabling technology for such solutions is widely recognised, with leading OEMs increasingly launching their CZT-based SPECT and CT scanners to the market. Our recent agreement with a leading tier 1 OEM is representative of this trend and offers significant potential. As the only independent commercial producer of CZT at scale, we are extremely well placed within this market. At the same time, ongoing geopolitical conflict combined with the awareness of the threat to public health posed by pathogens will continue to drive demand for, and interest in, our CBRN detection solutions.

As a result, the Board looks to the future with confidence.

## Chief Financial Officer's Review



**Paul Farquhar**

*"...the Group continued that momentum in 2023 with record revenue of £17.3m. This reflected our highest ever revenue in both the advanced imaging and CBRN detection segments of the business, representing revenue growth of 44% year-on-year."*



Following the recovery last year from the significant impact caused by the COVID-19 pandemic, the Group continued that momentum in 2023 with record revenue of £17.3m. This reflected our highest ever revenue in both the advanced imaging and CBRN detection segments of the business, representing revenue growth of 44% year-on-year.

Despite the substantial commercial progress and contract wins outlined in the CEO's Review, the 2023 year can be characterised as one of two halves.

In the first half, whilst revenue of £6.8m represented growth of 44% compared to the previous half-year, gross margin was 40.4% compared to 46.8% in H1 2022 and distribution and administrative expenses were £1.6m higher than in the prior year period. The lower gross margin percentage was due to revenue mix and component price inflation as supply chain pressures persisted from the prior year. The increase in reported distribution and administrative expenses was substantially due to the impact of translating USD denominated expenses in the period due to the weaker GBP against the USD in H1 2023 compared to H1 2022, and higher costs, including salaries, driven by widespread inflationary pressures. As a result of the lower gross margin percentage and the higher costs, adjusted EBITDA loss in H1 2023 widened to £2.7m, from £0.6m in the prior year period.

In the second half of 2023, revenue of £10.5m represented 54% growth compared to H1 2023 revenue of £6.8m, and gross margin was £6.2m compared to £2.7m. Gross margin percentage improved from 40.4% in H1 2023 to 58.9% in H2 2023, driving the full year gross margin percentage to 51.6%. Cost control measures in H2 2023 reduced distribution and administrative expenses by £0.7m, or 9%, compared to H1. The combined impact of higher gross margin and lower overhead costs in H2, compared to H1, contributed to positive adjusted EBITDA of £1.7m in H2 compared to an adjusted EBITDA loss of £2.7m in H1.

As a result, revenue for the year was £17.3m (2022: £12.1m), an increase of £5.2m from the prior year, and gross profit was £8.9m (2022: £5.6m). Due to the higher gross profit, partially offset by higher distribution and administrative expenses, adjusted EBITDA loss was £1.0m compared with a loss of £1.2m for the prior year, when we recorded £1.4m of other operating income from the forgiveness of Paycheck Protection Program (PPP) loans in the US. A reconciliation between adjusted EBITDA and results from operations is detailed on page 16.

## Revenue

The Group generated total revenue of £17.3m (2022: £12.1m). The split between product sales and revenue from R&D contracts is detailed in the table in the next column.

| Revenue Mix  | 2023          |         | 2022          |         |
|--------------|---------------|---------|---------------|---------|
|              | £'000         | % share | £'000         | % share |
| Product      | 14,768        | 85%     | 9,935         | 82%     |
| R&D          | 2,541         | 18%     | 2,120         | 18%     |
| <b>Total</b> | <b>17,309</b> |         | <b>12,055</b> |         |

## Gross Margin

Gross profit at £8.9m (2022: £5.6m) represented a margin of 51.6% (2022: 46.8%). The increase in gross margin, particularly in the second half of 2023, is attributable to a change in revenue mix and the easing of the supply chain pressures that impacted margin in 2022 and the first half of 2023.

## Distribution and Administrative Expenses

Distribution and administrative expenses increased by £2.4m to £14.6m (2022: £12.2m). Of this £2.4m increase, £0.8m represents the foreign exchange impact of translating USD denominated expenses in the period due to the weaker GBP against the USD in 2023 compared to 2022. The remaining £1.6m increase is substantially the net result of:

- £0.3m of depreciation and amortisation due to continued investment in the technology platform and product applications;
- £1.1m increase in staff costs reflecting pay rises in line with the wider economy and modest increased headcount to drive future revenue growth;
- £0.5m bad debt expense having assessed receivables at the year end for expected credit losses; and
- savings of £0.3m relating to facility and general office expenses.

## Adjusted EBITDA\* and Result from Operations

Adjusted EBITDA loss for 2023 was reduced to £1.0m compared with a loss of £1.2m for the prior year as set out in the table below:

|   | 2023<br>£'000 | 2022<br>£'000  |
|---|---------------|----------------|
| Revenue                                     | 17,309        | 12,055         |
| Gross profit                                | 8,935         | 5,636          |
| Gross margin (%)                            | 51.6%         | 46.7%          |
| Loss before tax                             | (7,292)       | (6,129)        |
| <b>EBITDA Adjustments:</b>                  |               |                |
| Net interest                                | 1,243         | 548            |
| Depreciation of PPE and right-of-use assets | 1,903         | 1,751          |
| Amortisation                                | 2,891         | 2,569          |
| Share-based payments                        | 354           | 236            |
| Change in fair value of derivative          | (77)          | -              |
| Exceptional Item                            | -             | (132)          |
| <b>Adjusted EBITDA*</b>                     | <b>(978)</b>  | <b>(1,157)</b> |

## Strategic Report (Continued)

### Chief Financial Officer's Review (Continued)

*\*Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, exceptional items, early settlement discounts, the change in fair value of financial derivatives and share-based payments. The change in the value of financial derivatives and share-based payments are adjusted for when calculating the Group's adjusted EBITDA as these items have no direct cash impact on financial performance. Adjusted EBITDA is considered a key metric to the users of the financial statements as it represents a useful milestone that is reflective of the performance of the business resulting from movements in revenue, gross margin and the costs of the business.*

The reduction in the adjusted EBITDA loss in 2023 compared to the prior year loss reflects the higher revenue and gross margin and that the greater operating costs were offset primarily due to an increase in net interest, amortisation and depreciation. As a result of the increase in operating costs – which primarily comprise distribution and administrative expenses as described above – loss before tax was £7.3m (2022: £6.1m).

During 2023, the Group recognised a loss of £0.2m (2022: a gain of £2.1m) in the statement of other comprehensive income that arose from foreign exchange differences on the translation of foreign operations as described in note 2 to the financial statements. This gain has been treated as a reserve movement, consistent with the prior year. This accounting treatment is unlike the £0.1m foreign exchange gain (2022: £0.2m foreign exchange loss) arising on the revaluation and realisation of working capital balances that were expensed to the profit and loss account during the year.

#### Tax

The Group continues to benefit from the UK Research and Development Tax Credit regime as it invests in developments of technology. The Group recorded an R&D credit of £1.2m for the year (2022: £1.2m credit) arising from the option of surrendering tax losses in the year that qualify for cash credit, rather than carrying forward the tax losses to set against future taxable profits. The Group's deferred tax provision for the year remained static at £nil (2022: £nil) due to the distribution of losses between the UK and US operations, and accordingly there was a total tax credit to the income statement for the Group of £1.2m (2022: £1.2m credit).

#### Earnings per Share ("EPS")

Due to a £1.0m increase in the loss after tax for the period, the EPS is recorded in the year on a basic and diluted basis as a 1.4p loss per share (2022: 1.1p loss per share after excluding exceptional items).

#### R&D

The Group invested £4.8m in the year (2022: £5.6m) in technology and product developments that were capitalised on the balance sheet, reflecting the continuing investment in new products, applications and platforms for the future growth of the business. This expenditure was capitalised in accordance with IAS38 to the extent that it related to projects in the later stage (development phase) of the project life cycle.

The Group continues to advance its development roadmap in relation to the automated wide-area detection of biological and viral pathogens, involving portable DNA sequencing. It is the Board's belief that this technology platform, which enables the identification of COVID-19 and other biological pathogens, offers significant short and medium-term opportunities for the Group in this critical market.

The other key areas of development continue to be the development and expansion of the D3 and D5 suite of products in CBRN threat detection and the SPECT and CT platforms in advanced imaging. All such investments in research and development are linked to contract deliverables and productivity improvements which, in the Board's belief, add to the significant future revenue opportunities that the Group's technology offers. The Group continues to undertake this investment to strengthen its commercial advantage.

During the year, the Group undertook expenditure on patents and trademarks of £0.2m (2022: £0.2m) with 9 new patents filed and 4 patents granted across 12 patent families.

#### Other Income

The Group generated total other operating income of £0.1m (2022: £1.4m), which relates to a retrospective Customs Duty claim granted by HMRC. Other operating income in the previous year predominantly comprised the forgiveness of PPP loans of £1.4m in the US.

#### Capital Expenditure

Capital expenditure in the year amounted to £0.3m (2022: £0.7m), which primarily relates to modest capital expenditure across lab and computer equipment, IT and manufacturing projects.

## Financing Activities

The Group issued £2.8m of convertible loan notes, largely to existing shareholders, in August 2022. The loan notes have a term of 18 months, carry a coupon of 8% per annum and have conversion dates in January and February 2024. They are senior in ranking and unsecured. If they are repaid other than on the repayment date or not repaid by the repayment longstop date, they are convertible at the investors' option into ordinary shares in the capital of the Company at the lower of the closing mid-market price on the repayment date, or 15 pence per ordinary share.

At 30 April 2023, the Group had a £5.0m revolving credit facility ("RCF") with HSBC, the repayment date for which was extended by the bank from 11 March 2023 to 31 August 2023. At the date of this report, the Group is finalising the terms of an alternative borrowing facility to replace the HSBC RCF, and the Board is confident that this facility will be secured to repay the RCF by the required repayment date. Further details of the Group's borrowings are available at Note 25.

## Inventories

Inventories increased by £0.4m to £10.9m at 30 April 2023 (30 April 2022: £10.5m). This reflects a continuation of the global supply chain pressures, which requires the Group to hold higher inventory levels than historically has been necessary. However, raw material inventory reduced during the year to £2.2m at 30 April 2023 (30 April 2022: £3.6m), reflecting the conversion to work in progress and finished goods of some of the additional component inventories purchased during the previous year when the supply chain had been acutely constrained.

## Cash Balance

Cash and cash equivalents were £1.1m as of 30 April 2023 (30 April 2022: £5.1m). The £4.0m decrease in cash during 2023 was due to the combination of the following cash inflows and outflows:

- Adjusted EBITDA loss for the year of £1.0m
- R&D tax receipts of £1.2m
- Investment in product development and other intangible assets, with capitalised development costs of £4.8m and IP additions of £0.2m
- Capital expenditure of £0.7m (including £0.4m in respect of leased assets)
- Net cash generated from financing activities of £1.7m (including £2.8m from the issue of convertible loan notes)
- A decrease in cash arising from the impact of foreign exchange of £0.2m

Post year end, the Group's balance sheet was strengthened with the successful completion of a placing, subscription and open offer raising £8m before expenses, of which £7m was raised through the share placing and subscription, and a further £1m through the open offer.



## Kromek Celebrates its 20th Anniversary

During this year, Kromek celebrated 20 years of being in business.

We started our journey back in 2003, in a small laboratory in Durham University. Today, we operate out of two purpose-built state-of-the-art manufacturing facilities in Sedgfield and Pittsburgh in the US. We've grown from a two-person operation to over 170 employees, and still growing.

It's been an exciting journey. We are incredibly proud of our work, proud of our products. We are a technology company at heart, we innovate, and we provide products that save lives and keep people safe, all around the world.

People are the lifeblood of Kromek. It is a great place to work where exceptional talents are encouraged to use their initiative, to be creative and innovative while working on varied and technically challenging programmes and projects.

So, it was right that our special anniversary should be celebrated right across the business by the people that have helped make Kromek what it is today; small recognition for all the big things they have done; all the hard work, all the dedication, all the creativity they bring to the team, and ultimately, taken Kromek to where it is.







# 20 2003

First registered as a business in April 2003, Durham Scientific Crystals was set up to commercialise the semiconductor crystal growth technology developed in the Physics Department of Durham University over a period of some 20 years. Its first official day of trading was 19 May.



# 2003

Kromek pioneered digital colour imaging for x-rays, combining groundbreaking materials innovation with advanced 3D imaging to literally change the way in which we see the world. In early 2004, a Department for Trade and Industry SMART award funded the construction of the first commercial crystal growth facility.

# 2004

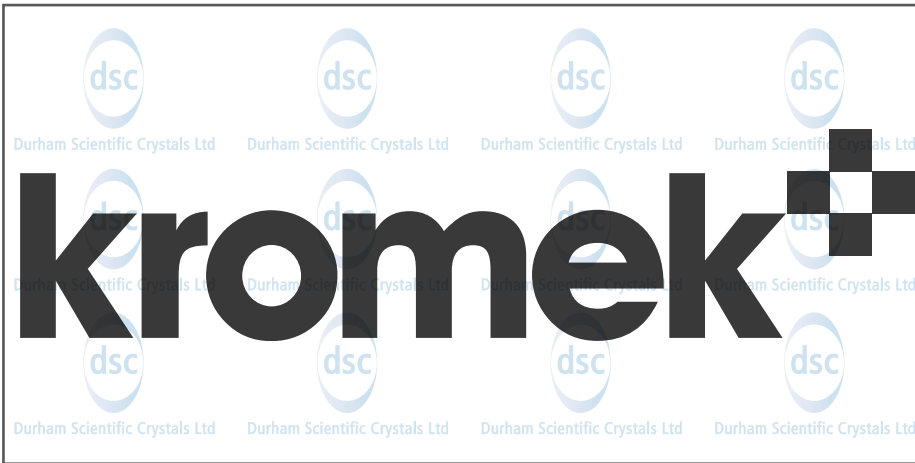
Having outgrown the facilities at Durham University, Kromek became the very first tenant in the North East's brand new Technology Park (NETPark) in 2004.



# 2005

The company received its first development contract, shortly after its move to NETPark, to supply specialist material to the European Space Agency.

2009 21



In 2009, Durham Scientific Crystals changed its trading name to Kromek. A stronger, more memorable and unique name. Kromek is the amalgamation of two words - Chroma (attributes of colour) and Mechanism (a system or way something works). A highly simplified definition of how our ground-breaking technologies work.

2009

Kromek introduced its first 'Worldy', its revolutionary Liquid Explosives Detection System / bottle scanner, part of a family of products for the global aviation / security screening markets to combat threats posed by liquid-based explosives and precursors, and the smuggling of narcotics dissolved in alcohol.



2010

Kromek acquired California-based NOVA R&D Inc., and announced a four-year contract with the Univ. of Massachusetts Medical School (UMASS), to develop an advanced system for breast cancer detection and diagnosis, which ultimately dramatically improved the way breast cancer is detected and treated.

2010

Quantum Leap - Kromek moves into its brand new (and current) headquarters, a 20,000 square foot purpose-built, manufacturing facility having grown from a two-man start-up to employing more than 50 people.





The enormous Tohoku earthquake and tsunami which resulted in the nuclear meltdown at the Fukushima Daiichi nuclear plant accelerated the establishment of Kromek's Nuclear Products Division after the GR1 spectrometer was selected as the primary mobile detection tool used by the authorities for the post-Fukushima clean up.



The GR1 being used inside a protective lead shield during the clean-up at Fukushima



NASA's NuSTAR was the first space telescope to create focused images of cosmic x-rays. eV Products worked with CalTech to deliver CZT detectors that enabled NuSTAR to visualize x-rays in colour. Image shows the energized remains of a dead star 17,000 light-years away, nicknamed the "Hand of God".

## 2013

Kromek acquired eV Products Inc., Pennsylvania. eV brought significant commercial relationships in Kromek's core markets, with a wide range of products including medical imaging sub-systems for SPECT and CT scanners; NDE detector systems; baggage scanners; gamma-ray detectors; digital x-ray imaging systems.

## 2013

In October 2013, Kromek was admitted to the AIM market of the London Stock Exchange (KMK), an important and very necessary step in the Group's development. The floatation provided the financial resources to transform the company's growth trajectory utilising its developed technology platforms.



## 2015

Kromek partnered with DARPA to create a new generation of radiation detectors. Legacy devices were expensive, typically \$10,000+, the size of a shoebox that generated lots of false alarms. The result was the multiaward-winning Kromek D3 family of small, compact, high-performance, handheld and wearable detectors.

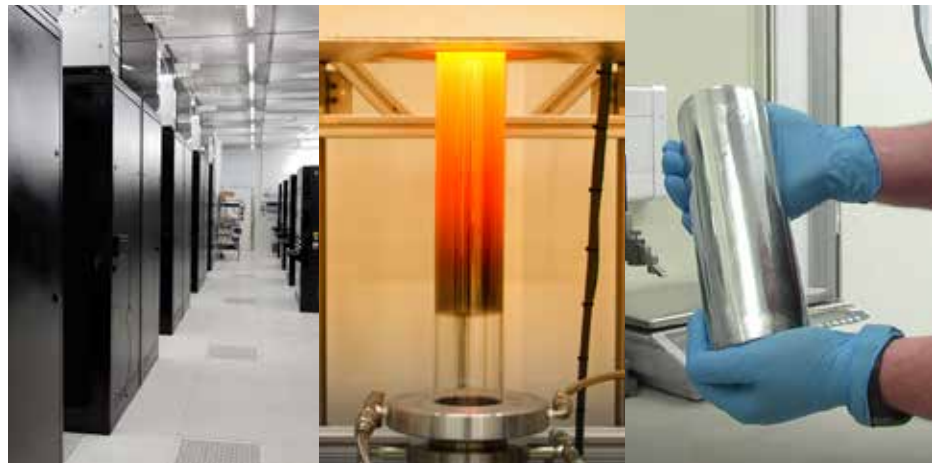




Our US operations relocated to a new, purpose-built premises near Pittsburgh, Pennsylvania. The facility provided a world-class platform upon which to build next-generation CZT-based molecular imaging SPECT detector assemblies and other medical imaging products.

## 2019

Kromek successfully completed a major expansion programme at its Sedgefield headquarters significantly increasing CZT production capacity to meet the growing demand for its products. The £10 million capital investment programme increased both crystal growth manufacturing capacity and the level of process automation.



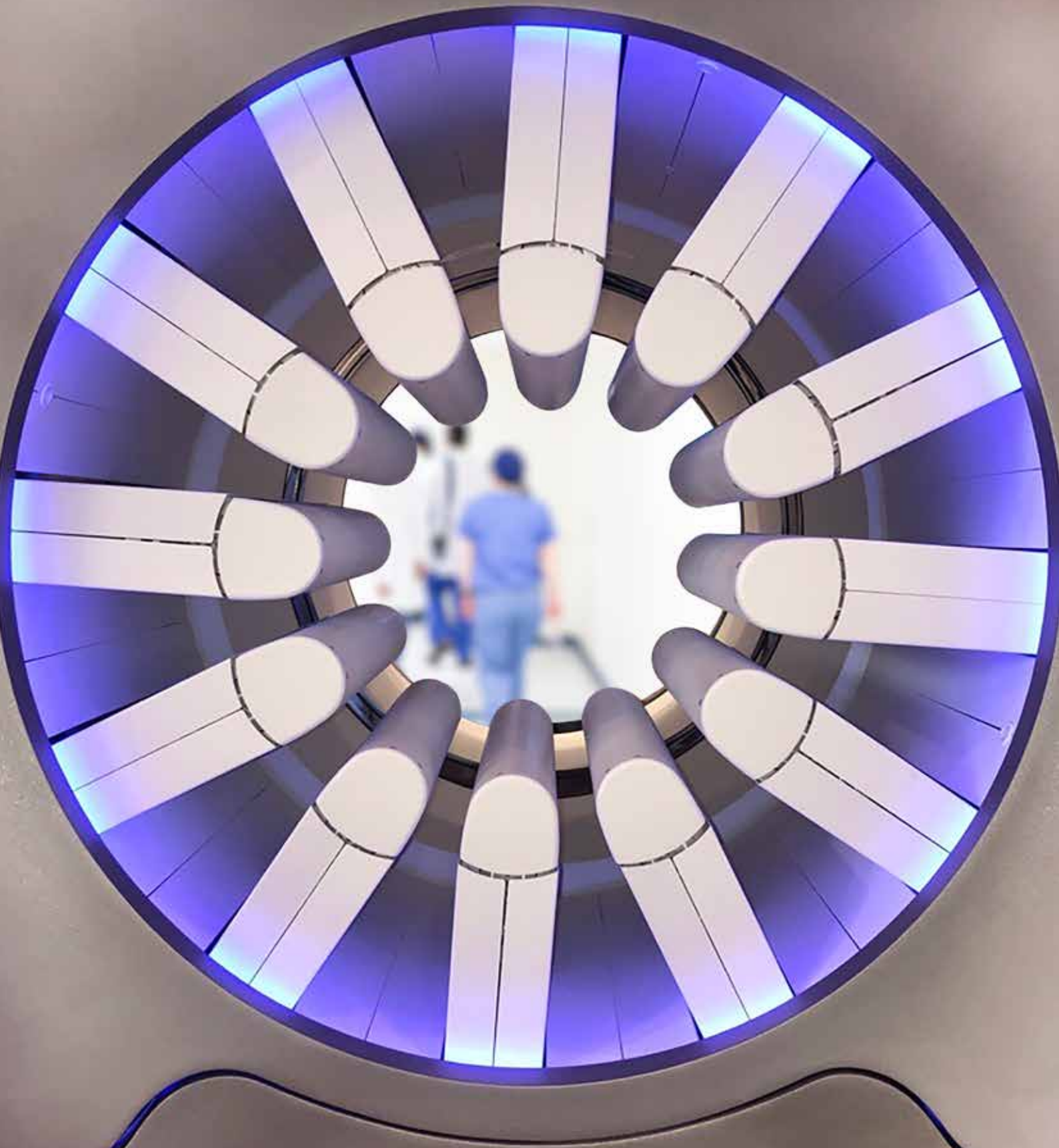
## 2019

Exports account for almost 85% of Kromek's turnover. Kromek was invited to become part of a nationwide network of British companies that, in conjunction with the Department for International Trade, act as ambassadors for exporting by sharing their success stories, offering practical advice and leading by example.

## 2020

The Queen's Awards are among the most prestigious for UK businesses, recognising and encouraging cross-sector achievements in internationally significant trade and innovation. Kromek received the Queen's Award for Enterprise for its contribution to international trade, with the company exporting to more than 55 countries.





*Improvements in sensitivity and spatial resolution yield vastly improved image quality, which in turn leads to earlier and more accurate diagnoses, improved treatment targeting and faster treatments, and much improved patient outcomes.*



2022

## Another World First for Kromek

In October, Spectrum Dynamics Medical Group, in partnership with Kromek Group, announced the world's most advanced SPECT/CT scanner to date, the VERITON-CT 400.

Developments in SPECT technology have made tremendous progress over the last two decades with the most significant technological advancement being the introduction of CZT (cadmium zinc telluride) detectors replacing legacy scintillator detectors.

As the only independent CZT detector manufacturer in the world, Kromek has played a pivotal role in cost and technology leadership that has enabled the development of this superior technology.

The VERITON-CT 400 SPECT/CT scanner incorporates Kromek's high-performance CZT digital detectors within its 360-degree wide-bore gantry and together with its advanced image recognition algorithms, set a new standard in image quality. The significantly improved image quality provides earlier and more reliable diagnosis of disease, improved treatment targeting and faster treatments, and much improved patient outcomes.

Kromek's CZT digital detectors also offer new possibilities for future clinical use. Smaller and lighter camera detector heads enable superior modality-specific SPECT, such as for cardiac, breast and prostate screening etc. They address diseases particularly associated with an ageing population such as cancer, Alzheimer's, Parkinson's, cardiovascular illnesses and osteoporosis – with higher resolution images enabling earlier diagnosis for better patient outcomes and reduced overall cost of care.

