Optimize performance, everywhere.

checkit

Checkit plc | Annual Report and Accounts 2020

We help businesses optimize performance, everywhere

Checkit solutions connect people, processes and places in real time with a powerful combination of hardware, software and services that can transform how organisations work.

We enable large organisations with distributed teams to optimize efficiency, reduce costs and gain competitive advantage through a structured approach. We enable our customers and their teams to connect, analyse and optimize the daily tasks and processes that drive overall performance.

Connected Workflow Management is a leading solution for guiding and tracking the actions of deskless workers, giving managers the ability to respond in real time. This is augmented by Connected Automated Monitoring solutions (automated temperature monitoring) and Connected Building Management (building and energy management systems) to ensure customers get the best from their teams, processes and facilities. Over time, big data dashboards provide insight that can transform how you work for the better.

Checkit's customers span sectors including healthcare, retail, real estate management, facilities management, manufacturing and hospitality.

Revenue

£9.8m

(2019: 1.0m)

Employees

170

Registered users

58,000

Checks

827,406

checks within 26,706 checklists

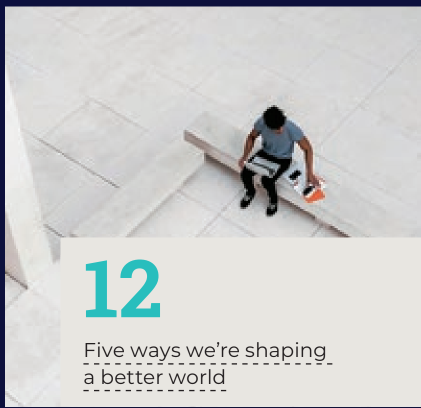
Data points/data volume

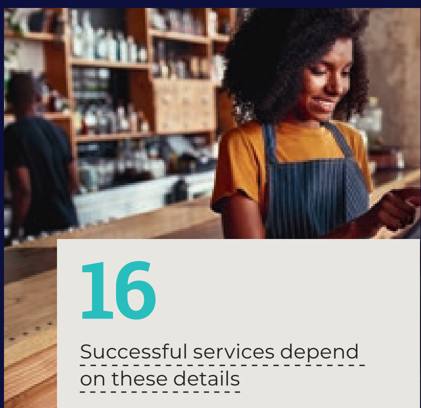
~6.5bn

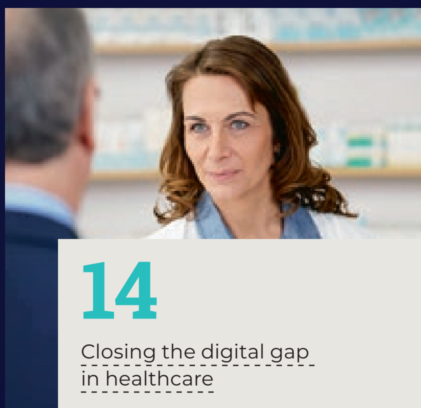
data points per year

Customers include:

Strategic report







Governance

Financial statements

Highlights

In the year to 31 January 2020, the Group experienced by far its most successful year and underwent a significant change since admission to the London Stock Exchange in 1948, over 70 years ago. The sale of Bulgin, the original bedrock of the Group, allows Checkit to concentrate on the business of digital transformation through a connected suite of cloud-based products. We are excited by the opportunities that we have identified and begun to capitalise upon.

