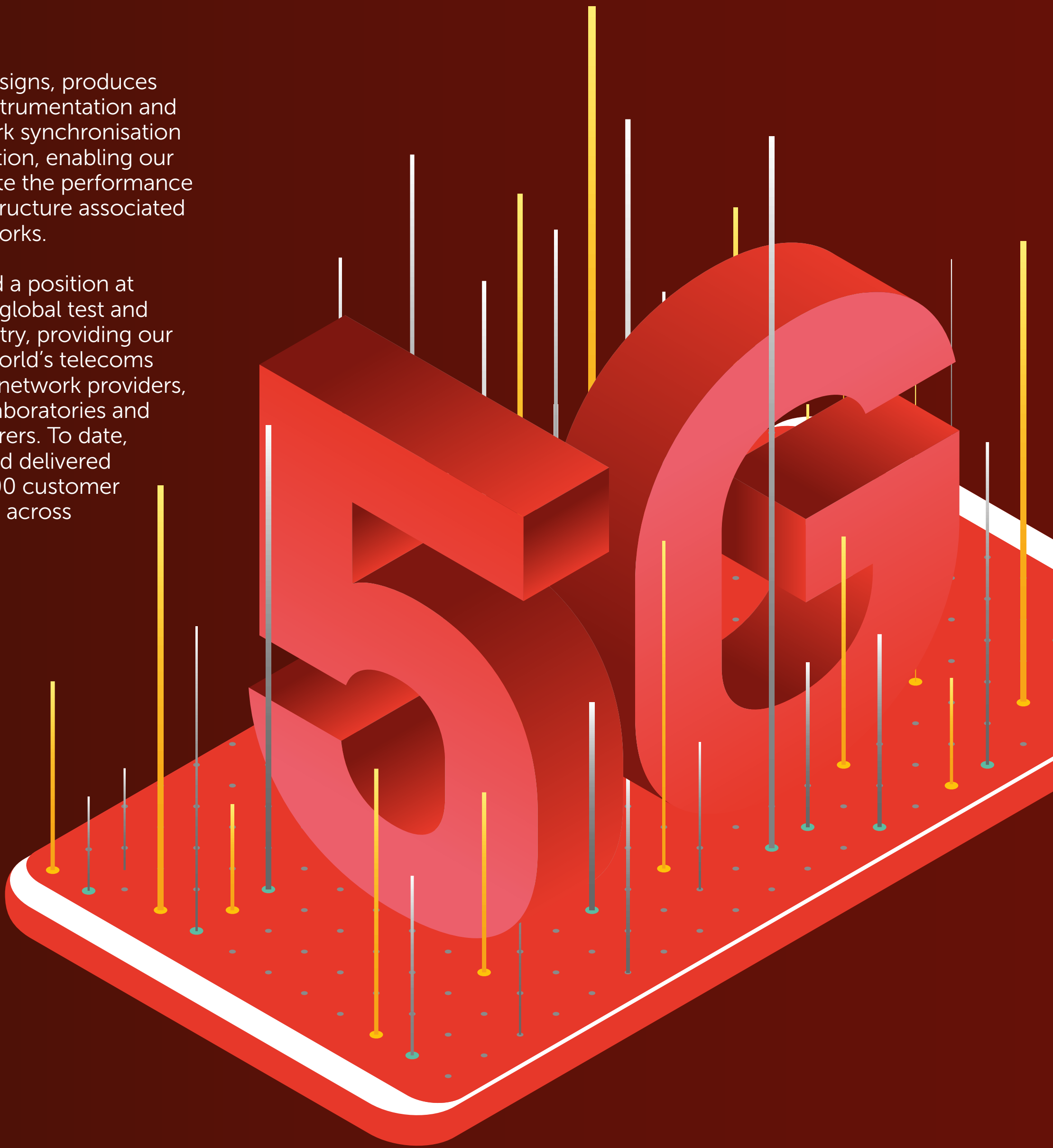
We are a leading provider of test and measurement solutions for the global telecommunications sector.

About Us

Calnex Solutions designs, produces and markets test instrumentation and solutions for network synchronisation and network emulation, enabling our customers to validate the performance of the critical infrastructure associated with telecoms networks.

We have established a position at the forefront of the global test and measurement industry, providing our equipment to the world's telecoms network operators, network providers, systems suppliers, laboratories and network manufacturers. To date, we have secured and delivered orders from over 600 customer sites in 68 countries across the world.



FY21 Highlights

£18.0m
Revenue

31%
Revenue growth

£5.5m
Underlying EBITDA

£5.1m
Adjusted profit before tax

£12.7m
Closing cash

Statutory Measures:

£6.6m
EBITDA

£3.7m
Profit before tax

Company Overview

Strategic Report

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Highlights

£000	FY21 Audited	FY20 Audited	YOY % change
Revenue	**17,978**	13,739	31%
Underlying EBITDA[1]	**5,496**	4,157	32%
Adjusted profit before tax[2]	**5,068**	3,536	43%
Adjusted basic EPS (pence)[3,4]	**5.83**	4.58	27%
Adjusted diluted EPS (pence)[3,4]	**5.21**	3.66	42%
Closing cash and cash equivalents	**12,668**	3,664	246%

Statutory measures[5]:			
EBITDA	**6,554**	5,788	13%
Profit before tax	**3,647**	2,981	22%
Basic EPS (pence)[4]	**4.68**	3.81	23%
Diluted EPS (pence)[4]	**4.18**	3.05	37%

1 EBITDA including R&D amortisation, adjusted to exclude discontinued operations, IPO costs and share based payments.
2 Adjusted to exclude discontinued operations, IPO costs and share based payments.
3 Adjusted to exclude discontinued operations, IPO costs and share based payments and the tax effect of these adjustments.
4 The weighted average number of shares in the EPS calculation at note 29 reflects a position as though the total number of Ordinary Shares of 60,024,103 (and outstanding share options and warrants of 14,975,897) were in issue at the year ended 31 March 2020. This retrospective treatment for the FY20 comparatives is required because there was no corresponding change in the Company's economic resources as a result of the share capital reorganisation which took place in September 2020. The weighted average number of shares in issue at 31 March 2021 takes into account the 12,500,000 new shares issued and 2,650,000 new share options issued as a result of the IPO.
5 A full reconciliation between Underlying EBITDA and adjusted profit before tax and the statutory measures is shown in the Financial Review on page 21.

Financial Highlights

- Revenue growth of 31% to £18.0m (FY20: £13.7m) as a result of a robust trading performance, exceeding initial expectations for the year.
- Underlying EBITDA growth of 32% to £5.5m (FY20: £4.2m) and 43% growth in adjusted profit before tax to £5.1m (FY20: £3.5m) reflects the strong revenue growth and reduced travel and events costs as a result of COVID-19.
- Successful fundraise of £22.5m in total funds including net funds of £4.9m for the business on admission to AIM on 5 October 2020.
- Total outstanding debt of £1.9m was fully repaid with IPO proceeds in October 2020. A £3.0m Revolving Credit Facility was put in place post admission to AIM and is currently undrawn.
- £9.0m total cash generated as a result of solid trading performance (FY20: £1.8m), supplemented by receipt of IPO proceeds.
- Closing cash position of £12.7m (31 March 2020: £3.7m) provides strong basis for expansion.

Operational Highlights

- Strong order levels across the board with all regional and product line targets exceeded.
- Continued high levels of repeat revenue, supplemented by growth in customer numbers.
- Expansion of Calnex's Business Development and R&D teams accelerated, to support the growth of the Company's product offering and capitalise on available opportunities.
- Little negative impact from COVID-19 on business, customer base or supply chain, although a change in spending patterns from some key customers, with some orders brought forward into FY21.
- HMRC Approved Share Incentive Plan ('SIP') implemented post admission to AIM to encourage staff to engage with and gain benefit from share value growth. Take-up exceeded expectation.

Outlook

- The business continues to benefit from the evolutionary trends affecting the telecoms sector, notably in 5G and cloud computing, which in turn drive growth in the need for test and measurement instrumentation and solutions. The Board is looking forward with confidence to the Group continuing to make further progress in the current financial year and beyond.

Market overview

The telecoms industry is a highly competitive environment, requiring innovative products, technologies and services to support investment in new digital infrastructure.

The industry comprises equipment vendors, including companies such as Nokia, Ericsson, Cisco and Huawei, who develop hardware and software systems for deployment by network operators, such as BT, China Mobile and NTT, within their networks. Component manufacturers, such as Intel, Broadcom and Qualcomm, sell components and sub-assemblies to equipment vendors, which are then built into their products. There are also hyperscale/large enterprise entities, such as Facebook, Google and IBM that build and create their own data centres, networks and/or equipment. All of the above named businesses are end customers of Calnex.

Why is testing needed?
Global telecoms networks are extremely diverse and when changes are introduced it is vital that the new network conditions can be tested effectively both prior to and following technical deployment. The test and measurement sector is an integral part of the telecoms industry as it enables market participants to develop, manufacture, deploy and maintain the telecom equipment and networks. Calnex is focused on specific areas of the test and measurement sector within the telecoms industry.

A growing opportunity
The global market for telecoms test and measurement equipment in 2020 for mobile networks alone was estimated by Frost & Sullivan[6] to be around US$1.3 billion and is forecast to exceed US$2 billion by 2024, expanding at a CAGR of 11.5 per cent. Frost & Sullivan[7] separately estimated the global high speed Ethernet test equipment market to be around US$1.7 billion in 2022, expanding at a CAGR of 6.2 per cent.

What are telecommunications and network standards?
Standards are published documents that establish specifications and procedures designed to ensure the interoperability of equipment from multiple equipment vendors, set the minimum performance of equipment and define the core needs of networks.

Standards are critically important within the telecoms industry as they act as the key driver for how networks will be developed, establishing the performance and testing requirements for infrastructure, equipment, application and service product development. Without standards, network interoperability and the provision of interconnected services would not be possible.

Ensuring new equipment and services comply with new standards is vital to market participants and is a key driver of the test and measurement sector.

Calnex, since inception, has developed and maintained a close involvement with standards bodies to ensure it has early insight as to industry developments to keep the Company's R&D programmes well informed.

"Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements."

6 Frost & Sullivan, Global 5G Testing Equipment and Solutions Market, Forecast to 2024, 2019.
7 Frost & Sullivan, Global Gigabit Ethernet Test Equipment Market, Forecast to 2022, 2018.

Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements.

Test and measurement market segmentation
The development lifecycle for a new product in the telecoms industry typically follows several stages.

Test and measurement is typically required at each stage of the development cycle and it is therefore crucial that this can be carried out reliably to prove conformance to the standards required by market participants and regulators. Calnex is focused on the **Design Validation, Conformance Test and Maintenance Test phases of the development life-cycle**, which are high value niches, due to their position as critical points in the development life-cycle, requiring high capability and high value-add test equipment and where there is limited competition.

These markets all require test solutions that provide deep insight to performance where the quality of result and information obtained is critical. Whilst the cost of capital investment in test equipment is important to market participants, ensuring that engineering elapsed time to test can be minimised is a priority. Long testing phases delay the release of new products, and reduce new product revenue to equipment vendors. Network operators are also impacted by long resolution times which limit network capability.

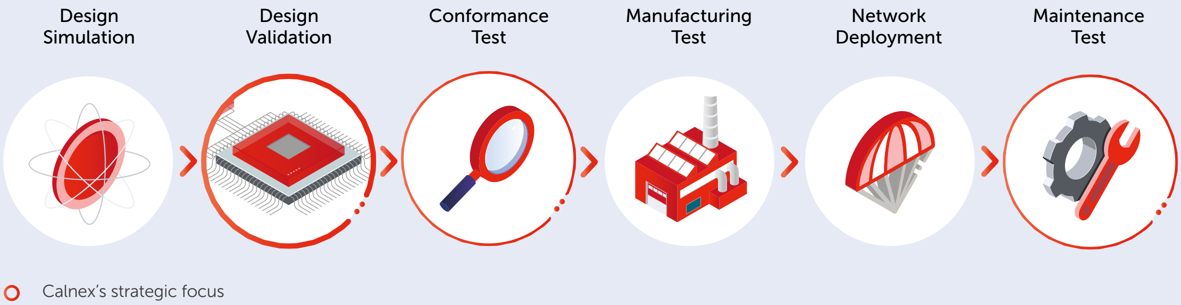
In the test phases targeted by Calnex, customers need to have confidence that the test equipment they purchase is reliable and will enable them to carry out the necessary testing efficiently. Calnex has consistently delivered such products to its customers over time.

Our differentiation
The Company's principal focus will remain on developing new features and products in Calnex's core markets, where the Company has already created a strong market position with limited direct competition. Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements gained from its close relationships with end customers, market participants and international standards bodies, which together act as a significant barrier to entry to potential competitors.

Calnex's products are often differentiated by their high specifications and the complexity of the product platforms. The Company is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. By delivering the optimal solution at the right time, market leading products with high end functionality can achieve healthy margins.

Calnex continues to work closely with customers and the key regulatory bodies to help define the industry changes that Calnex's products will be required to test and measure. With its established industry position, Calnex is well positioned to capitalise on opportunities driven by changing customer demand and regulatory standards.

New Product Development Cycle



Test solutions

Calnex provides sophisticated hardware and software test and measurement solutions to its customers. The Company deploys three main application ranges:

Lab Synchronisation

Calnex's Lab Synchronisation test capabilities are delivered by the Paragon product range, used to test the synchronisation capabilities of telecoms equipment within the development phase.

Field Synchronisation

Calnex's Sentinel product range provides the ability to test network synchronisation once telecoms equipment has been deployed.

Cloud & IT

Calnex's SNE and Attero Network Emulation platforms are used to replicate network behaviour in real-world conditions, enabling the testing of Ethernet, cloud and datacentre technology & networks.

Paragon-neo

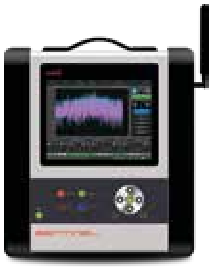
First to very high accuracy for multiple rate from 100M-to-100G, measuring to sub-billionth of second accuracy.

Positioned as the platform to support all future rates including 200G and 400G, and all rates in-between.

Paragon-X

First to offer multi-rate to 10G, first to do physical layer and packet timing, and first to implement full system end-to-end emulation for high accuracy timing test.

Future re-target to emerging applications out-with telecoms.



Sentinel

First to measure time from the air signal.

Best-in-class at maintaining high-accuracy time in the field.

Designed to meet the testing of new 5G networks.

SNE

First with multi-port/multi-user support of 25G interfaces.

Market leader in port count, multi-user, flexibility.

Software platform will deliver cloud-services based solution.

Attero-100G

First to offer 100G line rate impairment with 0.25 second delay – the equivalent delay of over 50,000 km of fibre.

Will continue to target customers developing equipment designed to address high-speed and high-end performance applications to complement SNE's strengths.

Business Model

Calnex operates a lean business model, with a global network of regional distributors and channel partners. All manufacturing is outsourced to a high quality local partner. This has proved to give highly efficient results and enables staff to focus on R&D, IP and product development.

Operational Model

Lean business model, with global distribution channels in place and manufacturing outsourced to a high quality local partner

Distribution channels

Global reach through network of regional resellers and distributors.

Long-term relationship with Spirent Communications plc, across a number of global regions including US, China and India.

Calnex maintains direct contact and ongoing relationships with underlying customers, due to highly technical sales process.

Manufacturing capability

Manufacturing outsourced to Kelvinside Electronics since 2007.

Kelvinside Electronics operates from a custom built 40,000 sq ft facility located in Kilsyth, Scotland. Calnex represents over 20% of Kelvinside Electronics' Revenue.

Real-time sales information enables optimisation of procurement and production schedules.

Operational excellence

Young business but experienced leadership team.

Large company structure, with sophisticated R&D processes.

Successful expansion through product and technology acquisitions.

Proven ability to integrate bolt on acquisitions who benefit from access to global sales channel and increased R&D structure.

Maturity of the operational model combined with agile methodology provides scalability and adaptability

Strategy Overview

Calnex has a three-pronged growth strategy to capitalise on the structural growth drivers in the telecoms market:

Continued product innovation to capitalise on growth of 5G

Follow the trends to higher transmission rates and track new standards to strengthen our product offering.

Key developments in FY21

New capabilities developed for Paragon-Neo product including support for Flex-Ethernet frame format at 100G.

Calnex became a member of the O-RAN Alliance in early FY21. The O-RAN Alliance works on the evolution of Open RAN (Radio Access Network) standards around the world.

See Strategic Report on page 14

Expansion within the cloud computing sector and other Ethernet market niches

Target growth applications where strong value can be gained from the deployment of Calnex's products.

Create software-based Virtual SNE network emulation product to address migration of telecoms network to Software Defined Networks (SDN), opening opportunities into large enterprises to prove application software developed in the Cloud.

Key developments in FY21

Ongoing development of the new Virtual SNE product. A major evolution of the software platform in the SNE will see significant usability enhancements released early in FY22, and will enable the delivery of a Virtual version of SNE towards the end of FY22.

See Strategic Report on page 14

Target select M&A opportunities to add to product portfolio

Selective M&A activity, where complementary products or technologies can be acquired to enhance Calnex's existing portfolio in related or adjacent growth markets.

Key developments in FY21

While we continue to assess the market for M&A opportunities, we identified none during the year that satisfied the strict criteria we have of being both strategic and earnings enhancing.

See Strategic Report on page 14

A measured approach

"With many of the world's leading players in the telecoms market as customers, a proven track record in innovation, strong financial position and global distribution capability, Calnex is well positioned to capitalise on the opportunities ahead."

I am pleased to report on a positive year for Calnex, certainly one of the most impressive performances from the business since I became Chairman of the Company in 2013. Completing an IPO is a significant feat, but to do so against the backdrop of a global pandemic, while delivering revenue and profit growth considerably ahead of the Board's expectations at the time of the IPO, speaks to the quality of the business. Much of the success lies in the strength of the product offering, the depth of the Company's long-standing customer relationships, the understanding of the industry and the excellent structures and teams within the business. The strong performance in FY21 has also in part been driven by the response of our customers to the threat of the pandemic, pulling some orders into the year which we would have expected in FY22.

Results

The Group delivered revenue growth in FY21 of 31% to £18.0m (FY20: £13.7m) and adjusted profit before tax growth of 43% to £5.1m (FY20: £3.5m), whilst ending the year with a closing cash figure of £12.7m (FY20: £3.7m) including £4.9m from the net proceeds of the IPO.

Successful IPO

The successful IPO on AIM in October 2020 provided the Group with the funds to invest in its continued success, expanding our R&D, Sales & Marketing and Operations teams as we seek to capitalise on the long-term transition of the telecoms market to 5G and the growth of cloud computing. Access to the capital markets also provides the business with the ability to consider larger acquisitions of complementary technologies and whilst opportunities have been limited due to the COVID-19 pandemic, this remains part of the Company's growth strategy.

ESG considerations

The attitude of Calnex towards caring for its people and the communities around it has always been a key feature of the business. During this difficult year, this strong sense of community within Calnex was evident in the level of cohesion that remained while teams were working from home, with multiple new initiatives devised and embraced. Several positive learnings have been taken from the enforced work-from-home situation that the Company plans to utilise to enhance the work/life balance of the team once social distancing restrictions are lifted. The fast adaptation to the situation and the way the team has looked to learn epitomise the attitude across the Company of openness to change and willingness to seek improvements.

In a traditionally male-dominated industry, Calnex has always sought to have a diverse workforce, understanding the benefits it provides, with a good level of female representation on both our Board and executive management team. We understand talent is available in all groups in society, and what's more, a diverse and broad culture mix adds to the innovative culture central to Calnex's business. The team has expanded considerably during the year, drawing new colleagues from around the world.

Alongside a commitment to our people and community, the environmental impact of our operations are also important considerations. The Board oversees a policy of active awareness of how best to incorporate effective environmental goals into the Group's strategic decisions, operations and supply chain.