*'Implementation of CZT solid-state detectors has established the design as the gold standard of CZT-based SPECT cameras used in Nuclear Medicine'*

*Spectrum Dynamics*



*Spectrum Dynamics Veriton-CT 400 SPECT/CT scanner that incorporates Kromek's high-performance CZT digital detectors*

2022



# HRH the Prince of Wales Opens 'The Brinkman CZT Growth Facility'

HRH the Prince of Wales opened the upgraded crystal growth facility named after the late Prof. Andrew Brinkman, one of Kromek's founding directors and the person whose research and innovations were the building blocks for the establishment of Durham Scientific Crystals in 2003.

Over £10m was spent upgrading the crystal growth facility creating a six-fold increase in capacity.

After a tour of the facility, His Royal Highness unveiled a plaque to officially open 'The Brinkman CZT Growth Facility'.

Speaking to staff, the Prince of Wales said: *"I do hope this will draw attention to the remarkable work of Professor Brinkman, who helped start all of this. I think it is remarkable, having just had a very short glimpse of what you all do here, just what a high-powered company this is."*

*"It gives this county an even greater reputation in so many of these fields. The fact that you are so much in demand for what you produce here all around the world is a great tribute to your incredible hard work and genius."*

*"I can only congratulate you on the success you have had so far."*



*His Royal Highness' tour of the Sedgefield site included all areas of Kromek's work: medical imaging; radiation detection and our emerging, bio-security capability. Pictured in 'The Brinkman CZT Growth Facility'.*



*It also marked the official opening of 'The Brinkman CZT Growth Facility' of 154 furnaces, which provides the core of our detection technology for advanced imaging.*





Early studies indicate that women with dense breast tissue are at higher risk of breast cancer – they are both more susceptible to the disease and more difficult to diagnose.

Data from Cancer Research UK show that when breast cancer is diagnosed at its earliest stage, almost all (98%) people will survive for five years or more, compared with around 1 in 4 (26%) when the disease is diagnosed at the latest stage, so it's vital that every tool is appropriately applied in screening regimes.

# Finally, a reason to be optimistic in the fight against breast cancer

With more than two million new cases diagnosed worldwide in 2020, (about 55,000 new cases in the UK alone) breast cancer is the most common cancer in women.

While early detection through mammography screening has been proven to be effective, it has limitations. One major drawback is that traditional mammography has limited sensitivity in women with dense breast tissue. Up to 40 per cent of women have dense breast tissue, which can make it more difficult to detect cancerous lesions on a mammogram. Early studies indicate that women with dense breast tissue are at higher risk of breast cancer – they are both more susceptible to the disease and more difficult to diagnose.

Kromek is pioneering ground-breaking research to develop the next generation of ultra-low dose Molecular Breast Imaging (MBI) detectors that will enable safe and effective complementary screening for breast cancer in women with high breast density.

MBI breast screening involves a special radio tracer being injected into the patient's bloodstream. It accumulates in cancerous cells, which are detected by a specialised camera that creates a 3D image of the volume emitting excessive amount of radiation, which indicates a potential cancer growth.

Part funded by the UK Government, this research is being conducted in partnership with Newcastle Upon Tyne Hospitals, Newcastle University, and University College London.

MBI has the potential to revolutionise breast cancer screening for women by becoming an indispensable tool in the early diagnosis of breast cancer – putting those women with dense breast tissue on an equal footing with those for whom conventional mammography is already an effective diagnostic tool.

In the United States, MBI is already approved by the Food and Drug Administration (FDA) for screening patients with dense breast tissue and its use is becoming more widespread. The FDA's approval accelerates the adoption of the technology in other countries. Here in the UK, the government is finalising a new fast-track regulatory recognition route for medical devices that have received approvals from international partners such as the FDA.

Initial results, reported at multiple international conferences and published in peer-reviewed journals, demonstrated the potential of this new modality. The project is now at the advanced stage of developing the equipment and procedures needed to begin full clinical trials.







*Tom Scott, SW Nuclear Hub Director from the University of Bristol, demonstrates how Kromek detectors provide users with high quality spectral and geolocation data from both the air, when mounted on a drone, and from the ground when attached to a robot dog.*



# Strengthening Relationships with Global Distributors

Every manufacturer knows that having strong relationships with their distributors is a key factor in the success of their products in overseas markets. Kromek is no exception to this.

In September, Kromek held its second annual civil nuclear distributor event at its NETPark headquarters. The two-day event welcomed distributors from across Europe and Asia to meet with Kromek's team of technical experts. It provided the perfect opportunity to catch up with the latest technical advances as well as the realities on the ground that the distributors face in market.

In addition to plenty of hands-on product training, another of our partners, Tom Scott, SW Nuclear Hub Director from the University of Bristol, demonstrated how Kromek detectors provide users with high quality spectral and geolocation data from both the air, when mounted on a drone, and from the ground when attached to a robot dog.

"The value of these events cannot be overstated," said Craig Duff, Kromek's CBRN Business Manager.

"One of the most valuable outcomes of the event is feedback not just in terms of product strengths or weaknesses, but where enhancements can be made, opportunities for line extensions or developing new products such as the latest new probes to pair with the RayMon."

"When we and our distributors work in the same direction and align our visions, it is much easier for us both to achieve our goals and find mutual success. We then create the tools that enable our distributors, not only to sell more but to sell more effectively, increasing both our revenue and market penetration."



# Our Commitment to Sustainability...

# We are committed to the highest standards of business conduct in everything we do

**Kromek is committed to reducing its environmental impact to the bare minimum, and establishing sustainable practices, including the dramatic reduction in carbon emissions.**

We have an established Sustainability Team, and together with senior management, the company has begun implementing the policies and programmes that will help us attain our goal of being net zero no later than 2050.

We are reducing our environmental impact wherever we can by using the latest technology, and by changing our practices. We are continually looking both inside and out the organisation for ways to be better and engage with our employees to achieve this.

Some of our recent initiatives include:

## Net Zero Commitment

### Green Energy

Moving our business to using only energy supplied from renewable sources

### Heat Recycling Programme

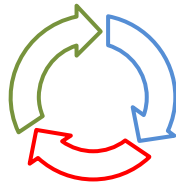
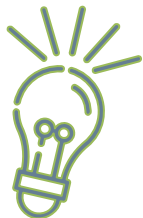
Undertaking a heat recycling programme to reuse the heat from our furnaces to heat the factory and offices

## Social Responsibility

### Volunteering

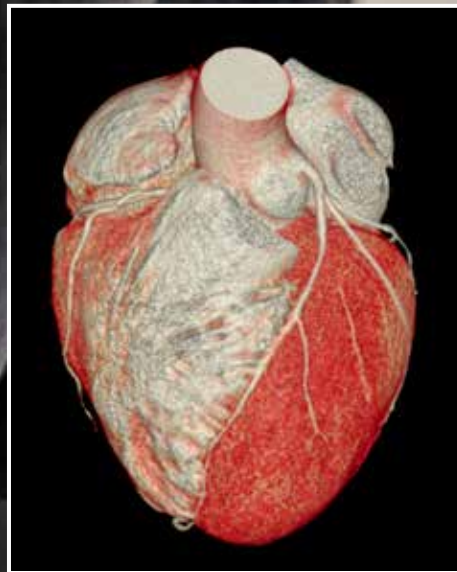
Introduced 1800 hrs of paid volunteering programme in support of local and national charities

**Apprenticeships, Internship, Summer Placements and Outreach, and supporting grass-root sports**

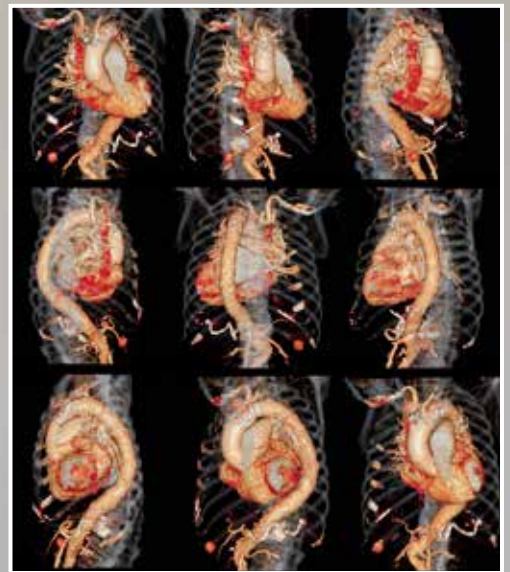


*A pixelated CZT detector for a PCCT detector array.*

*Conventional CT scanners provide a black-and-white image with relatively poor differentiation of soft tissue. In contrast, PCCT enables clinicians to see X-ray images in full color and with ultra-high resolution and achieves this differentiation while reducing patient exposure to radiation dose compared to conventional CT.*



*3D image CT angiography for heart disease.*



*3D multi-view CT image of thoracic aorta.*



# Photon Counting Computed Tomography Transforms Medical and Security Imaging

Computed Tomography (CT), the most widely deployed medical imaging modality in the world, has transformed patient care through its versatility and information rich images. Photon Counting CT (PCCT) is the next evolutionary development in this imaging modality and Cadmium Zinc Telluride (CZT) -based detectors are the enabling technology.

Kromek is at the centre of this technology conversion supporting medical imaging OEMs with the mission critical CZT devices that enable PCCT scanners. The company collaborates with key technology partners and industry system manufacturers to help ensure the broadest adoption of this new and breakthrough technology.

Conventional CT scanners provide a black-and-white image of the human body with relatively poor differentiation of soft tissue. Complementary medical examinations, such as MRI scans, are often required to confirm a diagnosis. In contrast to conventional CT, Photon Counting CT systems quantify the energy of each individual photon. As a result, PCCT enables clinicians to see X-ray images in full color and with ultra-high resolution. PCCT achieves this differentiation while decreasing patient exposure to radiation dose compared to conventional CT. The additional contrast of PCCT images contains clinically highly relevant and new information which in-turn results in better patient outcomes and reduced cost of care.

While PCCT scans are used to better identify disease or injury of the body, in security screening, the improved image quality and 3D images of passenger bags and parcels will, for example, allow passengers to keep their luggage in their bag as they move through security checkpoints. Kromek's PCCT technology partnership with Analogic is a telling example of an industry collaboration to enhance identification of prohibited and dangerous items in real time while improving airport logistics and passenger safety.



*It was reported in the US in May 2023, the TSA was awarding up to \$1.3bn to procure additional CT X-ray Scanners for Airport Checkpoints.*

## Strategic Report (Continued)

## Review of Principal Risks

The Group takes a holistic approach to risk management, first building a picture of the principal risks at a divisional level and then consolidating those principal risks alongside Group risks into a Group view. In addition, we continue to identify and analyse emerging risks, which are considered and approved at senior management meetings before being presented to the Audit Committee and Board for consideration and approval. The objective of this process is to ensure that all key risks to the Group are known and are being actively monitored, and mitigating controls are put in place to ensure risk falls within the risk appetite set by the Board.

Our risk management methodology is designed to identify the principal and emerging risks that could:

- adversely impact the safety or security of the Group's employees, customers and assets
- have a material impact on the financial or operational performance of the Group
- impede achievement of the Group's strategic objectives and financial targets
- adversely impact the Group's reputation or stakeholder expectations.

Risks are reviewed on a regular basis by the Board and Audit Committee to identify any changes in risk profiles and to consider the optimal range of mitigation strategies.

### Pandemic

Some uncertainties remain worldwide in relation to the social and economic impact from any future epidemics or pandemics. National and international travel restrictions and social distancing measures would prevent the Group's personnel from visiting countries where restrictions are in place and would limit potential users of its products from attending training and/or trainers from providing training on the safe use of its products. In the event of the introduction of another epidemic or pandemic, medical resources at national and local levels will be focused on mitigating the impact of such infections rather than undertaking non-urgent or elective procedures that would otherwise be able to utilise the Group's products. There may be future restrictions on the ability of sales representatives to attend customer sites. Should Group personnel become infected or show symptoms of any such infection, they will be required to self-isolate and/or take extended time off work. National social distancing responses may in future require alternative working methods (i.e. home-working) which may not be suitable for all Group employees.

### Mitigation

The Board and management continue to monitor the current and potential impacts of an epidemic or pandemic on Group and divisional performance. The health and safety of our staff is of paramount importance, and we continue to operate with additional hygiene measures in Kromek facilities and encourage hybrid working where possible. In the event of a future pandemic, management would follow and implement government guidance in each jurisdiction in which the Group operates and would continually review its business continuity plan and financial forecasts to ensure that the business can serve its customers efficiently and safely.

### Risks associated with competition

The Group faces competition from two types of competitor, specialised companies targeting discrete markets and divisions of large integrated device manufacturers. The Group's current and future competitors may develop superior technology or offer superior products, sell products at a lower price or achieve greater market acceptance in the Group's target markets. Competitors may have longer operating histories, greater name recognition, access to larger customer bases and more resources. As such, they could be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than the Group.

### Mitigation

To the extent possible, the Group carefully monitors competing technologies and product offerings. The Group intends to continue to make commercially driven investments in developing new technologies and products to maintain a strong technology position, and is investing in further and more specialised marketing and sales resources. Group IP gives some additional protection, and Kromek continues to invest in IP resources and management systems and processes to maximise our opportunities to succeed in the competitive markets we serve.

### Risks associated with management of the Group's growth strategy

The ability of the Group to implement its strategy in rapidly evolving and competitive markets will require effective management planning and operational controls. Significant expansion will be required to respond to market opportunities and the Group's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational and financial performance, whilst at the same time maintaining effective cost controls and working capital.

#### Mitigation

The Group's experienced management team is well versed in the current markets available to the Group and well-positioned to adapt to any changes in those markets. The Group also has detailed control systems including R&D cost control and extensive project management criteria. The Group has demonstrated its ability to identify, execute and integrate M&A opportunities with its two successful US acquisitions. The Group has also relocated one of the US subsidiary companies to a custom-built facility that specialises in the production of CZT gamma cameras used for SPECT.

### Risks associated with product and technology adoption rates

The rate of market acceptance of the Group's products is uncertain as many factors influence the adoption of new products including changing needs, regulation, marketing and distribution, users' habits and business systems, and product pricing.

#### Mitigation

With a widely applicable technology base, the Group only chooses opportunities in which it believes there is a good match between its rare or unique capabilities and strong adoption drivers in large growing markets. The use of common technology platforms across multiple markets and applications reduces the investment risk in any given market segment and diversifies overall adoption risk.

### Risks associated with timing of customer or third-party projects

The Group's strategy includes co-development with large OEM partners for additional development, manufacturing or subsequent marketing. Consequently, the Group will be increasingly reliant on securing and retaining such partners, and delays in the progress of the development, manufacturing or marketing of the end product, as a result of a partner's action or inaction, may delay the receipt of product-related revenues.

#### Mitigation

The Group has a diversified customer base and operates in a carefully selected portfolio of markets with different adoption risks and cycles. As part of its business model, it also more directly controls a certain proportion of its revenues via the sale of complete end-user products in three different markets.

Strategic Report *(Continued)*Review of Principal Risks *(Continued)*

### Risks associated with exchange rate fluctuations

As a consequence of the international nature of its business, the Group is exposed to risks associated with changes in foreign currency exchange rates on both sales and operations. The Group is headquartered in the UK and presents its financial statements in pounds sterling. However, its subsidiaries, eV Products, Inc. and NOVA R&D, Inc., operate in the US and earn revenues and incur costs in US dollars. A growing proportion of the Group's future revenues are expected to be denominated in currencies other than pounds sterling. Exchange rate variations between currencies in which the Group operates could have a significant impact on the Group's reported financial results.

#### Mitigation

The Group is predominantly exposed to currency risk on sales and purchases made from customers and suppliers. Sales and purchases from customers and suppliers are made on a central basis and the risk is monitored centrally. Apart from these particular cash flows, the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred. Where this natural hedging strategy results in exposed foreign currency risk, management will consider hedging some or all of that risk through the utilisation of forward exchange contracts.

### Risks associated with Brexit

As a consequence of the UK's decision to leave the European Union at the end of 2020, there continues to be international uncertainty around the long-term impact this will have on business and trade. The Group will continue to monitor Brexit and other macroeconomic factors such as US and China relations. Kromek, as an export led Group, may be subject to risks associated with international trade, including operational impacts on logistics, potential tariffs and duties (for example on imports on some categories of semiconductor material), and export control matters for some of the Group's nuclear products as a result of the final terms of the UK's departure from the European Union. There is unlikely to be an impact on staff relating to any restriction on the movement of labour.

#### Mitigation

The Group has significant operations and market presence in non-EU territories such as the US and Asia, as well as a portfolio of products that are market leaders because of the technological capabilities offered. As a result, the Group is strategically well-placed to navigate whatever will be the long-term outcomes of Brexit.

However, management continually monitors the political environment and keeps the impact of Brexit under review and other global economic events such as the existing relationship between the US and China. The Group employs specialist skills within its functions and applies regular technical update training to constantly monitor the changing environment, latest government guidelines and industry best practice.

### Risks associated with global electronic component shortages

The global shortage of certain electronic components, and in particular semiconductors and micro-chips, as outlined in the 2021 and 2022 Annual Reports, continued into 2023 although global availability of components has started to improve, and component prices have started to reduce, as a result of the improving supply in the market. It is anticipated that the situation will continue to improve in 2024.

The situation was caused by a range of factors, including major factory fires in key component suppliers in Japan and Taiwan, and supply chain disruption due to factories being closed or operating at much lower capacity as a result of the COVID-19 pandemic. The supply side shortages were exacerbated by a significant increase in demand for electronic components in nearly every industry including computing, automotive, smartphone, medical and IoT markets that need increasingly large numbers of components for finished products. In addition, the Russia-Ukraine conflict continues to cause some disruption to semiconductor manufacturers by impacting the supply of neon and hexafluorobutadiene gases that are essential to manufacture semiconductor chips as these are used in the lithography processes for micro-chip production.



## Economic conditions

### Mitigation

The Group took a range of mitigating actions in response to the global shortage of electronic components, including advance buying and widening the supply chain from which components are sourced, to securing future supply and thereby continuity of supply for the Group's customers. We bolstered our procurement team and transitioned our buying cycles to accommodate the resulting longer lead supply times. This significantly helped management, enabling greater visibility over orders. In addition, we widened and strengthened our supplier base through establishing an increased number of strategic, rather than transactional, relationships with key suppliers. Management will continue to monitor the situation closely as global component availability improves and prices start to return to more normal levels.

This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in the sectors in which we operate such as the current high inflationary environment, high and increasing interest rates, and periodic market downturns. Some of the factors driving such market changes are beyond the Group's control and are difficult to forecast.

The Group's success depends on adapting to these economic fluctuations which may negatively impact performance through increased costs, changing customer needs, reduced demand and/or reduced opportunities for growth. Globally, the economic outlook is less certain, and in common with other businesses, the Group has experienced significant cost inflation driven by increased fuel costs related in part to the Russia-Ukraine war. All these market changes have the potential to decrease the Group's available financial resources to invest capital in innovative solutions that drive demand.

### Mitigation

The Group cannot control market conditions but believes it has effective measures in place to respond to changes.

Kromek continues to reinforce existing measures in place, including:

- the evolution of our business model;
- cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;
- resource allocation processes; and
- capital expenditure controls and procedures.

The Group continues to monitor for any business disruption caused by the factors outlined above and remains prepared to implement appropriate mitigation strategies.

## Data security and privacy, including cyber-security

This risk includes the risk of cyber-attack, security of IT systems and resilience to restore system availability. A cyber-attack presents a risk to Kromek's operations in the following ways:

- Destructive compromise of Group-wide networks resulting in a loss of all services
- Confidentiality (leakage of customer data)
- Integrity (accuracy of Kromek's data)
- Availability (loss and access to data).

Cyber-attacks, computer malware, viruses, spamming and phishing attacks have become more prevalent and may result in a breach of our systems. A breach of our facilities and/ or networks could disrupt our operations and impair our ability to protect data, and/or compromise our confidential business information. A failure to prevent, mitigate or detect security breaches and/ or improper access to our business and/or customer information and/or comply with consumer privacy regulations could result in disruption to our operations, significant penalties and have an adverse impact on confidence in the Group.

### Mitigation

To protect our data and comply with all data privacy regulations, the Group has implemented IT infrastructure controls across the company. The Group administers a training programme to new employees, communicating their role in protecting and preventing the unauthorised access to sensitive data, and also provides refresher training to all employees on an annual basis. Business continuity plans continue to evolve and are updated as the transition to greater dependency on technology continues in order to minimise the impact of cyber-attacks and the potential impact to the continuity of our operations.

## Strategic Report (Continued)

### Review of Principal Risks (Continued)

#### Human resources

Employee costs represent the largest component of the Group's operating costs. These costs include expenses related to recruitment, retention and talent development. The costs are impacted by changes in employment markets, new regulatory requirements and diversity and inclusion programmes. A failure to effectively recruit and retain a diverse and talented workforce could have adverse financial, reputational and operational impacts. The employment market for many disciplines, including engineers and scientific staff, has become more challenging since the pandemic. This has increased our recruitment and retention costs and may impact operations in future periods. Our employee turnover has also been impacted by current wider economic circumstances, particularly rising inflation.

#### Mitigation

In order to increase retention and decrease employee costs, the Group has enhanced recruitment practices, including leveraging multiple channels including online recruitment for all roles. To help prevent overall employee turnover, we continue to focus on improving communication with employees, by implementing a people-focused strategy, investing in employee development and diversity and inclusion, and providing market competitive salaries and benefits.

#### Protection of Intellectual Property

The Group's success and ability to compete effectively are in large part dependent upon exploitation of proprietary technologies that the Group has developed internally, the Group's ability to protect and enforce its intellectual property rights so as to preserve its exclusive rights in respect of its technologies, and its ability to preserve the confidentiality of its know-how. The Group relies primarily on patent laws to protect its intellectual property rights. Worldwide, the Group has 246 patents granted.

In addition, policing unauthorised use of this technology is difficult and expensive. There can be no assurance that the steps the Group takes will prevent misappropriation of, or prevent an unauthorised third party from obtaining or using, the technologies Kromek relies on. In addition, effective protection may be unavailable or limited in some jurisdictions. Any misappropriation of the Group's proprietary technology and intellectual property could have a negative impact on the Group's business and its operating results. Litigation may be necessary in the future to enforce or protect the Group's rights or to determine the validity or scope of the proprietary rights of others. Litigation could cause the Group to incur substantial costs and divert resources and management attention away from its daily business and there can be no guarantees as to the outcome of any such litigation.

#### Mitigation

Intellectual property is treated as a priority, group wide. Kromek has increased its resources in protecting IP during the year. There are tight controls around the use of technology set up in the Group, as well as training to increase awareness of staff. Kromek also employs an in-house legal Counsel whose experience in this key area aids in protecting the Group's IP.

#### Geopolitical risks including Ukraine and Taiwan conflicts

The Group operates internationally, meaning that it is exposed to certain risks relating to international trade, regulation, import/export regimes, sanctions and politics. For example, in relation to countries seeking to on-shore or pursuing a 'buying local' policy, that could fetter international sales of products manufactured outside of such countries.

In addition, the ongoing Russia-Ukraine conflict and increasing tensions between China and Taiwan are likely to have an adverse financial impact on the Company as the conflict has accelerated the inflationary pressures already in place due to the pandemic. Central banks are expected to continue tightening monetary policy and raising interest rates, which increases the probability of a recession. Such economic pressures affecting global markets are likely to depress demand in international sales of the Company's products.

#### Mitigation

In order to mitigate the geopolitical risks, the Group stays in regular communication with its customers and is aware of potential impacts on customer operations. The maintenance of a robust export control policy is also a key factor to mitigate the associated geopolitical risks. In addition, to appropriately reflect any potential downturns in revenue, pipeline and forecast revenue is based on a risk weighted average.

## Financial risk

The key financial risk is the availability of sufficient funding until the business reaches a sustained positive cash generative position, as the Group continues to commercialise its product range. Commercialisation of product and distribution as well as R&D are both working capital intensive which results in a requirement for high liquidity. Constraints on liquidity could result in delays in development and production.