Financial

- Revenue from continuing operations of £9.8m (2019: £1.0m)
- Checkit UK, which was acquired in May 2019, contributed £8.5m (up 7% on an annualised basis), whilst Checkit Europe contributed £1.3m (up 30%) of revenue
- Recurring business (including SaaS) via Connected Workflow Management ("CWM") and Connected Automated Monitoring ("CAM") currently provides significantly more attractive margins than Connected Building Management ("CBM")
- Trading results (pre non-recurring or special items) for the period were as expected, with reported results impacted by non-recurring or special items resulting from the corporate restructuring during the year (£0.7m) and amortisation of acquired intangibles and impairments of intangible assets (£10.6m) as a result of the COVID-19 crisis
- Operating loss for continuing operations (after non-recurring or special items of £11.3m (2019: £nil)) was £16.5m (2019: £4.5m). Of the £11.3m, £10.6m related to impairment of intangible assets
- Operating loss before the non-recurring or special items was £5.2m (2019: £4.5m)
- Loss Before interest and non-recurring and special items, Tax, Depreciation and Amortisation ("LBITDA") was £3.6m (2019: £2.8m)
- Gain of £85.3m generated from sale of Bulgin contributed to the £89.4m profit from discontinued operations
- The cost base has grown in the year as a result of investment in technical and marketing spend, as well as the expanded leadership team in Checkit and absorption of plc costs which were previously shared with the now disposed Bulgin business
- Elektron Eye Technology ("EET") treated as a discontinued activity and assets impaired
- Cash at 31 January 2020 was £14.3m (2019: £10.1m) leaving Checkit well-funded to enable it to navigate through the current economic uncertainty created by COVID-19 whilst continuing to pursue its new product development programme. Cash at 31 May 2020 was £13.1m

Revenue from continuing operations

£9.8m

(2019: £1.0m)

Operating loss from continuing operations before non-recurring or special items

£(5.2)m

(2019: £(4.5)m)

Net cash

£14.3m

(2019: £10.1m)

Loss before interest, taxation, depreciation and amortisation (LBITDA)

£(3.6)m

(2019: £(2.8)m)

Corporate

- Group re-positioned to focus on Software as a Service ("SaaS")
- Elektron Technology plc renamed Checkit plc following the disposal of the Bulgin business ("Bulgin") for a headline price of £105m (£93.7m net of adjustments and expenses) on 24 September 2019
- £81m cash returned to shareholders on 5 December 2020 by way of a tender offer at 65p per share, resulting in issued share capital reducing by two-thirds
- Next Control Systems Limited acquired on 14 May 2019 for £8.8m (net of cash in the business) and renamed Checkit UK Limited ("Checkit UK"), with existing Checkit business renamed Checkit Europe Limited
- EET, the ophthalmic instruments business, designated as non-core and remains for sale

Board, management and headcount

- John Wilson transitioned from the role of Chief Executive Officer to Non-executive Director following the disposal of Bulgin
- Non-executive Director Gio Ciuccio stepped down from the Board at the end of the financial year and was replaced by Rachel Neaman who brings valuable technology and healthcare experience
- As previously announced, Chief Financial Officer Andy Weatherstone is to step down in September 2020 and the search for his replacement is well advanced
- Checkit senior management team strengthened by important new hires
- The Group currently has approximately 170 staff on a full time equivalent (FTE) basis

Product delivery

- Roll-out of a fully mobile, next generation Connected Workflow Management app with full off-line capabilities
- Addition of a data pipeline and Business Intelligence capability to our platform to track and interpret business and process activity
- Development of market-leading self-contained wireless temperature sensor able to work in elevated temperatures needed by "food to go" market
- Other developments initiated include the ability to enable teams to collaborate on checklists and processes in real time

Trading

- Following the disposal of Bulgin, complete focus on Checkit as enlarged by Checkit UK
- Targeting larger enterprise customers
- Focus on SaaS/recurring income (currently 30% of revenue)
- Several important contract wins, including BP
- Focus on NHS was prescient given the subsequent COVID-19 crisis
- COVID-19 impact creates uncertainty in the near term
- Mitigating actions being taken to ensure fundamentals of the business remain strong