As a Board, we are committed to high standards of corporate governance and oversight. Ann Budge and I have been on the Calnex Board for some time and have witnessed the professionalism with which the business is managed by Tommy, Ashleigh and the executive management team, and have welcomed the additional input and expertise from Graeme Bissett who joined the Calnex board prior to IPO, lending an additional level of financial and governance oversight.

Looking ahead

No doubt the year ahead will see further changes, as we all adapt to the post COVID-19 world and learn how to do business in this new era. I am, however, certain that Calnex has the right platform to succeed no matter how the world progresses – whether face to face meetings with customers resume or we continue to interact virtually.

With many of the world's leading players in the telecoms market as customers, a proven track record in innovation, strong financial position and global distribution capability, Calnex is well positioned to capitalise on the opportunities ahead.

George Elliott
Non-Executive Chairman
24 May 2021

Performance overview

"It has been an exceptional year for the Group, in which we experienced growth across all product lines and exceeded our initial expectations for the year, achieving revenues of £18.0m."

I am delighted to present Calnex's maiden full year results for the year ended 31 March 2021. It has been an exceptional year for the Group, in which we experienced growth across all product lines and exceeded our initial expectations for the year, achieving revenues of £18.0m. What is more, we were delighted to have achieved this strong performance whilst navigating the global pandemic and starting our next chapter as a public company. As a result of careful management and planning, the Group's IPO in October 2020 was a significant success and we are extremely encouraged by the welcoming reception that we have had from key stakeholders. We remain confident that AIM will facilitate the Group's growth ambitions and are committed to executing on our long-term growth strategy.

COVID-19
We are fortunate to operate in a sector not severely impacted by the consequences of dealing with this pandemic, successfully maintaining our pace of innovation and close relationships with our customers around the world despite the challenges posed by COVID-19. Our priority during this time has been ensuring the well-being of our staff, providing a safe working environment and ensuring our teams remained supported, connected and motivated.

The pandemic has had little negative impact on the telecoms industry and if anything it has highlighted the need for robust, fast broadband and resilient telecoms networks and infrastructure. We believe the pandemic affected some customer spending patterns during FY21, resulting in the early pull through of approximately £0.8m to £1.1m of orders we had expected in FY22.

Customer metrics
Against this backdrop, we were pleased to have seen such consistency in our customer metrics in the year. The number of customers sold to in the year increased by 15 to 192 (FY20: increase of 12 to 177), our top 10 revenue generating customers accounted for 49% of revenues (FY20: 52%) and we continued the trend of increasing our proportion of revenues coming from non-telecoms customers to 23% of revenues (FY20: 22%). Our geographic spread of orders remained broadly evenly split between our three regions: the Americas, North Asia and Rest of World.

Transition to 5G and growth in cloud computing
The telecoms industry will continue to be impacted by the evolutionary trends affecting the sector. The migration of mobile networks to 5G, the emergence of the Internet of Things, the exponential growth of data creation and the shift to using cloud computing are all driving forces in the continuous development of telecom networks around the world, which in turn generates growth in the need for test and measurement instrumentation and solutions. The global market for telecoms test and measurement equipment for mobile networks alone is forecast to expand at a CAGR of 11.5 per cent from 2020 through to 2024 (Frost and Sullivan). The Board believes this provides favourable market conditions for Calnex for the foreseeable future.

The pace of change and development of new standards and requirements for the infrastructure supporting the 5G mobile radio network continues unabated. One example of this is the traction being gained by a major initiative looking to open up the mobile base station market to greater participation, the Open RAN (Radio Access Network) standards. Having historically been dominated by three large vendors, the O-RAN standards support interoperation between a wider range of equipment vendors. The O-RAN Alliance, (https://www.o-ran.org/), was founded in 2018 by five major Network Operators and now has a membership of over 250 companies, including Calnex. It is too early to say how this will ultimately impact the dynamics of the market but from a test vendors' view, more choice and more companies participating in the market bode well for providers of test solutions over the coming years.

In the cloud computing world, a development that is gaining traction is the use of Mobile Edge Computing, (MEC). Rather than have all communications from end applications and equipment travel back to centralised data centres, MEC's are located near the edge of the network to reduce inherent latency and speed of response for applications that rely on fast, reliable response.

Revenue

£18.0m

Chief Executive Officer's Statement and Operational Review continued

The MEC needs to maintain alignment with centralised data centres to ensure data integrity, resulting in the growing need for greater communication management between the MEC and end application plus between the data centre and MEC. New equipment, new networking challenges and new network management, all represent change that can result in the need for test equipment.

O-RAN and MEC are two important initiatives gaining significant interest but they are far from the only change initiatives underway. The need to evolve and enhance the entire telecom infrastructure to meet the growing and changing needs of end users both today and in the future, is incessant. With change being a core driver for the test industry, this level of development bodes well for sustainable growth opportunities for Calnex.

Strategy

The Group's strategy set out at the time of our IPO remains in place, with this year's developments reinforcing the Board's view that our strategy is the right one. Our strategy comprises three areas of focus: product innovation to capitalise on the transition to 5G, expansion into cloud computing and other niche markets, and identifying and evaluating attractive M&A opportunities. We believe that focusing on these three areas provides us with the best route to growth and is the optimal way to capitalise on the opportunities available to us.

Product innovation to support the transition to 5G

Calnex has a market-leading suite of product platforms which are currently delivering test and measurement solutions to customers across the world. With the 5G vision supporting a rapidly evolving test and measurement sector, along with the further opportunities emerging from the move to software defined networks (SDN) and cloud computing, Calnex is developing its current product platforms in line with its existing customers' needs, following the trends to higher transmission rates and tracking new standards.

We successfully delivered product innovation within our existing solutions and markets during the year including adding new capabilities to our Lab Sync product. As a result of these enhancements, Lab Sync experienced strong customer orders, including support for Flex-Ethernet frame format at 100G, a structure gaining significant traction, in particular, with major Chinese telecom operators.

Expansion into cloud computing and other niches

Another area of focus for Calnex is the identification of additional opportunities in adjacent and new markets, where the Company's current products and solutions can be deployed to broaden its addressable markets. One such example is the ongoing development of a new Virtual SNE (network emulation) product, targeting engineering teams in large enterprises that develop their own customer applications with cloud computing environments (such as banks and retailers) as well as the traditional telecom sector. A major evolution of the software platform in the SNE will see significant usability enhancements released early in FY22, and will enable delivery of a virtual SNE towards the end of FY22. Utilising a common platform will allow both versions to maintain functionality alignment as we make further enhancements in the future.

M&A opportunities

In addition to organic growth, we believe that targeted acquisitions are a favourable route to growth. We continually assess the market for select M&A opportunities, however, we have strict criteria and will ensure that any acquisitions are strategic and earnings enhancing. Opportunities that we would consider include complementary products or technologies that can enhance Calnex's existing portfolio, or where the acquisition target provides the Group with access to a related or adjacent growth market.

The world continues to evolve, following the impact of COVID-19, and the Board remains cognisant of the impacts it may yet have on our ability to deliver our strategy, such as the ability to hire at the pace we wish, and also the ongoing geopolitical tensions between the US and China, which may impact upon certain of our customers and we are of course, always alert to new entrants entering the market. However, our breadth of customer base, across multiple regions, the successes we have had through this year in hiring excellent new team members and our established customer relationships and industry connections, provide us with confidence on our ongoing ability to deliver.

Financial Performance

We experienced continued strong demand across all regions with all product lines exceeding performance expectations, and high levels of repeat demand from our existing customers. This resulted in revenue growth in FY21 of 31% to £18.0m (FY20: £13.7m), underlying EBITDA growth of 32% to £5.5m (FY20: £4.2m) and adjusted profit before tax of £5.1m (FY20: £3.5m). We believe the impact of COVID-19 on accelerating customer orders and on travel cost savings resulted in approximately £1.0m of benefit to adjusted profit before tax. The Group ended the year with a closing cash figure of £12.7m (FY20: £3.7m) including £4.9m from the net proceeds of the IPO, providing us with a strong financial position as we entered the new financial year.

ESG considerations
Employees

Our employees are Calnex's most important asset and we endeavour to reflect this in our culture. Doing what we say we will, has always been a core tenet of our leadership, key to generating a working environment where success comes from motivated employees who feel valued and respected. We strive to achieve an inclusive community within Calnex, keeping our teams informed through regular all-employee communications, including presentations by the executive management team and monthly newsletters. There is a strict approach to treating each person equally and individually enabling our people to develop their skills and capabilities and to increase their contribution to the Group. Calnex believes teams are enhanced with inclusion of people from a broad spectrum of backgrounds and experiences, creating groups capable of dealing with all the challenges they face.

At the start of the pandemic, we were quick to adjust to remote working and provided our staff with the resources they needed so they could continue to work as normal from their homes. We embraced video meetings to continue team interaction for business effectiveness as well as setting up virtual coffee meetings, exercise classes and mindfulness sessions to promote continued cross-team engagements and personal wellbeing.

We have continued the planned expansion of our teams through the course of the year. While hiring new recruits and integrating them into the business during the lockdown was initially challenging, through our strong hiring strategies and updated induction process we have now successfully incorporated 25 new team members into our R&D, sales and customer support functions, mostly in our UK sites (in Linlithgow and Belfast) but also in USA, China and Taiwan.

New employees are taken through a comprehensive induction process, which has been adapted during these times to complement the very limited face-to-face contact with regular video contact from multiple team members to build relationships. Our flat management structure encourages regular employee feedback, supported by more formal interactions such as the annual appraisal process, annual employee survey and regular HR-led feedback sessions with staff on specific subject matters.

We have always had employee wellbeing as a priority for the business, providing various benefits to employees, including flexible working hours, an employee health insurance scheme, lunchtime exercise classes and discounted gym membership, all of which have been adapted, where possible, to the lockdown environment.

A benefit of our IPO was the ability to enable employees to benefit from the success of the Group through share ownership. An HMRC approved Share Incentive Plan was introduced in October 2020 to encourage employee share ownership after admission to AIM, with applications exceeding expectations.

Operations

We have an ethos of continuous improvement, seeking ways to do what we do better, more efficiently and at scale. The preparation for the IPO and subsequent entry into the capital markets has required a new level of financial control within the business and we have supported this through the expansion of our finance team and continuing to strengthen our internal processes and controls. Other areas of investment through the year have included the development of our Quality Management System to utilise a more systematic auditing approach to promote continuous improvement. Additional investment has gone into the New Product Introduction phase to increase the effectiveness and speed with which new products can pass from R&D into Manufacturing, thereby accelerating manufacturing ramp-up.

We are confident we have the organisational structure to deliver the next phase of growth for the business.

Suppliers & customers

We believe strong business relationships with suppliers and customers are crucial to the Group's success. Our executive management, sales and technical support teams are focussed on regular and open communication with customers to ensure we meet their requirements and deliver quality customer service. Senior management have regular meetings with key end customers to maintain visibility over their technology roadmaps in order that the Group's development plans remain aligned to our customers' future strategies. While travel was severely restricted through FY21, the challenging

ESG considerations
Community & Environment

The Group is focussed on including effective environmental goals into its strategic decisions, operations and supply chain. Our landlord at our main office in Linlithgow is Oracle Global Services. Amongst other initiatives, they are committed to a 55 per cent reduction in emissions per unit of energy consumed within their operations worldwide and to have 50 percent renewable energy use within their real estate/facilities portfolio by 2025. In the Linlithgow site, Oracle management have completed a number of projects over the last few years, including LED lighting upgrades, roof replacement and installation of electric vehicle charging points. They have also recently upgraded their building management system, to introduce better functionality in relation to heating and cooling demands of the building such as analysis of weather data, which can help with run times and performance and have plans to increase energy efficiency in the building. The Group also conforms to Waste Electrical and Electronic Equipment recycling rules and regulations for the disposal of materials from our site.

Kelvinside, our contract manufacturer, has implemented an Environmental Management system which is ISO 14001 certified (International Standard for Environmental Systems). Kelvinside is also a member of The Green Network for Businesses in Scotland, an initiative run by the Energy Saving Trust in partnership with Zero Waste Scotland's Energy Efficiency Business Support Service. The Green Network consists of more than 200 businesses from all over Scotland who have made improvements to save energy, cut waste and reduce costs.

Spirent Communications plc, a key sales channel partner, reports that in 2020, it sourced 100 per cent electricity from renewable sources. Spirent is aiming to achieve carbon neutral certification in two years and is working on a net zero carbon target by 2035.

We have a long-standing charity committee which is responsible for identifying opportunities where we can assist those in need in the local area. The Group also gives employees one day off a year to spend on a charitable day helping in the community. Given such activities this year were limited due to the pandemic, the Group increased the money available to donate to charities selected by employees and intend to participate in charitable activities within the community as soon as permitted.

environment encouraged customers to accept video meetings and good relationships were maintained throughout this period.

It is hoped that when travel becomes widely possible again, customers will continue to use video technology, leading to more frequent, effective communication and reducing travel requirements, albeit face-to-face meetings will remain key to building and maintaining strong relationships.

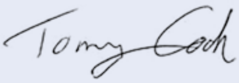
Transparent and honest engagement with our channel partners and suppliers is vital to the delivery of our business. The Group has a number of key strategic partners who support delivery of our business in a number of areas including manufacturing, distribution and our leased property. Our teams and employees maintain ongoing dialogue with our channel partners and our key suppliers on a regular basis to maintain strong working relationships and to ensure that this positive engagement supports the business' goals.

Calnex has two key partnerships, namely with our contract manufacturer, Kelvinside Electronics, and with Spirent Communications plc, providing a sales channel for a significant proportion of our sales. In both cases, the relationships are long established, having been in place for several years, (with Kelvinside since 2007 and Spirent since 2013) and mutually beneficial. We continue to work collaboratively with our partners to identify areas for improvement, understanding there are always opportunities to execute better to the mutual benefit of both parties. For example, the most recent focus in Kelvinside/Calnex management discussions has been to enhance the way we forecast build quantities and enhance inventory management approaches to increase robustness against potential changes in component lead times.

Outlook

As demonstrated this year, as well as in previous years, our business model provides a strong platform for sustainable growth. Looking ahead, the underlying market growth drivers provide us with confidence that the long-term demand for telecoms test and measurement instrumentation and solutions will continue to expand, driven by the evolution to 5G and the growth of cloud computing. Our ambition to develop the business through targeted acquisitions will provide additional avenues for profitable growth.

The Board recognises that FY21 was an exceptional year in a number of respects, including the early pull through of orders into FY21. We are confident that our breadth of product offering, depth of customer relationships and the strong underlying market drivers mean Calnex is well positioned and we anticipate that results in FY22 will be consistent with FY21, representing further growth when taking into account the impact of COVID-19 on FY21 through accelerated revenues and travel savings. We see a significant opportunity for both organic and acquisitive growth in the medium term and look to the future with confidence.



Tommy Cook
Chief Executive Officer
24 May 2021

Chief Financial Officer's Statement

The Group delivered a strong financial performance the year to 31 March 2021, with growth in revenue, underlying EBITDA and adjusted profit before tax, resulting in a positive trading cashflow for the year.

Financial KPIs

Revenue (£'000)
£17,978

2021	17,978
2020	13,739
2019	10,504

Gross profit (£'000)
£13,965

2021	13,965
2020	10,622
2019	8,224

Gross margin %
78%

2021	78%
2020	77%
2019	78%

Underlying EBITDA (£'000)
£5,496

2021	5,496
2020	4,156
2019	3,129

Underlying EBITDA %
31%

2021	31%
2020	30%
2019	30%

Adjusted profit before tax (£'000)
£5,068

2021	5,068
2020	3,535
2019	2,513

Adjusted Profit before tax %
28%

2021	28%
2020	26%
2019	24%

Closing cash (£'000)
£12,668

2021	12,668
2020	3,664
2019	1,852

Capitalised R&D (£'000)
£3,326

2021	3,326
2020	2,882
2019	2,868

Adjusted basic EPS (pence)
5.83

2021	5.83
2020	4.58
2019	4.19

Adjusted diluted EPS (pence)
5.21

2021	5.21
2020	3.66
2019	3.35

Financial Review continued

Key performance indicators

£'000	FY21	FY20
Revenue	**17,978**	13,739
Gross Profit	**13,965**	10,623
Gross Margin	**78%**	77%
Underlying EBITDA[1]	**5,496**	4,157
Underlying EBITDA %	**31%**	30%
Adjusted Profit before tax[2]	**5,068**	3,536
Adjusted Profit before tax %	**28%**	26%
Closing cash	**12,668**	3,664
Capitalised R&D	**3,326**	2,882
Adjusted basic EPS (pence)[3,4]	**5.83**	4.58
Adjusted diluted EPS (pence)[3,4]	**5.21**	3.66
Statutory measures:		
EBITDA	**6,554**	5,788
EBITDA %	**36%**	42%
Profit before tax	**3,647**	2,981
Profit before tax %	**20%**	22%
Basic EPS (pence)[4]	**4.68**	3.81
Diluted EPS (pence)[4]	**4.18**	3.05

1 EBITDA including R&D amortisation, adjusted to exclude discontinued operations, IPO costs and share based payments.
2 Adjusted to exclude discontinued operations, IPO costs and share based payments.
3 Adjusted to exclude discontinued operations, IPO costs and share based payments and the tax effect of these adjustments.
4 The weighted average number of shares in the EPS calculation at note 29 reflects a position as though the total number of Ordinary Shares of 60,024,103 (and outstanding share options and warrants of 14,975,897) were in issue at the year ended 31 March 2020. This retrospective treatment for the FY20 comparatives is required because there was no corresponding change in the Company's economic resources as a result of the share capital reorganisation which took place in September 2020. The weighted average number of shares in issue at 31 March 2021 takes into account the 12,500,000 new shares issued and 2,650,000 new share options issued as a result of the IPO.

The table below shows the reconciliation between the statutory reported income statement and the adjusted income statement:

Reconciliation of statutory figures to alternative performance measures

£'000	**FY21 £000**	FY20 £000
Revenue	**17,978**	13,739
Cost of sales	**(4,013)**	(3,116)
Gross Profit	**13,965**	10,623
Other income	**530**	549
Administrative expenses (excl. D&A)	**(7,941)**	(5,384)
EBITDA	**6,554**	5,788
Amortisation of development costs	**(2,479)**	(2,186)
Add back exceptional items:		
IPO costs	**1,057**	–
Issue of Free Shares on IPO under Share Incentive Scheme	**166**	–
Share based payments	**198**	55
Loss from discontinued operations	**–**	500
Underlying EBITDA	**5,496**	4,157
Other depreciation & amortisation	**(273)**	(282)
Operating Profit	**5,223**	3,875
Finance costs	**(155)**	(339)
Adjusted profit before tax	**5,068**	3,536
Exceptional items	**(1,421)**	(555)
Profit before tax	**3,647**	2,981
Tax	**(194)**	(694)
Profit for the period	**3,453**	2,287

Revenue

Revenue recognised in the year grew 31% to £18.0m (FY20: £13.7m).

Order intake and revenue increased across all three product lines compared to the prior year, and included the early pull through of some orders into FY21.

Impact of COVID-19

We believe that there was an early pull through of between £0.8m and £1.1m of revenue from FY22 into FY21 as a result of a change in customer buying patterns through the COVID-19 pandemic. Taking this and travel cost savings into account, we estimate a positive impact of approximately £1.0m on the adjusted profit before tax in the year.

Revenue model

Calnex generates revenues through the sale of bundled hardware and software, alongside the provision of software support and extended warranty programmes. The Company's core sales model is bundled hardware and software. Sales pricing is dependent on the product type and the complexity of the software configuration built into the product package. Calnex also sells stand-alone software upgrades under licence.

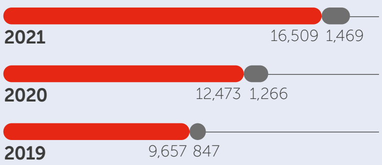
Each of Calnex's units comes with a standard warranty period including maintenance and software upgrade cover in the event of any software upgrades being released for the options purchased. Calnex also sells software support programmes which provide customers with access to future software upgrades which are not included as part of the standard warranty. The Company also offers extended warranty programmes to cover repairs falling out with the standard warranty period.