### Mitigation

The Group has an experienced finance team that provides effective management of the Group's financial exposures, with a strong focus on cash control. Along with appropriate financial modelling, the Group prepares long term business plans and forecast which ensures liquidity is monitored. Whilst the Group are expected to repay their current facility, the Directors are confident that this will be replaced by alternative borrowing and additional financing will be available to the Group. Post year end, the Group also successfully concluded a placing, subscription and open offer which raised £7.4m net of fundraising costs.



## Strategic Report *(Continued)*

# Section 172 Statement

The Directors have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, in line with Section 172 of the Companies Act 2006.

This section of the Strategic Report describes how the Directors continue to have regard for:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and,
- the need to act fairly as between members of the Company.

In discharging its Section 172 duties, the Board has considered the factors set out above and the views of key stakeholders as described below. The Board identifies the Group's key stakeholders as shareholders, employees, customers, suppliers and community participants, and it is committed to effective engagement with these stakeholders.

### Shareholders

The 10 largest shareholders in the Group held, in aggregate, approximately 66% of the Group's shares at 30th April 2023. The Executive Directors communicate from time-to-time with these shareholders and have a good understanding of their interests. The Executive Directors and other members of the management team meet regularly with other shareholders, both institutional and private, to explain and discuss the Group's strategy and objectives and to understand the interests of smaller shareholders in the Group. The Board recognises its responsibility to act fairly between all shareholders of the Group.

The Group communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, regulatory announcements, the Annual General Meeting (AGM) and one-to-one meetings with existing and potential new shareholders. The Chairman aims to ensure that the Chairs of the Audit and Remuneration Committees are available at the Annual General Meeting to answer questions. All regulatory announcements along with annual reports and notices of all general meetings over the last five years are available on the corporate website and are publicised through Kromek's social media channels and newsletters.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the CEO, the CFO and the Group's brokers. The Group communicates with institutional shareholders frequently through briefings with management and, at a minimum, at the time of the publication of the half year and full year results.

### Employees

The Group employed an average of 173 staff during 2023. The management team interacts daily with all employees and operates dedicated HR functions at its key sites in the UK and US.

Management has implemented employee policies and procedures that are appropriate for the size of the Group. As noted in the Directors' Report, the Group's learning and development policy encourages employees to further their professional development. The Group also has a number of policies to ensure the operation of a business that is fair and equitable for all.

### Customers and suppliers

Apart from its shareholders and employees, the Group's main stakeholders are customers and suppliers. The Group has several contracts with customers that relate to longer term technology development and supply. The Group has engaged dedicated Procurement and Legal functions that operate with the Group's commercial, project and production teams and those of the Group's key customers and suppliers.

### Broader stakeholders

Kromek develops and manufactures products and systems that are designed to make the world a safer place. To support this goal, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations.

### Responsible Business

Over the course of 2023, the Board recognised and discussed the increasing importance of Environmental, Social and Governance (ESG) matters for a number of our stakeholders. As a relatively small organisation, the Group's impact on the community and the environment is modest, but the Board endeavours to ensure that the business acts at all times in an ethical and in an environmentally conscious manner.

Kromek is committed to being a responsible corporate member of society and our priority both before, during, and as we come out of the pandemic, has been to protect our people, support our customers and stakeholders and continue to protect the environment around us. We believe that this approach supports the Group's long-term success.

The Group's ESG strategy embodies two main aims:

- To continue to make our business better and more sustainable, by minimising our environmental impact and ensuring meaningful diversity in the workforce and strong governance
- To make a difference beyond the direct operation of our business, through our reach and contribution to wider society.

These aims are reflected in each of the following key areas for our business:

**The environment.** We will work both to reduce the Group's carbon footprint and work towards being a carbon neutral organisation. In April 2020, the Group elected to contract its energy supplies in the UK from clean energy sources.

**Our employees.** We will work with our employees to continue to provide an open and inclusive workplace, with a focus on well-being to ensure we have a great place to work.

**Our customers.** We will continue to innovate to provide our customers with products and services that use fewer resources.

### **Key Performance Indicators (KPIs)**

The Group utilises a range of financial and non-financial performance indicators to measure performance of continuing operations against strategy. Of those performance indicators, the Group's principal KPIs are revenue, Adjusted EBITDA and total cash balances, and management closely monitors current year actuals for these metrics against both budget and prior year figures. The Board believes that these metrics are valuable indicators of the Group's progressing business model.

Further comments regarding these metrics are set out in the Chairman's Statement and Chief Executive Officer's and Chief Financial Officer's Review.

**Dr Arnab Basu MBE**  
Chief Executive Officer  
21 July 2023

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## Governance

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## Directors' Biographies



### **Mr Rakesh Sharma OBE, Chairman**

Mr Sharma is a former FTSE 250 CEO with 30 years' experience in running international hi-tech engineering and manufacturing businesses. He was instrumental in the growth of Ultra Electronics Holdings plc, the previously LSE-listed group that specialised in providing engineering solutions for mission-critical systems in the defence, security, critical detection and control markets, latterly serving for six years as CEO. He also sits on the Board of LSE-listed PayPoint plc and Moneysupermarket Group plc. As part of his pro bono activities, he is a lay council member at The University of Nottingham, and supports a range of small businesses and entrepreneurs in a non-executive or advisory capacity. Mr Sharma was elected as a Fellow of the Royal Academy of Engineering in 2016 and was honoured in the 2017 Queen's Birthday Honours List with an OBE for services to defence capability. In 2018 he was given the Freedom of the City of London by redemption and became a Liveryman of the Worshipful Company of Coachmakers and Coach Harness Makers. He brings extensive expertise in the security and defence sector, a key market for Kromek.



### **Dr Arnab Basu MBE, DL, Chief Executive Officer**

Dr Basu has a PhD in physics from Durham University, specialising in semiconducting sensor materials, and started his career in technology businesses in India and the UK. A prominent figure within the business community, Dr Basu is Chair of Academic Health Science Network for North East and North Cumbria, an Honorary Fellow of the Institute of Physics, and an Export Champion for the Department of International Trade. Dr Basu was awarded EY 'Entrepreneur of the Year' (2009) and received an MBE for services to regional development and international trade in 2014.



### **Mr Paul Farquhar, Chief Financial Officer**

Mr Farquhar is a Fellow of the Institute of Chartered Accountants in England and Wales. He has in excess of 30 years' experience as a finance Director and chief financial officer, primarily for international businesses. He was previously President, Treasurer and Chief Financial Officer of Sevcon Inc, a NASDAQ-listed designer, manufacturer and supplier of microprocessor controls for electric and hybrid vehicles. In this position, Mr Farquhar established a global finance team in five countries with common financial reporting systems to meet the needs of a growing technology business and also oversaw the raising of equity and debt finance and M&A activity. He began his career as a chartered accountant, spending 10 years as an auditor at Jennings Johnson in Sunderland and at PricewaterhouseCoopers in Newcastle and Lisbon, Portugal.



### **Mr Albertus ("Berry") Beumer, Chief Operating Officer**

Mr Beumer is a technology business executive with extensive experience of delivering revenue growth in analytical instrument, high-frequency communications equipment, and optoelectronic and semiconductor materials industries. He has held several senior roles while working both in Europe and the US with AkzoNobel and Allied Signal and was Division President and General Manager of Taconic's US, Europe, and Asia operations. Prior to joining Kromek, he was Vice President of Sales and Marketing at XOS, Inc., a Danaher Company. During his tenure at XOS, Inc., Mr Beumer was responsible for driving the strategic direction of their x-ray elemental technology business, positioning the company as a global leader in application specific elemental analysis solutions for the petroleum and consumer products industries.



**Mr Lawrence Kinet, Non-Executive Director**

Mr Kinet has over 45 years' experience in leadership positions in the medical device and biopharmaceutical industry, most recently as Group Chief Executive of LMA International NV and President of Smiths Medical, London. Mr Kinet has raised more than \$100m in funding for early-stage companies, taking one through an IPO, and made over \$1bn worth of acquisitions. His career began at Baxter International, running several overseas operations and eventually becoming President of Baxter's International Division. He holds a BSc from the University of Birmingham (UK) and an MBA from the University of Chicago. In addition to being a Non-Executive Director of Kromek, Mr. Kinet is the former Chairman of Metrasens Ltd in Malvern, UK (a company in the healthcare and security fields) and is the Board Chair of Reglagene Inc., a company developing treatment for brain cancer.



**Mr Jerel Whittingham, Non-Executive Director, Remuneration Committee Chair**

Mr Whittingham has extensive experience in investor, operational and strategy roles with technology-rich companies, including Incuvest LLC, Generics Group plc, Durlacher plc, Amphion Innovations plc, INMARSAT, and a number of start-ups. He was appointed to the Board of Kromek Group plc in September 2013. Currently, he manages a portfolio of emerging and existing University spinouts and a small Seed Fund and also chaired (2021-22) a regional project looking to radically improve University spinout and SME access to patient capital. He has served as interim CEO or Executive Chairman of spinouts from Manchester and Cambridge Universities. Jerel is a graduate of UCL, Cranfield and ULB.



**Mr Christopher Wilks, Non-Executive Director, Audit Committee Chair**

Mr Wilks is a Fellow of the Institute of Chartered Accountants in England and Wales. He is currently Chief Financial Officer at ECO Animal Health Group plc, a leader in the development, registration and marketing of pharmaceutical products for global animal health markets. He qualified with Ernst & Young and has over 25 years' experience as Chief Financial Officer in technology and science-based companies. For over 10 years, he was the Chief Financial officer of Sondex plc, which makes advanced instruments used in the Energy Industry. During Mr Wilks' tenure, Sondex grew from a small sole trader to a fully listed plc and was acquired by GE in 2007. Immediately prior to joining ECO Animal Health Group, Chris was the CFO at Signum Technology Limited, a PE-backed buy-out vehicle formed for the acquisition of a number of oilfield technology businesses. Signum was successfully sold during 2019. His intimate understanding of the physics and financial worlds adds valuable insight and expertise to Kromek.



# Directors' Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 30 April 2023.

## Principal activities

Kromek Group plc is a leading developer of radiation detection and bio-detection technology solutions for advanced imaging and CBRN detection, based on cadmium zinc telluride (CZT) and associated technologies. Headquartered in County Durham, UK, Kromek has manufacturing operations in the UK and US, delivering on the vision of enhancing the quality of life through innovative detection technology solutions.

Advanced imaging comprises the medical (including CT and SPECT), security and industrial markets. Kromek provides its OEM customers with detector components, based on its CZT platform, to enable better detection of diseases such as cancer and Alzheimer's, contamination in industrial manufacture and explosives in aviation settings.

In CBRN detection, the Group provides nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation technology, are primarily used to protect critical infrastructure and urban environments from the threat of 'dirty bombs'. The Group is also developing bio-security solutions which now represents a separate division; these consist of fully automated and autonomous systems to detect a wide range of airborne pathogens.

The Group realises revenue primarily on the sale of radiation equipment, development of radiation technology, and leading research into different potential applications of its detection technology.

## Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended 30 April 2023, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's Statement and Chief Executive Officer's and Chief Financial Officer's Review, on pages 8 - 17.

## Future developments

The Group's development objectives for the year to 30 April 2023 are disclosed in the Strategic Report on pages 8 - 17.

## Capital structure

The capital structure is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities and cash flows.

No changes were made to these objectives, policies or processes during the year ended 30 April 2023.

## Results and dividends

The consolidated income statement is set out on page 67.

The Group's loss after taxation amounted to £6.1m (2022: £4.9m loss after tax and exceptional items).

The Directors do not recommend the payment of a dividend for the year ended 30 April 2023 (2022: £nil).

During the year ended 30 April 2023, the Group made political donations of £nil (2022: £nil) and charitable donations of £6k (2022: £nil).

## Directors

The Directors who served during the year and up to the date of signing this report (unless otherwise stated) were as follows:

Dr A Basu  
Mr R Sharma  
Mr P N Farquhar  
Mr A Beumer  
Mr L Kinet  
Mr J H Whittingham  
Mr C Wilks

The emoluments and interests of the Directors in the shares of the Group are set out in the Remuneration Committee Report on pages 56 to 58.

Details of significant events since the balance sheet date are contained in note 17 to the parent company financial statements.

## Directors' indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the UK (IFRSs as adopted by the UK), and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

## Employees

Kromek develops and manufactures products and systems that are designed to make the world a safer place. The Board and senior management value technological development in the Group's sector and actively support developments that lead to better scanning and detection systems. To this end, Kromek participates in technology transfer projects, and works with many universities and other places of learning worldwide. The Board, executive team and staff are active across a wide range of industry steering groups, organisations and other stakeholder organisations. All staff are encouraged to meet and participate in events and conferences that operate in their area of expertise. The Group's learning and development policy encourages employees to further their professional development. Operating a business that is fair and

equitable for all is vital to the Group's success. Kromek's ethical values are outlined in its:

- Equal opportunity policy;
- Personal harassment policy;
- Family-friendly policy;
- Equality, inclusion and diversity policy; and
- Anti-bribery and corruption policy.

These policies are circulated to staff as part of the employee manual, and reminders are sent on a regular basis as the manual is updated and changed.

The Group has several routes in place to reinforce ethical behaviour, which, depending upon the situation, could be resolved in a regular one-to-one meeting, personal improvement plan or in more severe action, including immediate dismissal.

The Group's current number of staff at the date of this report is 166 and the percentage of this number that is female is 28%.

## Auditor

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 auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the 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.

## Substantial shareholders

As at 30 April 2023 and 30 June 2023 (the latter being the latest date for which this information was available prior to approving this report), shareholders holding more than 3% of the share capital of Kromek Group plc were:

| Name of shareholder                  | At 30 April 2023 |                    | At 30 June 2023  |                    |
|--------------------------------------|------------------|--------------------|------------------|--------------------|
|                                      | Number of shares | % of voting rights | Number of shares | % of voting rights |
| Hargreaves Lansdown Asset Management | 58,331,323       | 13.51              | 69,323,505       | 11.70              |
| Interactive Investor                 | 54,710,071       | 12.67              | 62,282,507       | 10.51              |
| Canaccord Genuity Wealth Management  | 38,637,500       | 8.95               | 64,665,960       | 10.92              |
| Halifax Share Dealing                | 25,015,673       | 5.71               | 28,033,882       | 4.73               |
| Polymer Holdings                     | 21,940,142       | 5.79               | 42,032,529       | 7.10               |
| AJ Bell Securities                   | 19,229,527       | 4.45               | 22,491,965       | 3.80               |
| Herald Investment Management         | 19,080,059       | 4.42               | 29,080,059       | 4.91               |
| Barclays Wealth                      | 16,500,154       | 3.82               | 18,292,847       | 3.09               |

By order of the Board

**Dr Arnab Basu MBE**  
Chief Executive Officer  
21 July 2023

# Corporate Governance Report

The Directors recognise the importance of sound corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The QCA Code was developed by the QCA, in consultation with a number of significant institutional small company investors, as a corporate governance code applicable to companies with shares traded on AIM.

| Principle   | Compliance  |
|---|---|
| 1. Establish a strategy and business model which promote long-term value for shareholders   | <ul style="list-style-type: none"> <li>• Kromek is a leading supplier of radiation detection components and devices.</li> <li>• The Group strategy is set out in the Strategic Report section on pages 8 to 17 of this Annual Report.</li> <li>• The Board normally meets formally at least four times per year in person and four times per year telephonically. One of the Board's direct responsibilities is setting and monitoring strategy.</li> </ul>   |
| 2. Seek to understand and meet shareholder needs and expectations   | <ul style="list-style-type: none"> <li>• Investor roadshow meetings are held at least twice per year immediately following the full year and interim announcements.</li> <li>• Under normal circumstances, shareholders are invited to the AGM held in Sedgfield, County Durham, where all Board members have the opportunity to interact with shareholders and are available to answer questions raised.</li> <li>• Shareholder feedback is received from our Nomad and all shareholder feedback is discussed at Board meetings.</li> <li>• For further information, see Section 172 statement on pages 42 to 43 of this Annual Report.</li> </ul>   |
| 3. Consider wider stakeholder and social responsibilities and their implications for long-term success                                  | <ul style="list-style-type: none"> <li>• In terms of employees, regular meetings are held with management tiers to discuss strategy, keep employees updated, seek feedback and promote employee engagement.</li> <li>• The Group engages in continuous communication and engagement with customers in order to understand their needs and requirements.</li> <li>• The procurement team maintains strong relationships with existing suppliers whilst promoting new partnerships with new suppliers.</li> <li>• For further information, see Section 172 statement on pages 42 to 43 of this Annual Report.</li> </ul>  |
| 4. Embedded effective risk management, considering both opportunities and threats throughout the organisation                           | <ul style="list-style-type: none"> <li>• The Board has overall responsibility for risk management and is assisted by the Audit Committee in monitoring the principal risks and uncertainties facing the Group as well as the actions taken to mitigate those risks.</li> <li>• The Group's significant risks are reviewed and assessed throughout the year.</li> <li>• The significant risks are disclosed on pages 36 to 41 of the Strategic Report within this Annual Report.</li> </ul>  |
| 5. Maintain the Board as a well-functioning, balanced team led by the Chairman  | <ul style="list-style-type: none"> <li>• The Board is led by the Non-Executive Chairman, Mr Rakesh Sharma.</li> <li>• The members of the Board maintain the appropriate balance of experience, independence and knowledge of the Group.</li> <li>• For further information, please see pages 51 to 53 of this Annual Report.</li> </ul>   |
| 6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities                             | <ul style="list-style-type: none"> <li>• Between the four Non-Executive Directors and the three Executive Directors, the Board has an effective balance of skills, experience and capabilities including finance, technology, law and knowledge of the medical sector.</li> <li>• Biographies of each Director can be found on pages 46 to 48 of this Annual Report.</li> </ul>   |
| 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvements                                   | <ul style="list-style-type: none"> <li>• The Remuneration Committee evaluates Executive Director performance alongside remuneration and reward.</li> <li>• With regards to financial performance, the Audit Committee meets with the Auditors to plan the year-end audit, followed up by a meeting to review the results of the audit.</li> <li>• The Board review the preparation of the Group budget; review period results against budget, together with commentary on significant variances and updates of both result and cash flow expectations for the period.</li> <li>• Board authorisation of all major purchases and disposals and regular reporting of legal and accounting developments to the Board.</li> </ul> |
| 8. Promote a corporate culture that is based on ethical values and behaviours   | <ul style="list-style-type: none"> <li>• The Group's ethical values are outlined on page 49 of this Annual Report.</li> <li>• All staff are encouraged to meet and participate in events and conferences that operate in their area of expertise. The Group's learning and development policy encourages employees to further their professional development.</li> </ul>  |
| 9. Maintain governance structures and processes and support good decision making by the Board   | <ul style="list-style-type: none"> <li>• As noted in principle 1, the Board normally meets formally at least four times per year in person and four times per year telephonically.</li> <li>• The Audit Committee also meets two times per year and one of its key responsibilities is to review the effectiveness of the Group's internal control over financial reporting and consider key financial judgements made in the financial statements.</li> <li>• The Group's financial results and internal controls are also audited by external Auditors to ensure they are consistent with the Audit Committee's understanding.</li> </ul>   |
| 10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders | <ul style="list-style-type: none"> <li>• Communication with shareholders is explained in principle 2 above.</li> <li>• The Group's website details RNS announcements and copies of the Annual and Interim reports.</li> </ul>   |

This information is available on the Group's website. Please visit [www.kromek.com](http://www.kromek.com).



## The Board

The Board normally meets formally at least four times per year in person and four times per year telephonically. Its direct responsibilities include approving annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

## Board meetings

The Board met four times during the year ended 30 April 2023, including one AGM. The following details the Board meetings during 2022/23, and the attendees:

| Date       | Attendees  |
|------------|--|
| 23/06/2022 | Rakesh Sharma<br>Arnab Basu<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Chris Wilks<br>Berry Beumer                     |
| 28/09/2022 | Rakesh Sharma<br>Arnab Basu<br>Paul Farquhar<br>Lawrence Kinet (virtual)<br>Jerel Whittingham<br>Chris Wilks<br>Berry Beumer (virtual) |
| 09/12/2022 | Rakesh Sharma<br>Arnab Basu<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Chris Wilks<br>Berry Beumer                     |
| 29/03/2023 | Rakesh Sharma<br>Arnab Basu<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Chris Wilks<br>Berry Beumer                     |

## Board effectiveness

The Board has set out, in the contract for Non-Executive Directors, the time commitment required and asked for confirmation that the Director can devote enough time to meet the expectations of the Board.

The Board currently anticipates a minimum time commitment of one day per month and further days if required for the satisfactory fulfilment of Directors' duties. This includes attendance at five Board meetings per annum, including attendance at four in person, the AGM, any general meeting, one annual Board away day and at least one site visit per year. Also, Directors are expected to devote appropriate preparation time ahead of each meeting.

The Board requires the Directors to disclose any other significant time commitments and to obtain the agreement of the Chairman, or in the event that the Chairman has a conflict of interest in

relation to such matter, obtain the agreement of one of the Group's independent Non-Executive Directors, before accepting additional commitments that might affect their time to devote to the role as a Non-Executive Director of the Group.

The Board is satisfied that, between the Directors, the executive team and senior management, the Group has an effective and appropriate balance of skills and experience. These include the areas of technology, business operation, finance, innovation, international trading and marketing. All Directors have extensive technical qualifications and experience relating to their area of operation.

The Chairman conducts half yearly reviews of the effectiveness of the Board's performance as a unit and of the individual members, meeting with Board members to discuss their involvement with the Group to ensure that:

1. their contribution is relevant and effective;
2. that they are committed to Kromek and its values; and
3. where relevant, they have maintained their independence.

In order to measure the effectiveness of the Board against these three points, four areas of performance are considered:

1. Process and relationships
  - Effective in dispatching business in and between meetings.
  - Good internal board dynamics.
  - Good key relationships.
2. Coverage
  - Focuses on key issues and risks.
  - Initiative-taking, dealing with crises and identifying emerging issues.
3. Impact
  - Contributes to the Group's performance.
4. Sustainability
  - Aware of, and interested in, good practice.

The above forms a basis for discussion around performance in one-to-one discussions with Board members, CEO, CFO and Chairman to measure effectiveness. These occur after Board meetings and during other meetings with the senior team. The Board has not adopted any more mechanistic performance exercises, but this is always under consideration and may be adopted in the future.

## Relations with stakeholders

The Group considers its key stakeholders to be its shareholders, employees and customers and suppliers. How the Group engages with these, and broader, stakeholders is described in the Strategic Report on pages 8 to 17.

## Audit Committee

The Audit Committee is chaired by Christopher Wilks, an Independent Non-Executive Director. The other members are Rakesh Sharma, Lawrence Kinet and Jerel Whittingham, each of whom are Independent Non-Executive Directors. The committee meets at least two times a year.

The Audit Committee is responsible for reviewing the half-year and annual financial statements, interim management statements,

## Corporate Governance Report (Continued)

preliminary results announcements and any other formal announcement or presentation relating to the Group's financial performance. There is also meeting time provided outside the committee schedule to ensure there is full opportunity for discussion.

The Audit Committee reviews significant financial returns to regulators and any financial information covered in certain other documents such as announcements of a price sensitive nature.

The Audit Committee also reviews the effectiveness of the Group's internal control over financial reporting and considers key financial judgements made in the financial statements.

The Audit Committee advises the Board on the appointment of external auditors and on their remuneration (both for audit and non-audit work) and discusses the nature, scope and results of the audit with the auditors. The Audit Committee reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the Audit Committee reports the outcome of Audit Committee meetings to the Board and the Board receives minutes of the meetings.

The following details the Audit Committee meetings and attendees during the year ended 30 April 2023:

| Date       | Attendees  |
|------------|--|
| 13/07/2022 | Christopher Wilks<br>Rakesh Sharma<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Arnab Basu |
| 29/07/2022 | Christopher Wilks<br>Rakesh Sharma<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Arnab Basu |
| 30/01/2023 | Christopher Wilks<br>Rakesh Sharma<br>Paul Farquhar<br>Lawrence Kinet<br>Jerel Whittingham<br>Arnab Basu |

### Remuneration Committee

The Remuneration Committee is chaired by Jerel Whittingham, an Independent Non-Executive Director. The other members are Christopher Wilks and Lawrence Kinet, Independent Non-Executive Directors. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes and pension rights. In addition, in all matters of significant remuneration change, the Remuneration Committee consults with the wider Board. Further details of the Group's policies on remuneration and service contracts are given in the Remuneration Committee Report on pages 56 to 58.

### Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors have set out below some of the key aspects of the Group's internal control procedures.

A process has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within its meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget and relevant action is taken throughout the year and updated forecasts are prepared as appropriate.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by the senior leadership team of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Audit Committee if they need to raise matters of concern other than via the Executive Directors and senior leadership team.

## Going concern

As at 30 April 2023, the Group had net current assets of £1.8m (30 April 2022: £9.0m) and cash and cash equivalents of £1.1m (30 April 2022: £5.1m) as set out in the consolidated statement of financial position. The Group made a loss before tax of £7,292k in the year (2022: £6,129k).

The Directors have prepared detailed forecasts of the Group's financial performance for the twelve month period from the date of this report. Given the rapidly changing macroeconomic landscape and the Group's forecast financial performance for the next twelve months, management also prepared a financial forecast based on a sensitised and severe but plausible scenario. It should be noted that in each scenario, the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions.

The Group has a £5.0m revolving credit facility (RCF) with HSBC. The expiry date of this facility was 11 March 2023, although the Bank has extended this date to 31 August 2023. In both the original and the severe but plausible scenario forecasts, the Directors indicate that this facility will be replaced by alternative borrowing and additional financing will be available to the Group. In addition, post year end, the Group successfully concluded a placing, subscription and open offer which raised £7.4m net of fundraising costs. Accordingly, the Board has concluded that it is almost certain that the required mitigating financing will be secured, allowing the Group to repay the RCF by the agreed payment date. The Board has received a confirmation of financial support from one of the Group's largest shareholders, in the event that refinancing the debt takes longer than expected and the HSBC facility needs to be repaid prior to a new facility being in place. As a consequence, the Board is confident that the Group will have sufficient resources and working capital to meet its present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the Group financial statements.



# Audit Committee Report

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 30 April 2023.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements, reviewing internal control and risk management systems, reviewing any changes to accounting policies, and reviewing and monitoring the extent of the non-audit services undertaken by external auditors. There is also meeting time provided outside the committee schedule to ensure there is full opportunity for discussion, including direct conversations between the Chairman of the Committee and the auditors.

## Members of the Audit Committee

The Committee consists of four Independent Non-Executive Directors; myself (as Chair), Lawrence Kinet, Jerel Whittingham and Rakesh Sharma.

The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am currently Chief Financial Officer at ECO Animal Health Group plc and was formerly Chief Financial Officer at Signum Technology, which I co-founded in 2012. Prior to this, I was Chief Financial Officer at Sondex plc, where I successfully managed their listing on the Main Market of the London Stock Exchange in 2003 and made several post-IPO acquisitions. In 2007, Sondex was acquired by GE. After graduating from Durham University with a BSc in Applied Physics and Electronics, I initially joined Marconi Space Systems designing power systems for space craft, and then trained as a Chartered Accountant at Arthur Young (now EY).

## Duties

The main duties of the Audit Committee are set out in its Terms of Reference, which are available on the Group's website ([www.kromek.com](http://www.kromek.com)) and are also available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- review of the financial statements and annual report;
- consideration of the external audit report and management representation letter;
- going concern review;
- review of the 2023 audit plan and audit engagement letter;
- assessment of the auditor's independence and performance;
- review of the risk management and internal control systems;
- review and approval of the interim results;
- assessment of the need for an internal audit function; and
- meeting with the external auditor without management present.

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, Haysmacintyre LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Audit Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services in the two years ended 30 April 2023 is provided in note 7 of the Group's financial statements. There were no non-audit services provided by the current external auditor to the Group during both the 2023 and the 2022 years.

## Audit process

The auditor prepares an audit plan for its review of the full year financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. No major areas of concern were highlighted by the auditor during the year; however, during the audit period, areas of significant risk, audit differences and other matters of audit relevance are regularly communicated. The auditor calculates materiality for the purposes of their audit using an average of the Group's last five years normalised loss before tax and exceptional items. The materiality of the Group for the 2023 audit was £326k (2022: £255k). There were no unadjusted material differences reported by the auditor to the Audit Committee.

## Fair, balanced and understandable

The content and disclosures made in the Annual Report are subject to a verification exercise by management to ensure that no statement is misleading in the form and context in which it is included, no material facts are omitted which may make any statement of fact or opinion misleading, and implications which might be reasonably drawn from the statement are true. The Committee was satisfied that it was appropriate for the Board to approve the Financial Statements and that the Annual Report taken as a whole is fair, balanced and understandable such that it allows shareholders to assess the Group's position and performance against the Group's strategy and business model.

## Significant issues

The Committee reviewed the key judgements applied to a number of significant issues in the preparation of the Financial Statements. The review included consideration of the following:

| Issue   | How the committee addresses   |
|---|---|
| Revenue Recognition   | <p>The Group has well-developed accounting policies for revenue recognition in compliance with IFRS15 as shown in Notes 2 and 4 to the Financial Statements. The Group derives revenue in its UK and USA operations from the sale of products and services including the receipt of grants and income from contracts. The Group recognises revenue at the point its performance obligation is met, which may occur at different points in the revenue cycle dependent on contractual terms and shipping methods.</p> <p>The Committee receives reports from management and from the auditors to evidence that the policies are complied with across the Group</p>   |
| Intangible assets capitalised, development expenditure and impairment | <p>The Group's accounting policy for intangible assets is included within the accounting policies in note 2 and the components of intangible assets are set out in note 15.</p> <p>In practice, work that is undertaken in the development of the automated wide area pathogen detection and development of the Group's advanced imaging products are expected to give rise to future economic benefit and are tested against the conditions for capitalisation set out in note 15 to these accounts.</p> <p>Goodwill and intangible asset impairment calculations (including assumptions about future performance of the Group) and sensitivities are undertaken at least annually by management and reviewed by the Board and the Committee.</p> <p>The Committee also considered and agreed the appropriateness of the sensitivity analysis disclosures.</p> |
| Valuation of investments in subsidiaries and intercompany receivables | <p>Included in the Parent Company's Statement of Financial Position are investments in subsidiaries of £6.1m (2022: £5.7m) and intercompany receivables of £77.2m (2022: £71.7m).</p> <p>Management prepared an impairment assessment of these balances which largely related to forecasts of the subsidiaries' performance to which these balances are attributable.</p> <p>The Committee concluded that the investment in subsidiaries and the intercompany receivable in Kromek PLC is fairly stated and that no impairment exists.</p>  |
| Going Concern   | <p>The Group continues to prepare its Financial Statements on a going concern basis, as set out in Note 2 to the Financial Statements on page 71. Management produces working capital forecasts on a regular basis. The Board reviews those forecasts at each Board meeting. The Board continues to scrutinise the Group's detailed economic forecasts to ensure that all relevant events and conditions are being incorporated that might affect both short, medium and long-term performance. Having reviewed the forecasts as at the date of this Report, the Committee concluded that it was appropriate for the Group to continue to prepare its Financial Statements on a going concern basis.</p>  |

Shareholders' attention is drawn to the section titled 'Key Audit Matters' in the Report from the independent auditor on pages 60 to 65, about specific areas as reported by the independent auditor to provide its opinion on the Financial Statements as a whole.

### Internal audit

At present the Group does not have an internal audit function, and the Audit Committee believes that management and the Board are able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one. The need for an internal audit function or specific internal audit reviews are considered on an ongoing basis.

### Risk management and internal controls

As described on page 51 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates

effectively. During the year, the Audit Committee reviewed the framework and is satisfied that the internal control systems in place are currently operating effectively.

### Whistleblowing

The Group has in place a whistleblowing policy that sets out the formal process by which any employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. No matters were reported through this mechanism during the year.

**Christopher Wilks**  
Audit Committee Chairman  
21 July 2023

# Remuneration Committee Report (Unaudited)

As the Kromek Group is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' remuneration report for each financial year of the Group and so Kromek makes the following disclosures voluntarily, which are not intended to comply with the requirements of the Companies Act 2006.

The Remuneration Committee is responsible for recommending the remuneration and other terms of employment for the Executive Directors of Kromek Group plc.

## Remuneration policy

The remuneration of Executive Directors is determined by the Remuneration Committee and the remuneration of Non-Executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-Executive Directors.

The remuneration packages of Executive Directors comprise the following elements:

### Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually, having regard to individual performance and market practice. In most cases, benefits provided to Executive Directors comprise the provision of a Group car, or appropriate allowance, health and life insurance and contributions to a Group personal pension scheme.

### Annual bonus

A contractual bonus is awarded at the end of each financial year, the quantum of which is at the discretion of the Board, having considered the recommendations of the Remuneration Committee. The maximum bonus currently ranges from between 50%–75% of basic salary to reward executives' contribution to the growth in revenue, and specific targeted or strategic objectives.

### Share Options and Long-Term Incentive Plan ("LTIP")

The Group believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Group and the shareholders.

The Group has executive share ownership incentive schemes, which are designed to promote long-term improvement in the performance of the Group, sustained increase in shareholder value and provide clear linkage between executive reward and the Group's performance. The LTIP scheme is based on total shareholder return ("TSR") relative to the FTSE AIM All-Share Index, which is the peer group for the LTIP scheme. Any awards made vest only after three years.

The Remuneration Committee and Board use external independent advisors as required to provide guidance on benchmarks, scheme structures and metrics.

## Service contracts

Arnab Basu (CEO), Paul Farquhar (CFO) and Berry Beumer (COO) have service contracts with a notice period (to the Company) of nine months in respect of each Executive Director.

The Remuneration Committee considers the Directors' notice periods to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

## Non-Executive Directors

The salaries of the Non-Executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-Executive Directors are not eligible for bonuses or share options.

## Directors' emoluments (Audited)

Emoluments of the Directors for the year ended 30 April 2023 are shown below.

### Pension contributions

During the year, the Group made pension contributions to personal pension schemes (i.e. defined contribution schemes) for the following executive directors. Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Group are:

| Year Ended              | 30 April 2023<br>£'000 | 30 April 2022<br>£'000 |
|-------------------------|------------------------|------------------------|
| <b>Director</b>         |                        |                        |
| Arnab Basu <sup>1</sup> | 4                      | 4                      |
| Paul Farquhar           | 14                     | 13                     |
| Berry Beumer            | 7                      | 6                      |

<sup>1</sup> In 2023 Mr Basu opted to take part of his contractual pension contribution entitlement as salary in lieu of contributions to the Company pension scheme

## Directors' shareholdings

Beneficial interests of the Directors in the shares of the Group are shown below:

|                            | 30 April 2023 |     | 30 April 2022 |     |
|----------------------------|---------------|-----|---------------|-----|
|                            | Number        | %   | Number        | %   |
| Arnab Basu                 | 2,988,750     | 0.7 | 2,988,750     | 0.7 |
| Rakesh Sharma              | 807,539       | 0.2 | 469,195       | 0.1 |
| Paul Farquhar <sup>1</sup> | 66,500        | 0.0 | 66,500        | 0.0 |
| Berry Beumer               | 80,000        | 0.0 | 80,000        | 0.0 |
| Lawrence Kinet             | 350,000       | 0.1 | 350,000       | 0.1 |
| Jerel Whittingham          | 364,890       | 0.1 | 364,890       | 0.1 |
| Christopher Wilks          | 177,941       | 0.0 | 177,941       | 0.0 |

<sup>1</sup> Includes shares owned by family

## Directors' emoluments for the year ended 30 April 2023

The table below forms part of the audited financial statements:

|                               | Salary<br>£'000 | Benefits<br>£'000 | Bonus<br>paid<br>£'000 | Pension<br>contributions<br>£'000 | <b>Total<br/>emoluments<br/>2023<br/>£'000</b> | Total<br>emoluments<br>2022<br>£'000 |
|-------------------------------|-----------------|-------------------|------------------------|-----------------------------------|--|--------------------------------------|
| <b>Non-executive Chairman</b> |                 |                   |                        |                                   |  |                                      |
| Rakesh Sharma                 | 80              | -                 | -                      | -                                 | <b>80</b>                                      | 80                                   |
| <b>Executive</b>              |                 |                   |                        |                                   |  |                                      |
| Arnab Basu <sup>1</sup>       | 264             | 3                 | -                      | 4                                 | <b>271</b>                                     | 270                                  |
| Paul Farquhar <sup>2</sup>    | 177             | 1                 | -                      | 14                                | <b>192</b>                                     | 180                                  |
| Berry Beumer                  | 243             | 16                | -                      | 7                                 | <b>266</b>                                     | 236                                  |
| <b>Non-executive</b>          |                 |                   |                        |                                   |  |                                      |
| Lawrence Kinet                | 39              | -                 | -                      | -                                 | <b>39</b>                                      | 26                                   |
| Jerel Whittingham             | 42              | -                 | -                      | -                                 | <b>42</b>                                      | 28                                   |
| Christopher Wilks             | 42              | -                 | -                      | 1                                 | <b>43</b>                                      | 28                                   |
| <b>Total</b>                  | <b>887</b>      | <b>20</b>         | <b>-</b>               | <b>26</b>                         | <b>933</b>                                     | 890                                  |

<sup>1</sup> The 2023 salary of Arnab Basu includes £13,500 of contractual pension entitlement which Mr Basu has opted to take as salary in lieu of contributions to the Company pension scheme

<sup>2</sup> The 2023 salary of Paul Farquhar includes £6,000 of compensation taken as cash in lieu of a Group car

None of the executive or non-executive Directors exercised any share options in the year ended 30 April 2023 (2022: nil).

## Executive Directors' share incentive scheme (LTIP)

### Share incentive scheme for executive Directors

The Remuneration Committee agreed, in December 2022, an incentive award scheme for Arnab Basu, Paul Farquhar and Berry Beumer, to offer them up to 2,500,000, 1,705,000 and 2,277,270 shares respectively, at a price of 1p per share, to vest based on specified performance criteria.

The Remuneration Committee agreed, in April 2022, an incentive award scheme for Arnab Basu, Paul Farquhar and Berry Beumer, to offer them up to 833,333, 516,667 and 614,844 shares respectively, at a price of 1p per share, to vest based on specified performance criteria.

The share incentives noted above are measured by a Total Shareholder Return (TSR) condition, calculated as the average total return in comparison to a peer group.

As at 30 April 2023, the LTIP incentive option shares issued in fiscal years 2022 and 2023, remained unvested.

### Share price during the year

During the year to 30 April 2023, the highest share price was 14.40p (2022: 21.00p) and the lowest share price was 5.02p (2022: 9.98p). The market price of the Group's shares at 30 April 2023 was 6.50p (30 April 2022: 10.25p).

### Directors' interests in material contracts

No Director was materially interested either at the year-end or during the year in any contract of significance to the Group other than their employment or service contract.



## Remuneration Committee Report *(Continued)*

### Executive Directors' share options

Whilst the issue of equity incentives for executive Directors is primarily focused on the LTIP scheme as detailed on the previous page, the Group does make occasional and targeted use of market price options for executive Directors outside the LTIP.

The following table shows the movement in the total share options that have been granted to executive Directors outside the LTIP; these options are not linked to any specified performance criteria:

| Director                  | Date of grant | Exercise price p | At 30 April 2023 number | At 30 April 2022 number | Expiry date   |
|---------------------------|---------------|------------------|-------------------------|-------------------------|---------------|
| Arnab Basu                | 20 Nov 2011   | 20.0             | 1,000,000               | 1,000,000               | 20 Nov 2024   |
| Arnab Basu                | 14 Dec 2020   | 12.0             | 1,250,000               | 1,250,000               | 14 Dec 2030   |
| Arnab Basu                | 29 April 2021 | 1.0              | 110,000                 | 110,000                 | 30 April 2025 |
| Arnab Basu                | 1 May 2021    | 1.0              | 400,000                 | 400,000                 | 1 May 2031    |
| Paul Farquhar             | 15 Oct 2020   | 12.0             | 1,000,000               | 1,000,000               | 15 Oct 2030   |
| Paul Farquhar             | 1 May 2021    | 1.0              | 150,000                 | 150,000                 | 1 May 2031    |
| Berry Beumer <sup>1</sup> | 1 Jan 2016    | 27.0             | 180,000                 | 180,000                 | 1 Jan 2026    |
| Berry Beumer <sup>1</sup> | 14 Dec 2020   | 12.0             | 1,250,000               | 1,250,000               | 14 Dec 2030   |
| Berry Beumer              | 29 April 2021 | 1.0              | 150,000                 | 150,000                 | 30 April 2025 |
| Berry Beumer              | 1 May 2021    | 1.0              | 150,000                 | 150,000                 | 1 May 2031    |

<sup>1</sup> Awarded to Mr Beumer prior to him being appointed as a Director

**Jerel Whittingham**  
Remuneration Committee Chairman  
21 July 2023

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## Financial Statements

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# Independent Auditor's Report To The Members of Kromek Group plc

## Opinion

We have audited the financial statements of Kromek Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 April 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK-adopted International Financial Reporting Standards ("IFRS").

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 30 April 2023 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards;
- 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the Director's assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included, but were 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 Parent Company's ability to continue as a going concern;

- Evaluating the methodology used by the Directors to assess the Group's and Parent Company's ability to continue as a going concern;
- Reviewing the Director's going concern assessment and evaluating the key assumptions used and judgements applied;
- Reviewing the liquidity headroom by applying a number of sensitivities to the base forecast and plausible worst-case forecast, prepared by management, to provide comfort over there being sufficient cash to pay debts as they fall due throughout the going concern period;
- Obtaining, and reviewing correspondence and other supporting documentation, between the Group and potential sources of debt finance, which are required in the short to medium term, to ensure that the Group is able to meet its liabilities as and when they fall due;
- Reviewing post year end bank statements to agree the net proceeds from the recent equity fundraise in May 2023;
- Where possible, obtaining confirmation directly from potential sources of finance to support the Director's going concern assessment;
- Reviewing the appropriateness of disclosures in the financial statements.

The Directors have prepared a detailed cashflow forecast including a plausible worst-case scenario. The base case forecasts and plausible worst-case scenario, both indicate a requirement for the Group to refinance its debt in order to repay their existing debt facility, to increase their working capital and also ensure the Group can continue operating as a going concern throughout the forecast period.

We have obtained third party confirmation that the existing RCF is not repayable until 31 August 2023. We have also reviewed documentation that supports the Directors' view that it's almost certain the required financing will be obtained to refinance the existing RCF. We have reviewed the documentation regarding potential support from a key shareholder, should the refinancing period be longer than expected, and are comfortable that this is an adequate mitigant should it take longer than expected to refinance the existing RCF.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, in evaluating the effect of misstatements and in forming an opinion. For the purpose of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of a misstatement or an omission from the financial statements, or related disclosures, that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality, which we used to determine the extent of testing need, to reduce to an appropriately low level the risk that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole.

Materiality for the Group financial statements was set at £326,000. This was determined with reference to 5% of the average normalised loss for the past 5 years. This was selected as an appropriate measure of materiality on the basis that this is one of the main KPI's for the Group and is considered an important metric for external shareholders.

On the basis of our risk assessment and review of the Group's control environment, performance materiality was set at 75% of materiality, being £245,000.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £16,000. If in our opinion differences below this level warranted reporting on qualitative grounds, these would also be reported.

Materiality for the Parent Company financial statements was set at £245,000. This was determined with reference to gross assets, based on the company being a holding entity with no trading activity outside of the group, and was capped at 0.3% of gross assets to ensure that the Parent entity materiality did not exceed component materiality, which was set at 75% of Group materiality.

On the basis of our risk assessment and review of the Parent Company's control environment, performance materiality was set at 75% of materiality, being £184,000.

The reporting threshold to the Audit and Risk Committee was set as 5% of materiality, being £12,250. If in our opinion the differences below this level warranted reporting on qualitative grounds, these would also be reported.

## An overview of the scope of our audit

Our audit scope included all components of the Group. For the three companies that are resident in the UK, we have performed full scope statutory audits.

For the entities registered in the USA, we have performed audit procedures on each entity to varying degrees of detail, with the work performed on the most significant component, eV Products Inc. being equivalent to that of a full scope statutory audit, performed to component materiality. For NOVA R&D Inc., which is considered to be material but not significant, we have performed analytical procedures for areas considered to be low risk, and substantive audit testing for those material balances which are considered to be high risk. For Kromek Inc., which is considered to be relevant but not material or significant, we have performed analytical procedures to group materiality and made enquiries of management, to gain comfort over the inclusion of financial information within the Group financial statements.

Component materiality has been based on 75% of overall Group materiality and is considered to be appropriate to all components of the Group as materiality is based on a trading measure.

We communicated with both the Directors and the audit committee our planned audit work via our audit planning report and our audit planning call.

We communicated audit progress with the Directors through interim progress meetings. We have communicated all significant areas of our audit work with the audit committee and Directors during an interim and final audit committee meeting, in adhoc communications throughout the audit, and through the issue of our final audit findings report for review at the closing meeting with the Directors and the Audit Committee.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. These matters included 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.