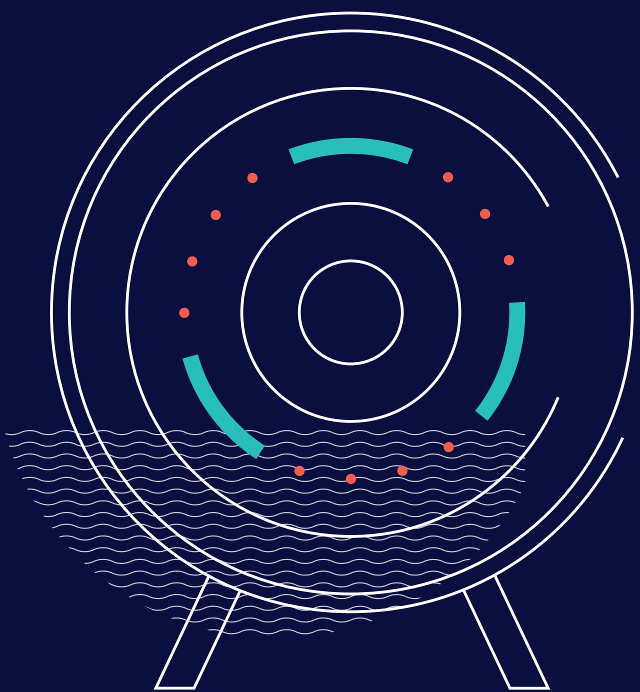
Outlook

The Group will continue to be significantly affected by the COVID-19 crisis for at least the remainder of FY21 (to 31 January 2021). This unprecedented situation (covered in further detail below) makes forecasting impossible and the Board has therefore withdrawn guidance. However, given the significant level of opportunities available in the medium to long term, the Board maintains its positive view for the future.

During the current financial year the focus is on completing the integration of Checkit UK (expected by the end of current financial year) and a successful separation of Bulgin during the period of its Transitional Services Agreement which ends in September 2020. Encouragingly, several opportunities have been identified for margin improvement and many opportunities have been identified for cross selling and accelerating overall Group sales.

Solutions that power progress

The ability of organisations to adapt and change is one of the most important determinants of success today. In fact, adaptability will be more important than ever as we emerge from the global consequences of the coronavirus outbreak. However, transformation is only possible if people, processes and places are properly connected at every operational level.



The co-ordinated management of people, processes and places forms the foundations of effective performance, but they are being impacted by a range of factors: economic uncertainty, talent shortages, growing workforce mobility, new sustainability targets, rising public expectations, diversification of risks, increasing costs, emerging competition and pressure to innovate.

The challenge for many large, complex, multi-site organisations is that they struggle for visibility and control over distributed workforces, critical assets and buildings. As a result, productivity, compliance, efficiency, quality and reputation can all be compromised.

In many organisations, the management of people and processes relies on combinations of conventional spreadsheets, ad-hoc apps and paperwork to manage critical operations but they no longer meet current needs. They create blind spots, resist integration and make analysis difficult.

With Connected Workflow Management, Checkit enables visibility, connection and analytics in real time, from any location, no matter how many teams are involved. The management of critical assets and buildings is also challenging, with multiple systems causing complexity and a high reliance on manual intervention.

From the productivity output of a single worker on the ground, to the energy being consumed by the lights in a head office, Checkit gives business leaders and managers the insights they need to keep costs down and productivity up and stay agile in the face of change.

Connected Workflow Management

A proven solution that gathers, shares and analyses real-time data from dynamic environments. Our unique, scalable platform prompts, guides and logs the actions of employees, providing managers with productivity-boosting operational insight including exception alerts and escalations. Connected Workflow Management enhances visibility, control, collaboration and decision making by bringing disparate checklists, processes and people under one digital roof.

Connected Automated Monitoring

We enable organisations to optimize safety, quality and compliance by protecting critical inventory, stock and appliances from variable conditions. Our wireless monitoring solutions collect continuous data from multiple sites, enabling trend analysis and live alerts. The solution offers two levels of functionality for different applications:

- Automated Monitoring for general applications including food safety, general medical and environmental temperature checks; and
- Automated Monitoring +, formerly Tutela, which meets the most exacting standards in healthcare, pharmaceutical, life science and biotech research.

Connected Building Management

Our solution enables you to run multiple buildings at maximum efficiency, lower your costs, ensure compliance, and save CO_2. Our data-agnostic building and energy management (BEMS) platform strengthens the management of energy, metering, lighting, environment and occupancy. Our solution, combining the expertise of Next Control Systems and Axon, gives organisations a new ability to fulfil the potential of smart buildings.

Expanding and evolving

"Ongoing evolution has always been at the centre of Checkit's story and the developments of the past year represent some of the most significant changes in our history."