Bundled hardware and software revenues are recognised when delivered to the customer, with stand-alone software revenues recognised in line with the licence period. Revenues from software support and extended warranty programmes are typically recognised on a straight-line basis over the term of the contract.

Many of the products and services developed and deployed by Calnex's customers are interlinked and need to be tested independently, such as the individual components which are then built into the equipment used in telecoms networks. Calnex's test products can be used by a combination of equipment vendors, component manufacturers and network operators, to carry out testing during a new product development cycle. A customer can choose to use Calnex's products in the knowledge that a more consistent result may be obtained if a Calnex test solution had already been used on a particular product.

Sources of Revenue

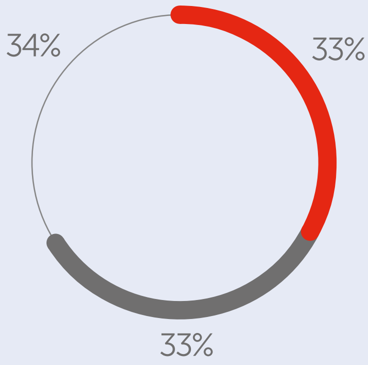
Revenue streams (£'000)



- Hardware and software revenue – recognised on despatch/delivery
- Warranty support revenue – recognised over life of cover

In FY21, 92% (FY20: 91%) of the Company's revenues were generated from the sale of hardware and software products, with 8% (FY20: 9%) from software support and extended warranty programmes.

Geographical split (orders)



- Americas
- North Asia
- Rest of World

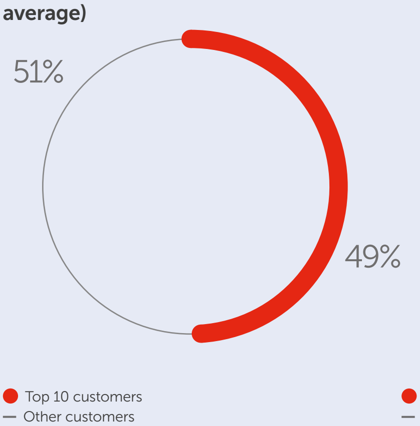
The Company's customers are located across the world. As a result of this global customer base and our distributor network, there has been an even geographical split of customer orders across the Company's three key regions in the last three years: the Americas, North Asia and Rest of the World.

Telecoms v non-telecoms customers (% of orders)

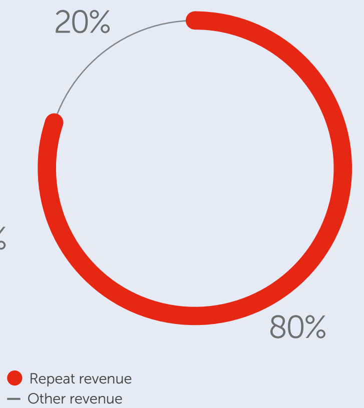
- Non-Telecoms
- Telecoms

Calnex's sales are predominantly derived from telecoms customers where the end-application is a telecoms (fixed and mobile) network. Non-telecoms customers include hyperscale/datacentre and enterprise customers. These non-telecoms customers represented 23% of the Company's revenues in FY21 (FY20: 22%). As telecoms networks evolve, we are finding a number of companies whose primary business is hyperscale/datacentres and IT are also moving into the telecoms space. We classify sales to these non-telecoms companies for use in telecoms applications as telecoms sales for the purposes of this analysis.

Top 10 customer revenue (3 year average)



Repeat revenues (3 year average)



In FY21, Calnex had 192 revenue generating customers, an increase of 15 from 177 in FY20.

The Company's top ten customers in FY21 accounted for 49% of total revenues in the year (FY20: 52%), and 49% on average over the last three years.

In FY21, no underlying customer accounted for more than 12% of Calnex's total revenue.

The average length of customer relationship across the top ten customers in FY21 is nine years, demonstrating our high levels of repeat demand from these customers. In addition, the Company typically experiences a high level of repeat business from its total customer base. In FY21, 80% of revenues were generated from existing customers (FY20: 78%).

During the last five years, 176 existing customers have placed repeat orders with Calnex.

Gross Profit

Gross profit increased to £13.9m (FY20: £10.6m) as a result of the strong revenue performance, whilst gross margin was in line with previous years at 78% (FY20: 77%). Gross margin is calculated after discounts to channel partners are applied. Gross margins can fluctuate through the year depending on the mix of products and the mix of the hardware and software bundles, so can differ slightly when comparing periods. This variability in product mix is driving the improvement in gross margin in FY21.

Underlying EBITDA

Underlying EBITDA, which includes R&D amortisation and is adjusted to exclude discontinued operations in FY20 and IPO costs and specific share based payments relating to the IPO in FY21, increased by 32% to £5.5m in the year (FY20: £4.2m) both as a result of the strong trading performance and savings of £0.4m in travel and events costs as a result of COVID-19.

Administrative expenses (excluding depreciation & amortisation), excluding IPO costs, share based payments and discontinued operations were £6.5m in FY21 (FY20: £4.8m). The increase in administrative costs relates to increased staff costs as we built the teams across the business, higher sales team commissions as a result of the increased trading performance, increased foreign exchange costs as the US dollar weakened against sterling in the later part of the financial year, higher professional fees and share incentive scheme costs as a result of being listed on AIM, offset by savings in travel and events costs as a result of COVID-19.

Amortisation of R&D costs increased by £0.3m to £2.5m (FY20: £2.2m) as a result of increases in R&D investment in recent years.

Exceptional costs

Share based payments of £0.2m (FY20: £0.1m) relate to the share options in issue prior to the Group's admission to trading on AIM on 5 October 2020. The vesting of the options was conditional on a change in control such as a trade sale or initial public offering and were exercised as a result of the listing on 5 October 2020. As these costs relate to the IPO event they are classed as one-off in nature and shown as exceptional costs. All share based payments costs going forward will be included in administrative costs as a normal cost of the business.

IPO fees incurred during the year were £1.1m (on the total funds raised of £22.5m). These are identified as exceptional in nature in the alternative performance measures for FY21.

On admission to AIM the Company adopted a Share Incentive Plan (SIP), an HMRC approved all-employee plan that offers the Company the ability to award equity to employees in a flexible and tax-advantaged manner. The SIP is open to all UK resident employees, including executive directors. The Company awarded 2,000 Free Shares under the SIP to all eligible employees to celebrate the listing on AIM. The cost of this Free Share issue was £0.2m (FY20: nil) and is treated as exceptional in nature.

Adjusted profit before tax

Profit before tax adjusted to exclude IPO costs, share based payments and discontinued operations was £5.1m (FY20: £3.6m). The increase arose from the flow through of strong trading and lower travel and events costs due to COVID-19.

Tax

The tax charge was £0.2m (FY20: £0.6m) representing an effective tax rate of 5.3% (FY20: 23.2%).

The weighted average applicable tax rate for the year was 19% (FY20: 19%). The difference between the applicable rate of tax and the effective rate is largely due to the following:

- Tax relief on exercise of share options by Calnex UK based employees on IPO on which no deferred tax asset had previously been recognised (decreasing the effective tax rate by 15.6%);
- As a result of a comprehensive review of eligible spend for R&D tax credits in the year, £0.5m of R&D expenditure was established as meeting the qualifying criteria for SME R&D tax credit relief. This is in relation to projects that were not covered by grant funding in the year. Although this results in the RDEC tax credit income of £0.3m being flat in the year compared to FY20, the additional tax credit earned from the SME scheme provides a 130% enhanced relief against taxable profits resulting in a 3.4% reduction in effective tax rate. We would expect to assess the R&D spend for this same split across grant funded and non-grant funded projects in future years; and
- Permanent differences such as IPO costs which are disallowed for tax purposes (increasing the effective rate by 5.3%).

Earnings per share
Adjusted basic earnings per share was 5.83 pence in the year (FY20: 4.58 pence) and Adjusted diluted earnings per share was 5.21 pence (FY20: 3.66 pence).

The Company's Ordinary Shares were admitted to the AIM market of the London Stock Exchange on 5 October 2020.

As at 31 March 2020, the Company had 248,135 Ordinary Shares in issue. To prepare for listing on AIM, the Company's share capital was reorganised in September 2020 through bonus issues of shares and a share split, taking the total number of Ordinary Shares in issue to 60,024,103.

Immediately prior to admission, 14,975,897 Ordinary Shares were issued to option and warrant holders, taking the total Ordinary Shares in issue prior to admission to 75,000,000.

12,500,000 new Ordinary Shares were issued and placed on admission, taking the total share capital in issue immediately following the placing to 87,500,000 Ordinary Shares of 0.125p each.

The weighted average number of shares as at 31 March 2020 reflects a position as though the total number of Ordinary Shares of 60,024,103 (and outstanding share options and warrants of 14,975,897) were in issue for the year ended 31 March 2020. This retrospective treatment for the FY20 comparatives is required because there was no corresponding change in the Company's economic resources as a result of the share capital reorganisation which took place in September 2020. The weighted average number of shares for the comparative period is therefore 60,024,103 for basic earnings per share and 75,000,000 for diluted earnings per share.

The weighted average number of shares in issue at 31 March 2021 takes into account the 12,500,000 new shares issued and 2,650,000 new share options issued as at 5 October 2020 as a result of the IPO:

	Shares (No.)	Share options (No.)	Weighting (months)	Basic weighted average (No.)	Diluted weighted average (No.)
Share capital pre IPO	60,024,103	14,975,897	6/12	30,012,052	37,500,000
Share capital post IPO	87,500,000	2,650,000	6/12	43,750,000	45,075,000
				73,762,052	**82,575,000**

Adjusted EPS excludes discontinued operations, IPO costs (including IPO related share based payments) and the tax effect of these adjustments.

Earnings per share:

£000	Year ended 31 March 2021	Year ended 31 March 2020
Profit after tax	**3,453**	**2,287**
Adjusted for:		
Discontinued operations	–	500
IPO exceptional costs	1,421	–
Tax relief on share option exercise	(570)	–
Total adjusted profit after tax	**4,304**	**2,787**
Weighted average number of ordinary shares:		
Basic earnings per share	73,762	60,024
Diluted earnings per share	82,575	75,000
Earnings per share		
Basic earnings per share	4.68	3.81
Diluted earnings per share	4.18	3.05
Adjusted basic earnings per share	5.83	4.58
Adjusted diluted earnings per share	5.21	3.66

Cashflows

As a result of the IPO and the strong trading performance in the year, the Group generated £9.0m cash in FY21 compared with £1.8m cash generated in FY20.

Net cash generated from operations was £9.0m in the year (FY20: £5.5m), representing 138% of EBITDA conversion to cash (FY20: 95%).

Cash used in investing activities is predominantly cash spent on R&D activities which is capitalised and amortised over five years. Cash spend on R&D in the year was £3.3m (FY20: £2.9m).

Cash earned on financing activities in the year was £3.3m (FY20: cash spend of £0.8m), largely driven by the monies raised as a result of the Company's admission to AIM. The total proceeds raised from the placing undertaken alongside admission was £22.5m, which comprised 34,375,000 shares sold on behalf of existing shareholders to raise £16.5m and 12,500,000 new shares issued to raise £6.0m (before expenses) for the Company. £0.3m cash was also raised as a result of the exercise of share options.

Total IPO fees were £1.1m, leaving net cash raised by the Company of £4.9m.

The outstanding balance on the term loan of £1.9m was redeemed in full on 6 October 2020 after the Group's admission to trading on AIM on 5 October 2020. On 6 November 2020, a £3.0m Revolving Credit Facility was put in place and is currently undrawn.

The Company also received £0.6m in grant funding from Scottish Enterprise in FY21 (FY20: £0.1m). £0.5m of this cash was received in advance and will be recognised as income over the next five years.

Closing cash at 31 March 2021 was £12.7m (31 March 2020: £3.7m), which gives us a strong financial base to take us forward into FY22.

Ashleigh Greenan
Chief Financial Officer
24 May 2021

Principal risks and uncertainties

The Board has overall responsibility for the Group's risk management processes and internal control procedures. The Board provides oversight and has established controls designed to help the Group meet its business objectives by appropriately managing the principal risks and uncertainties that could have a material impact on the Group's performance.

The Board regularly assesses the Group's exposure to risk and seeks to ensure that risks are mitigated wherever possible. Risk assessments are also undertaken by the Board whenever there is a potential material change to the principal risks and uncertainties.

The Audit Committee has responsibility for reviewing the Group's internal controls and risk management systems for effectiveness. It oversees and reviews the Group's executive management team's internal control and risk management processes throughout the year.

Day-to-day risk management is the responsibility of the Group's executive management team and the senior managers within the business. Any potential changes to risk are reviewed regularly during executive management meetings.

The Board maintains a risk register for all principal activities of the Group. The risk register details the potential risk likelihood, mitigating factors, mitigated level impact and action owner. The executive management team meet regularly and consider new risks and opportunities presented to the Group, making recommendations to the CEO which are then fed back to the Audit Committee and Board if significant. Employees are also encouraged to report any new risks through the Group's internal reporting procedures.

The Board sets out below the principal risks and uncertainties that the directors consider could have a material impact on the business. These risks, which are set out below, are monitored on a continuing basis. The Board recognises that the nature and scope of risks can change and that there may be other unknown risks to which the Group is exposed or which may become material in the future.

A bottom up financial planning process is conducted once a year for review and approval by the Board. The Group's results, compared with the annual financial plan (and any relevant reforecasts), are reported to the Board on a monthly basis.

The Group maintains appropriate insurance cover in respect of actions taken against the directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed by the Board on a periodic basis, after detailed specialist advice from the Group's insurance brokers.

The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions, with any expenditure in excess of predefined levels requiring approval from the executive directors.

The Group is focused on meeting the highest levels of customer satisfaction, and has put in place an ISO 9001 certified Quality Management System. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.

Given the size of the Group, the Board has concluded it is not appropriate to establish a separate, independent internal audit function but will keep this under review.

Details of financial risks are outlined in note 24 to the financial statements. Refer to pages 89 to 93 for more details.

Risk	Impact	Mitigation
COVID-19 PANDEMIC	While the value of robust telecoms infrastructure has been demonstrated by the response of many companies to move to remote working, the directors are aware that the COVID-19 pandemic, any resulting impact on global economic conditions and any possible future outbreaks of viruses, may affect the ability of the Group and its customers to do business.	The business has not seen any detrimental impact on trading in the year to 31 March 2021 as a result of the pandemic. The Group is not significantly exposed to industries that have been heavily affected by COVID-19 and management has been able to implement remote working from home since the beginning of the rollout of global lockdown measures to continue to operate effectively and meet customer requirements. Appropriate safety measures have also been put in place to protect staff that need to visit our offices whilst adhering to government advice on stay at home directives across our various locations. The directors continue to closely monitor the situation as the pandemic persists, with rolling cashflow forecasting and visibility over the order pipeline being key to provide early indication of required action in order to mitigate against any future economic risk.

Principal Risks and Uncertainties continued

Risk	Impact	Mitigation
MANUFACTURING AND RELATIONSHIP WITH SINGLE MANUFACTURER	The Group outsources the manufacturing of its products to a single manufacturer, Kelvinside Electronics. Kelvinside procures and stocks all components (both electronic and mechanical parts) and manufactures the printed circuit assemblies for Calnex's products. The Group is therefore highly reliant on Kelvinside Electronics being able to manufacture Calnex products within agreed timescales, including the sourcing of unique parts, in line with agreed specifications. In the event that Kelvinside Electronics is unable to meet product orders or that products manufactured by Kelvinside Electronics are found not to meet agreed specifications or are faulty, there could be a significant impact on Calnex's ability to fulfil customer orders.	The Group's executive management team monitors Kelvinside Electronics' disaster recovery plans and the availability of alternative UK-based contract manufacturers with comparable capability and is satisfied that in the unlikely event of a manufacturing or other issue affecting Kelvinside Electronics, the Group should be able to manage the situation until the outage was resolved or production has been moved to an alternative supplier (including the sourcing of replacement components in the event it was not possible to transfer the stock held by Kelvinside Electronics). The Group's close working relationship and information sharing process with Kelvinside Electronics includes regular communication and sharing of rolling forecasting and stock level data. This process allows for early warning of any potential delay concerns from end suppliers and prompts discussion around specific procurement arrangements on certain parts. The business' management also regularly review alternative parts supply.
OTHER THIRD PARTY SUPPLIERS, DISTRIBUTORS AND CONTRACTORS	The Group is reliant, to an extent, on third parties for various processes, products and services which the Group requires in order to deliver its products. Termination of these relationships and/or breach of arrangements agreed with third parties and/or failure of such third parties to otherwise deliver the contracted services and/or failure to engage alternative third parties could be a risk to the Group.	The Group monitors its relationships and maintains open dialogue with these key third parties closely in order to mitigate against this risk.

Risk	Impact	Mitigation
DISTRIBUTION AND RELATIONSHIP WITH SPIRENT	Spirent is Calnex's principal distribution partner. Spirent's distribution network provides Calnex with access to a number of its key markets, including the US, China and India. In FY21, 72% per cent. of Calnex's orders were distributed through Spirent. Given that the Spirent distributor relationship accounts for such a significant proportion of Calnex's annual revenue, and provides Calnex with access to key markets, Calnex's business could be materially adversely affected in the event of: (i) Spirent's non-performance or breach of its obligations under the distributor agreement with the Group; (ii) Spirent terminating its distributor agreement with Calnex, or electing not to renew the arrangement upon the expiry of its current term on substantially the same terms; and/or (iii) Spirent suffering a force majeure event, or a bankruptcy or insolvency event or similar, which results in Spirent ceasing or significantly reducing operations.	The Board believes that the Spirent throughput in FY21 is not indicative of the Group's reliance on Spirent for revenues and that Calnex has strong direct relationships with the relevant end users. In addition, all products are branded as Calnex products when they are sold through Spirent and customers are fully aware that they are buying a Calnex product through the Spirent channel. The Group has changed channel partners multiple times in the past and has managed this process with little disruption to trading.
GEOPOLITICAL LANDSCAPE	The political landscape within which the Group operates is going through a period of change, particularly with regards to US/UK/China relationships, the consequences of the UK's Brexit deal and potential developments around Scottish independence. Changes to UK and international government policy, funding regimes, infrastructure initiatives, or the legal and regulatory framework may result in structural market changes or impact the group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency.	The Group monitors carefully future developments that arise out of these changes to the landscape and will engage in any relevant regulatory processes. The geographical spread of the Group's operations acts as a mitigating factor against any concentrated economic risk.

Principal Risks and Uncertainties continued

Risk	Impact	Mitigation
TECHNOLOGICAL CHANGE	The markets for the Group's products are characterised by rapidly changing technology, and increasingly sophisticated customer requirements. It is critical to the success of the Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis and keep pace with technological change.	Calnex, since inception, has developed and maintained a close involvement with the standards community and with regulatory bodies to ensure it has early insight to industry developments to keep the Group's R&D programmes well informed. Senior management also have regular meetings with key end customers to maintain visibility over their technology roadmaps. The insight from these relationships enables Calnex to produce a demand-led offering in line with market developments, customers' future requirements and regulatory standards.
KEY INDIVIDUALS	The Group's business, development and prospects are dependent on a number of key management personnel. The loss of the services of one or more of such key management personnel may be a risk to the Group.	The directors believe the Group operates a progressive and competitive remuneration policy which includes share incentives and that the future development and implementation of this policy will play an important part in retaining and attracting key management personnel.

Risk	Impact	Mitigation
COMPETITIVE POSITION	The Group operates in the telecoms industry and the Group's competitors are, in many cases, significantly larger enterprises with greater financial and marketing resources. There may also be new entrants to the market. In response to competitive activity, the Group may be forced to make changes to its products or services.	The executive management team monitor competitors' service offerings closely. Strong customer engagements also provide visibility of future needs which provide mitigation against a competitor gaining a significant time-to-market advantage.