In addition to the matter described in the Conclusion related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.



| Key Audit Matter Description  | How the matter was addressed in the audit   |
|---|---|
| <p><b>Presumed risk in revenue recognition</b></p> <p>Included in the Group Statement of Comprehensive Income is revenue of £17.31m (2022: £12.06m).</p> <p>Revenue is derived from contracts with customers as well as the sale of goods and services.</p> <p>See revenue and profit recognition accounting policy note 2 and note 3 critical accounting estimates and judgements, performance obligations arising from customer contracts for further details regarding revenue recognition.</p> <p>There is a risk that revenue has not been recognised in line with IFRS 15 during the year, for revenue recognised at a point in time as well as for contracts where revenue is recognised over time</p> | <p>Our audit work considered revenue recognition policies adopted by management for each stream of revenue, as well as reviewing specific contracts.</p> <p>This included but was not limited to:</p> <ul style="list-style-type: none"> <li>- A review of all revenue in relation to contracts with customers and revenue derived from government grants, and a critical assessment of managements' revenue recognition policies for these revenues streams, against the recognition criteria detailed in IFRS 15;</li> <li>- For all contracts which were assessed by management to be recognised at a point in time, we reviewed and challenged management's assessment to ensure revenue was recorded in line with the stipulations of IFRS 15 and was recognised using the input method with reference to milestones detailed in the contract;</li> <li>- For all contracts which were assessed by management to be recognised over time, we reviewed and challenged the input being method used to ensure the contracts were being recognised in line with the stipulations of IFRS 15, regarding revenue recognised from contracts over time;</li> <li>- We performed tests of contract revenue on a substantive basis, ensuring that revenue recorded during the year was in line with our expectations based on the supporting documentation, such as contracts, invoices and proof of milestones being achieved;</li> <li>- For product sales, we performed a test in total of all sales in the year. We also performed product walkthroughs for in-year revenue to ensure correct adoption of the incoterms applicable with regards to revenue recognition; and</li> <li>- For all revenue streams, we performed testing of revenue around the year end to ensure that revenue was recorded in the correct period. Where product sales around the year end were recognised in accordance with Incoterms 2020, we ensured that the relevant Incoterms applied to each sale were appropriately considered when considering the point in time at which revenue was recognise</li> </ul> |

| Key Audit Matter Description   | How the matter was addressed in the audit  |
|--|--|
| <p><b>Application of IAS 38, Intangible Assets, and subsequent impairment assessment of intangible assets under IAS 36</b></p> <p>Included in the Group Statement of Financial Position are capitalised development costs of £29.3m (2022: £26.5m).</p> <p>The estimated recoverable amount of capitalised developments costs is highly material on a Group level. There is a risk that this balance is materially overstated and that an impairment should be recognised in addition to any amortisation charged in the year.</p> <p>The impairment review of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and assumptions made in relation to future market demand, production capacity and yield, gross margin and overhead rates.</p> <p>The effect of this is that the recoverable amount of capitalised development costs has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment.</p> <p>There is a further risk that additions in the year are not correctly capitalised on the basis that they do not fulfil the development criteria as they constitute research phase expenditure</p> | <p>Our audit work focused on assessing the forecasts presented by management to support the valuation of the capitalised development costs.</p> <p>This included but was not limited to:</p> <ul style="list-style-type: none"> <li>- Reviewing each family of assets with reference to internal and external impairment indicators noted per IAS 36;</li> <li>- Agreeing future revenues included in the forecast to committed contracts;</li> <li>- Verifying the forecast gross margin is appropriate and includes relevant costs;</li> <li>- Agreeing pipeline sales to documentation to support the inclusion of non-committed revenue;</li> <li>- Assessing the appropriateness of the discount factor used in the preparation of the forecasts;</li> <li>- Comparing actuals and historical forecasts, when assessing the reasonableness of current forecasts used to support the year end balances;</li> <li>- Assessing the sensitivity analysis presented by management to detail the headroom for each category of intangible asset;</li> <li>- Performing our own sensitivity analysis to assess the level of headroom regarding the capitalised intangible assets;</li> <li>- Reviewing the disclosures made in the financial statements which reference the impairment review that has taken place, and the key assumptions made as part of this assessment; and</li> <li>- Reviewing the sensitivity analysis disclosure in the financial statements in line with the forecasts provided by management as part of their impairment review.</li> </ul> <p>In line with the requirements of IAS 38, intangible assets, we obtained and scrutinised, management's assessment of capitalised development cost additions to ensure that these met the definition criteria of development costs. We challenged various assumptions made by management and considered alternative recognition in forming our conclusions</p> |

| Key Audit Matter Description   | How the matter was addressed in the audit  |
|--|--|
| <p><b>Valuation of investments in subsidiaries and intercompany receivables</b></p> <p>Included in the Parent Company's Statement of Financial Position, are investments in subsidiaries of £6.1m (2022: £5.7m) and intercompany receivables of £77.2m (2022: £71.7m).</p> <p>Given the Group, and each of the subsidiaries to which the balances relate are loss making, there is a risk that the investment and intercompany receivable should be impaired.</p> <p>The impairment review of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and the assumptions made in relation to the forecasted performance of the subsidiaries to which the investment and receivable balances relate.</p> <p>The effect of this is that the recoverable amount of investment in subsidiaries and intercompany receivables has a high degree of estimation uncertainty and a potential range of reasonable outcomes greater than materiality for the financial statements. Therefore, there is a risk that they require impairment.</p> | <p>We obtained and critically assessed management's impairment assessment of these balances, which largely related to forecasts of the subsidiaries' performance to which these balances are attributable. This consisted of, but was not limited to:</p> <ul style="list-style-type: none"> <li>- Agreeing future revenues included in the forecast to committed contracts;</li> <li>- Agreeing pipeline sales to documentation to support the inclusion of non-committed revenue;</li> <li>- Assessing the appropriateness of the discount factor used in the preparation of the forecasts;</li> <li>- Comparing actuals and historical forecasts, when assessing the reasonableness of current forecasts used to support the year end balances;</li> <li>- Assessing the sensitivity analysis presented by management detailing the headroom for each subsidiary;</li> <li>- Considering external impairment indicators as part of our review of the impairment assessment performed by the Directors; and</li> <li>- Performing our own sensitivity analysis to assess the level of headroom regarding the balance of investments and intercompany receivables.</li> </ul> |

## Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the 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 Directors' responsibilities statement set out on page 24 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 these financial statements.

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

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Based on our understanding of the Group and industry, we identified the principal risks of non-compliance with laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, income tax, payroll tax and sales tax.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Inspecting correspondence with regulators and tax authorities;
- Discussions with management regarding the relevant laws and regulations that apply to the Group and its subsidiaries;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Discussions with management regarding any breaches of AIM rules, as well as discussing this with the Company's NOMAD;

- Identifying and testing journals, in particular journal entries posted with unusual account combinations, postings by unusual users or with unusual descriptions; and
- Challenging assumptions and judgements made by management in their critical accounting estimates particularly relating to assumptions made in preparing value in use calculations for impairment assessments.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

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

**Jon Dawson**

(Senior Statutory Auditor)

For and on behalf of Haysmacintyre LLP

Statutory Auditors

21 July 2023

10 Queen Street Place

London

EC4R 1AG



## Group statement of comprehensive income

For the year ended 30 April 2023

|   | Note | 2023<br>£'000   | 2022<br>£'000 |
|---|------|-----------------|---------------|
| <b>Continuing operations</b>  |      |                 |               |
| Revenue   | 4    | <b>17,309</b>   | 12,055        |
| Cost of sales   |      | <b>(8,374)</b>  | (6,419)       |
| <b>Gross profit</b>   |      | <b>8,935</b>    | 5,636         |
| Other operating income  | 5    | <b>121</b>      | 1,410         |
| Distribution costs  |      | <b>(612)</b>    | (551)         |
| Administrative expenses   |      | <b>(14,570)</b> | (12,208)      |
| Change in fair value of derivative  |      | <b>77</b>       | -             |
| <b>Operating loss (before exceptional items)</b>  |      | <b>(6,049)</b>  | (5,713)       |
| Exceptional impairment reversal on trade receivables and amounts recoverable on contracts | 9    | -               | 132           |
| <b>Operating results (post exceptional items)</b>   |      | <b>(6,049)</b>  | (5,581)       |
| Finance income  | 10   | <b>2</b>        | 34            |
| Finance costs   | 11   | <b>(1,245)</b>  | (582)         |
| <b>Loss before tax</b>  | 6    | <b>(7,292)</b>  | (6,129)       |
| Tax   | 12   | <b>1,192</b>    | 1,211         |
| <b>Loss for the year from continuing operations</b>                                       |      | <b>(6,100)</b>  | (4,918)       |
| Loss per share  | 14   |                 |               |
| - basic (p)   |      | <b>(1.4)</b>    | (1.1)         |

The notes on pages 71 to 102 form part of these financial statements.

## Consolidated statement of comprehensive income

For the year ended 30 April 2023

|  | <u>2023</u><br><u>£'000</u> | <u>2022</u><br><u>£'000</u> |
|--|-----------------------------|-----------------------------|
| <b>Loss for the year</b>   | <b>(6,100)</b>              | (4,918)                     |
| <i>Items that are or may be subsequently reclassified to profit or loss:</i> |                             |                             |
| Exchange differences on translation of foreign operations                    | <b>(166)</b>                | 2,063                       |
| <b>Total comprehensive loss for the year</b>                                 | <b>(6,266)</b>              | (2,855)                     |

The notes on pages 71 to 102 form part of these financial statements.

## Consolidated statement of financial position

As at 30 April 2023

|                                  | Note | 2023<br>£'000   | 2022<br>£'000 |
|----------------------------------|------|-----------------|---------------|
| <b>Non-current assets</b>        |      |                 |               |
| Goodwill                         | 15   | 1,275           | 1,275         |
| Other intangible assets          | 16   | 30,554          | 28,375        |
| Property, plant and equipment    | 17   | 9,831           | 10,944        |
| Right-of-use asset               | 18   | 3,758           | 3,874         |
|                                  |      | <b>45,418</b>   | 44,468        |
| <b>Current assets</b>            |      |                 |               |
| Inventories                      | 20   | 10,894          | 10,503        |
| Trade and other receivables      | 21   | 5,529           | 6,429         |
| Current tax assets               | 21   | 940             | 942           |
| Cash and bank balances           |      | 1,097           | 5,081         |
|                                  |      | <b>18,460</b>   | 22,955        |
| <b>Total assets</b>              |      | <b>63,878</b>   | 67,423        |
| <b>Current liabilities</b>       |      |                 |               |
| Trade and other payables         | 23   | (7,436)         | (7,855)       |
| Borrowings                       | 25   | (8,318)         | (5,716)       |
| Derivative financial instruments | 26   | (517)           | -             |
| Lease obligation                 | 24   | (405)           | (375)         |
|                                  |      | <b>(16,676)</b> | (13,946)      |
| <b>Net current assets</b>        |      | <b>1,792</b>    | 9,009         |
| <b>Non-current liabilities</b>   |      |                 |               |
| Deferred income                  | 23   | (1,021)         | (1,131)       |
| Lease obligation                 | 24   | (4,089)         | (4,161)       |
| Borrowings                       | 25   | (568)           | (749)         |
|                                  |      | <b>(5,678)</b>  | (6,041)       |
| <b>Total liabilities</b>         |      | <b>(22,354)</b> | (19,987)      |
| <b>Net assets</b>                |      | <b>41,524</b>   | 47,436        |
| <b>Equity</b>                    |      |                 |               |
| Share capital                    | 27   | 4,319           | 4,319         |
| Share premium account            | 28   | 72,943          | 72,943        |
| Merger reserve                   |      | 21,853          | 21,853        |
| Translation reserve              | 29   | 1,897           | 2,063         |
| Accumulated losses               | 30   | (59,488)        | (53,742)      |
| <b>Total equity</b>              |      | <b>41,524</b>   | 47,436        |

The notes on pages 71 to 102 form part of these financial statements.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 21 July 2023. They were signed on its behalf by:

**Dr Arnab Basu MBE**  
Chief Executive Officer

## Consolidated statement of changes in equity

For the year ended 30 April 2023

|  | Share capital<br>£'000 | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Translation<br>reserve<br>£'000 | Retained<br>losses<br>£'000 | Total<br>equity<br>£'000 |
|--|------------------------|--------------------------------------|----------------------------|---------------------------------|-----------------------------|--------------------------|
| <b>Balance at 1 May 2021</b>                             | <b>4,319</b>           | <b>72,943</b>                        | <b>21,853</b>              | -                               | <b>(49,060)</b>             | <b>50,055</b>            |
| Loss for the year  | -                      | -                                    | -                          | -                               | (4,918)                     | (4,918)                  |
| Exchange difference on translation of foreign operations | -                      | -                                    | -                          | 2,063                           | -                           | 2,063                    |
| <b>Total comprehensive income for the year</b>           | -                      | -                                    | -                          | 2,063                           | (4,918)                     | (2,855)                  |
| Credit to equity for equity-settled share-based payments | -                      | -                                    | -                          | -                               | 236                         | 236                      |
| <b>Balance at 30 April 2022</b>                          | <b>4,319</b>           | <b>72,943</b>                        | <b>21,853</b>              | <b>2,063</b>                    | <b>(53,742)</b>             | <b>47,436</b>            |
| Loss for the year  | -                      | -                                    | -                          | -                               | (6,100)                     | (6,100)                  |
| Exchange difference on translation of foreign operations | -                      | -                                    | -                          | (166)                           | -                           | (166)                    |
| <b>Total comprehensive income for the year</b>           | -                      | -                                    | -                          | (166)                           | (6,100)                     | (6,266)                  |
| Credit to equity for equity-settled share-based payments | -                      | -                                    | -                          | -                               | 354                         | 354                      |
| <b>Balance at 30 April 2023</b>                          | <b>4,319</b>           | <b>72,943</b>                        | <b>21,853</b>              | <b>1,897</b>                    | <b>(59,488)</b>             | <b>41,524</b>            |

The notes on pages 71 to 102 form part of these financial statements.



## Consolidated statement of cash flows

For the year ended 30 April 2023

|   | Note | 2023<br>£'000  | 2022<br>£'000 |
|---|------|----------------|---------------|
| <b>Net cash generated from/(used in) operating activities</b> | 31   | <b>(3,530)</b> | (3,530)       |
| <b>Investing activities</b>                                   |      |                |               |
| Interest received   | 10   | <b>2</b>       | 34            |
| Purchases of property, plant and equipment                    | 17   | <b>(269)</b>   | (651)         |
| Purchases of patents and trademarks                           | 16   | <b>(183)</b>   | (179)         |
| Capitalisation of development costs                           | 16   | <b>(4,821)</b> | (5,619)       |
| <b>Net cash used in investing activities</b>                  |      | <b>(5,271)</b> | (6,415)       |
| <b>Financing activities</b>                                   |      |                |               |
| New borrowings  |      | <b>1,100</b>   | 760           |
| Proceeds from the issue of convertible loan notes             | 26   | <b>2,840</b>   | -             |
| Payment of borrowings   | 32   | <b>(1,258)</b> | (1,340)       |
| Payment of lease liability                                    | 21   | <b>(692)</b>   | (646)         |
| Interest paid   | 11   | <b>(703)</b>   | (340)         |
| <b>Net cash generated from/(used in) financing activities</b> |      | <b>1,287</b>   | (1,566)       |
| <b>Net decrease in cash and cash equivalents</b>              |      | <b>(3,787)</b> | (11,511)      |
| <b>Cash and cash equivalents at beginning of year</b>         |      | <b>5,081</b>   | 15,602        |
| Effect of foreign exchange rate changes                       |      | <b>(197)</b>   | 990           |
| <b>Cash and cash equivalents at end of year</b>               |      | <b>1,097</b>   | 5,081         |

The notes on pages 71 to 102 form part of these financial statements.

# Notes to the consolidated financial statements

For the year ended 30 April 2023

## 1. GENERAL INFORMATION

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The Group prepares its consolidated financial statements in accordance with UK-adopted IFRS.

The Board is currently evaluating the impact of the adoption of all other standards, amendments and interpretations but does not expect them to have a material impact on the Group's operation or results.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The Group's financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC").

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

### Basis of consolidation

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

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

### Going concern

As at 30 April 2023, the Group had net current assets of £1.8m (30 April 2022: £9.0m) and cash and cash equivalents of £1.1m (30 April 2022: £5.1m) as set out in the consolidated statement of financial position. The Group made a loss before tax of £7,292k in the year (2022: £6,129k).

The Directors have prepared detailed forecasts of the Group's financial performance over the next twelve months from the date of this report. Given the rapidly changing macroeconomic landscape and the Group's forecast financial performance for the next twelve months, management also prepared a financial forecast based on a sensitised and severe but plausible scenario. It should be noted that in each scenario, the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions.

The Group has a £5.0m revolving credit facility (RCF) with HSBC. The expiry date of this facility was 11 March 2023, although the Bank has extended this date to 31 August 2023. In both the original and the severe but plausible scenario forecasts, the Directors indicate that this facility will be replaced by alternative borrowing and additional financing will be available to the Group. In addition, post year end, the Group successfully concluded a placing, subscription and open offer which raised £7.4m net of fundraising costs. Accordingly, the Board has concluded that it is almost certain that the required mitigating financing will be secured, allowing the Group to repay the RCF by the agreed payment date. The Board has received a confirmation of financial support from one of the Group's largest shareholders, in the event that refinancing the debt takes longer than expected and the HSBC facility needs to be repaid prior to a new facility being in place. As a consequence, the Board is confident that the Group will have sufficient resources and working capital to meet its present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the Group financial statements.

### Business combinations

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

### Acquisitions on or after 1 May 2010

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

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

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

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

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Goodwill

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

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

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

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

#### Contracts with customers

The Group recognises revenue in line with IFRS 15 'Revenue from contracts with customers'. Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

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

#### Performance obligations

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

#### Transaction price

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

#### Revenue and profit recognition

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

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

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment. Kromek's standard terms of delivery are FCA Delivery Location (Incoterms 2020), unless otherwise stated.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Revenue and profit recognition (continued)**

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

### **Contract modifications**

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

- (a) prospectively as an additional, separate contract;
- (b) prospectively as a termination of the existing contract and creation of a new contract; or
- (c) as part of the original contract using a cumulative catch up.

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

### **Costs to obtain a contract**

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

### **Costs to fulfil a contract**

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

### **Sale of Inventories**

Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers that have been determined to fulfil the criteria for point-in-time revenue recognition under IFRS 15. Also included are inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead and net realisable value. The Group continued to adopt the policy of valuing its recyclable material. In accordance with the standard, this is valued at the lower of cost and net realisable value, less the cost required to bring the material back into use.

### **Contract receivables**

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin. The Group does not plan, anticipate or offer extended payment terms within its contractual arrangements unless express payment interest charges are applied and represent a value over and above that contracted or invoiced with the customer.

### **Contract liabilities**

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

### **Leases**

The Group recognises a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

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

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

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

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

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



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Foreign currencies

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

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the average exchange rate for the month to which the transaction relates. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. On consolidation, the results of overseas operations are translated into pounds sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.

#### Government grants

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

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

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

#### Operating result

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

#### Exceptional items

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

#### Retirement benefit costs

The Group operates two defined contribution pension schemes for UK employees, one of which is an auto-enrolment workplace pension scheme established following the UK Pensions Act 2008. The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the US Government.

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

#### Taxation

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

##### i) Current tax

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

##### ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (continued)

for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

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

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

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

### Internally-generated intangible assets – research and development expenditure

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

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

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

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products to which the development expenditure relates. Where expenditure relates to developments for use rather than direct sales of product, the cost is amortised straight-line over a 2-15-year period. Assets that have been developed are not amortised until they are available for use and commercial sale. Provision is made for any impairment.

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

### Patents and trademarks

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

### Impairment of tangible and intangible assets, excluding goodwill

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

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

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Impairment of tangible and intangible assets, excluding goodwill

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 10.25% (2022: 11.35%) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. See note 15 for further detail.

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

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

#### Inventories

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

Provision is made for obsolete, slow moving or defective items where appropriate. This is reviewed by operational finance at least every six months. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case-by-case basis.

#### Provisions for liabilities

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

#### Financial instruments

##### (i) Recognition and initial measurement

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

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

##### (ii) Classification and subsequent measurement

#### Financial assets

##### (a) Classification

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

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

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

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and call deposits.

##### (b) Subsequent measurement and gains and losses

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

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

### Financial liabilities and equity

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

- (a) They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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

### Convertible loan notes

The convertible loan issued by the Group is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash). Conversion features that are derivative liabilities are accounted for separately from the host instrument. The embedded derivative is accounted for as a financial instrument through profit or loss and is initially measured at fair value, and changes therein are recognised in profit or loss. The debt host liability is accounted for at amortised cost. In the case of a hybrid financial instrument, IFRS 9 requires that the fair value of the embedded derivative is calculated first and the residual value (residual proceeds) is assigned to the host financial liability. The initial recognition of the embedded derivative conversion feature has been recognised as a liability on the balance sheet with any changes to the fair value of the derivative recognised in the income statement. It has been fair valued using a Black Scholes simulation which was performed at the transaction date and the period end date.

The debt host liability will be accounted for using the amortised cost basis with an effective interest rate of 16%. The Group will recognise the unwinding of the discount at the effective interest rate, until the maturity date, the carrying amount at the maturity date will equal the cash payment required to be made.

### Intra-Group financial instruments

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

### (iii) Impairment

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

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

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

The Group assumes that the credit risk on a financial asset may have increased if it is more than 120 days past due. This is assessed on a case-by-case basis, taking into consideration the commercial relationship and historical pattern of payments.

The Group considers a financial asset to be at risk of default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
  - The financial asset is more than 120 days past due, subject to management discretion and commercial relationships.
- Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 2. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

#### Intra-Group financial instruments *(continued)*

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

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

#### Measurement of ECLs

Credit losses are measured and assessed on an individual balance by balance basis. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The general approach incorporates a review for any significant increase in counterparty credit risk since inception.

#### Credit-impaired financial assets

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

#### Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. If there is recovery of the financial asset, a reversal will be recognised in the profit and loss.

#### Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of three years from grant date. In accordance with IFRS 2, from a single entity perspective, Kromek Group plc recognises an increase in investment and corresponding increase in equity to represent the settlement. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

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

#### Cash

Cash, for the purposes of the statement of cash flows, comprises cash in hand and term deposits repayable between one and twelve months from balance sheet date, less overdrafts repayable on demand.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Development costs

As described in note 2, Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Management have exercised and applied judgement when determining whether the criteria of IAS 38 is satisfied in relation to development costs. As part of this judgement process, management establish the future Total Addressable Market relating to the product or process, evaluate the operational plans to complete the product or process and establish where the development is positioned on the Group's technology road map and assess the costs against IAS 38 criteria. This process involves input from the Group's Chief Technical Officer plus the operational, financial and commercial functions and is based upon detailed project cost analysis of both time and materials.

#### Performance obligations arising from customer contracts

As described in note 2, the Group recognises revenue as performance obligations are satisfied when control of the goods and services is transferred to the customer. Management have exercised and applied judgment in determining what the performance obligations are and whether they are satisfied over time or at a point in time. In applying this judgement, management considers the nature of the overall contract deliverable, legal form of the contract and economic resources required for the performance obligation to be satisfied. Management disaggregate revenues by sales of goods and services, revenue from development grants (such as Innovate UK) and revenue from contract customers. Typically, revenue from the sales of goods and services is recognised at a point in time. Revenue from development grants and contract customers are recognised either over time or at a point in time depending on the characteristics of the specific contract when applying IFRS15.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### Cash Generating Units

Management have exercised judgement in determining the number of CGUs. As set out in note 15, An asset's CGU is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An asset or group of assets must be identified as a cash-generating unit where an active market exists for the output produced by that asset or group of assets, even if some or all of the output is used internally. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or group of assets. The smallest identifiable group of assets identified by management can be split into three markets: advanced imaging, CBRN and biological threat detection. CGUs are not necessarily consistent with the way management monitors the business. Management continues to oversee and monitor the business as two separate operating segments – UK and US and as three separate CGUs as noted above.

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, 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.

##### i) Development costs

The key source of estimation uncertainty relates to the estimation of the asset's recoverable amount, which involves assumptions in relation to future uncertainties including discount rates and growth rates. For further details, see note 15.

As disclosed in note 16, development costs are capitalised in accordance with the accounting policy noted above. These capitalised assets are amortised over the period during which the Group is expected to benefit.

##### ii) Contract revenue

This policy requires forecasts to be made of the outcomes of long-term contracts, which include assessments and judgements on changes in expected costs. A change in the estimate of total forecast contract costs would impact the stage of completion of those contracts and the level of revenue recognised thereon, which could have a material impact on the results of the Group.

##### iii) R&D Tax credit

The R&D tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. Management estimate the tax credit on a prudent basis and then obtain additional professional input from the Company's tax advisers prior to submission of the claim to HMRC. The Group has assumed 100% of the R&D tax credit is recoverable. If only 95% of the claim were to be accepted by HMRC, this would have the effect of reducing the tax receivable and corresponding tax credit by £47k to £893k.

##### iv) Recoverability of receivables and amounts recoverable on contract ("AROC")

Management judges the recoverability at the balance sheet date and makes a provision for impairment where appropriate. The resultant provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date, assessed on the customer risk scoring and commercial discussions. Further, management estimate the recoverability of any AROC balances relating to customer contracts. This estimate includes an assessment of the probability of receipt, exposure to credit loss and the value of any potential recovery. Management base this estimate using the most recent and reliable information that can be reasonably obtained at any point of review. A material change in the facts and circumstances could lead to a reversal of impairment proportional to the expected cash inflows supported by this information.

##### v) Impairment reviews

Management conducts annual impairment reviews of the Group's non-current assets on the consolidated statement of financial position. This includes goodwill annually, development costs where IAS 36 requires it, and other assets as the appropriate standards prescribe. Any impairment review is conducted using the Group's future growth targets regarding its key markets of nuclear detection, medical imaging and security screening. The current carrying value of this class of assets is £45,418k as set out on the Group's consolidated statement of financial position. Sensitivities are applied to the growth assumptions to consider any potential long-term impact of current economic conditions. Provision is made where the recoverable amount is less than the current carrying value of the asset. Further details as to the estimation uncertainty and the key assumptions are set out in note 15.

##### vi) Calculation of share-based payment charges

The charge related to equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted, using an appropriate valuation model selected according to the terms and conditions of the grant. The simplest option pricing model is the Black-Scholes model, which tends to be suitable for simple forms of share awards, in particular where there are no market-based performance conditions. More complex share schemes require the use of a more complex model such as the Monte Carlo Model. Judgement is applied in determining the most appropriate valuation model and estimates are used in determining the inputs to the model. The Group have engaged a third-party expert in FY23 to value the LTIPs granted in year using the Monte Carlo Model.

##### vii) Convertible loan notes

The Group issued £2.8m of convertible loan notes during the year. The convertible loan is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash).