Keith Daley
Executive Chairman
15 June 2020

The goal of Checkit is to be the global leader in providing solutions that empower large, multi-site organisations to optimize performance. We live in an age where increasing volumes of data are being generated across the private and public sectors but blind spots remain in several industries, where the important daily activity of frontline workers is not adequately tracked. By capturing that data, we connect workflows and provide actionable insight. Combined with the monitoring and control of workplace devices and buildings, we provide organisations with a greater ability to connect, analyze and optimize vital operational functions.

By completing the acquisition of Next Control Systems in 2019, we took a giant step forward. We are empowering our customers with an unrivalled combination of technology tools, data intelligence and consultancy services that connect people, processes and places for business improvement.

These natural synergies add up to a compelling proposition for organisations that are struggling to gather, unify and analyse disparate operational data from numerous sources.

The coronavirus outbreak has brought these requirements into sharper focus than ever as organisations strive to adapt to a changed trading environment. As a business, Checkit is geared to support customers throughout the crisis and prepared to remain a powerful partner as the world emerges from the other side of this situation and returns to economic growth, with all the opportunities that brings.

The combined industry expertise, unique technology and trusted 25+ year reputation of the component brands have created a positive outlook for Checkit, and our confidence is reflected in encouraging trading updates which, until the impact of the coronavirus pandemic, saw sales exceeding expectations.

We have expanded our work with large organisations including multinational brands, NHS hospital trusts, contract catering companies and high street retailers.

Ongoing evolution has always been at the centre of Checkit's story and the developments of the past year represent some of the most significant changes in our history.

But the very adaptability we strive to unleash within customer organisations is also one of our core strengths as a business. Our technology continues to evolve in line with the current and future needs of our customers. We are also exploring the integration of different solutions within our portfolio.

It's not only about technology, however. People are always at the heart of effective transformation, and we commend the dedication of our employees during this momentous period. We will continue aligning teams, processes and functions wherever possible to maintain our agility and efficiency, while keeping talent management firmly in focus.

We look forward to another year of progress, in partnership with all of our customers, stakeholders, partners and employees.

Keith Daley
Executive Chairman
15 June 2020

Our year in review

Introduction

Checkit is a leading provider of a new generation of cloud-based services, supporting human work and automated monitoring (Connected Workflow Management and IoT for people/infrastructure /data).

We have made significant progress integrating Checkit UK and in aligning the organisation around a unified operating model. Operations, Sales and Marketing now operate across sectors and products and are moving to a set of common processes and management systems capable of underpinning a global growth plan. In managing the transformation process we are maintaining a balance between rapid change and short-term business performance.

Corporate

In May 2019 Checkit acquired Checkit UK for a cash consideration of £10.5m, inclusive of £1.7m of cash in Checkit UK as at the date of completion. The price represented a multiple of 6.6 times 2018 Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA").

Checkit UK is an excellent strategic fit for Checkit, providing technology and software that enables management teams to monitor, control and optimize business processes. This was a transformational deal for Checkit, immediately adding scale and taking the Group into a new vertical, Connected Building Management.

As a result of the acquisition, Checkit is now a leader in high-end service-based temperature monitoring for healthcare and life sciences within the UK. It also provides energy efficiency data-related Connected Building Management ("CBM") services. The acquisition provides opportunities for further sales growth and improvements to operational capabilities by:

- Cross-selling Connected Workflow Management to Checkit UK's customers
- Diversifying that customer base and extending the offering across additional sectors alongside the food service sector (which was previously the predominant sector in Checkit's customer base)
- Enhancing Checkit's existing range of sensors
- Improving operational capability
- Adding domain knowledge of the CBM market

Checkit UK has performed in line with expectations in the year and we are pleased with the progress made in integrating the business and in the opportunities for cross selling. In addition, after an in depth review of the acquisition we have identified a number of opportunities for margin improvement. Since acquisition, business managers are now provided with improved information on the profitability of contracts (including when tendering bids), resulting in the opportunity to improve profitability, particularly in the CBM segment.

In July 2019 we announced the disposal of Bulgin, our then largest business, for the sum of £105 million (£93.7 million net of expenses). As a result of the development of Checkit, the Board had concluded that it was no longer appropriate to maintain a Group consisting of two businesses with different activities, namely manufacturing and SaaS. It had already received an approach from a third party, as announced in February 2019, which valued Bulgin at a substantial premium to the then market capitalisation for the whole Group.