Section 172 (1) statement

Section 172 (1) of the Companies Act obliges the directors to promote the success of the Group for the benefit of the Company's members as a whole.

The section specifies that the directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) for:

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

The ways in which these duties are addressed is set out below:

Consequences of any decision in the long-term

The Board is responsible for the decisions made in support of the long-term success of the Group and how the business has implemented strategic, operational and risk management decisions. For more information on the business strategy and developments during the year, refer to pages 14 and 15 of the Strategic Report.

Employees

The Group has a strong focus on maintaining a culture of employee engagement and wellbeing. Our employees play a key role in the success of our business' strategic goals and the Board recognises the importance of a positive and supportive working environment for our staff.

Refer to page 15 of the Strategic Report for further detail on our culture and employees, including activities during the year.

Suppliers, customers & regulatory authorities

The Board recognises that trusted and constructive partnerships with our suppliers, customers and regulatory authorities are important to the success and growth of the business. The Board and the executive management team ensure transparent and regular communication with suppliers and customers and the business values the feedback we receive. We take every opportunity to ensure that this feedback is taken into consideration in the Group's decision making.

The sophisticated nature of Calnex's products requires a high level of customer and supplier interaction from Calnex staff throughout the sale process and the Group is typically regarded as a trusted partner by both its distributors and customers. The high level of engagement with customers and our key contract manufacturer provides Calnex with visibility of industry direction and gives valuable insight for the Group's R&D and product development activities.

The Group also has processes in place to monitor new regulations and compliance requirements that may impact the business – including, for example, compliance with required standards and certifications, financial accounting and reporting updates and tax accounting and reporting compliance. Although Calnex itself is not regulated as a supplier of electronic test instrumentation, the Group is required to comply with certain regulations regarding safety, quality and radio frequency emissions standards in order to market its products in certain jurisdictions.

Refer to page 16 of the Strategic Report for further detail on the Group's interaction and relationship with our customers and suppliers.

Section 172 (1) Statement continued

Community and environment

Although it is not mandatory for a company of our size to report under the Streamlined Energy and Carbon Reporting (SECR) rules, awareness of the impacts on the environment and the community around us are taken into account in the Group's decision-making processes. The nature of the Group's business model and activities means a high proportion of processes which address current environmental challenges are embedded into our supply chain – predominantly through our landlord, our contract manufacturer and our distributor network. All of these key stakeholders who feed into the Calnex business model are also prioritising the environment in their planning and strategic decisions.

Calnex has a charity committee which is responsible for identifying opportunities where we can assist those in need in the local area. The Group also gives employees one day off a year to spend on a charitable day helping in the community.

Refer to page 16 of the Strategic Report for more detail on the community and environmental activities undertaken by the Group and its supply chain.

Maintaining high standards of business conduct

The Company is incorporated in the UK, is governed by the Companies Act 2006 and has also adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). The Board recognises the importance of maintaining high standards of corporate governance, and together with the requirements to comply with the AIM Rules, this ensures that the interests of the Company's stakeholders are protected. Robust financial controls are also in place and regularly reviewed and documented.

The Board ensures ethical behaviour and business practices are maintained across the business and compliance policies are provided to staff upon joining the business and recirculated annually. Training is also provided at regular intervals thereafter to ensure that all employees within the business are aware of their importance:

- Anti-bribery and corruption training is mandatory for all staff. The Company expects honest and professional behaviour from all staff and stakeholders and there is zero tolerance for bribery and unethical behaviour by anyone working in or with the Company;
- The Group also has an anti-slavery and human trafficking policy statement which all staff are made aware of; and
- A whistleblowing policy is in place to allow employees to raise any concerns confidentially with senior management, Board members or with Protect, the whistleblowing charity.

Shareholders

The Board recognises the requirement to present fair, balanced and understandable information to all stakeholders and particularly our shareholders. The Group is committed to transparent and effective communications with all of its shareholders so that there is a clear understanding of the Group's strategic objectives and performance.

The Group's approach to investor relations is described in more detail in the Corporate Governance section at page 45.

Further details

For further details of how the Board operates and the way in which it makes decisions, including key activities during the financial year ended 31 March 2021 and Board governance, refer to the Corporate Governance section at pages 40 to 45 and the Board Committee reports thereafter.

This Strategic Report was approved by the Board on 24 May 2021 and signed on its behalf by:

Ashleigh Greenan
Chief Financial Officer and Company Secretary
24 May 2021

Our leadership

George Elliott
Independent Non-Executive Chairman

George has been Chairman of Calnex since 2013. He is currently non-executive chairman of Optoscribe Ltd, Design Led Products Ltd, Safehinge Group Ltd and is a Director of RITF Consultants Limited. George has extensive boardroom experience in private and public technology companies in both an executive and non-executive capacity. George was until 2019 non-executive chairman of AIM-listed Craneware plc (AIM: CRW), the market leader in software and supporting services for healthcare providers in the US and in 2020 he resigned as a non-executive director of Indigovision Group plc following its acquisition by Motorola. From 2000 to 2007 he was Chief Financial Officer of Wolfson Microelectronics plc, then a leading UK-listed global provider of high performance mixed-signal semiconductors to the consumer electronics industry.

Tommy Cook
Chief Executive Officer (CEO)

Tommy is the founder and CEO of Calnex Solutions. He has over 38 years' experience in telecoms test and measurement ranging from hands-on design and programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates. Tommy has participated in a number of Industry Standards forums during his career, including the ITU-T and MEF groups, and presented technical and market insight papers in industry forums.

Ashleigh Greenan
Chief Financial Officer (CFO)

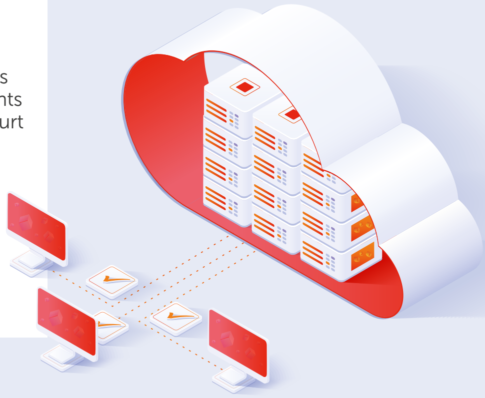
Ashleigh qualified as a chartered accountant with Deloitte before spending 5 years at KPMG in transaction services. She has held senior finance and corporate development roles at Exova Group plc, the UK materials testing business, before joining Parsons Peebles Group Limited, where she was a director of a number of group companies and held the role of Chief Financial Officer until she joined Calnex in early 2020.

Ann Budge
Non-Executive Director

Ann has been a Non-executive Director of Calnex since 2009. Ann co-founded IT Services company Newell & Budge in 1985, which successfully grew to a staff of over 1,000 across six regional offices in the UK, with a Development Centre in New Delhi, prior to its sale to Sopra Group in 2005. Since then, Ann has held a number of non-executive roles and has been active in the angel investment community. She is currently Chair of Heart of Midlothian Football Club.

Graeme Bissett
Independent Non-Executive Director

Graeme is an experienced corporate financier and qualified chartered accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He is currently a non-executive Director of publicly traded Smart Metering Systems plc and Aberforth Split Level Income Trust plc, along with a number of private companies. Graeme was formerly Chairman of Macfarlane Group PLC and acted as a non-executive director of businesses including Interbulk Group plc and Belhaven Group plc. He currently undertakes a number of pro bono appointments including as Vice-Convenor of Court at the University of Glasgow.



Corporate Governance Report

George Elliott
Chairman of the Board

I have pleasure in introducing Calnex's Corporate Governance Statement.

In accordance with the London Stock Exchange AIM Rules for Companies ('AIM Rules'), the Board has chosen to apply the Quoted Companies Alliance's ('QCA') Corporate Governance Code 2018 (the 'QCA Code'). The Board chose to apply this code as it believes that it is more suitable for small and mid-size companies.

The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value. The Board has governance procedures and policies that are considered appropriate to the nature and size of the Group and its subsidiaries.

The QCA Code is constructed around ten broad principles. The QCA has stated what it considers to be appropriate arrangements for small and mid-size companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.

Set out overleaf is an explanation of how the Group currently complies with the principles of the QCA Code.

"The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value."

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Board conducts an annual review of the Group's strategy, alongside regular discussions on progress against the business' strategic aims.

The Group's strategy and business model and key developments during the year are discussed in more detail on pages 14 and 15 of the Strategic Report.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Group is committed to open communication with all its shareholders on the business' performance and strategy and maintaining positive relationships with shareholders is important to the Board.

The Chairman is responsible for ensuring that appropriate methods of communication are established between the executive directors and shareholders, ensuring shareholders' views and feedback are shared with the Board.

The Chief Executive Officer and Chief Financial Officer meet with the Group's major shareholders on investor roadshows in the days following the release of the Group's interim and annual results, to discuss the Group's performance and to understand shareholder needs and expectations. Due to the impact of the COVID-19 pandemic this year, investor roadshow meetings have been held online.

The Group ensures that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements. Updates to the market are published via the regulatory news service ("RNS") on matters of a material substance and/or a regulatory nature. In conjunction with the Group's brokers and public relations advisers, RNS announcements will be distributed in a timely fashion to ensure shareholders are able to access material information on the Group's progress.

The Group's website has a section for investors, which is kept updated to contain all publicly available financial information and news on the Group. Our shareholders also have the opportunity to ask questions through a dedicated investor relations email address throughout the year. The Group engages the services of a financial PR consultancy, which acts as another point of contact for investors.

The Annual General Meeting is an important opportunity for the Board to engage with shareholders, particularly retail investors. The Notice of AGM is sent to shareholders at least 21 days before the meeting. The Chair of the Board, together with all the other directors, whenever possible, attend the AGM and are available to answer shareholder questions.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success

Refer to the s172 Statement on pages 34 to 37 and the Strategic report on pages 15 to 17 for further details on how we engage with our stakeholders.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

A summary of the Group's risk management framework and the principal risks and uncertainties relating to Calnex and its business are on pages 28 to 33 of the Strategic Report.

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

The Company is controlled by the Board of Directors.

A Statement of Directors' Responsibilities is set out on page 58 and the interests and experience of the Board are set out on pages 38 and 39.

Board composition

The Board consists of five directors, two of whom are full time executives and three are part time non-executives. The Group considers two of the non-executive directors, George Elliott (Chairman) and Graeme Bissett, to be independent. The Board considers that one of the non-executive directors, Ann Budge, is not independent for the purposes of these guidelines due to her length of service on the Board and her significant shareholding in the Group.

The Board is satisfied with the balance between executive and non-executive directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executive and non-executive directors. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

The Board is highly committed and experienced and is supported by qualified executive and senior management teams. The executive management team includes two members of the Board, the Chief Executive Officer and the Chief Financial Officer.

Board meetings

Board meetings are planned to occur not less than seven times a year with additional meetings as and when required. The Chair is responsible for ensuring that directors receive accurate, sufficient and timely information.

The Company Secretary compiles the Board and committee papers which are circulated to directors prior to meetings. The Company Secretary provides minutes of each meeting and every director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate. Information on the Group's operational and financial performance is circulated to the directors in advance of meetings.

The business reports monthly on its headline performance against its agreed budget and market consensus, and the Board evaluates any significant variances. Senior executives below Board level attend Board meetings as appropriate to present business updates.

Meetings of the Board and its committees held since the Group's admission to AIM on 5 October 2020 and the attendance of the directors are summarised below. Details are also presented on the number of scheduled Board and committee meetings intended in future full financial years:

	Board	Audit Committee	Remuneration Committee	AIM Compliance Committee	Nomination Committee
Scheduled meetings in FY21	**5**	**2**	**2**	**1**	**1**
Scheduled meetings in future years	**7**	**3**	**3**	**2**	**1**
George Elliott	5	2	2	1	1
Tommy Cook	5	2	2	1	1
Ashleigh Greenan	5	2	1	1	1
Graeme Bissett	5	2	2	1	1
Ann Budge	5	2	2	1	1

Roles and responsibilities of the Chair and Executive Directors

The role of the Chair and CEO are split in accordance with best practice.

The Chair has the responsibility of ensuring that the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. The Chair is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the non-executive directors are properly briefed on matters. The Chair has overall responsibility for corporate governance matters in the Group and chairs the Nomination Committee.

The Board retains ultimate accountability for good governance and is responsible for monitoring the activities of the executive management team.

The CEO manages the day-to-day business activities of the Group and the executive management team ensuring that strategic and commercial objectives are met. He is accountable to the Board for the operational and financial performance of the business. The Chief Financial Officer is responsible for the Group's financial controls and reporting to the Board.

The executive management team which comprises representatives from sales, operations, R&D, finance and HR reports to and regularly engages with the CEO. The day-to-day operations of the Group are managed by the executive management team.

Board Committees

The Group has established Audit, Remuneration, Nomination and AIM Compliance committees with clearly defined terms of reference which are set by the Board:

- The Audit Committee has the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of Calnex is properly measured and reported on. The Committee also considers the appropriateness of the Group's accounting policies on an annual basis. The Committee is advised by the Group's auditors on future changes to such accounting policies. Further details are included in the Audit Committee Report at pages 50 to 52.
- The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. Further details are included in the Remuneration Committee Report at pages 46 to 49.
- The Nomination Committee regularly reviews the structure, size and composition of the Board. Further details are included in the Nomination Committee Report at page 53.
- The AIM Compliance Committee is responsible for ensuring that the Group has in place at all times appropriate procedures, resources and controls to enable it to comply with the AIM Rules. Further details are included in the AIM Compliance Committee Report at page 54.

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Each member of the Board brings different skills and experience to the Board and the Board Committees. The Board is satisfied that there is sufficient diversity in the Board structure to bring a balance of skills, experience, independence and knowledge to the Group. More detail on the biographies of the Board of Directors can be found on pages 38 and 39.

The Board conducts an annual review of its composition to ensure there is adequate diversity to allow for its proper functioning and that the Board works effectively together as a unit. When a new appointment to the Board is to be made, consideration will be given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition.

The non-executive directors hold senior positions with other companies ensuring that their knowledge is continuously refreshed. Specific training will be provided to the Board by the Group when required to support the directors' existing skillsets.

The Board is provided with specific training on the AIM Rules for Companies by its Nominated Adviser on an annual basis. The Company's Nominated Adviser is available to provide guidance and additional training to the Board on specific regulatory matters as required.

Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The effectiveness of the Board, individual directors and senior management is evaluated on an ongoing basis as part of the Board's ongoing review of the business.

The Company was admitted to trading on AIM on 5 October 2020 and the Board was appointed in advance of Admission. The Board performs a self-evaluation of performance at least annually and will execute an external review at an appropriate time in the future.

The Board's effectiveness is also assessed in an informal manner by the Chairman on an on-going basis. The Chair has been tasked with assessing the individual contributions of each of the members of the team to ensure that their contribution is relevant and effective, they are committed and, where relevant, can continue to be considered independent.

The performance of the Chair is reviewed annually by means of a survey led by the Senior Independent Director who canvasses views from directors and key advisers.

The Nomination Committee is responsible for giving full consideration to succession planning and advising the Board accordingly.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

The Board places great emphasis on promoting a corporate culture that reflects the Group's ethical principles and behaviours and it seeks to embed these values across the business.

As the Group works with an international team, considerable importance is placed on a culture of inclusivity and sensitive communication, thereby ensuring that individual cultural values and languages are respected.

The Group encourages innovation, has flat management structures and encourages a culture of continuous improvement. This helps to ensure that communication and understanding flows well within the Group.

The Board has implemented formal HR policies and procedures that set out details and guidelines on the culture of the Group and how this should be reflected in employees' individual conduct.

The culture is monitored through the annual employee appraisal process and through the use of a satisfaction and engagement survey which is performed annually. The executive team reviews the key findings of the survey and determines whether any action is required.

The Group has adopted, and will operate as applicable, a code for Directors' and applicable employees' dealings in securities in accordance with Rule 21 of the AIM Rules for Companies.

All Group policies are available to the staff through the Group Sharepoint.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The Board has overall responsibility for promoting the success of the Group.

Further detail on Board and Committee roles and responsibilities are described above under 'Principle 5: Maintain the board as a well-functioning, balanced team led by the chair'.

The Board has a formal schedule of matters reserved to it, including the approval of annual financial plans and the review of performance against these plans, the Group's strategy and objectives, and the treasury and risk management policies.

The Board continually monitors the governance framework as the Company grows and will assess the evolution of the framework on a regular basis to ensure the governance structures and processes remain fit for purpose.

Reports of the Board's Audit, Remuneration, AIM Compliance and Nomination Committees can be found at pages 46 to 54 of the Governance section of this Annual Report.

Principle 10: Communicate how the company is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Group places a high priority on regular communications with its various stakeholder groups and aims to ensure that all communications concerning the Group's activities are fair, balanced and understandable.

Communications with shareholders and communications with other relevant stakeholders are described in detail above under 'Principle 2: Seek to understand and meet shareholder needs and expectations' and 'Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success' respectively.

The Group's website is regularly updated with announcements, details of investor presentations and events as well as the Group's financial reports. AGM notices, outcomes of AGM votes and other governance materials are also available on the website.

George Elliott
Chairman of the Board
24 May 2021

Remuneration Committee Report

Graeme Bissett
Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present Calnex's Remuneration Committee Report for the year ended 31 March 2021.

This report outlines the Group's remuneration policy for its directors and shows how that policy was applied during the year. As the Company is quoted on the AIM Market of the London Stock Exchange ('AIM'), Calnex is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and is under no obligation to prepare a directors' remuneration report. This section of the annual report has been prepared on a voluntary basis and fulfils the relevant requirements of Rule 19 of the AIM Rules for Companies.

Members of the Remuneration Committee

The Remuneration Committee comprises the three non-executive directors and is chaired by Graeme Bissett. The Committee invites the executive directors to attend its meetings when appropriate. In exercising this role, the directors have regard to the recommendations set out in the QCA Code.

No director or senior manager is permitted to be involved in any decision as to his/her own remuneration.

The non-executive directors of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group.

Roles and responsibilities

The duties of the Remuneration Committee are set out in its terms of reference, which are available on the Company's website. The Remuneration Committee meets at least three times a year and its main responsibilities are:

- to ensure that the Company's remuneration policy attracts and retains employees with the right skills and expertise needed to enable the Company to achieve its goals and strategies;
- to ensure that fair and competitive compensation, with appropriate performance incentives, is awarded;
- to review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service;
- to make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation;
- for all long term incentive plans, to determine each year the overall number of awards and the individual awards to executive directors and senior management;
- to review and approve Group-wide salary increases and discretionary employee profit share payments; and
- to review any major changes in employee benefits structures throughout the Group.

The Committee met twice during the year to 31 March 2021 in the period since joining AIM. Activities included review and approval of:

- the executive directors' bonus plan structure;
- the executive directors' remuneration for the year ended 31 March 2022;
- the executive management team bonus plan structure;

- the structure of the employee profit share calculation; and
- share option awards and other equity related schemes.

The Remuneration Committee also met just after the year end to approve the final calculations for executive director and management team bonuses, together with the final calculations for the employee profit share bonus paid in April.

The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 42.

The Company allows executive directors to hold external directorships subject to agreement by the Chair on a case by-case basis and, at the discretion of the Committee, to retain the fees received from those roles.

Directors' Remuneration for the year ended 31 March 2021
The table below sets out the detailed emoluments of each director who served during the year:

	2021					2020
	Salary/fees £000	Benefits in kind £000	Bonus £000	Pension contribution £000	Total £000	Total £000
Executive directors						
Tommy Cook	131	1	53	–	185	179
Ashleigh Greenan[1]	108	–	39	6	153	–
Anand Ram[2]	163	–	–	–	163	334
Non-executive directors						
George Elliott	63	–	–	–	63	47
Graeme Bissett[3]	37	–	–	–	37	–
Ann Budge[4]	33	–	–	–	33	–
John McElroy[2]	9	–	–	–	9	22
Total	544	1	92	6	643	582

1 Ashleigh Greenan's remuneration is from the date of appointment as a director on 15 May 2020.
2 Anand Ram and John McElroy resigned on 18 September 2020, before the Company's admission to AIM on 5 October 2020. Their remuneration is to the date of their resignation.
3 Graeme Bissett's remuneration is from the date of appointment as a director on 1 May 2020.
4 Pre IPO, Ann Budge was previously remunerated by Discovery Investments, to which Calnex paid an annual fee.