For convertible notes with embedded derivative liabilities, the fair value of the embedded derivative liability is determined first and the residual amount is assigned to the debt host liability.

The embedded derivative has been fair valued using a Black Scholes simulation which was performed at the transaction date and the period end date. The future expected market share price of the Group and the volatility of the share price are the key

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

#### **Key sources of estimation uncertainty *(continued)***

##### **vii) Convertible loan notes *(continued)***

estimates that are critical in the determination of the fair value of the embedded derivative and subsequently the debt host liability of the convertible loan notes.

### 4. OPERATING SEGMENTS

#### **Products and services from which reportable segments derive their revenues**

For management purposes, the Group is organised into two geographical business units from which the Group currently operates (US and UK) and it is these operating segments for which the Group is providing disclosure. Whilst there are two operating segments (US and UK), the Group recognises three CGUs (CBRN, medical imaging and biological threat detection) on the basis that operating segments can consist of multiple CGUs. Both operating segments serve the three principal key markets. However, typically, the US business unit focuses principally on advanced imaging and the UK focuses on CBRN and biological threat detection. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer.

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

The turnover, profit on ordinary activities and net assets of the Group are attributable to two business segments. The first segment relates to the development of digital colour X-ray imaging enabling direct materials identification as well as developing a number of detection products in the industrial and consumer markets. The second segment relates to the development of a technology platform, as described above, which aims to identify airborne pathogens.

#### **Analysis by geographical area**

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

|                | 2023<br>£'000 | 2022<br>£'000 |
|----------------|---------------|---------------|
| United Kingdom | <b>3,944</b>  | 2,033         |
| North America  | <b>6,110</b>  | 5,807         |
| Asia           | <b>2,071</b>  | 1,556         |
| Europe         | <b>5,031</b>  | 2,601         |
| Other          | <b>153</b>    | 58            |
| Total revenue  | <b>17,309</b> | 12,055        |

The Group has aggregated its CGUs, being CBRN, advanced imaging and biological threat detection, into two reporting segments being the operational business units in the UK and US. The UK operations comprise Kromek Group plc and Kromek Limited and the US operations comprise Kromek Inc, eV Products Inc, and NOVA R&D Inc. The Board currently considers this to be the most appropriate aggregation due to the main markets that are typically addressed by the UK and US business units and the necessary skillsets and expertise.

#### 4. OPERATING SEGMENTS (CONTINUED)

##### Analysis by geographical area (continued)

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

| Year ended 30 April 2023  | UK Operations<br>£'000 | US Operations<br>£'000 | Total for Group<br>£'000 |
|---|------------------------|------------------------|--------------------------|
| <b>Revenue from sales</b>                                       |                        |                        |                          |
| Revenue by segment:   |                        |                        |                          |
| -Sale of goods and services                                     | 11,530                 | 14,844                 | <b>26,374</b>            |
| -Revenue from grants  | 226                    | -                      | <b>226</b>               |
| -Revenue from contract customers                                | 2,164                  | 51                     | <b>2,215</b>             |
| Total sales by segment  | 13,920                 | 14,895                 | <b>28,815</b>            |
| Removal of inter-segment sales                                  | (8,529)                | (2,977)                | <b>(11,506)</b>          |
| <b>Total external sales</b>                                     | <b>5,391</b>           | <b>11,918</b>          | <b>17,309</b>            |
| <b>Segment result – operating loss before exceptional items</b> | <b>(1,881)</b>         | <b>(4,168)</b>         | <b>(6,049)</b>           |
| Interest received   | 2                      | -                      | <b>2</b>                 |
| Interest expense  | (975)                  | (270)                  | <b>(1,245)</b>           |
| <b>Loss before tax</b>  | <b>(2,854)</b>         | <b>(4,438)</b>         | <b>(7,292)</b>           |
| Tax credit  | 1,192                  | -                      | <b>1,192</b>             |
| <b>Loss for the year</b>  | <b>(1,662)</b>         | <b>(4,438)</b>         | <b>(6,100)</b>           |
| <i>Reconciliation to adjusted EBITDA:</i>                       |                        |                        |                          |
| Net interest  | 973                    | 270                    | <b>1,243</b>             |
| Tax   | (1,192)                | -                      | <b>(1,192)</b>           |
| Depreciation of PPE and right-of-use assets                     | 1,004                  | 899                    | <b>1,903</b>             |
| Amortisation  | 1,558                  | 1,333                  | <b>2,891</b>             |
| Change in fair value of derivative                              | (77)                   | -                      | <b>(77)</b>              |
| Share-based payment charge                                      | 354                    | -                      | <b>354</b>               |
| <b>Adjusted EBITDA</b>  | <b>958</b>             | <b>(1,936)</b>         | <b>(978)</b>             |
| <b>Other segment information</b>                                |                        |                        |                          |
| Property, plant and equipment additions                         | 42                     | 227                    | <b>269</b>               |
| Right-of-use assets   | 2,133                  | 3,752                  | <b>5,885</b>             |
| Depreciation of PPE and right-of-use assets                     | 1,004                  | 899                    | <b>1,903</b>             |
| Release of capital grant  | (44)                   | -                      | <b>(44)</b>              |
| Intangible asset additions                                      | 2,761                  | 2,243                  | <b>5,004</b>             |
| Amortisation of intangible assets                               | 1,558                  | 1,333                  | <b>2,891</b>             |
| <b>Statement of financial position</b>                          |                        |                        |                          |
| Total assets  | 35,687                 | 28,191                 | <b>63,878</b>            |
| Total liabilities   | (16,433)               | (5,921)                | <b>(22,354)</b>          |



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**4. OPERATING SEGMENTS (CONTINUED)**

| <b>Year ended 30 April 2022</b>                                 | <b>UK Operations<br/>£'000</b> | <b>US Operations<br/>£'000</b> | <b>Total for Group<br/>£'000</b> |
|---|--------------------------------|--------------------------------|----------------------------------|
| <b>Revenue from sales</b>                                       |                                |                                |                                  |
| Revenue by segment:   |                                |                                |                                  |
| -Sale of goods and services                                     | 9,036                          | 9,013                          | <b>18,049</b>                    |
| -Revenue from grants  | 646                            | -                              | <b>646</b>                       |
| -Revenue from contract customers                                | 1,227                          | 245                            | <b>1,472</b>                     |
| Total sales by segment  | 10,909                         | 9,258                          | <b>20,167</b>                    |
| Removal of inter-segment sales                                  | (5,564)                        | (2,548)                        | <b>(8,112)</b>                   |
| <b>Total external sales</b>                                     | <b>5,345</b>                   | <b>6,710</b>                   | <b>12,055</b>                    |
| <b>Segment result – operating loss before exceptional items</b> | <b>(3,732)</b>                 | <b>(1,981)</b>                 | <b>(5,713)</b>                   |
| Interest received   | 34                             | -                              | <b>34</b>                        |
| Interest expense  | (348)                          | (234)                          | <b>(582)</b>                     |
| Exceptional items   | -                              | 132                            | <b>132</b>                       |
| <b>Loss before tax</b>  | <b>(4,046)</b>                 | <b>(2,083)</b>                 | <b>(6,129)</b>                   |
| Tax credit  | 1,228                          | (17)                           | <b>1,211</b>                     |
| <b>Loss for the year</b>  | <b>(2,818)</b>                 | <b>(2,100)</b>                 | <b>(4,918)</b>                   |
| <b>Reconciliation to adjusted EBITDA:</b>                       |                                |                                |                                  |
| Net interest  | 314                            | 234                            | <b>548</b>                       |
| Tax   | (1,228)                        | 17                             | <b>(1,211)</b>                   |
| Depreciation of PPE and right-of-use assets                     | 1,010                          | 741                            | <b>1,751</b>                     |
| Amortisation  | 1,548                          | 1,021                          | <b>2,569</b>                     |
| Share-based payment charge                                      | 236                            | -                              | <b>236</b>                       |
| Exceptional items   | -                              | (132)                          | <b>(132)</b>                     |
| <b>Adjusted EBITDA</b>  | <b>(938)</b>                   | <b>(219)</b>                   | <b>(1,157)</b>                   |
| <b>Other segment information</b>                                |                                |                                |                                  |
| Property, plant and equipment additions                         | 124                            | 527                            | <b>651</b>                       |
| Right-of-use assets   | 2,048                          | 3,458                          | <b>5,506</b>                     |
| Depreciation of PPE and right-of-use assets                     | 1,010                          | 741                            | <b>1,751</b>                     |
| Release of capital grant  | (44)                           | -                              | <b>(44)</b>                      |
| Intangible asset additions                                      | 4,199                          | 1,599                          | <b>5,798</b>                     |
| Amortisation of intangible assets                               | 1,548                          | 1,021                          | <b>2,569</b>                     |
| <b>Statement of financial position</b>                          |                                |                                |                                  |
| Total assets  | 39,494                         | 27,929                         | <b>67,423</b>                    |
| Total liabilities   | (13,376)                       | (6,611)                        | <b>(19,987)</b>                  |

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

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

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

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

#### 4. OPERATING SEGMENTS (CONTINUED)

##### Revenues from major products and services

| The Group's revenues from its major products and services were as follows: | 2023<br>£'000 | 2022<br>£'000 |
|--|---------------|---------------|
| Product revenue  | 14,768        | 9,935         |
| Research and development revenue   | 2,541         | 2,120         |
| Consolidated revenue   | <b>17,309</b> | 12,055        |

##### Information about major customers

Included in revenues arising from US operations are revenues of approximately £4,688k (2022: £2,178k) that arose from the Group's largest commercial customer. Included in revenues arising from UK operations are revenues of approximately £1,243k (2022: £955k) that arose from a major commercial customer.

#### 5. OTHER OPERATING INCOME

|                                  | 2023<br>£'000 | 2022<br>£'000 |
|----------------------------------|---------------|---------------|
| Coronavirus Job Retention Scheme | -             | 19            |
| Miscellaneous                    | 121           | 17            |
| PPP loan forgiveness             | -             | 1,374         |
| Total other operating income     | <b>121</b>    | 1,410         |

Miscellaneous income relates to work undertaken during the financial year on a duty saving project. An Advance Tariff Ruling application was granted, which resulted in a retrospective duty claim dating back three years.

Other operating income from the prior year comprised the forgiveness of PPP loans granted by the US Government and grants received from the Coronavirus Job Retention Scheme provided by the UK Government in response to COVID-19's economic impact on businesses.

#### 6. LOSS BEFORE TAX FOR THE YEAR

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

|   | 2023<br>£'000 | 2022<br>£'000 |
|---|---------------|---------------|
| Net foreign exchange (gains)/losses                                     | (98)          | 155           |
| Research and development costs recognised as an expense                 | 882           | 1,308         |
| Depreciation of property, plant and equipment                           | 1,910         | 1,751         |
| Release of capital grant  | (44)          | (44)          |
| Amortisation of internally-generated intangible assets                  | 2,891         | 2,569         |
| Cost of inventories recognised as expense                               | 4,858         | 3,003         |
| Exceptional items – reversal of trade receivables and AROC (see note 9) | -             | (132)         |
| Staff costs (see note 8)  | <b>11,166</b> | 9,543         |

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**7. AUDITOR'S REMUNERATION**

The analysis of the auditor's remuneration is as follows:

|   | 2023<br>£'000 | 2022<br>£'000 |
|---|---------------|---------------|
| <b>Fees payable to the Company's auditor and their associates for other services to the Group</b> |               |               |
| – The audit of the Company and its subsidiaries   | 150           | 120           |
| <b>Total audit fees</b>   | <b>150</b>    | 120           |

**8. STAFF COSTS**

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

|                                      | 2023<br>Number | 2022<br>Number |
|--------------------------------------|----------------|----------------|
| Directors (executive)                | 3              | 3              |
| Research and development, production | 149            | 133            |
| Sales and marketing                  | 8              | 5              |
| Administration                       | 13             | 13             |
|                                      | <b>173</b>     | 154            |

Their aggregate remuneration comprised:

|                              | 2023<br>£'000 | 2022<br>£'000 |
|------------------------------|---------------|---------------|
| Wages and salaries           | 9,418         | 8,069         |
| Social security costs        | 824           | 739           |
| Pension scheme contributions | 570           | 499           |
| Share-based payments         | 354           | 236           |
|                              | <b>11,166</b> | 9,543         |

The total Directors' emoluments (including non-executive Directors) was £933k (2022: £890k). The aggregate value of contributions paid to money purchase pension schemes was £26k (2022: £24k) in respect of four Directors (2022: four Directors). For a breakdown of remuneration by Director, refer to the Directors' emoluments table on page 37. There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2022: nil).

The highest paid Director received emoluments of £270k (2022: £270k) and amounts paid to money purchase pension schemes was £4k (2022: £4k).

Key management compensation:

|  | 2023<br>£'000 | 2022<br>£'000 |
|--|---------------|---------------|
| Wages and salaries and other short-term benefits | 1,096         | 1,050         |
| Social security costs                            | 117           | 112           |
| Pension scheme contributions                     | 33            | 32            |
| Share-based payment expense                      | 273           | 146           |
|  | <b>1,519</b>  | 1,340         |

Key management comprise the Executive Directors, Non-Executive Directors and senior operational staff. There were three Executive Directors in 2023 (2022: three); four Non-Executive Directors in 2023 (2022: four) and two senior operational staff in 2023 (2022: two).

**9. EXCEPTIONAL ITEMS**

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

|  | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|--|-----------------------------|---------------|
| Reversal of trade receivables and AROC | -                           | (132)         |
| Total exceptional items                | -                           | (132)         |

The Group has reversed £nil in 2023 (2022: £132k) in relation to items impaired in a prior year. The impairment (recognised in FY2020) related to two separate contracts with specific customers in Asia who were identified as having a significantly elevated credit risk. The assessment carried out by management suggested delays in delivery due to travel restriction and subsequent doubt over expected future cash flow, increasing the likelihood of credit default by these specific debtors in the next 12 months due. A charge of £13.1m was recognised in FY2020 as an exceptional item arising as a result of the impact of COVID-19 in accordance with the Group's accounting policy, as it was considered to be one-off in nature, size and incidence. It represented a full write down of invoiced debtors and AROC. The amounts have been fully written down as management have concluded that any recovery is not considered to be material. No adjustment or reversal to the impairment calculated in 2020, specific to one of the contracts, has been included in 2022 and 2023 on the basis that the recoverability of this receivable remains uncertain.

**10. FINANCE INCOME**

|                      | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|----------------------|-----------------------------|---------------|
| Bank deposits        | <b>2</b>                    | 34            |
| Total finance income | <b>2</b>                    | 34            |

**11. FINANCE COSTS**

|   | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|---|-----------------------------|---------------|
| Interest on bank overdrafts, loans and borrowings | <b>703</b>                  | 340           |
| Interest expense for lease arrangements           | <b>262</b>                  | 242           |
| Interest on convertible loan notes                | <b>280</b>                  | -             |
| Total interest expense                            | <b>1,245</b>                | 582           |

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**12. TAX****Recognised in the income statement**

|  | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|--|-----------------------------|---------------|
| Current tax credit:                            |                             |               |
| UK corporation tax on losses in the year       | <b>940</b>                  | 942           |
| Adjustment in respect of previous periods      | <b>252</b>                  | 286           |
| Foreign taxes paid                             | -                           | (17)          |
| Total current tax                              | <b>1,192</b>                | 1,211         |
| Deferred tax:                                  |                             |               |
| Origination and reversal of timing differences | -                           | -             |
| Adjustment in respect of previous periods      | -                           | -             |
| Total deferred tax                             | -                           | -             |
| Total tax credit in income statement           | <b>1,192</b>                | 1,211         |

The main rate of UK corporation tax for the financial year was 19.49% (2022: 19%) whilst the US federal corporate tax rate is 21%. The deferred tax asset at 30 April 2023, which has not been recognised, has been calculated at 19.49% (2022: 19%).

**Reconciliation of tax credit**

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

|  | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|--|-----------------------------|---------------|
| Loss before tax  | <b>(7,292)</b>              | (6,129)       |
| Tax at the UK corporation tax rate of 19.49% (2021: 19%) | <b>1,422</b>                | 1,165         |
| Non-taxable income/expenses not deductible               | <b>36</b>                   | (184)         |
| Effect of R&D  | <b>396</b>                  | 456           |
| Effect of other tax rates/credits                        | <b>63</b>                   | 124           |
| Share scheme deduction under Part 12 CTA 2009            | -                           | -             |
| Unrecognised movement on deferred tax                    | <b>(1,251)</b>              | (815)         |
| Adjustment in respect of previous periods                | <b>252</b>                  | 286           |
| Effects of overseas tax rates                            | <b>274</b>                  | 179           |
| Total tax credit for the year                            | <b>1,192</b>                | 1,211         |

Further details of deferred tax are given in note 22. There are no tax items charged to other comprehensive income.

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

The rate of corporation tax for the year is 19.49% (2022: 19%). The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 27.59%, which represents the federal plus state tax rate.

**13. DIVIDENDS**

The Directors do not recommend the payment of a dividend (2022: £nil).



#### 14. LOSSES PER SHARE

As the Group is loss making, dilution has the effect of reducing the loss per share. The calculation of the basic and diluted earnings per share is based on the following data:

|  | 2023<br>£'000      | 2022<br>£'000 |
|--|--------------------|---------------|
| <b>Losses</b>  |                    |               |
| Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group | <b>(6,100)</b>     | (4,918)       |
| <b>Number of shares</b>  |                    |               |
| Weighted average number of ordinary shares for the purposes of basic losses per share                              | <b>431,851,820</b> | 431,851,820   |
| Effect of dilutive potential ordinary shares:  |                    |               |
| Share options  | <b>312,909</b>     | 350,556       |
| Weighted average number of ordinary shares for the purposes of diluted losses per share                            | <b>432,164,729</b> | 432,202,376   |
|  | <b>2023</b>        | 2022          |
| Basic (p)  | <b>(1.4)</b>       | (1.1)         |

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore, the anti-dilutive potential ordinary shares are disregarded in the calculation of diluted EPS.

#### 15. INTANGIBLE ASSETS INCLUDING GOODWILL

|  | £'000        |
|--|--------------|
| <b>Cost</b>                            |              |
| At 1 May 2022 and 30 April 2023        | 1,275        |
| <b>Accumulated impairment losses</b>   |              |
| At 1 May 2022 and 30 April 2023        | -            |
| <b>Carrying amount</b>                 |              |
| <b>At 1 May 2022 and 30 April 2023</b> | <b>1,275</b> |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

| CGU                         | Goodwill<br>£'000 | Intangibles<br>£'000 |
|-----------------------------|-------------------|----------------------|
| Advanced Imaging            | 1,275             | 13,813               |
| CBRN                        | -                 | 7,218                |
| Biological Threat Detection | -                 | 9,523                |
| <b>Total</b>                | <b>1,275</b>      | <b>30,554</b>        |

The goodwill arose on the acquisition of NOVA R&D, Inc. in 2010, and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to the advanced imaging CGU.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 15. INTANGIBLE ASSETS INCLUDING GOODWILL *(CONTINUED)*

#### *Impairment tests*

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the carrying value of the goodwill to its value in use on a discounted cash flow basis.

The Group tests intangible assets with finite lives for impairment if an indicator exists. In undertaking the impairment test, management considered both internal and external sources of information. The impairment testing did not identify any impairments in each of the CGUs.

#### *Forecast cash flows*

Management has prepared cash flow forecasts for 10 years (CBRN/biological threat detection) and 15 years (advanced imaging) plus a perpetuity. This exceeds the five years as set out in the standard but has been used on the basis that the entity is in the early stage of its maturity and will not have reached steady state after five years. Management have visibility over contracts in place and in the pipeline that enable it to forecast accurately and the cash flows are based on the useful economic life of the 'know how', which is considered to be the essential asset.

#### **Advanced Imaging**

The key assumptions to the value in use calculations are set out below:

- **Growth rate.** The 2023 model includes a prudent revenue growth in years 1 and 2 (see below for comparatives). This growth rate comprises both capacity increases as a result of increases in raw material to finished product efficiencies and price increases, factoring in existing contracts and those in the pipeline and is reflective of historical growth rates as well as and the Company's share of the overall markets the advanced imaging CGU operates in. No growth is assumed after 10 years.
- **Discount rates.** Management have derived a pre-tax discount rate of 8.85% (2022: 11.35%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective, which are all based on publicly available sources. The discount rate is lower than that used in 2022. The key drivers of this change are the changes in market assumptions for US corporate bond yields and risk-free rates.

The Challenge Model Base Case incorporates the following into the advanced imaging forecast:

- Revised year 1 and year 2 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.
- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 15 whilst taking into consideration potential capacity constraints.

#### **CBRN**

- **Growth rate.** The 2023 model includes a prudent growth rate of 25% per annum which is reflective of recent growth in this particular sector of the business. This growth rate considers existing contracts and those in the pipeline and is reflective of historical growth rates as well as and the Company's share of the overall markets the CBRN CGU operates in. No growth is assumed after 10 years.
- **Discount rates.** Management have derived a pre-tax discount rate of 10.92% (2022: 10.50%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective. The discount rate is higher than that used in 2022. The key drivers of this change are the changes in market assumptions for UK corporate bond yields and risk-free rates.

The Challenge Model Base Case scenarios incorporates the following into the CBRN forecast:

- Revised year 1, 2 and 3 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.
- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 10.

#### **Biological Threat Detection**

- **Growth rate.** The 2023 model is based on management's assumption of future programme revenue and product delivery. The forecast revenue consists of known revenue opportunities across four key areas. For prudence additional upside revenue from other known opportunities has been excluded.
- **Discount rates.** Management have derived a pre-tax discount rate of 10.92% (2022: 10.50%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective.

The Challenge Model Base Case scenarios incorporates the following into the biological threat detection forecast:

- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 10.

**15. INTANGIBLE ASSETS INCLUDING GOODWILL (CONTINUED)***Sensitivities*

The headroom in the base case models for each CGU are noted below:

|  | Advanced Imaging<br>headroom | CBRN<br>headroom | Biological Threat Detection<br>headroom |
|--|------------------------------|------------------|---|
| Base model   | £20,268k                     | £15,999k         | £28,103k                                |
| Combination of Discount Rate +2% and Challenge model | £15,064k                     | £12,290k         | £23,134k                                |
| Combination of Discount Rate -2% and Challenge model | £26,297k                     | £20,391k         | £33,954k                                |

The table below sets out the headroom in the challenge base model for each CGU:

|  | Advanced Imaging<br>headroom | CBRN<br>headroom | Biological Threat Detection<br>headroom |
|--|------------------------------|------------------|---|
| Challenge base model                                 | £11,718k                     | £2,286k          | £18,780k                                |
| Combination of Discount Rate +2% and Challenge model | £6,032k                      | £125k            | £15,681k                                |
| Combination of Discount Rate -2% and Challenge model | £18,674k                     | £4,860k          | £22,366k                                |

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2023 or 2022

**16. OTHER INTANGIBLE ASSETS**

|                         | Development<br>costs<br>£'000 | Patents,<br>trademarks &<br>other intangibles<br>£'000 | Total<br>£'000 |
|-------------------------|-------------------------------|--|----------------|
| <b>Cost</b>             |                               |  |                |
| At 1 May 2022           | 35,880                        | 7,913  | <b>43,793</b>  |
| Additions               | 4,821                         | 183  | <b>5,004</b>   |
| Exchange differences    | 4                             | 1  | <b>5</b>       |
| <b>At 30 April 2023</b> | <b>40,705</b>                 | <b>8,097</b>   | <b>48,802</b>  |
| <b>Amortisation</b>     |                               |  |                |
| At 1 May 2022           | 9,296                         | 6,122  | <b>15,418</b>  |
| Charge for the year     | 2,325                         | 566  | <b>2,891</b>   |
| Exchange differences    | (46)                          | (15)   | <b>(61)</b>    |
| <b>At 30 April 2023</b> | <b>11,575</b>                 | <b>6,673</b>   | <b>18,248</b>  |
| <b>Carrying amount</b>  |                               |  |                |
| <b>At 30 April 2023</b> | <b>29,130</b>                 | <b>1,424</b>   | <b>30,554</b>  |
| At 30 April 2022        | 26,584                        | 1,791  | 28,375         |

The Group amortises capitalised development costs on a straight-line basis over a period of 2-15 years rather than against product sales directly relating to the development expenditure. Any impairment of development costs are recognised immediately through the profit and loss.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

The carrying amount of acquired intangible assets arising on the acquisitions of NOVA R&D, Inc. and eV Products, Inc. as at the 30 April 2023 was £182k (2022: £357k), with amortisation to be charged over the remaining useful lives of these assets which is between 3 and 13 years.