This transaction leaves EET as the last remaining asset for disposal.

Following the disposal of Bulgin, the Group changed its name from Elektron Technology Plc to Checkit plc and returned to shareholders £81 million in cash via a tender offer for two out of every three shares currently held at a price of 65p. This left, at that time, approximately £14 million cash in the business.

Board, management and team

All Board members all remained in place during the period.

At the end of the financial year Gio Ciuccio, one of our non-executive directors, stepped down from the Board and was replaced by Rachel Neaman who brings valuable technology and healthcare-related expertise. I should like to thank Gio for his valuable contribution, including on the disposal of Bulgin. He leaves us with our thanks and best wishes.

Following the disposal of Bulgin in September 2019 John Wilson transitioned from the role of CEO, remaining on the Board as a Non-executive Director in order to allow the Group to benefit from his commercial and engineering expertise. It has been a pleasure to work with John in his executive roles over the past 12 years. During that time he has been a major contributor in transforming the Group into an engine for the creation of substantial shareholder value.

Since the year end, in May 2020 Andy Weatherstone informed the Board that he wished to step down in September 2020. Andy has made a significant contribution over the past six years, not least in the value creation and realisation from the sale of Bulgin. He too will leave with our thanks and best wishes. The Board is well advanced in the recruitment of Andy's replacement and expects to confirm the appointment in due course.

I continue to have overall responsibility for running Checkit along with the Checkit Executive Leadership Team ("ELT").

As a result of the disposal and the consequent departure of a number of senior managers with Bulgin, it has been necessary to engage in an intense period of recruitment to ensure that the ELT is of a calibre to ensure that the Group is able to take advantage of the many opportunities in front of it. That recruitment process is nearing completion, and we now have high-quality leaders specialising in Operations, Sales, Product Management and Marketing, Product Development and HR. As noted above our search for a new CFO is well advanced.

At the time of writing there are around 170 employees in the Group (including EET) of which around 100 are involved in providing the Checkit service to customers from our Operations Centre in Fleet, Hampshire, 30 are involved in Checkit software and new product development and 16 are in Checkit sales and marketing with the balance administration and support functions. The business is well equipped to scale up successfully.

Product roadmap

Checkit's products make organisations smart, safe, compliant and efficient. We use IoT, mobile, sensor and cloud technologies to ensure our customers get the best out of their mobile teams, processes and buildings. We continue to invest in product development, innovating to solve our customers' needs while improving customer service and efficiency.

Key developments in the period include:

People/processes

Our new Connected Workflow Management app for Android devices, developed during the last year, is now in use by key customers. This expands the potential use of Checkit from its starting point within buildings to mobile and distributed workforces. It represents a significant technical achievement. In comparison with many competitor products it can operate fully when not connected to the Internet – essential for many real-world applications. The new app gives access to an increasing range of functions. It enables users to capture additional data needed to automate and simplify their work such as bar codes and photographs and introduces the concept of delivering work to users based on their physical location. We have also introduced the ability to distribute work instructions and documentation to workers through the app to provide easy access to relevant information as work is done. We are now testing a further step change in functionality, allowing users to work collaboratively in real-time on checklists and processes.

With the acquisition of Checkit UK, we have increased access to knowledge and customers in a wider range of industries, allowing us to build checklists and applications for use in healthcare, scientific and building management applications as part of a broader cross-selling initiative. We have developed functionality that allows these new checklists to be treated as reusable libraries and templates to speed up the build of future solutions.

Monitoring and connecting real-world "things"

We have significantly increased the scope of our ability to monitor convenience retail and food service operations by creating what we believe to be a market leading, self-contained, wireless temperature sensor for the hot shelves used to keep ready to-go food warm and safe. This is an example of collaborating with a major multinational organisations to develop and prove functionality that is unavailable elsewhere. We have added a new layer of system monitoring and alarm raising to our cloud platform to allow customers and Checkit service teams to view and analyse network or service issues, improving visibility and service quality assurance.