The above table does not include the value of share options held by the directors, details of which are set out below.

The main components of executive directors' remuneration comprise:

- Basic salary
- Performance-related bonus
- Defined contribution to personal pension plan
- Other benefits such as car allowances, medical and life assurance
- Long term incentives (share option scheme)
- Share Incentive Plan participation (under HMRC rules, the SIP has to be open to all employees, including executive directors)

Basic salaries
The basic salary of the executive directors is reviewed annually by the Remuneration Committee, with changes, if any, taking effect on 1 April of each year.

Performance-related bonus
The executive directors participate in a bonus plan which is linked to the achievement of financial and individual performance targets set by the Remuneration Committee. The year to 31 March 2021 was a transitional year for the Company, with its Admission to AIM in October 2020. As a result, the bonus arrangements for the executive directors reflect a transition from previous arrangements as a limited company to those more commonly found in listed companies and which meet corporate governance guidelines.

Accordingly, the bonus opportunity will be phased to a maximum of 100% of basic salary over a three year period to 31 March 2023.

In the year to 31 March 2021, the bonus plan was structured to pay a maximum of 40% of annual basic salary for the Chief Executive Officer and 33% of annual basic salary for the Chief Financial Officer. In the years ended 31 March 2022 and 2023, it is anticipated that the bonus opportunity will be increased to 70% and 100% of annual salary respectively.

Bonuses payable are subject to the discretion of the Remuneration Committee after considering an overall view of the Group's performances and its assessment of financial and personal performance.

In the year ended 31 March 2021, performance against targets resulted in a bonus award of 35% of salary for the Chief Executive Officer and 32% of salary for the Chief Financial Officer.

Pension contributions

The Chief Executive Officer does not participate in the Company pension scheme. A contribution of up to 5% per annum of basic salary is paid into the scheme by the Company, on behalf of the Chief Financial Officer.

Other benefits

The Company pays for private healthcare for each executive director and 50% towards the cost of private healthcare for their immediate family, together with life assurance scheme cover. The Company provides a company car allowance for the Chief Executive Officer and Chief Financial Officer.

Directors' share options

On the Company's Admission to AIM in October 2020, the Company introduced long-term incentive schemes designed to provide the executive directors and other senior management with share options vesting equally after three, four and five years based on performance of the Company's ordinary share price. These long-term incentives are provided through the operation of the following arrangements:

- Calnex Solutions plc EMI Share Option Plan (EMI Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK.
- USA Incentive Stock Option Addendum to the EMI Plan (USA ISO Addendum): The EMI plan permits the Board to establish schedules to the Plan in order to adapt the Plan to other jurisdictions covering overseas employees and as a result, the Board has authorised an addendum in order to adapt the Plan to the tax laws of the United States, which allows tax advantaged options to be granted over the Company's shares to selected employees in the USA;
- Calnex Solutions plc Unapproved Share Option Plan (Unapproved Plan) which enables non-tax advantaged options to be granted to selected employees and contractors worldwide; and
- Calnex Solutions plc Notional Share Option Plan (Notional Plan) which enables non-tax advantaged shadow equity interests to be granted to selected employees and contractors worldwide, which are settled by way of a cash payment.

The price per share payable on exercise of any share options will normally be equal to the market value of a share on the date they were originally granted.

Details of options for directors who were in office at 31 March 2021 are as follows:

	2021			
	Type	No. of shares under option	Exercise price	Date of grant
Executive directors				
Ashleigh Greenan	Approved	500,000	48p	05/10/2020

One third of the share options awarded vests after three years; the next third vests after four years; the remaining third vests after five years. No performance conditions are applicable to options under the EMI Plan other than continued employment.

Prior to the Company's Admission to AIM, the following options, which were exercised in full on Admission, were granted to directors under previous option schemes:

	Type	No. of shares under option	Aggregate Exercise price	Exercise date
Executive directors				
Ashleigh Greenan	EMI Options	241,901	£2,750	Immediately prior to an exit event
Non-executive directors				
George Elliott	Unapproved options	1,422,862	£217,634	Immediately prior to an exit event
Graeme Bissett	Unapproved options	72,570	£900	Immediately prior to an exit event

Executive directors' service contracts
The executive directors have entered into service contracts with the Group that are terminable by either party on no less than six months' notice.

Non-executive directors
The non-executive directors do not participate in performance related bonus or share based incentive arrangements. Each of the non-executive directors has a letter of appointment stating their annual fee. The level of fees for non-executive directors (other than the Chairman) is determined by the Chairman and the executive directors. The Chairman's fees are determined by the Committee members other than the Chairman. The appointment of non-executive directors may be terminated on one months' written notice at any time.

Share price information
The market price of the Calnex Solutions plc ordinary shares at 31 March 2021 was 116.75 pence and the range during the year was 48 pence (on Admission to AIM) to 128 pence.

Calnex Solutions plc Employee Share Incentive Plan (SIP)
On Admission to AIM the Company adopted a Share Incentive Plan (SIP), an HMRC approved all-employee plan that offers the Company the ability to award equity to employees in a flexible and tax-advantaged manner. The SIP is open to all UK resident employees, including executive directors.

Employees can acquire Ordinary Shares ("Partnership Shares") up to the lower of £1,800 or 10% of their salary in any tax year, and will be awarded one additional Ordinary Share ("Matching Shares") by the Company for every Ordinary Share they acquire. The Company can also award up to £3,600 worth of free Ordinary Shares ("Free Shares") in any tax year per employee. Dividends paid on SIP shares can be paid out in cash or re-invested to purchase further SIP shares ("Dividend Shares").

Free and Matching Shares are subject to a holding period of three years and employees cannot remove them from the SIP during this period whilst they remain employed by the Company. These shares are held in trust in the name of the individual. Under the terms of this scheme, the Free and Matching Shares will be forfeited if the participant leaves the employment of the Company within this holding period unless the employee is a good leaver. If the employee withdraws any Partnership Shares within the same holding period, they will forfeit the corresponding Matching Shares unless they are a good leaver.

Once SIP shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay. Any increase in value whilst shares remain in the SIP is not subject to Capital Gains Tax.

Under the SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up the separate Notional Plan. This Plan acts as a non-tax advantaged shadow equity interest plan to the SIP, mirroring the SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement.

Directors' share interests
The Directors' shareholdings in the Company is shown in the Directors' Report on page 56.

Graeme Bissett
Chairman of the Remuneration Committee
24 May 2021

Audit Committee Report

Graeme Bissett
Chairman of the Audit Committee

On behalf of the Board, I am pleased to present Calnex's Audit Committee Report for the year ended 31 March 2021.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Group's financial reporting and internal control policies, compliance with corporate governance and procedures for the identification, assessment, and reporting of risk. It reviews reports from the executive management team and external auditors relating to the interim and annual accounts and the Group's accounting and internal control systems. The Audit Committee is also responsible for and advising on the appointment of and overseeing the relationship with the external auditor.

Members of the Audit Committee

The Audit Committee comprises the three non-executive directors and is chaired by Graeme Bissett. The Committee invites the external auditor, executive directors and other senior managers to attend its meetings when appropriate. The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions.

Roles and responsibilities

The duties of the Audit Committee are set out in its terms of reference, which are available on the Company's website. The Committee's key functions include reviewing and advising the Board on:

- the integrity of the financial statements of the Group, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance;
- compliance with accounting standards and legal and regulatory requirements;
- decisions of judgement and risk affecting financial reporting;
- disclosures in the interim and annual report and financial statements;
- any change in accounting policies;
- the effectiveness of the Group's financial and internal controls;
- the Group's risk management processes, including principal risks and internal control findings highlighted by management or external audit;
- the appointment and remuneration of the external auditor;
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group; and
- any matters that may significantly affect the independence of the external auditor.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and Interim Report remains with the Board.

The Audit Committee has committed to meet no less than three times in each financial year. The financial year ended 31 March 2021 was treated as a partial year with regards to the calendar of Board and Committee meetings as a result of the Group's listing on AIM in October 2020. The Audit Committee met twice between the Group's admission to AIM in October 2020 and the year end. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 42.

Activities in the year ended 31 March 2021 included:
- the review and approval the Group's September 2020 Interim Report;
- the review and approval of the audit plan presented by the Group's auditors for the year ended 31 March 2021;
- the review of the independence of the Group's external auditors;
- the consideration of the reports from management and external auditors identifying any accounting or judgemental issues requiring the Board's attention; and
- the monitoring of internal controls and reviewing the Group's risk management framework.

The Audit Committee also met after the year end to approve the Group's Annual Report for the year ended 31 March 2021. The Audit Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Group's Annual Report and Financial Statements are reasonable.

Significant areas considered by the Committee in relation to the 2021 financial statements are set out below:

Carrying value and capitalisation of intangible assets	The group had intangible assets, comprising of intellectual property and development costs, with a carrying value of £7.5m at the balance sheet date. These assets inherently carry a greater risk of impairment as their valuation is subject to management estimation. £3.3m of expenditure has been capitalised as development costs in the year. Conditions for capitalisation are prescribed by IAS 38 Intangible Assets and the satisfaction of these criteria is subject to management judgement. The brought forward net book value of intangible assets in respect of development costs was £6.5m and closing net book value was £7.3m as at the end of FY21. This value, including costs capitalised in the year, is allocated to products using the Group's R&D work planner, based mainly on the monthly number of R&D employees working on each project, together with an assessment of forecasted sales for each product. There are no development costs included within the historical balance for projects that were unsuccessful or cancelled. During the year, a review of the brought forward development costs has resulted in an elimination of costs and amortisation of £2.6m, resulting in a net book value impact of £nil. This reflects removal of aged spend on product features that are now considered to be superseded by current product developments. There have been no indicators of impairment of this balance in the year.
Share-based payments	Share based payments of £0.2m have been recognised in the current year relating to 'pre-IPO' share options that vested upon IPO. Following IPO, 2,650,000 new options were awarded on 5 October 2020 vesting over 3-5 year periods, and resulting in a further charge of £0.1m. The fair value assessment on these options was calculated using the Black-Scholes Model. Key assumptions used in the model included: • Expected market volatility of 61%. This was provided following review of peer company performance with the telecommunication industry. • Risk free rate of 0.02% • Dividend yield of 1% (high level assumption based on the fact there will be some dividend payment in FY22). This assumption has an immaterial impact to the total charge recognised, with incremental 1% adjustments to the dividend yield approximating to c35k charge movement over the lifetime of the options.

External auditors
The Company engaged RSM UK Audit LLP ("RSM") to act as external auditors on 18 September 2020, before the Group's admission to AIM in October 2020. RSM is invited to attend Committee meetings when appropriate. The Audit Committee has unrestricted access to the external auditors and will also meet with them without management in attendance.

The external auditors prepare an audit plan which details the scope, materiality, key areas of focus and the timetable for audit. This plan is reviewed and agreed in advance by the Audit Committee. Following the completion of the audit, the external auditors present their findings to the Audit Committee for discussion.

Internal audit
The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness, and the requirements for an internal audit function in the context of the Group's overall risk management system. The Audit Committee is satisfied that the Group does not currently require an internal audit function, however, it will continue to review the situation.

Whistleblowing
The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. During the year, there were no incidents for consideration.

Graeme Bissett
Chairman of the Audit Committee
24 May 2021

Nomination Committee Report

George Elliott
Chairman, Nomination Committee

On behalf of the Board, I am pleased to present Calnex's Nomination Committee Report for the year ended 31 March 2021.

The Nomination Committee will regularly review the structure, size and composition of the Board and will also consider the selection and re-appointment of directors.

Members of the Nomination Committee
The Nomination Committee is chaired by George Elliott and has Graeme Bissett, Ann Budge and Tommy Cook as members.

Roles and responsibilities
The duties of the Nomination Committee are set out in its terms of reference, which are available on the Company's website. The Committee's duties include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, together with Board and senior management succession planning;
- recommending to the Board any changes required;
- identifying and nominating candidates to fill Board vacancies;
- reviewing the results of the Board performance evaluation process; and
- making recommendations to the Board concerning suitable candidates for the membership of the Board's Committees and the re-election of directors at the annual general meeting.

The Committee meets at least once a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 42.

The Committee met once in the year to 31 March 2021. The composition of the Board changed in preparation of the Company becoming a public company and its subsequent admission to AIM in October 2020. As these changes were relatively recent, the Committee agreed that a formal review of the Board should be carried out in August 2021 and thereafter annually in February.

George Elliott
Chairman, Nomination Committee
24 May 2021

AIM Compliance Committee Report

Graeme Bissett
Chairman of the AIM Compliance Committee

On behalf of the Board, I am pleased to present Calnex's AIM Compliance Committee Report for the year ended 31 March 2021.

Calnex Solutions plc is quoted on AIM and as a result the AIM Compliance Committee is responsible for ensuring that the Company has in place at all times sufficient procedures, resources and controls to enable it to comply with the AIM Rules.

Members of the AIM Compliance Committee

The AIM Compliance Committee is chaired by Graeme Bissett and has George Elliott and Ashleigh Greenan as members.

AIM Rule Compliance Report

The AIM Compliance Committee can confirm that the Group has complied with AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and provision of draft notifications in advance;
- Ensure that each of the Group's directors accepts full responsibility, collectively and individually, for compliance with the AIM rules; and
- Ensure that each Director discloses without delay all information which the Group needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

Meetings

The duties of the AIM Compliance Committee are set out in its terms of reference, which are available on the Company's website.

The Committee meets at least twice a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 42.

The Committee met once in the year to 31 March 2021 since the Company became a public company and its subsequent admission to AIM in October 2020.

Graeme Bissett
Chairman of the AIM Compliance Committee
24 May 2021

Directors' Report

The Directors present the Group's annual report and the audited consolidated financial statements for the year ended 31 March 2021.

Principal activity

The principal activity of the Group continues to be the design, production and marketing of test and measurement instrumentation and solutions, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks. A detailed explanation of the Group's principal activities and business model can be found on pages 1 to 9.

Admission to AIM

The Company's Ordinary Shares were admitted to the AIM market of the London Stock Exchange on 5 October 2020.

The number of Ordinary Shares in issue at 30 September 2020 was 60,024,103. Immediately prior to admission, 14,975,897 Ordinary Shares were issued to option and warrant holders, taking the total Ordinary Shares in issue prior to admission to 75,000,000.

12,500,000 new Ordinary Shares were issued and placed on admission, taking the total share capital in issue immediately following the placing to 87,500,000 Ordinary Shares of 0.125p each.

The placing price for the shares on admission was 48p. The total proceeds raised from the placing undertaken alongside admission was £22.5m, which comprised 34,375,000 shares sold on behalf of existing shareholders to raise £16.5m and 12,500,000 new shares issued to raise £6.0m (before expenses) for the Company. Total IPO fees were £1.1m, leaving net cash raised by the Company of £4.9m.

Results and dividends

The Group's profit for the year after tax was £3.5m (FY20: £2.4m).

The directors do not recommend the payment of a dividend for the year ended 31 March 2021 (2020: nil). It is the intention of the Board to implement a progressive dividend policy effective from the year to 31 March 2022.

Directors and their interests

The directors, who held office during the year ended 31 March 2021 and up to the date of approval of these financial statements, are as follows:

Director	Board title	Date of appointment
George Elliott	Non-Executive Chairman	1 October 2013
Tommy Cook	Chief Executive Officer	27 March 2006
Ashleigh Greenan	Chief Financial Officer	15 May 2020
Ann Budge	Non-Executive Director	1 April 2009
Graeme Bissett	Non-Executive Director	1 May 2020
Anand Ram	Sales & Marketing Director	28 June 2016; resigned 18 September 2020
John McElroy	Non-Executive Director	21 June 2007; resigned 18 September 2020

Biographical details of persons currently serving as directors are set out on pages 38 and 39.

The directors who held office at 31 March 2021 had the following interests in the ordinary shares in the capital of the Company:

Director	Ordinary shares No.	Ordinary share options No.
George Elliott	950,018	–
Tommy Cook	18,377,764	–
Ashleigh Greenan	235,926	500,000
Ann Budge	2,654,621	–
Graeme Bissett	70,614	–

Financial risk management objectives and policies
Details of the Group's financial risk management objectives and policies are set out in note 24 of the consolidated financial statements. The key non-financial risks that the directors consider could have a material impact on the business are set out on pages 28 to 33 of the Strategic Report.

Research and development
The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. The total capitalised development expenditure for research and development in the year was £3.3m (FY20: £2.9m), and total amortisation was £2.5m in the year (FY20: £2.0m) in the consolidated income statement. Details of the Group's policy for the recognition of expenditure on research and development is set out in note 3 of the consolidated financial statements.

Post balance sheet events
There are no post balance sheet events to report for this year.

Future developments
The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 12 to 17.

Insurance for directors and officers
The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a Directors' and Officers' insurance policy.

Substantial shareholdings
At 31 March 2021 the following interests in 3% or more of the issued ordinary share capital in the Company had been notified to the Company:

Shareholder	Shares	%
Thomas (Tommy) Cook (CEO)	18,377,764	21.0%
BGF Investment Management Limited	13,125,000	15.0%
Scottish Enterprise	7,860,693	9.0%
Otus Capital Management Limited	5,790,000	6.6%
Lombard Odier Asset Management	6,330,000	7.2%
Slater Investments Limited	4,133,459	4.7%
Hargreaves Lansdown Asset Management	3,493,233	4.0%
Ann Budge (Non-Executive Director)	2,654,621	3.0%

Political donations
In accordance with Group policy, no political donations have been made during the year ended 31 March 2021 (FY20: £nil).

Share capital
Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 28 to the consolidated financial statements.

Independent Auditor and disclosure of information to auditor
The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RSM UK Audit LLP were appointed as auditors on 18 September 2020 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Information incorporated by reference
The Company Overview, Strategic Report and the Corporate Governance Report are incorporated by reference into this Directors' Report and should be read as part of this report.

The Company Overview and Strategic Report can be found on pages 1 to 37 and contain details of the Group's business model and strategic priorities. The purpose of the Strategic Report is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006. An indication of the likely future developments in the business of the Group is also included in the Strategic Report, which satisfies the reporting requirements of section 414C (11) of the Companies Act 2006.

Going concern
The financial information for the year to 31 March 2021 has been prepared on the basis that the Company will continue as a going concern.

The business has not seen any detrimental impact on trading as a result of the COVID-19 pandemic and the Group has not required the assistance of government funding to date. Appropriate safety measures have been put in place to protect staff while the Company continues to operate whilst adhering to government advice on stay at home directives across the various locations. The directors continue to closely monitor the situation, with rolling cashflow forecasting and visibility over the order pipeline being key to provide early indication of required action in order to mitigate against any future risk of further lockdowns or new virus threats.

The Board has approved financial profit and cashflow forecasts for the current and succeeding financial years to 31 March 2023. Based on this review, along with regular oversight of the Company's risk management framework the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

Approved by the Board of Directors on 24 May 2021 and signed on its behalf below.

By order of the Board.

Ashleigh Greenan
Chief Financial Officer
24 May 2021

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected under company law to prepare the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The group and company financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Calnex Solutions plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board.

Ashleigh Greenan
Chief Financial Officer
24 May 2021

Independent Auditor's Report to the Members of Calnex Solutions plc

Opinion

We have audited the financial statements of Calnex Solutions plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2021 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company cash flow statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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 directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- checking the integrity and accuracy of the cashflow forecasts prepared by management;
- assessing the reasonableness of assumptions and explanations provided by management to supporting information, where available;
- stress-testing management's cash flow forecasts to assess the impact of assumptions worse than those included in management's model; and
- auditing the accuracy and consistency of disclosures made in the financial statements in respect of principal risks and going concern.