The amortisation charge on intangible assets is included in administrative expenses in the consolidated income statement.

Further details on impairment testing are set out in note 15.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**17. PROPERTY, PLANT AND EQUIPMENT**

|  | Lab<br>Equipment<br>£'000 | Computer<br>Equipment<br>£'000 | Plant and<br>Machinery<br>£'000 | Fixtures and<br>Fittings<br>£'000 | Total<br>£'000 |
|--|---------------------------|--------------------------------|---------------------------------|-----------------------------------|----------------|
| <b>Cost or valuation</b>                       |                           |                                |                                 |                                   |                |
| At 1 May 2022                                  | 210                       | 1,463                          | 18,621                          | 619                               | 20,913         |
| Additions                                      | -                         | 34                             | 226                             | 9                                 | 269            |
| Exchange differences                           | -                         | -                              | 2                               | -                                 | 2              |
| <b>At 30 April 2023</b>                        | <b>210</b>                | <b>1,497</b>                   | <b>18,849</b>                   | <b>628</b>                        | <b>21,184</b>  |
| <b>Accumulated depreciation and impairment</b> |                           |                                |                                 |                                   |                |
| At 1 May 2022                                  | 75                        | 1,189                          | 8,358                           | 347                               | 9,969          |
| Charge for the year                            | 42                        | 118                            | 1,182                           | 54                                | 1,396          |
| Exchange differences                           | -                         | (3)                            | (8)                             | (1)                               | (12)           |
| <b>At 30 April 2023</b>                        | <b>117</b>                | <b>1,304</b>                   | <b>9,532</b>                    | <b>400</b>                        | <b>11,353</b>  |
| <b>Carrying amount</b>                         |                           |                                |                                 |                                   |                |
| <b>At 30 April 2023</b>                        | <b>93</b>                 | <b>193</b>                     | <b>9,317</b>                    | <b>228</b>                        | <b>9,831</b>   |
| At 30 April 2022                               | 135                       | 274                            | 10,263                          | 272                               | 10,944         |

**18. RIGHT-OF-USE ASSETS**

Details of the Group's right-of-use assets and their carrying amount are as follows:

|                                       | £'000        |
|---------------------------------------|--------------|
| <b>Cost</b>                           |              |
| Cost at 1 May 2022                    | 5,506        |
| Additions                             | 392          |
| Effect of movements in exchange rates | (13)         |
| <b>Cost at 30 April 2023</b>          | <b>5,885</b> |
| <b>Depreciation</b>                   |              |
| Depreciation at 1 May 2022            | 1,632        |
| Charge for the year                   | 507          |
| Exchange differences                  | (12)         |
| <b>Depreciation at 30 April 2023</b>  | <b>2,127</b> |
| <b>Carrying amount</b>                |              |
| <b>At 30 April 2023</b>               | <b>3,758</b> |
| At 30 April 2022                      | 3,874        |

**19. SUBSIDIARIES**

A list of the subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 3 to the Company's separate financial statements.

**20. INVENTORIES**

|                  | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|------------------|-----------------------------|---------------|
| Raw materials    | <b>2,204</b>                | 3,554         |
| Work-in-progress | <b>8,321</b>                | 6,304         |
| Finished goods   | <b>369</b>                  | 645           |
|                  | <b>10,894</b>               | 10,503        |

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,858k (2022: £5,006k).

The write-down of inventories to net realisable value amounted to £1,226k (2022: £852k). The reversal of write-downs amounted to £271k (2022: £94k).

**21. AMOUNTS RECOVERABLE ON CONTRACTS AND TRADE AND OTHER RECEIVABLES****Trade and Other Receivables**

|   | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|---|-----------------------------|---------------|
| Amount receivable for the sale of goods | <b>4,568</b>                | 4,860         |
| Other receivables                       | <b>244</b>                  | 542           |
| Prepayments and accrued income          | <b>717</b>                  | 1,027         |
| Current tax assets                      | <b>940</b>                  | 942           |
|   | <b>6,469</b>                | 7,371         |

**Amount receivable for the sale of goods**

Trade receivables disclosed above are classified as financial assets at amortised cost.

The average credit period taken on sales of goods is 60 days. The Group reviews the recoverability of receivables over 120 days every six months and on an individual balance by balance basis. This impairment review seeks evidence of recoverability, most notably, where specific support is being provided to strategic partners in the marketing of new products. Commercial and finance will then determine if the Group should recognise an impairment allowance. When considering the impairment allowance, strategic and commercial relationships are taken into account.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables, with the exception of stock recovered from customers in respect of the doubtful debts disclosed below.

Management assessed the requirement for a general bad debt provision under IFRS 9. The expected loss rates are based on the combination of the Group's historical credit losses experienced over a year period coupled with forward looking information. Management also note that the Group generally has a consistent recovery rate on trade and other receivables, due to a significant amount of work being completed for reputable businesses. However, Management does note that dealings with businesses can be difficult at times to recover funds owed and as such, provisions have been raised on historic knowledge of each customer's credit risk. During the year, the Group provided for certain accounts receivable balances where the collection of the outstanding amounts is uncertain.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.



Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**21. AMOUNTS RECOVERABLE ON CONTRACTS AND TRADE AND OTHER RECEIVABLES (CONTINUED)****Amount receivable for the sale of goods (continued)**

At 30 April 2023, trade receivables are shown net of an impairment allowance of £2,496k (2022: £1,460k) arising from the ordinary course of business, as follows:

|                            | 2023<br>£'000 | 2022<br>£'000 |
|----------------------------|---------------|---------------|
| Balance at 1 May           | 1,460         | 1,158         |
| Provided during the year   | 1,145         | 321           |
| Release during the year    | (109)         | (139)         |
| Impact of foreign exchange | -             | 120           |
| Balance at 30 April        | <b>2,496</b>  | 1,460         |

The doubtful debt provision records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amounts considered irrecoverable are written off against the trade receivables directly.

As at 30 April 2023, the lifetime expected loss provision for trade receivables is:

|                       | Current<br>£'000 | More than 30<br>days past due<br>£'000 | More than 60<br>days past due<br>£'000 | More than 90<br>days past due<br>£'000 | More than 120<br>days past due<br>£'000 | Total<br>£'000 |
|-----------------------|------------------|--|--|--|---|----------------|
| Expected loss rate    | 14%              | 18%                                    | 64%                                    | 0%                                     | 65%                                     | -              |
| Gross carrying amount | 3,747            | 358                                    | 83                                     | -                                      | 2,876                                   | 7,064          |
| Loss provision        | 508              | 63                                     | 53                                     | -                                      | 1,872                                   | 2,496          |

As at 30 April 2022, the lifetime expected loss provision for trade receivables is:

|                       | Current<br>£'000 | More than 30<br>days past due<br>£'000 | More than 60<br>days past due<br>£'000 | More than 90<br>days past due<br>£'000 | More than 120<br>days past due<br>£'000 | Total<br>£'000 |
|-----------------------|------------------|--|--|--|---|----------------|
| Expected loss rate    | 13%              | 22%                                    | 50%                                    | 0%                                     | 33%                                     | -              |
| Gross carrying amount | 2,601            | 544                                    | 4                                      | -                                      | 3,054                                   | 7,064          |
| Loss provision        | 347              | 117                                    | 2                                      | -                                      | 995                                     | 1,460          |

**22. DEFERRED TAX LIABILITIES**

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

|                                   | Fair value<br>revaluation of<br>acquired<br>intangibles<br>£'000 | Accelerated<br>capital<br>allowances<br>£'000 | Short-term<br>timing<br>differences<br>£'000 | Tax<br>losses<br>£'000 | Total<br>£'000 |
|-----------------------------------|--|---|--|------------------------|----------------|
| At 1 May 2022                     | 389  | 6,806   | (648)  | (6,547)                | -              |
| (Credit)/charge to profit or loss | -  | 400   | (8)  | (392)                  | -              |
| <b>At 30 April 2023</b>           | <b>389</b>   | <b>7,206</b>                                  | <b>(656)</b>                                 | <b>(6,939)</b>         | <b>-</b>       |

**22. DEFERRED TAX LIABILITIES (CONTINUED)**

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

|                          | 2023<br>£'000  | 2022<br>£'000 |
|--------------------------|----------------|---------------|
| Deferred tax liabilities | <b>6,939</b>   | 6,547         |
| Deferred tax assets      | <b>(6,939)</b> | (6,547)       |
|                          | <b>-</b>       | -             |

At the statement of financial position date, the Group has unused tax losses of £56,129k (2022: £49,862k) available for offset against future profits. A deferred tax asset has been recognised in respect of £6,539k (2022: £6,547k) of such losses. The asset is considered recoverable because it can be offset to reduce future tax liabilities arising in the Group. No deferred tax asset has been recognised in respect of the remaining £49,582k (2022: £43,315k) as it is not yet considered sufficiently certain that there will be future taxable profits available. All losses may be carried forward indefinitely subject to a significant change in the nature of the Group's trade with US losses having a maximum life of 20 years.

**23. TRADE AND OTHER PAYABLES****Payable within one year:**

|                             | 2023<br>£'000 | 2022<br>£'000 |
|-----------------------------|---------------|---------------|
| Trade payables and accruals | <b>7,326</b>  | 7,524         |
| Deferred income             | <b>110</b>    | 331           |
|                             | <b>7,436</b>  | 7,855         |

**Payable in more than one year:**

|                 | 2023<br>£'000 | 2022<br>£'000 |
|-----------------|---------------|---------------|
| Deferred income | <b>1,021</b>  | 1,131         |
|                 | <b>1,021</b>  | 1,131         |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 71 days. For all suppliers, no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred income relates to government grants received which have been deferred until the conditions attached to the grants are met.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**24. LEASE OBLIGATION**

The Group has measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. Details of the Group's liability in respect of right-of-use assets and their carrying amount are as follows:

|   | 2023<br>£'000 | 2022<br>£'000 |
|---|---------------|---------------|
| Opening lease liability at 1 May            | 4,536         | 4,655         |
| New leases entered into during the year     | 392           | -             |
| Effect of lease modifications               | -             | -             |
| Finance costs                               | 262           | 242           |
| Payments made during the year               | (692)         | (646)         |
| Impact of foreign exchange                  | (4)           | 285           |
| <b>At 30 April</b>                          | <b>4,494</b>  | 4,536         |
| Presented as:                               |               |               |
| Lease liability payable within 1 year       | 405           | 375           |
| Lease liability payable in more than 1 year | 4,089         | 4,161         |
| <b>At 30 April</b>                          | <b>4,494</b>  | 4,536         |

Rental charges associated with other low value leased assets that fall within the expedient threshold have been expensed to the profit and loss accounts £40k (2022: £46k).

**25. BORROWINGS**

|  | 2023<br>£'000 | 2022<br>£'000 |
|--|---------------|---------------|
| <b>Secured borrowing at amortised cost</b>   |               |               |
| Revolving credit facility and capex facility | 5,000         | 4,500         |
| Other borrowings                             | 1,357         | 1,965         |
| Convertible loan notes (see note 26)         | 2,529         | -             |
|  | <b>8,886</b>  | 6,465         |
| <b>Total borrowings</b>                      |               |               |
| Amount due for settlement within 12 months   | 8,318         | 5,716         |
| Amount due for settlement after 12 months    | 568           | 749           |

The Group has a £5.0m revolving credit facility (RCF) with HSBC, the repayment date for which has been extended from 11 March 2023 to 31 August 2023. Post year end, the Group deposited £4.5m with HSBC over which the bank has a legal charge in the event that the RCF is not repaid by 31 August 2023. At the date of this report, the Group are finalising the terms of an alternative borrowing facility to replace the HSBC RCF and the Board are confident that this facility will be secured to repay the RCF by 31 August 2023.

Other borrowings comprise a loan with the landlord in the US in respect of the facility occupied by eV Products, Inc. This loan is repaid in equal instalments on a monthly basis and attracts interest at 7.50% per annum. At 30 April 2023, the total loan due to the landlord was £0.2m (2022: £0.4m). Of this, £0.2m is due within 12 months (2022: £0.2m) and £nil (2022: £0.2m) is due after 12 months.

The Group's US operations were eligible to apply for an Economic Injury Disaster Loan. A loan of £0.1m was approved and secured in June 2020. A further loan of £0.4m was approved and secured in August 2021. This loan attracts interest at a rate of 3.75% per annum and the maturity date is 30 years from the date of the loan note.

The Group secured an additional £0.5m loan in September 2022 and a £0.1m loan in February 2023. These were to aid with working capital requirements. Both loans were repaid post year end.

Convertible loan notes of £2.8m were securing during the year. This is discussed further in note 26.

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

**25. BORROWINGS (CONTINUED)**

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

|                            | <b>2023</b><br>% | 2022<br>% |
|----------------------------|------------------|-----------|
| Revolving credit facility  | <b>6.90</b>      | 2.80      |
| Other borrowing facilities | <b>3.40</b>      | 6.60      |

**26. CONVERTIBLE LOAN NOTES**

During the year, the Group issued convertible loan notes to the value of £2.8m at an interest rate of 8% per annum, with interest accruing monthly.

The convertible loan is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash) and hence these instruments are not considered to contain an equity element.

For convertible notes with embedded derivative liabilities, the fair value of the embedded derivative liability is determined first and the residual amount is assigned to the debt host liability. The initial recognition of the embedded derivative conversion feature has been recognised as a liability on the balance sheet with any changes to the fair value of the derivative recognised in the income statement. It has been fair valued using a Black Scholes model which was performed at the transaction date and the period end date. The inputs into the Black-Scholes model at the year-end are as follows:

|                              | <b>2023</b> |
|------------------------------|-------------|
| Weighted average share price | 6.6p        |
| Expected volatility          | 40.97%      |
| Expected life                | 1 year      |
| Risk-free rate               | 0.031       |
| Expected dividend yields     | 0%          |

The debt host liability will be accounted for using the amortised cost basis with an effective interest rate of 16%. The Group will recognise the unwinding of the discount at the effective interest rate, until the maturity date, the carrying amount at the maturity date will equal the cash payment required to be made.

|                       | <b>Embedded<br/>derivative<br/>£'000</b> | <b>Convertible<br/>loan note<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-----------------------|--|--|------------------------|
| Initial recognition   | 594                                      | 2,249                                      | 2,840                  |
| Unwinding of discount | -  | 280  | 280                    |
| Change in fair value  | (77)                                     | -  | (77)                   |
|                       | <b>517</b>                               | <b>2,529</b>                               | <b>3,043</b>           |

**27. SHARE CAPITAL**

|   | <b>£'000</b> |
|---|--------------|
| <b>Allotted, called up and fully paid:</b>  |              |
| Balance at 1 May 2022: 431,851,820 (2022: 431,851,820) Ordinary shares of £0.01 each    | 4,319        |
| Issued in the Year: nil (2022: nil) Ordinary shares of £0.01 each                       | -            |
| Balance at 30 April 2023: 431,851,820 (2022: 431,851,820) Ordinary shares of £0.01 each | <b>4,319</b> |

During the year, no shares (2022: no shares) were allotted under share option schemes.

Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

**28. SHARE PREMIUM ACCOUNT**

|   | <b>£'000</b>  |
|---|---------------|
| Balance at 30 April 2023 and 1 May 2022 | <b>72,943</b> |

**29. TRANSLATION RESERVE**

|  | <b>£'000</b> |
|--|--------------|
| Balance at 1 May 2022  | 2,063        |
| Exchange differences on translating the net assets of foreign operations | (166)        |
| Balance at 30 April 2023   | <b>1,897</b> |

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve.

**30. ACCUMULATED LOSSES**

|                                      | <b>£'000</b>    |
|--------------------------------------|-----------------|
| Balance at 1 May 2022                | (53,742)        |
| Net loss for the year                | (6,100)         |
| Effect of share-based payment credit | 354             |
| Balance at 30 April 2023             | <b>(59,488)</b> |

**31. NOTES TO THE CASH FLOW STATEMENT**

|   | <b>2023<br/>£'000</b> | 2022<br>£'000 |
|---|-----------------------|---------------|
| Loss for the year                                       | <b>(6,100)</b>        | (4,918)       |
| Adjustments for:  |                       |               |
| Finance income  | <b>(2)</b>            | (34)          |
| Finance costs   | <b>1,245</b>          | 582           |
| Change in fair value of derivative                      | <b>(77)</b>           | -             |
| Income tax credit                                       | <b>(1,192)</b>        | (1,211)       |
| Depreciation of property, plant and equipment and ROU   | <b>1,903</b>          | 1,751         |
| Amortisation of intangible assets                       | <b>2,891</b>          | 2,569         |
| Share-based payment expense                             | <b>354</b>            | 236           |
| PPP loan forgiveness                                    | <b>-</b>              | (1,443)       |
| Operating cash flow before movements in working capital | <b>(978)</b>          | (2,468)       |
| Increase in inventories                                 | <b>(391)</b>          | (4,301)       |
| Decrease in receivables                                 | <b>900</b>            | 215           |
| (Decrease)/increase in payables                         | <b>(529)</b>          | 1,741         |
| Cash used in operations                                 | <b>(998)</b>          | (4,813)       |
| Income taxes received                                   | <b>1,195</b>          | 1,283         |
| Net cash used in operating activities                   | <b>197</b>            | (3,530)       |



**31. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)****Cash and cash equivalents**

|                        | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|------------------------|-----------------------------|---------------|
| Cash and bank balances | <b>1,097</b>                | 5,081         |

Cash and cash equivalents comprise cash and term bank deposits repayable between one and twelve months from balance sheet date, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

**32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

|                               | <b>Borrowings</b><br><b>£'000</b> | <b>Lease liability</b><br><b>£'000</b> |
|-------------------------------|-----------------------------------|--|
| Balance at 1 May 2022         | 6,465                             | 4,536                                  |
| Cash flows;                   |                                   |  |
| - Repayments                  | (1,258)                           | (692)                                  |
| - Additions and modifications | 3,349                             | -                                      |
| Non-cash                      |                                   |  |
| - Additions and modifications | -                                 | 392                                    |
| - Effect of exchange rates    | 97                                | (6)                                    |
| - Interest applied            | 233                               | 262                                    |
| Balance at 30 April 2023      | <b>8,886</b>                      | <b>4,492</b>                           |

**33. SHARE-BASED PAYMENTS****Equity-settled share option scheme**

The Company has a share option scheme for all employees of the Group, for which some options are EMI qualifying. Options are generally exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The average vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire unless, at the discretion of the Remuneration Committee, the options are granted an extension period. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

|                                      | <b>Number of share options</b> | <b>2023 Weighted average exercise price (£)</b> | Number of share options | 2022 Weighted average exercise price (£) |
|--------------------------------------|--------------------------------|---|-------------------------|--|
| Outstanding at beginning of the year | <b>20,033,991</b>              | <b>0.21</b>                                     | 18,410,665              | 0.13                                     |
| Transfer from LTIP                   | -                              | -   | 350,000                 | 0.01                                     |
| Granted during the year              | <b>1,202,700</b>               | <b>0.10</b>                                     | 2,743,628               | 0.10                                     |
| Exercised during the year            | -                              | -   | -                       | -  |
| Forfeited during the year            | <b>(1,135,583)</b>             | <b>0.16</b>                                     | (1,470,302)             | 0.21                                     |
| Outstanding at the end of the year   | <b>20,101,108</b>              | <b>0.15</b>                                     | 20,033,991              | 0.15                                     |
| Exercisable at the end of the year   | <b>11,446,740</b>              | <b>0.21</b>                                     | 5,990,000               | 0.21                                     |

## Notes to the consolidated financial statements (continued)

For the year ended 30 April 2023

**33. SHARE-BASED PAYMENTS (CONTINUED)****Equity-settled share option scheme (continued)**

The weighted average share price at the date of exercise for share options exercised during the year was £nil (2022: £nil). The options outstanding at 30 April 2023 had a weighted average exercise price of £0.15 (2022: £0.15) and a weighted average remaining contractual life of six years (2022: four years). The range of exercise prices for outstanding share options at 30 April 2023 was 1p to 39p (2022: 1.5p to 73p). In 2023, the aggregate of the estimated fair values of the options granted was £134k (2022: £159k). The inputs into the Black-Scholes model are as follows:

|                                 | <b>2023</b>    | 2022    |
|---------------------------------|----------------|---------|
| Weighted average share price    | <b>10p</b>     | 10p     |
| Weighted average exercise price | <b>10p</b>     | 10p     |
| Expected volatility             | <b>42.87%</b>  | 40.21%  |
| Expected life                   | <b>5 years</b> | 5 years |
| Risk-free rate                  | <b>1.53</b>    | 0.36    |
| Expected dividend yields        | <b>0%</b>      | 0%      |

Expected volatility was determined by calculating the historical volatility of similar listed businesses over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

**The Kromek Group Plc 2013 Long Term Incentive Plan**

On 10 October 2013, a Long Term Incentive Plan ("LTIP") was adopted and then subsequently modified on 14 March 2018. Under the revised plan, awards are made annually to key employees. Subject to the satisfaction of the required Relative Total Shareholder Return (RTSR) performance criteria, these grants will vest after a three-year period, with the first having ended on 30 April 2014, and the remainder on subsequent year end dates. Details of the LTIP share options outstanding during and at the end of the year are as follows:

|                                      | <b>Number of share options</b> | <b>2023 Weighted average exercise price (£)</b> | Number of share options | 2022 Weighted average exercise price (£) |
|--------------------------------------|--------------------------------|---|-------------------------|--|
| Outstanding at beginning of the year | <b>4,363,665</b>               | <b>0.01</b>                                     | 3,440,344               | 0.01                                     |
| Transfer to share option scheme      | -                              | <b>0.01</b>                                     | (350,000)               | -  |
| Granted during the year              | <b>7,421,740</b>               | <b>0.01</b>                                     | 2,213,001               | 0.01                                     |
| Exercised during the year            | -                              | <b>0.01</b>                                     | -                       | 0.01                                     |
| Forfeited during the year            | <b>(2,150,664)</b>             | <b>0.01</b>                                     | (939,680)               | 0.01                                     |
| Outstanding at the end of the year   | <b>9,634,741</b>               | <b>0.01</b>                                     | 4,363,665               | 0.01                                     |
| Exercisable at the end of the year   | -                              | <b>0.01</b>                                     | -                       | 0.01                                     |

During 2023, 7,421,740 (2022: 2,213,001) options were granted under the 2018 LTIP to a number of key employees, including three (2022: three) executive Directors of the Group. The fair value of these options granted was £161k (2022: £31k). The amounts recognised as a share-based payment LTIP expense for the year ended 30 April 2023 was £220k (2022: £77k).

The 2013 Long Term Incentive Plan award was valued using the Monte Carlo pricing model in 2021. The inputs into the Monte Carlo pricing model are as follows:

|                                 | <b>2023</b>    | 2022    |
|---------------------------------|----------------|---------|
| Weighted average share price    | <b>15p</b>     | 15p     |
| Weighted average exercise price | <b>1p</b>      | 1p      |
| Expected volatility             | <b>35.00%</b>  | 35.00%  |
| Expected life                   | <b>3 years</b> | 3 years |
| Risk-free rate                  | <b>0.32</b>    | 0.32    |
| Expected dividend yields        | <b>0%</b>      | 0%      |

In 2023 an assessment of the LTIP's issued in FY2023 was carried out by an external valuer. As noted in note 3, management believe an external valuation should be carried out every two to three years.