Analysing and leveraging data

We have worked with market leaders to turn data from routine worker operations into valuable commercial insights. We have created analysis and dashboards to give insights into capacity planning and product availability in retail operations, delivered through a new release of business intelligence that is ready to be embedded in our web application. This will mean Checkit is not only enforcing and guiding routine compliance processes to reduce risk and cost, it is also providing direct information to support revenue generation. Elsewhere we are developing rules-based analytics to apply to sensor and building energy/operational information designed to help managers find and act on problems quickly and automatically.

To support the needs of our largest customers, we are also readying products and services for operation in multiple markets outside the UK – in terms of languages, support services, partners and hardware product approvals.

Trading

Checkit segments the market by sector and size of participating businesses. It views the market as being divided into four tiers by size (T1, T2, T3 and T4). During the period it adjusted its approach to the targeted customer base by:

- Refocusing our efforts over the last 12 months on the largest national and multinational customers (T1). Our initial efforts have met with a positive response and we are working with these global customers and broadening our networks to serve them internationally. We estimate that T1 customers will account for 50% of market revenues and will be our biggest source of revenue growth. Our experience is that creating strong relationships with these types of customers provides excellent reference points and develops additional incoming enquiries and aids future growth.
- Targeting only those T2 customers that are willing and able to pay for the solution. This has inevitably led to a reduction in activity amongst the distressed casual dining sector in the UK (our initial market entry point selected as a result of previous experience in this sector). We expect that this will be balanced by opportunities in other sectors such as outsourcing and healthcare.
- Ceasing to market actively to "hard-to-reach" T3 and T4 customers (generally single-site small and medium sized enterprises ("SMEs")).

Although senior management was inevitably preoccupied with the sale of Bulgin during much of the period there were several notable contract wins including those involving:

- A multi-branch leisure business using work management for front and back-of-house activities
- A global framework agreement with the retail business of an energy major (BP)
- A building management system on a university campus as part of a carbon footprint reduction project

In view of the current economic situation in the United States we have wound down our operation there, whilst continuing to believe that there will be good growth opportunities in the medium term.

Financial

The significant change in the shape of the Group has led to a restatement of the financial statements to show Checkit as the sole continuing operation, although this is also distorted by the acquisition of Checkit UK part way through the year.

Both Checkit Europe and Checkit UK performed well with sales increasing by 30% and 7% respectively on an annualised basis. Reported sales for the year were £9.8m (2019: £1.0m), generating an operating loss before non-recurring or special items totalling £11.3m of £5.2m (2019: £4.5m), in line with expectations. As expected, given Checkit Europe's prospects, investment in the product roadmap and sales and marketing effort increased to drive growth. In addition, the new leadership team and Checkit absorbing the full cost of the plc, previously shared with Bulgin, have added to the cost base.

Recurring revenues from SaaS type contracts accounted for 30% of annualised revenues with a further 17% of revenues from repeatable annual calibration contracts and the remaining 53% being contract-based installation with small works having some of the least attractive margins. Our focus is firmly on growing the SaaS element and driving margin improvement in the installation project work by a combination of adjusting pricing and reducing costs.

Financial continued

As highlighted at the time of the sale of Bulgin, we expected to incur additional costs associated with the purchase and integration of Checkit UK and the separation from Bulgin. These costs amounted to £0.7m in the year and included the transaction costs for Checkit UK, the cost of recruitment of the new leadership team and the implementation of a new IT system.

Additionally, a number of non-cash costs were charged to the income statement comprising the impact of reducing the amortisation period of development costs from three years to two years (£0.3m), an amortisation charge in respect of separately identifiable acquired intangibles arising on the acquisition of Checkit UK (£1.0m) and the impairment of all of the Group's remaining carrying value of intangibles of £9.3m in view of the impossibility of valuing these assets in the current economic climate.

The decision to impair the intangible assets was based on the economic uncertainty created by COVID-19 making the preparation of reliable long-term value in use cash forecasts impossible. As set out in their Independent Auditor's Report to shareholders, Grant Thornton did not agree with this approach as they concluded that the impact of COVID-19 on Checkit's business was not sufficiently known at 31 January to justify it as an adjusting event. The Board maintains that (after the impairment) the net asset position as presented in the financial statements sets out a realistic view of the business as at that date.