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 the 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.

Independent Auditor's Report to the Members of Calnex Solutions plc continued

Summary of our audit approach

Key audit matters	**Group and Parent Company** • Valuation and existence of intangible assets
Materiality	**Group** • Overall materiality: £327,000 (2020: £130,000) • Performance materiality: £245,000 (2020: £108,000) **Parent Company** • Overall materiality: £326,000 (2020: £100,000) • Performance materiality: £244,000 (2020: £83,000)
Scope	Our audit procedures covered 100% of revenue, 100% of total assets and 99.4% of profit before tax.

Key audit matters

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

We have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation and existence of intangible assets – development costs

Key audit matter description	We identified the valuation and existence of development costs as a key audit matter due to the significant management judgement required around the capitalisation of costs in line with IAS 38 – Intangible Assets and the subsequent commercialisation lifecycle and related amortisation period. The Group conducts a significant amount of development activity and has to identify projects meeting the IAS 38 criteria for capitalisation, and capture the specific costs associated with those projects. Management then have to identify an appropriate amortisation period, which aligns with the benefits derived from the development activity, again, requiring judgement and estimation. As disclosed in note 13, £3,326k of cost was capitalised in this regard in the year, amortisation of £2,479k was charged and the net book value as at 31 March 2021 was £7,317k.
How the matter was addressed in the audit	Our procedures in relation to the valuation and existence of development costs, held within Intangible Assets, included: • Understanding and documenting management's procedures over the capitalisation of development costs; • Assessing the nature of costs capitalised; • Evaluating the appropriateness of costs capitalised, on a sample basis, by agreeing costs to supporting documentation including external invoices and payroll records; • Assessing whether costs may have been capitalised in respect of aborted projects or projects which are no longer revenue generative and considering the implications on gross and net book value; and • Evaluating the amortisation period applied and its appropriateness in respect of the historic and future product lifecycle.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£327,000 (2020: £130,000)	£326,000 (2020: £100,000)
Basis for determining overall materiality	5% of Earnings before interest, tax, depreciation and amortisation	5% of Earnings before interest, tax, depreciation and amortisation
Rationale for benchmark applied	EBITDA was used as a benchmark, as it was assessed that the shareholders' will be primarily interested in the Group's ability to generate operating cashflows from which to pay future dividends.	
Performance materiality	£245,000 (2020: £108,000)	£244,000 (2020: £83,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £16,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £16,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 2 components, located in the United Kingdom and United States of America.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	1	100%	98.4%	99.4%
Specific audit procedures	1	0%	1.6%	0%
Total	**2**	**100%**	**100%**	**99.4%**

There were no audit procedures undertaken by component auditors.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year 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 their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters 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 58, 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud; and
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation/Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS; Companies Act 2006; and AIM listing rules	• Review of the financial statement disclosures and testing to supporting documentation; and • Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	• Inspection of advice received from external tax advisors; and • Input from a tax specialist was obtained on the research and development tax credits claimed by the group and on the tax impact of IFRS transition adjustments

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Management override of controls	• Testing the appropriateness of journal entries and other adjustments; • Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and • Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

RSM UK Audit LLP

ALAN AITCHISON (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
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24 May 2021

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Revenue	5	**17,978**	13,739
Cost of sales		**(4,013)**	(3,116)
Gross profit		**13,965**	10,623
Other income	6	**530**	549
Administrative expenses	7	**(10,693)**	(7,852)
Operating profit		**3,802**	3,320
Finance costs	11	**(155)**	(339)
Profit before taxation		**3,647**	2,981
Taxation	12	**(194)**	(694)
Profit and total comprehensive Income for the year		**3,453**	2,287
Profit and total comprehensive Income for the year attributable to:			
Continuing operations		**3,453**	2,787
Discontinued operations	8	**–**	(500)
		3,453	2,287
Basic earnings per share	29	**4.68**	3.81
Diluted earnings per share	29	**4.18**	3.05

Consolidated and Company Statement of Financial Position

	Note	Group 31 March 2021 £'000	Group 31 March 2020 £'000	Company 31 March 2021 £'000	Company 31 March 2020 £'000
Non-current assets					
Intangible assets	13	**7,525**	6,779	**7,525**	6,779
Plant and equipment	14	**22**	21	**22**	21
Right-of-use assets	20	**522**	660	**522**	660
Deferred tax asset	21	**613**	554	**613**	554
		8,682	8,014	**8,682**	8,014
Current assets					
Inventories	15	**1,111**	958	**1,111**	958
Trade and other receivables	16	**1,819**	2,508	**2,200**	2,505
Cash and cash equivalents	17	**12,668**	3,664	**12,277**	3,628
		15,598	7,130	**15,588**	7,091
Total assets		**24,280**	15,144	**24,270**	15,105
Current liabilities					
Borrowings	18	**–**	695	**–**	695
Trade and other payables	19	**4,181**	3,027	**4,157**	3,042
Lease liabilities	20	**130**	122	**130**	122
Financial liabilities	23	**–**	117	**–**	117
Provisions	22	**291**	289	**291**	289
		4,602	4,250	**4,578**	4,265
Non-current liabilities					
Borrowings	18	**–**	1,581	**–**	1,581
Trade and other payables	19	**749**	555	**749**	555
Lease liabilities	20	**436**	554	**436**	554
Deferred tax liabilities	21	**1,321**	1,188	**1,321**	1,188
Provisions	22	**15**	15	**15**	15
		2,521	3,893	**2,521**	3,893
Total liabilities		**7,123**	8,143	**7,099**	8,158
Net assets		**17,157**	7,001	**17,171**	6,947
Equity					
Share capital		**109**	25	**109**	25
Share premium		**7,484**	1,138	**7,484**	1,138
Share option reserve		**126**	69	**126**	69
Retained earnings		**9,438**	5,769	**9,452**	5,715
Total equity		**17,157**	7,001	**17,171**	6,947

The profit for the financial year of the parent company is £3,520,596. As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the parent company.

The financial statements were approved by the Board of Directors and authorised for issue on 24 May 2021. The accounts are signed on their behalf by.

Ashleigh Greenan
Director
24 May 2021

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2019	**25**	**1,138**	**14**	**3,481**	**4,658**
Share options	–	–	55	–	55
Total comprehensive income for the year	–	–	–	2,288	2,288
Balance at 31 March 2020	**25**	**1,138**	**69**	**5,769**	**7,001**
Issue of shares	16	5,984	–	–	6,000
Share options	18	362	57	266	703
Bonus share issue	50	–	–	(50)	–
Total comprehensive income for the year	–	–	–	3,453	3,453
Balance at 31 March 2021	109	7,484	126	9,438	17,157

Company Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2019	**25**	**1,138**	**14**	**3,500**	**4,677**
Share options	–	–	55	–	55
Total comprehensive income for the year	–	–	–	2,215	2,215
Balance at 31 March 2020	**25**	**1,138**	**69**	**5,715**	**6,947**
Issue of shares	16	5,984	–	–	6,000
Share options	18	362	57	266	703
Bonus share issue	50	–	–	(50)	–
Total comprehensive income for the year	–	–	–	3,521	3,521
Balance at 31 March 2021	109	7,484	126	9,452	17,171

Consolidated and Company Cash Flow Statement

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Cashflows from operating activities				
Profit before tax from continuing operations	**3,647**	3,481	**3,715**	3,409
Adjusted for:				
IPO professional fees and commissions	**1,057**	–	**1,057**	–
Finance costs	**155**	339	**155**	339
Foreign exchange differences	**(65)**	(94)	**(65)**	(94)
Government grant income	**(204)**	(220)	**(204)**	(220)
R&D tax credit income	**(326)**	(329)	**(326)**	(329)
Change in fair value of assets and liabilities	**144**	192	**144**	192
Movement in obsolescence provision	**25**	5	**25**	5
Movement in provisions	**(14)**	44	**(14)**	44
Share based payment transactions	**275**	55	**275**	55
Depreciation	**167**	147	**167**	147
Amortisation	**2,585**	2,322	**2,585**	2,322
Movement in inventories	**(178)**	(191)	**(178)**	(191)
Movement in trade and other receivables	**818**	(356)	**436**	(309)
Movement in trade and other payables	**1,271**	707	**1,230**	699
Net cash used in discontinued operations	**(201)**	(299)	**(201)**	(299)
Cash generated from operations	**9,156**	5,803	**8,801**	5,770
Interest paid	**(107)**	(278)	**(107)**	(278)
Net cash from operating activities	**9,049**	5,525	**8,694**	5,492
Investing activities				
Purchase of intangible assets	**(3,332)**	(2,911)	**(3,332)**	(2,911)
Purchase of property and equipment	**(10)**	(30)	**(10)**	(30)
Net cash used in investing activities	**(3,342)**	**(2,941)**	**(3,342)**	**(2,941)**
Financing activities				
Repayment of borrowings	**(2,276)**	(298)	**(2,276)**	(298)
Payment of lease obligations	**(193)**	(163)	**(193)**	(163)
Share issue proceeds	**6,000**	–	**6,000**	–
Share options proceeds	**328**	–	**328**	–
IPO professional fees and commissions	**(1,057)**	–	**(1,057)**	–
Payment of deferred consideration	**(83)**	(414)	**(83)**	(414)
Government grant income	**578**	73	**578**	73
Net cash from financing activities	**3,297**	(802)	**3,297**	(802)
Net increase in cash and cash equivalents	**9,004**	**1,782**	**8,649**	**1,749**
Cash and cash equivalents at beginning of the year	**3,664**	1,852	**3,628**	1,849
Foreign exchange movements	**–**	30	**–**	30
Cash and cash equivalents at end of the year	**12,668**	**3,664**	**12,277**	**3,628**

Notes to the Financial Statements

1 General information

Calnex Solutions plc ("the Company") is a public limited company domiciled and incorporated in Scotland. The registered office is Oracle Campus, Linlithgow, West Lothian, EH49 7LR.

The Company (together with its subsidiaries, the "Group") were under the control of the directors throughout the period covered in the financial statements. The list of the subsidiaries consolidated in the financial statements are shown in note 27.

The principal activity of the Group is the design, production and marketing of test instrumentation and solutions for network synchronisation and network emulation.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 May 2021. The directors have the power to amend and reissue the financial statements.

2 Basis of preparation

(a) Statement of compliance

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

(b) Basis of accounting

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities including financial instruments, which are stated at their fair values.

The preparation of the financial statements in conformity with IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented.

These consolidated financial statements are the first published consolidated financial statements of Calnex Solutions plc prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements of Calnex Solutions plc were previously prepared in accordance with UK GAAP.

Comparative figures have been restated to reflect adjustments made, with reconciliations of the effect of the transition to IFRS on the consolidated and company equity, and the consolidated total comprehensive income previously reported under UK GAAP provided in note 31.

(c) Functional and presentation currency

The financial statements are presented in pounds Sterling, which is the functional and presentation currency of the Group. Results in these financial statements have been prepared to the nearest thousand.

(d) Basis of consolidation

The consolidated financial statements incorporate those of Calnex Solutions plc, and all of its subsidiaries. A subsidiary is an entity controlled by the Group, i.e. the Group is exposed to, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The total comprehensive income, assets and liabilities of the entities are amended, where necessary to align the accounting policies.

The Group applies the acquisition method to account for all acquired businesses, whereby the identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (with a few exceptions as required by IFRS 3 Business Combinations).

2 Basis of preparation continued

(d) Basis of consolidation continued

The cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The acquisition of assets that falls outside the scope of IFRS 3 are accounted for by bringing the assets and liabilities of the acquired entity into the financial statements at their nominal value from the date of acquisition. Comparative information is not restated.

(e) Adoption of new and revised standards

New standards, amendments to standards and interpretations which came into effect for accounting periods starting on or after 1 January 2020 and have had an impact on the financial statements are as follows:

Amendments to IFRS 3 'Business Combinations' (effective where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020) – makes amendments to clarify the definition of a business to help companies determine whether an acquisition is of a business or a group of assets. The amendments are expected to result in more acquisitions being accounted for as asset acquisitions. As detailed in note 3(e) careful consideration is given to the accounting treatment for each acquisition. Most acquisitions made by the Group are treated as the acquisition of a group of assets, so the amendments to this standard have not had any impact on the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020) – make amendments to clarify the definition of 'material'. The amendments make IFRSs more consistent but are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS 16 'Leases' (effective from June 2020 onwards) – were issued in response to the COVID-19 pandemic to address accounting treatment for rent concessions granted to lessees as a direct result of the pandemic. The Group has not received any rent concessions for its land and buildings leases and therefore accounting treatment has not been affected.

(f) Going concern

The financial information for the year to 31 March 2021 has been prepared on the basis that the Company will continue as a going concern.

The business has not seen any detrimental impact on trading as a result of the COVID-19 pandemic and the Group has not required the assistance of government funding to date. Appropriate safety measures have been put in place to protect staff while the Group continues to operate adhering to government advice on stay at home directives across our various locations. The directors continue to closely monitor the situation, with rolling cashflow forecasting and visibility over the order pipeline being key to provide early indication of required action in order to mitigate against any future risk of further lockdowns or new virus threats.

The Board has approved financial profit and cashflow forecasts for the current and succeeding financial years to 31 March 2023. Based on this review, along with regular oversight of the Company's risk management framework, the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

3 Significant accounting policies

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes and discounts and is recognised at the point in time when the relevant performance obligation is satisfied.

Where revenue contracts have multiple elements, all aspects of the transaction are considered to determine whether these elements can be separately identified. Where transaction elements can be separately identified and revenue can be allocated between them on a fair and reliable basis, revenue for each element is accounted for according to the relevant policy below. Where transaction elements cannot be separately identified, revenue is recognised over the contract period.

The Group recognises revenue from the following major sources:

Hardware & software revenue

Revenue from the sale of hardware and bundled software, is recognised when the Group transfers the risk and rewards to the customer. Each unit sale comes with a standard warranty period during which the Group agrees to provide warranty cover, maintenance cover and software upgrade cover in the event of any software upgrades being released. This is recognised as a separately identifiable obligation from the provision of the hardware and is recognised over the life of the cover provided, being a year.

For the sale of stand-alone software, the licence period and therefore the revenue recognition, commences upon delivery.

Extended warranty programme

The Group enters into agreements with purchasers of its equipment to perform necessary repairs falling outside the Group's standard warranty period. As this service involves an indeterminate number of acts, the Group is required to 'stand ready' to perform whenever a request falling within the scope of the program is made by a customer. Revenue is recognised on a straight-line basis over the term of the contract.

This method best depicts the transfer of services to the customer as:

i) The Group's historical experience demonstrates no statistically significant variation in the quantum of services provided in each year of a multi-year contract.
ii) no reliable prediction can be made as to if and when any individual customer will require service.

Software support programme

The Group enters into agreements with purchasers of its equipment to provide software support and access to future software updates. Revenue is recognised on a straight-line basis over the term of the contract.

Grant income

The Group obtains grant funding from the Scottish Government in the form of reimbursement for research and development costs eligible for reclaim under the grant agreement. Costs are incurred before they can be reclaimed under the grant agreement and revenue is only recognised after receipt of the funds from the government. Grant funds received are recognised over five years, in line with the amortisation policy on capitalised research and development costs.

(b) Retirement benefit costs

Payments to defined contribution schemes are charged to the income statement as an expense as they fall due.

(c) Share based payments

Equity-settled share-based compensation benefits are provided to some employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. There are no other vesting conditions.

3 Significant accounting policies continued

(c) Share based payments continued

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

All changes in the liability are recognised in profit or loss.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

(d) Taxation

The tax expense represents the sum of the current tax and deferred tax charge for the year.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, as used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of financial assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the relevant requirements of IAS 12 are satisfied.

(e) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the Group to former owners of the acquire. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss.

3 Significant accounting policies continued

(e) Business Combinations continued

The difference between the acquisition-date fair value of assets acquired and liabilities assumed and the fair value of the consideration transferred is recognised as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets acquired, a bargain purchase is recognised as a gain directly in profit or loss by the Group on the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(f) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(g) Financial assets

Where there is no publicly quoted market value, other investments, including subsidiaries, are shown at cost less provisions for impairment.

(h) Plant and equipment

Plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at varying rates calculated to write off cost less residual value over the useful lives. Depreciation is charged to administration expenses in the Statement of Comprehensive Income. The principal rates employed are:

Plant and machinery	25-33% straight line

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate these values may not be recoverable. If there is an indication that impairment does exist, the carrying values are compared to the estimated recoverable amounts of the assets concerned.

3 Significant accounting policies continued

(h) Plant and equipment continued

The recoverable amount is the greater of an asset's value in use and its fair value less the cost of selling it. Value in use is calculated by discounting the future cash flows expected to be derived from the asset. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down through the income statement to its recoverable amount.

An item of property, plant and equipment is written off either on disposal or when there is no expected future economic benefit from its continued use. Any gain or loss (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the year.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(h) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods for resale, the average purchase price is used. For work in progress and finished goods, cost is taken as production cost which includes an appropriate proportion of overheads.

Inventories are assessed for indicators of impairment at each year end and where a provision is required the income statement is charged directly.

(j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The simplified approach to measuring expected credit losses has been applied, this uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(k) Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of 95 days or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(l) Borrowings

Interest-bearing loans and bank overdrafts are initially recorded at the fair value of proceeds received and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(m) Trade and other payables

Trade payables are non interest-bearing and are measured at amortised cost.

3 Significant accounting policies continued

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

The fair value of Company equity is included in the initial recognition of warrants as a financial liability. The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment.

(o) Financial liabilities

Financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of that instrument.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The changes in fair value are recorded in the statement of comprehensive income.

The Company recognises warrants in issue as financial liabilities and re-measures them whenever the terms of the warrants are changed, with any gain or loss recognised in the profit or loss.

(p) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, 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 comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are re-measured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is re-measured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(q) Foreign Currency

In preparing the financial statements of individual companies, transactions in currencies other than pounds sterling are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognised in the consolidated income statement for the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing at the dates when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency (e.g. property, plant and equipment purchased in a foreign currency) are translated using the exchange rate prevailing at the date of the transaction. Exchange differences arising on the translation of net assets are effected through the Statement of Comprehensive Income.

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 balance sheet date. Income and expense items are translated at the average exchange rates for the period and recognised in the Statement of Comprehensive Income.

3 Significant accounting policies continued

(r) Dividends

Dividends are recognised when declared during the financial year. The declaration of dividends is at the discretion of the Group directors.

(s) Value Added Tax

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

(t) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Critical judgements in applying the Groups accounting estimates

In the process of applying the Group's accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Business combinations

The Group's policies require that a fair value be attributed to the assets and liabilities of an acquired business, including internally developed assets that may not be recognised by the acquired business, at the date of acquisition. The directors use their judgement to identify the separate intangible assets and then determine a fair value for each based upon the nature of the asset, industry statistics, future potential and other relevant factors.

Any consideration provided including deferred or contingent consideration is recognised at fair value at the date of acquisition. The directors have made estimates regarding the fair value of equity instruments transferred.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Impairment

Determining whether any non-current asset has been impaired requires an estimation of the value in use of the cash generating units to which these assets are allocated. The value in use calculation requires the Group to identify appropriate cash generating units, to estimate the future cash flows expected to arise from each cash generating unit and a suitable discount rate in order to calculate present value. Impairment exercises on fixed tangible assets, goodwill and indefinite life intangible assets have been undertaken in the years presented.

3 Significant accounting policies continued

(u) Critical judgements in applying the Groups accounting estimates continued

Useful lives

The Group uses forecast cash flow information and estimates of future growth to assess whether goodwill and other intangible fixed assets are impaired, and to determine the useful economic lives of its goodwill and intangible assets. If the results of operations in a future period are adverse to the estimates used a reduction in useful economic life may be required.

(v) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

(w) New and revised IFRS' in issue but not yet effective

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after 1 January 2021 and have not been applied in preparing these financial statements. These are:

Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments; Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' (effective for periods beginning on or after 1 January 2021) These amendments address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IFRS 3 'Business Combinations' (effective for periods beginning on or after 1 January 2022) – gives clarification on the recognition of contingent liabilities at acquisition and clarifies that contingent assets should not be recognised at the acquisition date. The amendments are not expected to have a significant impact on the preparation of the financial statements.