**33. SHARE-BASED PAYMENTS (CONTINUED)****The Kromek Group Plc 2013 Long Term Incentive Plan (continued)**

The key inputs are as follows:

|                                 | <b>2023</b> |
|---------------------------------|-------------|
| Weighted average share price    | 10.1p       |
| Weighted average exercise price | 1p          |
| Expected volatility             | 55.00%      |
| Expected life                   | 3 years     |
| Risk-free rate                  | 0.034       |
| Expected dividend yields        | 0%          |

The Group recognised a total expense in the year of £354k (2022: £236k) related to all equity-settled share-based payment transactions. This is inclusive of both the equity-settled share option scheme and the 2013 LTIP scheme.

**34. RETIREMENT BENEFIT SCHEMES****Defined contribution schemes**

The Group operates defined contribution retirement benefit schemes for all employees. Where there are employees who leave the schemes prior to vesting fully, the contributions payable by the Group are reduced by the amount of forfeited contributions.

There are two defined contribution pension schemes for UK employees, one of which is an auto-enrolment workplace pension scheme established following the UK Pensions Act 2008. The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the US government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of £570k (2022: £496k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 30 April 2023, contributions of £143k (2022: £51k) due in respect of the current reporting period had not been paid over to the scheme.

**35. FINANCIAL INSTRUMENTS****Financial Instruments**

The Group's principal financial instruments are cash and trade receivables.

The Group has exposure to the following risks from its operations:

**Capital risk**

The Group manages its capital to ensure that each entity in the Group will be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the balance between debt and equity. The Group's overall strategy has remained unchanged between 2022 and 2023.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 27 to 30.

The Group is not subject to any externally imposed capital requirements.

The Group's primary source of capital is equity. By pricing products and services commensurate with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows.

Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the revolving credit facility available, which at the year-end was £5.0m (2022: £4.5m). Details of the revolving credit facility have been included in note 25.

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Group.

**Market risk**

The Group may be affected by general market trends, which are unrelated to the performance of the Group itself. The Group's success will depend on market acceptance of the Group's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Group may change and this could lead to an adverse effect upon its revenue and earnings.

## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### 35. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Foreign currency risk

The Group's operations are split between the UK and the US, and as a result the Group incurs costs in currencies other than its presentational currency of pounds sterling. The Group also holds cash and cash equivalents in non-sterling denominated bank accounts.

The following table shows the denomination of the year end cash and cash equivalents balance:

|                            | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|----------------------------|-----------------------------|---------------|
| £ sterling                 | <b>2,215</b>                | 5,366         |
| US\$ (sterling equivalent) | <b>(1,390)</b>              | (601)         |
| € (sterling equivalent)    | <b>272</b>                  | 316           |

Had the foreign exchange rate between sterling, US\$ and € changed by 9% (2022: 1%), this would affect the loss for the year and net assets of the Group by £379k (2022: £16k). 9% (2022: 1%) is considered a reasonable assessment of foreign exchange movement as this has been the movement noted between 2022 and 2023 (2021 and 2022).

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a small number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's standard credit terms are 30 to 60 days from date of invoice. Invoices greater than 120 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised in note 21.

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

The Group has adopted the simplified approach when measuring the trade receivable expected credit losses. To measure the expected credit losses, trade and other receivables have been grouped based on market and geographical region. The expected loss rates are reviewed annually, or when there is a significant change in external factors potentially impacting credit risk and are updated where management's expectations of credit losses change. In 2020, management increased the expected loss rates for trade and other receivables by £13,062k, which has been summarised further in note 9. Of the items impaired in the prior year, the Group has reversed £nil in 2023 (£132k in 2022).

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Further, the Group has a US dollar overdraft facility with a right to offset, which allows US dollars to be drawn at any time provided that the Group maintain sufficient credit balances on other currency accounts to facilitate an offset. Following the offset, the Group has to be in a minimum net credit position of £100 at any time. It is management's intent to offset this overdraft with other credit balances. The purpose of this offset account is to allow the Group operational flexibility in meeting its multicurrency liabilities and to be able to utilise credit from its multicurrency customers. The Group has sufficient cash reserves to facilitate this right of offset.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

**35. FINANCIAL INSTRUMENTS (CONTINUED)****Liquidity risk (continued)**

|   | Weighted<br>average<br>effective<br>interest rate<br>% | Less<br>than<br>1 month<br>£'000 | 1-3<br>months<br>£'000 | 3 months<br>to 1 year<br>£'000 | 1-5 years<br>£'000 | 5+ years<br>£'000 | <b>Total<br/>£'000</b> |
|---|--|----------------------------------|------------------------|--------------------------------|--------------------|-------------------|------------------------|
| <b>Revolving Credit and Capex Facility at 30 April 2022</b> | 2.8  | -                                | -                      | 4,500                          | -                  | -                 | <b>4,500</b>           |
| <b>Other Borrowing Facilities at 30 April 2022</b>          | 6.6  | 13                               | 27                     | 1,176                          | 246                | 503               | <b>1,965</b>           |
| <b>Lease Obligations at 30 April 2022</b>                   | 5.0  | 33                               | 65                     | 277                            | 1,785              | 2,376             | <b>4,536</b>           |
|   |  | <b>46</b>                        | <b>92</b>              | <b>5,953</b>                   | <b>2,031</b>       | <b>2,879</b>      | <b>11,001</b>          |
| <b>Revolving Credit and Capex Facility at 30 April 2023</b> | 6.9  | -                                | -                      | 5,000                          | -                  | -                 | <b>5,000</b>           |
| <b>Other Borrowing Facilities at 30 April 2023</b>          | 3.4  | 116                              | 531                    | 142                            | 83                 | 485               | <b>1,357</b>           |
| <b>Lease Obligations at 30 April 2023</b>                   | 5.0  | 35                               | 73                     | 298                            | 1,456              | 2,632             | <b>4,494</b>           |
| <b>Convertible loan notes at 30 April 2023</b>              | 16.0   | -                                | -                      | 2,529                          | -                  | -                 | <b>2,529</b>           |
|   |  | <b>151</b>                       | <b>604</b>             | <b>7,969</b>                   | <b>1,539</b>       | <b>3,117</b>      | <b>13,380</b>          |

**Significant accounting policies**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 2.

**Categories of financial instruments**

|                              | <b>2023<br/>£'000</b> | <b>2022<br/>£'000</b> |
|------------------------------|-----------------------|-----------------------|
| <b>Financial assets</b>      |                       |                       |
| Cash and bank balances       | <b>1,097</b>          | 5,081                 |
| Loans and receivables        | <b>4,812</b>          | 5,375                 |
| <b>Financial liabilities</b> |                       |                       |
| Amortised cost               | <b>(22,315)</b>       | (19,769)              |

**Fair Values of Financial Assets and Financial Liabilities**

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, all of the above financial instruments are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date of 30 April 2023.



## Notes to the consolidated financial statements *(continued)*

For the year ended 30 April 2023

### **36. RELATED PARTY TRANSACTIONS**

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

#### **Directors' transactions**

Other than those disclosed within this note and the shareholding transaction with Directors noted in the Directors' Report, there have been no other transactions with related parties.

### **37. EVENTS AFTER THE BALANCE SHEET DATE**

Post year end, the Company successfully announced the Placing, Subscription and Open Offer to raise £8m before expenses. The Company raised £7m through the issue of 140,000,000 Placing Shares and an additional £1m through the Open Offer which resulted in the issue of 20,564,372 shares. Net proceeds post fundraising costs amount to £7.4m.

## Company statement of financial position

As at 30 April 2023

|                                     | Note | 2023<br>£'000  | 2022<br>£'000 |
|-------------------------------------|------|----------------|---------------|
| <b>Non-current assets</b>           |      |                |               |
| Investment in subsidiaries          | 3    | 6,090          | 5,736         |
| Amounts due from subsidiary company |      | 77,205         | 71,668        |
|                                     |      | <b>83,295</b>  | 77,404        |
| <b>Current assets</b>               |      |                |               |
| Trade and other receivables         | 5    | 100            | 229           |
| Cash and cash equivalents           |      | 1,919          | 4,538         |
|                                     |      | <b>2,019</b>   | 4,767         |
| <b>Total assets</b>                 |      | <b>85,314</b>  | 82,171        |
| <b>Current liabilities</b>          |      |                |               |
| Trade and other payables            | 6    | (698)          | (417)         |
| Embedded derivative                 | 8    | (517)          | -             |
| Borrowings                          | 7    | (8,129)        | (4,500)       |
| <b>Total liabilities</b>            |      | <b>(9,344)</b> | (4,917)       |
| <b>Net current (liabilities)</b>    |      | <b>(7,325)</b> | (150)         |
| <b>Net assets</b>                   |      | <b>75,970</b>  | 77,254        |
| <b>Equity</b>                       |      |                |               |
| Share capital                       | 12   | 4,319          | 4,319         |
| Share premium account               | 13   | 72,943         | 72,943        |
| Merger reserve                      |      | 3,221          | 3,221         |
| Accumulated losses                  | 14   | (4,513)        | (3,229)       |
| <b>Total Equity</b>                 |      | <b>75,970</b>  | 77,254        |

The loss for the year was £1,638k (2022: loss £952k).

The notes on pages 106 to 110 form part of these financial statements.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 21 July 2023. They were signed on its behalf by:

**Dr Arnab Basu MBE**  
Chief Executive Officer  
21 July 2023

## Company statement of changes in equity

For the year ended 30 April 2023

### Equity attributable to equity holders of the Company

|  | Share capital<br>£'000 | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Accumulated<br>losses<br>£'000 | Total<br>equity<br>£'000 |
|--|------------------------|--------------------------------------|----------------------------|--------------------------------|--------------------------|
| <b>Balance at 1 May 2021</b>             | <b>4,319</b>           | <b>72,943</b>                        | <b>3,221</b>               | <b>(2,513)</b>                 | <b>77,970</b>            |
| Total comprehensive loss for the year    | -                      | -                                    | -                          | (952)                          | (952)                    |
| Settled share-based payment transactions |                        |                                      |                            | 236                            | 236                      |
| <b>Balance at 30 April 2022</b>          | <b>4,319</b>           | <b>72,943</b>                        | <b>3,221</b>               | <b>(3,229)</b>                 | <b>77,254</b>            |
| Total comprehensive loss for the year    | -                      | -                                    | -                          | (1,638)                        | (1,638)                  |
| Settled share-based payment transactions |                        |                                      |                            | 354                            | 354                      |
| <b>Balance at 30 April 2023</b>          | <b>4,319</b>           | <b>72,943</b>                        | <b>3,221</b>               | <b>(4,513)</b>                 | <b>75,970</b>            |

The notes on pages 106 to 110 form part of these financial statements.

## Company statement of cash flows

For the year ended 30 April 2023

|   | Note | 2023<br>£'000  | 2022<br>£'000 |
|---|------|----------------|---------------|
| <b>Net cash used in operating activities</b>          | 11   | <b>(573)</b>   | (818)         |
| <b>Investing activities</b>                           |      |                |               |
| Interest received                                     |      | -              | 33            |
| Net cash used in investing activities                 |      | <b>(573)</b>   | (785)         |
| <b>Financing activities</b>                           |      |                |               |
| Borrowings received                                   |      | <b>1,100</b>   | 400           |
| Convertible loan notes received                       |      | <b>2,840</b>   | -             |
| Borrowings repaid                                     |      | -              | (800)         |
| Loans made to Group companies                         |      | <b>(5,537)</b> | (6,980)       |
| Net interest paid on bank loans                       |      | <b>(449)</b>   | (194)         |
| <b>Net cash used in financing activities</b>          |      | <b>(2,046)</b> | (7,574)       |
| <b>Net decrease in cash and cash equivalents</b>      |      | <b>(2,619)</b> | (8,359)       |
| <b>Cash and cash equivalents at beginning of year</b> |      | <b>4,538</b>   | 12,897        |
| <b>Cash and cash equivalents at end of year</b>       |      | <b>1,919</b>   | 4,538         |

The notes on pages 106 to 110 form part of these financial statements.

# Notes to the Company financial statements

For the year ended 30 April 2023

## 1. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

The Company's financial statements are included in the consolidated financial statements of Kromek Group plc. Accordingly, the Company has taken advantage of the exemption from publishing an income statement, and the losses for the Company are shown within the Company Statement of Financial Position.

## 2. AUDITOR'S REMUNERATION

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements

## 3. SUBSIDIARIES

Details of the Company's direct and indirect subsidiaries as at 30 April 2023 are as follows:

| Name   | Place of incorporation (or registration) and operation                                  | Class of shares held | Proportion of ownership interest % | Activity                            |
|--|---|----------------------|------------------------------------|-------------------------------------|
| Kromek Limited (Direct)  | NETPark, Sedgefield, TS21 3FD, United Kingdom   | Ordinary             | 100                                | Scientific research and development |
| Kromek Germany Limited (Indirect through Kromek Limited)             | NETPark, Sedgefield, TS21 3FD, United Kingdom   | Ordinary             | 100                                | Dormant company                     |
| Kromek, Inc. (Indirect through Kromek Limited)                       | 143 Zehner School Road, Zelenople, PA 16063, United States of America                   | Ordinary             | 100                                | Holding company                     |
| NOVA R&D, Inc. (Indirect through Kromek Limited)                     | 2934 East Garvey Avenue South, Suite 104, West Covina CA 91791 United States of America | Ordinary             | 100                                | Scientific research and development |
| eV Products, Inc. (Indirect through Kromek Limited)                  | 143 Zehner School Road, Zelenople, PA 16063, United States of America                   | Ordinary             | 100                                | Scientific research and development |
| Durham Scientific Crystals Limited (Indirect through Kromek Limited) | NETPark, Sedgefield, TS21 3FD, United Kingdom   | Ordinary             | 100                                | Dormant company                     |

The Company owns 100% of the share capital in Kromek Limited. Kromek Limited owns 100% of the share capital in Kromek Inc. and 100% of the share capital in Kromek (Germany) Limited. Kromek Inc. owns 100% of the share capital in eV Products Inc. and NOVA R&D Inc.

The investments in subsidiaries are all stated at cost.

|                     | <b>£,000</b> |
|---------------------|--------------|
| At 1 May 2022       | 5,736        |
| Share option charge | 354          |
| At 30 April 2023    | <b>6,090</b> |

Management have considered the current market conditions in conjunction with the full impairment review that has been undertaken on the Group's cash-generating units of which the Company's investments form part. The results of this review are disclosed in note 15 within the consolidated financial statements, including a sensitivity analysis. In this review no impairment has been identified with regard to the Company's investments in subsidiaries.

At 30 April 2023 the Company was owed £77.2m (2022: £71.7m) from its immediate subsidiary company, Kromek Limited. This has been classified as a receivable due in more than one year on the face of the balance sheet as this most accurately reflects the likely repayment timeframe of the balance outstanding. This assessment and amount is based on the future discounted cash flows of Kromek Limited. Based on their assessment, the Directors do not consider there to be any impairment in 2023 or 2022. The loan is unsecured and interest free.

Amounts owed by Group undertakings have been assessed in line with IFRS 9 and an assessment is made of the expected credit loss. No expected credit loss was identified based on the future cash inflows of receivables.

Amounts due from subsidiary undertakings are unsecured, interest free and repayable on demand.



#### 4. STAFF COSTS

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

|                                      | <b>2023</b><br><b>Number</b> | 2022<br>Number |
|--------------------------------------|------------------------------|----------------|
| Research and development, production | <b>2</b>                     | 2              |
| Sales and marketing                  | <b>1</b>                     | 1              |
| Administration                       | <b>4</b>                     | 4              |
|                                      | <b>7</b>                     | 7              |

Their aggregate remuneration comprised:

|                              | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|------------------------------|-----------------------------|---------------|
| Wages and salaries           | <b>487</b>                  | 494           |
| Social security costs        | <b>64</b>                   | 56            |
| Pension scheme contributions | <b>61</b>                   | 47            |
|                              | <b>612</b>                  | 597           |

During the year, no Directors were paid through Kromek Group PLC (2022: none).

#### 5. TRADE AND OTHER RECEIVABLES

|                                | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|--------------------------------|-----------------------------|---------------|
| Prepayments and accrued income | <b>100</b>                  | 229           |
|                                | <b>100</b>                  | 229           |

#### 6. TRADE AND OTHER PAYABLES

|                                    | <b>2023</b><br><b>£'000</b> | 2022<br>£'000 |
|------------------------------------|-----------------------------|---------------|
| Trade payables and accruals        | <b>589</b>                  | 345           |
| Social security and other taxation | <b>109</b>                  | 72            |
|                                    | <b>698</b>                  | 417           |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 75 days. For all suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

#### 7. BORROWINGS

Details regarding the borrowings of the Company are disclosed in note 25 to the consolidated financial statements.

## Notes to the Company financial statements

For the year ended 30 April 2023

### 8. CONVERTIBLE LOAN NOTES

During the year, the Company issued convertible loan notes to the value of £2.8m at an interest rate of 8% with interest accruing monthly.

The convertible loan is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash).

For convertible notes with embedded derivative liabilities, the fair value of the embedded derivative liability is determined first and the residual amount is assigned to the debt host liability. The initial recognition of the embedded derivative conversion feature has been recognised as a liability on the balance sheet with any changes to the fair value of the derivative recognised in the income statement. It has been fair valued using a Black Scholes simulation which was performed at the transaction date and the period end date. Details regarding the inputs into the Black Scholes model are disclosed in note 26 to the consolidated financial statements.

The debt host liability will be accounted for using the amortised cost basis with an effective interest rate of 16%. The Group will recognise the unwinding of the discount at the effective interest rate, until the maturity date, the carrying amount at the maturity date will equal the cash payment required to be made.

|                       | Embedded<br>derivative<br>£'000 | Convertible<br>loan note<br>£'000 | Total<br>£'000 |
|-----------------------|---------------------------------|-----------------------------------|----------------|
| Initial recognition   | 594                             | 2,249                             | 2,840          |
| Unwinding of discount | -                               | 280                               | 280            |
| Change in fair value  | (77)                            | -                                 | (77)           |
|                       | 517                             | 2,529                             | 3,043          |

### 9. FINANCIAL ASSETS

#### Intercompany balances

The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances.

#### Cash and cash equivalents

These comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

### 10. FINANCIAL LIABILITIES

#### Trade and other payables

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 75 days. The carrying amount of trade payables approximates to their fair value.

### 11. NOTES TO THE STATEMENT OF CASH FLOWS

|  | 2023<br>£'000  | 2022<br>£'000 |
|--|----------------|---------------|
| Loss for the year  | <b>(1,638)</b> | (952)         |
| Adjustments for:   |                |               |
| Change in fair value of derivative                       | <b>(77)</b>    | -             |
| Finance costs  | <b>732</b>     | 161           |
| Operating cash flows before movements in working capital | <b>(983)</b>   | (791)         |
| Decrease/(increase) in receivables                       | <b>129</b>     | (37)          |
| Increase in payables                                     | <b>281</b>     | 10            |
| Net cash used in operating activities                    | <b>(573)</b>   | (818)         |

**12. SHARE CAPITAL**

|   | <u>£'000</u> |
|---|--------------|
| <b>Allotted, called up and fully paid:</b>  |              |
| Balance at 1 May 2022: 431,851,820 (2022: 431,851,820) Ordinary shares of £0.01 each    | 4,319        |
| Issued in the Year: nil (2022: nil) Ordinary shares issued at £0.01 each                | -            |
|   | <u>4,319</u> |
| Balance at 30 April 2023: 431,851,820 (2022: 431,851,820) Ordinary shares of £0.01 each | <u>4,319</u> |

During the year, no shares (2021: 250,000) were allotted under share option schemes. See note 33 of the Group financial statements for further details of share-based payments.

**13. SHARE PREMIUM ACCOUNT**

|   | <u>£'000</u>  |
|---|---------------|
| Balance at 1 May 2022 and 30 April 2023 | <u>72,943</u> |

**14. ACCUMULATED LOSSES**

|                                 | <u>£'000</u>          |
|---------------------------------|-----------------------|
| Balance at 1 May 2022           | (3,229)               |
| Net loss for the year           | (1,638)               |
| Settled share-based payments    | 354                   |
| <b>Balance at 30 April 2022</b> | <b><u>(4,513)</u></b> |

**15. FINANCIAL INSTRUMENTS**

The Company's principal financial instruments are cash and trade receivables.

The Company has exposure to the following risks from its operations:

**Capital risk**

The Company manages its capital to ensure that each entity in the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the balance between debt and equity.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in notes 27 to 30 to the consolidated financial statements.

The Company is not subject to any externally imposed capital requirements.

Cash flow is controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs.

The Company considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer-term growth strategy of the Company.

**Market risk**

The Company may be affected by general market trends, which are unrelated to the performance of the Company itself. The Company's success will depend on market acceptance of the Company's products and there can be no guarantee that this acceptance will be forthcoming.

Market opportunities targeted by the Company may change and this could lead to an adverse effect upon its revenue and earnings.

**Foreign currency risk**

The Company currently does not undertake transactions denominated in foreign currencies.

## Notes to the Company financial statements

For the year ended 30 April 2023

### 15. FINANCIAL INSTRUMENTS (CONTINUED)

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

|  | Weighted<br>average<br>effective<br>interest rate<br>% | Less<br>than<br>1 month<br>£'000 | 1-3<br>months<br>£'000 | 3 months<br>to 1 year<br>£'000 | 1-5 years<br>£'000 | 5+ years<br>£'000 | Total<br>£'000 |
|--|--|----------------------------------|------------------------|--------------------------------|--------------------|-------------------|----------------|
| <b>Revolving Credit Facility<br/>at 30 April 2022</b>                    | 2.8  | -                                | -                      | 4,500                          | -                  | -                 | <b>4,500</b>   |
| <b>Revolving Credit Facility and<br/>Capex Facility at 30 April 2023</b> | 6.9  | -                                | -                      | 5,000                          | -                  | -                 | <b>5,000</b>   |
| <b>Other Borrowing Facilities<br/>at 30 April 2023</b>                   | 2.9  | 100                              | 500                    | -                              | -                  | -                 | <b>600</b>     |
| <b>Convertible loan notes<br/>at 30 April 2023</b>                       | 16.0   | -                                | -                      | 2,529                          | -                  | -                 | <b>2,529</b>   |
|  |  | <b>100</b>                       | <b>500</b>             | <b>7,529</b>                   | -                  | -                 | <b>8,129</b>   |

### 16. ULTIMATE CONTROLLING PARENT AND PARTY

In the opinion of the Directors, there is no ultimate controlling parent or party.

### 17. EVENTS AFTER THE BALANCE SHEET DATE

Post year end, the Company successfully announced the Placing, Subscription and Open Offer to raise £8m before expenses. The Company raised £7m through the issue of 140,000,000 Placing Shares and an additional £1m through the Open Offer which resulted in the issue of 20,564,372 shares. Net proceeds post fundraising costs amount to £7.4m.

# Directors, Secretary and Advisers

## ■ DIRECTORS

Dr A Basu  
Mr A Beumer  
Mr P N Farquhar  
Mr R Sharma  
Mr L H N Kinet  
Mr J H Whittingham  
Mr C Wilks

## ■ COMPANY SECRETARY

Mr P N Farquhar

## ■ REGISTERED OFFICE

NETPark  
Thomas Wright Way  
Sedgefield  
TS21 3FD

## ■ BANKERS

HSBC Bank plc  
1 Saddler Street  
Durham  
DH1 3NR

## ■ NOMINATED ADVISER AND JOINT BROKER

finnCap Capital Markets  
One Bartholomew Close  
London  
EC1A 7BL

## ■ AUDITOR

Haysmacintyre LLP  
10 Queen Street Place  
London  
EC4R 1AG

## ■ JOINT BROKER

Cenkos Securities plc  
6.7.8. Tokenhouse Yard  
London  
EC2R 7AS

## ■ LEGAL ADVISER

Hill Dickinson  
9 Bond Court  
Leeds  
LS1 2JZ

## ■ REGISTRAR

Link Group  
10th Floor, Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

## ■ FINANCIAL PR ADVISER

Gracechurch Group  
48 Gracechurch Street  
London  
EC3V 0EJ





**Kromek Group plc**

NETPark, Thomas Wright Way,  
Sedgefield, County Durham, TS21 3FD, UK