Further information on the Board's response to COVID-19 is reported below.

The Board remains committed to selling EET and it was therefore classified as a discontinued operation taking an impairment of assets charge of £1.1m.

Profit on the sale of Bulgin amounted to £85.3m and Bulgin contributed £5.6m of operating profits up to its sale on 24 September 2020.

Following the return of cash to shareholders the Group's cash position at 31 January 2020 was £14.3m. At 31 May 2020 the cash position remained strong at £13.1m.

Response to COVID-19 crisis

Effect of the current lockdown on trading

COVID-19 did not have any discernible impact on the Group's trading in the year ended 31 January 2020.

The Board recognises that these are unprecedented times and that the necessary actions (including the lockdown) which the Government is taking to control the outbreak of COVID-19 have inevitably caused disruption to the Group's business. During the period of lockdown, it has been difficult, if not impossible, to fulfil most existing projects or commence new projects because customers have temporarily ceased operations, or our field engineers have been prevented from entering sites. Post lockdown the Board believes that progress towards normality will be slow.

With most of our services delivered via cloud applications and internet connectivity, our teams are well placed to work remotely. Our focus has been to continue supporting customers through these dire circumstances and helping them prepare for a period of recovery when efficient and carefully co-ordinated operations will be a higher priority than ever. In some cases, we have been able to assist customers remotely. We have also maintained good supplies of key replacement components in the event of urgent needs.

We are proud to have also donated our technology to the NHS Nightingale hospitals set up to provide additional care capacity for patients during the crisis. The public sector has a big role to play in the resumption of activity for the "new normal". The effective management of people, processes and places is an area where Checkit is providing tangible support to these organisations.

Checkit has also received several requests from customers to be granted contract payment holidays. Therefore, the Board believes that in the interests of prudence, for business planning purposes, it should model its current worst case scenario on only being able to rely on its committed recurring revenue from high-quality customers undertaking essential services, such as the NHS, BP petrol stations and Waitrose.

Under this scenario much of the business projected to be lost or deferred is generally of low and sometimes negative margins based on quotes issued by Checkit UK prior to the initiation of the Group's margin improvement project. This business utilises a significant proportion of the Groups cost base. So long as our cost base is reduced proportionately as outlined below, it will be possible to limit the negative effect on the Group.

COVID-19 and pay reduction schemes

The Board considers that Checkit's most valuable asset is its people and wishes to demonstrate its commitment to do its utmost to save as many jobs as possible by implementing the schemes outlined below. The Group has utilised the Government Job Retention Scheme for furloughed employees and in addition, has asked employees who continue to work to agree to a pay reduction.

The Board has received agreement from employees for two temporary pay reduction schemes aimed at a saving of over £4 million (inclusive of Coronavirus Job Retention Scheme grants) were the scheme to last for one year, which equates to around 40% of total people costs. As a part of this approach, the Chairman has agreed to waive his entire salary, with remaining Board members agreeing to reduce their salaries by up to 36%. These pay reduction schemes are currently scheduled to end on 30 June 2020.

Whilst there is currently no provision for an extension of the schemes, the Board will determine whether it should request employees to agree to an extension closer to expiry. The Board is extremely grateful for the sacrifices made by employees in the current crisis and greatly appreciates the positive attitude shown by all staff.

Current focus

The current focus is on:

- Integrating Checkit UK and a successful separation of Bulgin during the 12-month transitional services period to September 2020. Whilst this is a complex task, we have made a good start
- Increasing the profitability of Checkit UK. As mentioned above, management are now provided with improved margin information, allowing better analysis, including the identification and elimination of unprofitable activities and improved pricing on all new contract bids
- Continuing the investment in new product development with a view to increasing our competitive advantage and growing revenue with T1 customers
- Increasing focus on the Healthcare sector
- Targeting EBITDA profitability in the medium term. Whilst the COVID-19 crisis will undoubtedly have an effect in the short term, the Board maintains its positive view of Checkit's medium and longer-term prospects

Keith Daley
Executive Chairman
15 June 2020

Be prepared for a better future

By David Davies

It's time to start putting digital transformation into action. According to IDC, 85% of enterprise decision makers believe they have a timeframe of two years to make significant inroads into digital transformation or they will fall behind their competitors and suffer financially.[1]

But this is not just a technological movement. Successful transformation depends on factoring people into the equation, equipping them with digital tools that empower them to do their best work.