Amendments to IAS 1 'Presentation of Financial Statements' (effective for periods beginning on or after 1 January 2023) – clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period and not expectations of or actual events after the reporting date. The amendments also give clarification to the definition of settlement of a liability. The amendments are not expected to have a significant impact on the preparation of the financial statements.

4 Operating Segments

Operating segments are based on the internal reports that are reviewed and used by the Board (who are identified as the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. As the Group has a central cost structure and a central pool of assets and liabilities the Board does not consider segmentation in their review of costs or the statement of financial position. The only operating segment information reviewed, and therefore disclosed, are the revenues derived from different geographies.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Americas	**5,767**	4,079
North asia	**5,945**	6,788
ROW	**6,266**	2,872
	17,978	13,739

5 Revenue

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Sale of goods	**16,509**	12,473
Rendering of services	**1,469**	1,266
Total revenue	**17,978**	13,739
Revenue from the sale of goods from:		
Continuing operations	**16,509**	12,348
Discontinued operations	**–**	125
	16,509	12,473

72% (2020: 71%) of the Group's orders in the year were distributed by the Group's principal distribution partner. Included within revenue is an amount of £2,144,773 (2020: £1,081,059) which arose from sales to the Groups largest customer, and was geographically spread as follows: Americas £1,079,534 (2020: £585,130), N Asia: £138,348 (2020: £nil), ROW: £926,891 (2020: £495,929). This is the only customer to exceed 10% of the Group's revenue.

6 Other income

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Government grant income	**204**	220
R&D tax credit	**326**	329
	530	549

7 Material operating profit items

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating profit for the year is stated after charging/(crediting):		
IPO related professional fees and commissions	**1,057**	–
Issue of free shares to employees	**166**	–
Low value asset lease payments	**42**	38
Depreciation of right-of-use assets	**158**	125
Depreciation of tangible assets	**9**	22
Amortisation of intangible assets	**2,585**	2,322
Foreign exchange differences	**(65)**	(94)
Fair value loss/(gain) on financial instruments	**144**	193
Provision for obsolescence	**26**	6
Other provisions	**(14)**	44
Share based payments	**275**	55

Auditors remuneration		
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	**35**	26
Fees payable to the Group's auditor and its associates for the audit of the Company's subsidiaries	**–**	–
Total fees payable for audit services	**35**	26

Fees payable to the Group's auditor and its associates for other services:		
Audit related services	**–**	–
Tax related services	**–**	3
Other services	**151**	4
Total fees payable to the Group's auditor and its associates	**186**	33

8 Discontinued operations

On 6 May 2019, the Company acquired the trade and assets of small German-based business, Luceo Technologies, with the objective of entering the component and module test market. It was subsequently established that the development and investment period would be longer than anticipated and the decision was taken in the year to cease operations to deploy resources more optimally within the core parts of the Group.

Calnex Solutions (Berlin) GmbH was put into liquidation from 31 Dec 2019. On 18 March 2020 the Group submitted an order for dissolution for its subsidiary, Calnex Solutions (Berlin) Limited (incorporated in April 2019). which was dissolved on 22nd September 2020.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Revenue	**–**	125
Cost of sales	**–**	(82)
Gross profit	**–**	43
Administrative expenses	**–**	(543)
Finance costs	**–**	–
Loss before tax from discontinued operations	**–**	(500)
Net decrease in cash and cash equivalents from discontinued operations	**(201)**	(299)

9 Employee benefits costs

Average monthly number of employees

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Development staff	**58**	48
Administrative staff	**33**	27
Management staff	**9**	7
	100	82

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Employee costs during the year (including directors remuneration) amounted to:		
Wages and salaries	**4,148**	3,571
Social security costs	**586**	473
Defined contribution pension	**212**	150
Share incentive scheme	**215**	–
Equity-settled share based payment	**275**	55
	5,436	4,249

10 Key management personnel emoluments

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Wages and salaries	654	604
Social security costs	58	40
Defined contribution pension	6	–
Equity-settled share based payment	91	22
	809	666
Gains made on share options converted by Directors in the year	613	–
The number of directors who accrued benefits under the company pension plans:		
Defined contribution plans	1	–
Remuneration of the highest paid director in respect of qualifying services:		
Aggregate remuneration	184	345

11 Finance costs

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Interest expense for borrowings at amortised cost	107	278
Interest expense on lease liabilities	63	26
Unwinding of discount on deferred consideration	(15)	35
	155	339

12 Taxation

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Current taxation		
UK corporation tax on profits for the year	67	497
Foreign current tax expense	12	35
Adjustments relating to prior years	(9)	–
	70	532
Deferred taxation		
Origination and reversal of temporary differences	61	162
Adjustments relating to prior periods	63	–
	124	162
Total taxation charge	194	694

12 Taxation continued

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Profit before tax for the year	**3,647**	2,981
Tax thereon at 19%	**693**	566
Effects of:		
Expenses disallowable for tax purposes	**196**	8
Adjustments in respect of prior periods – current tax	**(9)**	–
Adjustments in respect of prior periods – deferred tax	**64**	–
Movement in unprovided deferred tax related to share options	**(573)**	–
Movement in unprovided deferred tax to timing differences now recognised	**(54)**	38
SME R&D credit	**(123)**	25
Overseas tax	**–**	57
Taxation charge	**194**	694

The weighted average applicable tax rate for the year ended 31 March 2021 was 19% (2020: 19%). The effective rate of tax for the year, based on the taxation charge for the year as a percentage of the profit is 5.29% (2020: 23.24%) The difference between the applicable rate of tax and the effective rate is largely due to the following:

i) Tax relief on the exercise of share options on IPO, on which no deferred tax asset had previously been recognised (impacts the ETR by decreasing by 15.64%).
ii) Availability of R&D SME enhanced deduction which had not been claimed in prior period (impacts ETR by decreasing 3.36%).
iii) This is partly offset by permanent differences such as IPO costs which have been disallowed for tax purposes (impacts ETR by increasing 5.32%).

13 Intangible assets

Included within intangible assets are the following significant items:

- Cost of patent applications and on-going patent maintenance fees.
- Capitalised development costs representing expenditure relating to technological advancements on the core product base of the Group. These costs meet the requirement of IAS 38 (Intangible Assets) and will be amortised over the future commercial life of the related product. Amortisation is charged to administrative expenses.

	Intellectual property £'000	Development costs £'000	*Group* Total £'000	*Company* Total £'000
Cost				
At 1 April 2020	2,343	23,732	26,075	26,075
Additions	5	3,326	3,331	3,331
Disposals	–	(2,620)	(2,620)	(2,620)
At 31 March 2021	2,348	24,438	26,786	26,786
Amortisation				
At 1 April 2020	2,034	17,262	19,296	19,296
Charge for the year	106	2,479	2,585	2,585
Eliminated on disposal	–	(2,620)	(2,620)	(2,620)
At 31 March 2021	2,140	17,121	19,261	19,261
Net book value				
31 March 2020	309	6,470	6,779	6,779
31 March 2021	208	7,317	7,525	7,525

During the year, a review of the carried development costs brought forward has resulted in a disposal of £2,620,117 and elimination of amortisation of £2,620,117, resulting in a net book value impact of £nil. This reflects removal of aged spend on product features that are now considered to be superseded by current product developments.

Notes to the Financial Statements continued

14 Plant and equipment

The Group annually reviews the carrying value of tangible fixed assets taking recognition of the expected working lives of the property and plant available to the Group and known requirements. Depreciation is charged to administrative expenses.

	Group	*Company*
	Plant and equipment Total £'000	**Plant and equipment Total £'000**
Cost		
At 1 April 2020	167	167
Additions	10	10
Disposals	(58)	(58)
At 31 March 2021	119	119
Depreciation		
At 1 April 2020	146	146
Charge for the year	9	9
Eliminated on disposal	(58)	(58)
At 31 March 2021	97	97
Net book value		
31 March 2020	21	21
31 March 2021	22	22

15 Inventories

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Finished goods	**1,390**	1,211	**1,390**	1,211
Provision for obsolescence	**(279)**	(253)	**(279)**	(253)
	1,111	958	**1,111**	958
Cost of inventories recognised as an expense	**3,591**	2,793	**3,591**	2,793
Group inventories reflect the following movement in provision for obsolescence:				
At start of the financial year	**253**	247	**253**	247
Utilised	**(98)**	(133)	**(98)**	(133)
Provided	**124**	139	**124**	139
At end of the financial year	**279**	253	**279**	253

16 Trade and other receivables

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Amounts due within one year				
Trade receivables	**988**	1,962	**988**	1,962
Provision for bad debt	**–**	(16)	**–**	(16)
Other receivables	**700**	468	**700**	467
Amounts owed by group companies	**–**	–	**381**	–
Prepayments and accrued income	**131**	94	**131**	92
	1,819	2,508	**2,200**	2,505

Trade receivables are consistent with trading levels across the Group and are also affected by exchange rate fluctuations. No interest is charged on the trade receivables. The Group has provided for estimated irrecoverable amounts in accordance with its accounting policy.

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as appropriate to the level of credit extended. In addition, credit insurance would be sought for major areas of exposure, although this has not been required in the year under review.

The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on experience, that the credit quality of these amounts at the balance sheet date has not deteriorated since the date of the transaction.

Included in the Group's trade receivable balance are debtors with a carrying amount of 2021: £78,664 2020: £72,534, which are past due at the reporting date but for which the Group has not provided against, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable.

Ageing of past due but not impaired trade receivables

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Overdue by				
0-30 days	**46**	9	**46**	9
30-60 days	**32**	–	**32**	–
60+ days	**–**	63	**–**	63
	78	72	**78**	72

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Note 24 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses.

The calculated credit risk is £3,221. Due to the immaterial nature of the balance, no provision has been recognised.

17 Cash and cash equivalents

Cash and cash equivalent amounts included in the Consolidated Statement of Cashflows comprise the following:

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Cash at bank	**7,668**	3,664	**7,277**	3,628
Cash on short term deposit	**5,000**	–	**5,000**	–
	12,668	3,664	**12,277**	3,628

Short term cash deposits of £5,000,000 (2020: nil) are callable on a notice of 95 days.

18 Borrowings

The Group had a secured bank loan which was drawn down in March 2018. The loan was split into two tranches. The first tranche of £1,995,000 was an amortising term loan over 5 years to March 2022 and the second was a bullet repayment in March 2022. The interest rate on both tranches was fixed at 11%.

The full balance became repayable in the event of a change in control. Following flotation on the Alternative Investment Market of the London Stock Exchange in October 2020, the loan amount outstanding of £1,936,273 was repaid in full.

In October 2020 the Group agreed a £3,000,000 revolving credit facility at an interest rate of 2.25% above the Bank of England base rate, and secured with a floating charge over the Group assets. The total amount drawn from the borrowing facility as at 31 March 2021 was £nil.

This facility is subject to the following financial covenants:

i) Leverage covenant: Gross borrowings to R&D adjusted EBITDA: The ratio of Gross Borrowings at the end of each relevant period to R&D Adjusted EBITDA for such Relevant Period shall not exceed 1.75 to 1.
(R&D adjusted EBITDA is defined as EBITDA less capitalised development expenditure in the period).

ii) Interest Cover Covenant: EBIT to Net Financing Costs: The ratio of EBIT for each Relevant Period to Net Financing Costs for such Relevant Period shall not fall below 4.00 to 1.

The Group have passed all covenants during the review period.

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Amounts due within one year				
Bank loans	**–**	695	**–**	695
Amounts due in more than one year				
Bank loans	**–**	1,581	**–**	1,581
Total borrowings	**–**	2,276	**–**	2,276
Net debt is arrived at as follows				
Total borrowings	**–**	2,276	**–**	2,276
Cash and cash equivalents	**(12,668)**	(3,664)	**(12,277)**	(3,628)
Total net debt/(net cash)	**(12,668)**	(1,388)	**(12,277)**	(1,352)

19 Trade and other payables

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Amounts due within one year				
Trade payables	**944**	999	**927**	986
Other taxes and social security	**126**	100	**126**	100
Other payables	**51**	43	**51**	80
Accruals	**1,561**	836	**1,554**	827
Deferred income	**1,499**	952	**1,499**	952
Deferred consideration	**–**	97	**–**	97
	4,181	3,027	**4,157**	3,042
Amounts due after one year				
Deferred income	**749**	555	**749**	555
Total amounts due	**4,930**	3,582	**4,906**	3,597

Trade and other payables are consistent with trading levels across the Group but are also affected by exchange rate fluctuations. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

The Directors consider that the carrying amount of trade and other payables approximates their fair value. Deferred income relates to fees received for ongoing services to be recognised over the life of the service rendered.

Deferred consideration has been recognised in an acquisition of intellectual property in 2013. Initial deferred consideration recognised was equal to the present value of expected future cash outflows at the date of acquisition, using a discount rate of 11% in line with the Company's cost of capital. The outflows would occur periodically in response to sales of the product that is supported by the intellectual property acquired. At each year end Management reassessed the expected future cash outflows using budgeted sales figures, adjusting the liability if required. The final payment was made in April 2020.

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
At start of the financial year	**97**	348	**97**	348
Unwinding of discount	**(15)**	35	**(15)**	35
Payment of royalties	**(82)**	(414)	**(82)**	(414)
Fair value loss/(gain)	**–**	128	**–**	128
At end of the financial year	**–**	97	**–**	97

20 Leases

The Group leases land and buildings for its head office in Linlithgow, Scotland. The current lease was agreed on 1 December 2019 and will run for the 5-year period to 30 November 2024. The Group has recognised a right-of-use asset and a lease liability applying a discount rate of 11% for this lease.

The Group leases IT equipment with contract terms ranging between 1 to 2 years. The Group has recognised right-of-use assets and lease liabilities for these leases.

20 Leases continued

The carrying value of right-of-use assets, and lease obligations recognised with respect to these leases are shown below:

	Building Lease £'000	IT equipment £'000	Group Total £'000	Company Total £'000
Cost				
At 1 April 2020	649	71	720	720
Additions	–	20	20	20
Disposals	–	–	–	–
At 31 March 2021	649	91	740	740
Amortisation				
At 1 April 2020	43	17	60	60
Charge for the year	130	28	158	158
Eliminated on disposal	–	–	–	–
At 31 March 2021	173	45	218	218
Net book value				
31 March 2020	**606**	**54**	**660**	**660**
31 March 2021	**476**	**46**	**522**	**522**

Right-of-use assets

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Balance at 1 April	**660**	65	**660**	65
Additions to right-of-use assets	**20**	720	**20**	720
Depreciation charge for the year	**(158)**	(125)	**(158)**	(125)
Balance at 31 March	**522**	660	**522**	660

Lease liabilities

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Balance at 1 April	**676**	93	**676**	93
Acquisition of new leases	**20**	720	**20**	720
Payment of lease liabilities	**(193)**	(163)	**(193)**	(163)
Interest expense on lease liabilities	**63**	26	**63**	26
Balance at 31 March	**566**	676	**566**	676
Disclosed as				
Current	**130**	122	**130**	122
Non-current	**436**	554	**436**	554
	566	676	**566**	676

20 Leases continued

The Group also leases land and buildings in Belfast and one motor vehicle. These leases are low-value, so have been expensed as incurred. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Lease commitments for short-term and low value leases

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Motor vehicles	**15**	30	**15**	30
Land and buildings	**30**	20	**30**	20
	45	50	**45**	50

Amounts recognised in the profit and loss

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Depreciation charge for the year – building lease	**130**	108	**130**	108
Depreciation charge for the year – IT equipment	**28**	17	**28**	17
Interest on lease liabilities	**63**	26	**63**	26
Low value lease rental	**42**	38	**42**	38

Amounts recognised in statement of cashflows

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Total cash outflow for leases	**(193)**	(163)	**(193)**	(163)

A maturity analysis of lease liabilities is included in note 24 (d).

21 Deferred tax

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred tax assets and liabilities at 31 March 2021 have been calculated based on the rate of 19% enacted at the balance sheet date. The 2021 budget proposal increases the corporation tax rate to 25% from 1 April 2023. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Deferred tax asset

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Opening balance	**554**	507	**554**	507
Recognised in statement of comprehensive income	**9**	47	**9**	47
Recognised in equity	**50**	–	**50**	–
Closing balance	**613**	554	**613**	554
Deferred tax assets arise as follows:				
Unused tax losses	**491**	554	**491**	554
Share based remuneration	**64**	–	**64**	–
Other timing differences	**58**	–	**58**	–
Total deferred tax asset	**613**	554	**613**	554

Deferred tax liability

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Opening liability	**1,188**	979	**1,188**	979
Recognised in statement of comprehensive income	**133**	209	**133**	209
Recognised in equity	**–**	–	**–**	–
Closing liability	**1,321**	1,188	**1,321**	1,188
Deferred tax liabilities arise as follows:				
Deferred tax on acquisition	**38**	58	**38**	58
Timing differences on development costs	**1,275**	1,125	**1,275**	1,125
Accelerated capital allowances	**11**	13	**11**	13
Accrued pension costs	**(3)**	(8)	**(3)**	(8)
Total deferred tax liability	**1,321**	1.188	**1,321**	1,188

22 Provisions

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Current provisions				
Overseas tax	**291**	266	**291**	266
Onerous lease	**–**	23	**–**	23
Total current provisions	**291**	289	**291**	289
Non-current provisions				
Dilapidations	**15**	15	**15**	15
Total provisions	**306**	304	**306**	304
The movement in the total provision liability				
At start of financial year	**304**	260	**304**	260
Recognised in profit and loss	**2**	44	**2**	44
At end of financial year	**306**	304	**306**	304

Current year provisions are recognised in respect of potential payments to be made to overseas tax authorities, and potential payments to be made in respect of dilapidations on leased assets. No discount is recorded on recognition of the provisions or unwound due to the short-term nature of the expected outflow and the low value and estimable nature of the non-current element.

23 Financial liabilities

	Group		Company	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Derivative financial instruments	**–**	65	**–**	65
Warrants	**–**	52	**–**	52
Total financial liabilities	**–**	117	**–**	117

On 16 July 2013 the Company issued warrants which entitled the holder to subscribe for 5% of the Ordinary shares in the Company in the event of an exit (defined as a change of control, a sale or a listing). The warrants were valued using the share price at the date of issue of £4 per share. These were exercised upon flotation the Alternative Investment Market of the London Stock Exchange.

24 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments in the form of forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, and not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Notes to the Financial Statements continued

24 Financial instruments continued

Capital management

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development. The Board defines capital as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(a) Categories of financial instruments

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Financial assets (current and non current) at amortised cost				
Trade and other receivables	**1,688**	2,508	**2,069**	2,505
Cash and cash equivalents	**12,668**	3,664	**12,277**	3,628
Financial liabilities (current and non current) at amortised cost				
Current borrowings	**–**	2,276	**–**	2,276
Lease liabilities	**566**	676	**566**	676
Trade and other payables	**2,682**	3,582	**2,658**	3,597
Financial liabilities (current and non current) at FVTPL				
Derivative financial instruments	**–**	65	**–**	65
Warrants	**–**	52	**–**	52

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. Under the fair value three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Unobservable inputs for the asset or liability.

Within the comparatives the derivative financial liability accounted on the foreign exchange forward contract is level 2 and was determined by valuing the amount outstanding at the yearend by a quoted market price for a similar contract obtained from the Group's foreign exchange trader. The directors believe this is a reasonable basis for determining the fair value at the year end.

Within the comparatives, the warrants reflect the Company had granted a financial instrument to a lender allowing them to subscribe for 5% of the Company's share capital at the nominal value of £0.10 per share. The fair value of the instrument was determined by the fair value of the Company's shares at the date the instrument was issued. The warrants were therefore a level 2 instrument under the fair value hierarchy.

Financial risk management objectives

The Group's senior management team manage the financial risks relating to the operations of each department. These risks include market risk, credit risk and liquidity risk.

Where appropriate, the Group seeks to minimise the effects of market risks by using financial instruments to mitigate these risk exposures as appropriate. The Group does not enter into or trade in financial instruments for speculative purposes.

24 Financial instruments continued

(b) Market risks

Foreign currency risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

As at 31 March 2021	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	70	215	703	988
Borrowings	–	–	–	–
Lease liabilities	(566)	–	–	(566)
Trade payables	(864)	–	(80)	(944)
Cash and cash equivalents	11,658	112	898	12,668
	10,298	327	1,521	12,146

Based on this exposure, had Pound Sterling weakened by 5% the Group's profit before tax would have been £92,400 lower. The percentage change is base on management's assessment of reasonable possible fluctuations.

As at 31 March 2020	Sterling £'000	Euro £'000	US Dollar £'000	Total £'000
Trade receivables	298	231	1,433	1,962
Borrowings	(2,276)	–	–	(2,276)
Lease liabilities	(676)	–	–	(676)
Trade payables	(848)	(4)	(147)	(999)
Cash and cash equivalents	1,946	604	1,114	3,664
	(1,556)	831	2,400	1,675

Based on this exposure had pound Sterling weakened by 5% the Group's profit before tax would have been £161,000 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

Interest rate risk

The Group is not exposed to any significant interest rate risk as borrowings are obtained at fixed rates.

Other market price risk

The Group is not exposed to any other significant market price risks.

(c) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's principal financial assets, other than business assets, are trade and other receivables and cash and cash equivalents. These represent the Group's maximum exposure to credit risk in relation to financial assets.

	Group		*Company*	
	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Trade and other receivables	1,688	2,414	2,069	2,413
Cash and cash equivalents	12,668	3,664	12,277	3,628
	14,356	6,078	14,346	6,041

24 Financial instruments continued

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The balance presented in the balance sheet is net of allowances for doubtful receivables and returns, estimated by the Group's management based on prior experience and their assessment in the current economic climate. No adjustment has been estimated for the allowance for credit loss.

The Group's main concentration of credit risk relates to where a credit risk management approach is employed, including strict retention of title, customer stock holding visibility and the use of credit insurance.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected credit loss for trade receivables as at 31 March 2021 and 31 March 2020 was determined as follows:

Days past due 2021	**0**	**1–30**	**31–60**	**>60**	**Total**
Balance outstanding (£'000)	**910**	**46**	**32**	**–**	**988**
Historic loss rate	**0%**	**0%**	**0%**	**0%**	
Estimated credit loss provision	**0.25%**	**1%**	**1.5%**	**2%**	
Potential credit loss allowance (£'000)	**3**	**–**	**–**	**–**	**3**

Days past due 2020	0	1–30	31–60	>60	Total
Balance outstanding (£'000)	1,874	9	–	79	1,962
Historic loss rate	0%	0%	0%	0%	
Estimated credit loss provision	0.25%	1%	1.5%	2%	
Potential credit loss allowance (£'000)	4	–	–	2	6

Due to the immaterial nature of the assessed credit risk, no provision has been recognised for 31 March 2021 or 31 March 2020.

Cash

Cash is held with banks in the UK/US with high credit ratings and no financial loss due to the banks failure to meet their contractual obligations is expected.

(d) Liquidity risk management

The Group manages liquidity risk through the monitoring of forecast cash flows and through the use of bank loans when required thereby maintaining sufficient liquid assets to fund its contractual obligations and maintain the ongoing development of the Group.

24 Financial instruments continued

The table below provides an analysis of the Group's financial liabilities to be settled on a gross basis by relevant maturity categories from the balance sheet date to the contractual settlement date. The table includes both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

31 March 2021	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total liabilities £'000
Trade payables	**944**	**–**	**–**	**–**	**944**
Other payables	**1,738**	**–**	**–**	**–**	**1,738**
Borrowings	**–**	**–**	**–**	**–**	**–**
Lease liabilities	**161**	**117**	**288**	**–**	**566**
Deferred consideration	**–**	**–**	**–**	**–**	**–**
	2,843	**117**	**288**	**–**	**3,248**

31 March 2020	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total liabilities £'000
Trade payables	999	–	–	–	999
Other payables	2,753	103	84	15	2,955
Borrowings	911	1,736	–	–	2,647
Lease liabilities	167	167	446	–	780
Deferred consideration	102	–	–	–	102
	4,932	2,006	530	15	7,483

25 Retirement benefits

Contributions by Group companies are charged to income statement as an expense as they fall due. The amount recognised as an expense in relation to defined contributions plans was 2021:£212,482 (2020: £149,861).

26 Share based payments

The options brought forward into the financial year vested as a result of a change in control. Options exercised at the year ended 31 March 2021 40,250 (2020: nil).

As at 31 March 2020, the Company had 248,135 Ordinary Shares. To prepare for listing on AIM, the Company's share capital was reorganised in September 2020 through bonus issues of shares and a share split, taking the total number of Ordinary Shares in issue to 60,024,103 and 14,975,897 Ordinary Shares were issued to option and warrant holders, taking the total Ordinary Shares in issue prior to admission to 75,000,000. The number of share options in issue at the start of the financial year 40,250 (2020: nil) which were subsequently exercised is shown as the number prior to the bonus issues of shares and the share split.

	2021		2020	
	No of share options	Weighted average exercise price (£)	No of share options	Weighted average exercise price (£)
At start of financial year	**40,250**	**2.75**	37,150	£2.75
Exercised	**(40,250)**	**(2.75)**	–	–
Granted	**2,650,000**	**£0.48**	3,100	£2.75
Forfeited	**–**		–	–
Lapsed	**–**		–	
At end of the financial year	**2,650,000**	**£0.48**	40,250	£2.75

Notes to the Financial Statements continued

26 Share based payments continued
On 05 October 2020 2,650,000 share options were issued to key management personnel for nil consideration.
The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Vesting date	Options granted	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk free interest rate	Fair value at grant date
05/10/2020	04/10/2023	853,333	£0.51	£0.48	61.0%	1.0%	0.02%	£180,056
05/10/2020	04/10/2024	853,333	£0.51	£0.48	61.0%	1.0%	0.02%	£200,726
05/10/2020	04/10/2025	853,334	£0.51	£0.48	61.0%	1.0%	0.02%	£214,447

Of the shares options granted in the current year 500,000 are options held by directors. All options held by directors have a weighted average exercise price of £0.48. Within the cost of the options recognised in the income statement £93,604 is attributable to directors (2020:£21,531).

27 Group companies

Subsidiary undertakings	Country of registration or incorporation	Principal activity	Percentage of shares held 2021	2020	2019
Calnex Americas Corporation	USA	Sales and marketing Support services to Calnex Solutions plc	**100%**	100%	100%
Calnex Solutions (Belfast) Ltd	Northern Ireland	IT network testing specialising in wide area network emulation and load testing	**–**	100%	100%
Calnex Solutions (Berlin) Ltd	UK	Holding company	**–**	100%	–
Calnex Solutions (Berlin) GmBH	Germany	Solutions partner to the component & module test market	**–**	100%	–

28 Called up share capital
As at 31 March 2020, the Company had 248,135 shares in issue.

To prepare for admission to AIM, the Company's share capital was reorganised in September 2020 through bonus issues of shares and a share split taking the total number of shares to 60,024,103.

Immediately prior to admission, 14,975,897 Ordinary Shares were issued to option and warrant holders, taking the total Ordinary Shares in issue prior to admission to 75,000,000.

12,500,000 new Ordinary Shares were issued and placed on admission, taking the total share capital in issue immediately following the placing to 87,500,000 Ordinary Shares of 0.125p each.

	Group and Company Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Ordinary shares of 0.125p (2020: £0.10) each	**109**	25
On issue at the start of the financial year	**25**	25
Bonus issue of shares	**50**	–
Share options exercised	**18**	–
Shares issued	**16**	–
In issue at end of the financial year	**109**	25

29 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of Ordinary Shares in issue during the year and adjusting for the dilutive potential Ordinary Shares relating to share options and warrants.

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Profit after tax attributable to shareholders	**3,453**	2,287
Weighted average number of ordinary shares used in calculated:		
Basic earnings per share	**73,762**	60,024
Diluted earnings per share	**82,575**	75,000
Earnings per share – basic (pence)	**4.68**	3.81
Earnings per share – diluted (pence)	**4.18**	3.05

30 Notes to the statement of cashflow

Reconciliation of changes in liabilities to cashflows arising from financing activities:

	Borrowings £'000	Lease liabilities Premises £'000	Lease liabilities IT Equipment £'000	Total £'000
Balance at 31 March 2020	2,276	616	60	2,952
Borrowing repayment	(2,276)	–	–	(2,276)
Lease repayment	–	(167)	(26)	(193)
Total changed from financing cashflows	(2,276)	(167)	(26)	(2,469)
Acquisition of new lease	–	–	20	20
Unwinding of discount rate	–	59	4	63
Total other changes	–	59	24	83
Balance at 31 March 2021	–	508	58	566

31 First year adoption of IFRS

This is the first year that the Group has presented its financial results under International Financial Reporting Standards. The last financial statements prepared under UK GAAP were for the year ended 31 March 2020. The date of transition to IFRS for the statutory accounts is 1 April 2019.

In preparation for flotation on the AIM market of the London Stock Exchange in October 2020, the Group prepared IFRS compliant historical financial information covering the periods from 31 March 2018 to 31 March 2020. This information was included within the Admission Documentation presented to the market, and was for analysis purposes only. The date of transition for these financials was the 1 April 2017.

In November 2020, the group released interim financial statements for the period to 30 September 2020, which were prepared in compliance with IAS 34 Interim Financial Reporting. The financials and relevant comparatives were fully compliant with IFRS.

31 First year adoption of IFRS continued

In accordance with IFRS 1: First time adoption of IFRS, an opening Statement of Financial Position has been prepared in compliance with IFRS, and is presented as at the date of transition 1 April 2019.

A summary of adjustments and explanatory notes is presented, reconciling the total adjustments made to:

- Comprehensive Income and Net Equity at the date of the last prepared UK GAAP financial statements – 31 March 2020.
- Net equity as at the date of transition – 1 April 2019.

IFRS adjustment summary	Year ended 31 March 2020 £'000	Year ended 31 March 2020 £'000	As at 1 April 2019 £'000
Adjustments for Group and Company			
Comprehensive income reported under UK GAAP	772	–	–
Comprehensive income reported under IFRS	2,287	–	–
Net equity reported under UK GAAP	–	6,605	5,765
Net equity reported under IFRS	–	7,001	4,657
Total impact of adjustments	**1,515**	**396**	**(1,108)**
Represented by			
IFRS transition adjustments			
IFRS 16: Leases	19	(10)	(29)
Accounting adjustments			
IFRS 3: Business combinations	625	–	(674)
IAS 8: Accounting policies, changes in accounting policy and errors	(254)	774	1,074
IAS 20: Accounting for Government Grants	170	(170)	(340)
IFRS 15: Revenue from contracts with customers	80	(176)	(256)
IAS 12: Income taxes	158	(7)	(165)
IFRS 2: Share based payments	66	–	(52)
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	385	–	(385)
IFRS 9: Financial instruments	266	(15)	(281)
Total impact of adjustments	**1,515**	**396**	**(1,108)**

IFRS transition adjustment: IFRS 16 Leases

IFRS 16 requires the lessee, at the commencement date of a lease, to recognise a right-of-use asset with a corresponding lease liability. The Group have a material lease obligation over the registered office at Oracle campus, as well as IT equipment utilised in operations. Due to the relative immaturity of the leases at the date of transition, the combined impact to comprehensive income and net equity is immaterial on application of IFRS 16.

Accounting adjustment: IFRS 3 Business Combinations

IFRS 3 requires the acquirer of a business to recognise the assets and liabilities acquired at their acquisition date fair values. On 26 March 2018, Calnex acquired 100% of the ordinary shares of JAR Technologies (later renamed Calnex Solutions Belfast Ltd), securing the SNE product intellectual property. In accordance with IFRS 1: First time adoption of IFRS the Group have chosen not to adopt exemption from mandatory retrospective application of IFRS 3, and as such the adjustments in comprehensive income and net equity reflect recalculation adjustments to the fair value of the transaction.

Accounting adjustment: IAS 8 Policy changes and corrections

Following review of the amortisation and impairment of capitalised R&D development costs, a change of accounting estimate was made in 2019 to amortise R&D development costs over a useful economic life of 5 years, where previously they had been amortised fully over 2.5 years. The Board consider the application of the shorter amortisation period in earlier years to have created a material understatement of related assets and have posted an adjusting corrective entry as a result.

Accounting adjustment: IAS 20 Accounting for Government Grants

IAS 20 requires grant recognition relating to specific costs to be recognised as income over the same period as the relevant expense. The Group receives grant funding in support of R&D costs incurred. The adjustments in comprehensive income and net equity reflect alignment of grant income recognition, with the change in amortisation policy relating to the capitalised R&D activity for which it pertains.

31 First year adoption of IFRS continued

Accounting adjustment: IFRS 15 Revenue from contracts with customers

IFRS 15 requires revenue recognition once a performance obligation has been fully satisfied. The adjustments in comprehensive income, reflect the proportionate recognition of warranty, extended service, and customer support sales to customers which are typically contracted over the 1–3-year terms. The adjustments in equity represent deferred income adjustments in relation to performance periods on these sales not yet expired.

Accounting adjustment: IAS 12 Income taxes

IAS 12 requires deferred tax assets and liabilities to be recognised on all taxable temporary differences. The Group has unused tax losses which have resulted in a deferred tax asset being recognised, as well as temporary timing differences on the tax treatment of R&D capitalisation, for which a deferred tax liability has also been recognised. The movement in comprehensive income and net equity reflect the retrospective adjustments made to each of these provisions.

Accounting adjustment: IFRS 2: Share based payments

IFRS 2 requires recognition of all share-based payment transactions at fair value through the financial statements. The adjustments in comprehensive income and net equity reflect fair value charges with respect to equity settled hare-based payments which have subsequently vested in October 2020.

Accounting adjustment: IAS 37: Provisions, Contingent Liabilities and Contingent Assets

In line with IAS 37 guidance, comprehensive income and net equity have been impacted with the creation of the following provisions, which were identified during the diligence process prior to IPO.

	£'000
US contractor taxes: Potential exposure identified on US social security tax filings	254
Demos stock: Reduction in value of stock utilised for demonstration purposes	116
Dilapidation provision: Repairs and maintenance provision with respect to lease premises	15

Accounting adjustment: IFRS 9 Financial Instruments

IFRS 9: Financial instruments requires contingent consideration to be measured at fair value with changes recorded through the profit and loss. In 2013 the company acquired intellectual property for the Sentinel product range. Initial deferred consideration was recognised equal to the present value of future cashflows at the date of acquisition. The outflows would occur periodically in response to sales of the Sentinel product, with reassessment of the liability aligned to predicted future sales profiles at each year end. Movements in comprehensive income and net equity reflect restatement of the liability at each year end, with the exact sales and obligation performance measures now known. The final payment of this liability was made in April 2020.

Consolidated statement of comprehensive income for year ended 31 March 2020

	UK GAAP 31 March 2020 £'000	IFRS 31 March 2020 £'000	Total Adjustment £'000
Revenue	13,659	13,739	80
Cost of sales	(3,232)	(3,116)	116
Gross profit	10,427	10,623	196
Other income	379	549	170
Administrative expenses	(8,818)	(7,852)	966
Operating profit	1,988	3,320	1,332
Finance costs	(278)	(339)	(61)
Profit before taxation	1,710	2,981	1,271
Taxation	(938)	(694)	244
Profit and total comprehensive income for the year	772	2,287	1,515

31 First year adoption of IFRS continued

Statement of financial position year ended 31 March 2020

	Group			Company		
	UK GAAP 31 March 2020 £'000	IFRS 31 March 2020 £'000	Total Adjustment 2020 £'000	UK GAAP 31 March 2020 £'000	IFRS 31 March 2020 £'000	Total Adjustment 2020 £'000
Non-current assets						
Intangible assets	6,007	6,779	772	6,007	6,779	772
Plant and equipment	75	21	(54)	75	21	(54)
Right-of-use assets	–	660	660	–	660	660
Deferred tax asset	–	554	554	–	554	554
	6,082	8,014	1,932	6,082	8,014	1,932
Current assets						
Inventories	958	958	–	958	958	–
Trade and other receivables	2,402	2,421	19	2,399	2,418	19
Corporation tax receivable	–	87	87	–	87	87
Cash and cash equivalents	3,664	3,664	–	3,628	3,628	–
	7,024	7,130	106	6,985	7,091	106
Total assets	13,106	15,144	2,038	13,067	15,105	2,038
Current liabilities						
Borrowings	695	695	–	695	695	–
Trade and other payables	3,072	3,027	(45)	3,087	3,042	(45)
Lease liabilities	14	122	108	14	122	108
Financial liabilities	117	117	–	117	117	–
Provisions	289	289	–	289	289	–
	4,187	4,250	63	4,202	4,265	63
Non-current liabilities						
Borrowings	1,581	1,581	–	1,581	1,581	–
Trade and other payables	185	555	370	185	555	370
Lease liabilities	46	554	508	46	554	508
Deferred tax liabilities	487	1,188	701	487	1,188	701
Provisions	15	15	–	15	15	–
	2,314	3,893	1,579	2,314	3,893	1,579
Total liabilities	6,501	8,143	1,642	6,516	8,158	1,642
Net assets	6,605	7,001	396	6,551	6,947	396
Equity						
Share capital	25	25	–	25	25	–
Share premium	2,014	1,138	(876)	2,014	1,138	(876)
Share option	69	69	–	69	69	–
Retained earnings	4,497	5,769	1,272	4,443	5,715	1,272
	6,605	7,001	396	6,551	6,947	396

31 First year adoption of IFRS continued

Statement of financial position as at 1 April 2019

	Group			Company		
	UK GAAP 1 April 2019 £'000	IFRS 1 April 2019 £'000	Total Adjustment 2019 £'000	UK GAAP 1 April 2019 £'000	IFRS 1 April 2019 £'000	Total Adjustment 2019 £'000
Non-current assets						
Intangible assets	5,719	6,190	471	5,663	6,134	471
Plant and equipment	13	13	–	13	13	–
Right-of-use assets	–	64	64	–	64	64
Deferred tax asset	–	507	507	–	507	507
	5,732	6,774	1,042	5,676	6,718	1,042
Current assets						
Inventories	889	773	(116)	889	773	(116)
Trade and other receivables	2,120	2,059	(61)	2,176	2,115	(61)
Corporation tax receivable	–	221	221	–	221	221
Cash and cash equivalents	1,852	1,852	–	1,849	1,849	–
	4,861	4,905	44	4,914	4,958	44
Total assets	10,593	11,679	1,086	10,590	11,676	1,086
Current liabilities						
Borrowings	532	532	–	532	532	–
Trade and other payables	2,092	2,600	508	2,069	2,577	508
Lease liabilities	–	93	93	–	93	93
Financial liabilities	–	52	52	–	52	52
Provisions	–	245	245	–	245	245
	2,624	3,522	898	2,601	3,499	898
Non-current liabilities						
Borrowings	2,041	2,041	–	2,041	2,041	–
Trade and other payables	163	465	302	163	465	302
Lease liabilities	–	–	–	–	–	–
Deferred tax liabilities	–	979	979	–	979	979
Provisions	–	15	15	–	15	15
	2,204	3,500	1,296	2,204	3,500	1,296
Total liabilities	4,828	7,022	2,194	4,805	6,999	2,194
Net assets	5,765	4,657	(1,108)	5,785	4,677	(1,108)
Equity						
Share capital	25	25	–	25	25	–
Share premium	2,014	1,138	(876)	2,014	1,138	(876)
Share option	–	13	13	–	13	13
Retained earnings	3,726	3,481	(245)	3,746	3,501	(245)
	5,765	4,657	(1,108)	5,785	4,677	(1,108)

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