With Connected Workflow Management, Checkit puts task-based digital tools into the hands of frontline workers.

It's estimated that over 80% of the global workforce don't sit at a desk. This astonishing figure includes huge numbers in hospitality, retail, facilities management, field service and healthcare. Research tells us they have been largely left behind in terms of tech investment, yet what they do is critical for many organisations. And the need to make them more effective is an increasing focus.

Megatrends are reshaping working practices in numerous ways:

- Diverse careers are becoming more common. People are not staying in the same jobs as long as they did in the past – so you can't count on years of experience to make sure things are done in the right way. Employers need to define operating processes that can be shared, learned, followed and measured easily.
- People are familiar with using amazing tools on their mobiles and they expect the same interactivity, functionality and ease of use when they are at work.
- Automation is advancing. A proportion of existing jobs will disappear but in other cases automation will augment human activity, creating a powerful combination that can enhance performance in healthcare, customer service and other areas of work.

Organisations can see the potential of human-centric transformation – blending people, processes and automation to run better, safer operations, more consistently and more profitably. The pursuit of innovation and improvement can unlock competitive advantages.

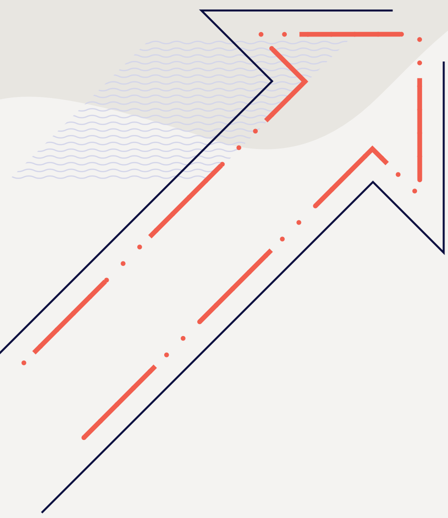
But getting those components to gel isn't easy. It needs the right kind of synergy between centralised systems and frontline employees.

Connected Workflow Management strikes that balance, prompting employees to do scheduled tasks, based on time or location, and inspiring user-led innovation too. We grant organisations the power to control processes for uniformity while also providing a path for frontline innovation and testing of new ways of working. Our platform offers the potential to bring teams together and accelerate collaboration in a similar way to social media channels.

The platform is being developed to complement legacy systems, including enterprise resource planning and point of sale, to give more context to the data arising from human interactions. Similarly, Connected Workflow Management will offer more scope to integrate real-world data and measurements, for a more complete spread of visibility and control.

But that's not the complete vision. The ability to accumulate and interpret data will be vital to the organisation of the future. Checkit tracks every sensor, user and activity through time and across teams and space. That information is processed through our built in business intelligence (BI) tools – or made available to our customers – to understand how whole processes and organisations are working. This gives the opportunity not only to "do stuff better" but also to test and learn how to "do better stuff".

As we progress, we will do both better and faster by complementing our business analysis with machine learning and artificial intelligence (AI) to pinpoint patterns and gaps in what's happening. This will range from predictive fault fixes and unlocking the root causes of significant problems to revolutionising the management of processes and teams – opening the door to continuous improvement and reduced operating costs.



1 www.forbes.com/sites/blakemorgan/2019/05/13/40-stats-on-digital-transformation-and-customer-experience/#2fdb35ef6475.

Five ways Checkit helps to shape a better world

Empowering people

In an age of increasing automation, Checkit seeks to empower humans to do their best work. People should always be at the core of any digital transformation. There are cases where routine or repetitive tasks can be better handled by some form of automation and we often enable that, liberating employees to dedicate their time where their unique skills and qualities add most value. There are other cases where we equip people to carry out their duties in a faster, simpler or more effective way. Through our Connected Workflow Management solution, we aid people in the fulfilment of their duties. In parallel, managers gain the visibility and control to optimize the co-ordination of human resources.

Improving healthcare

Checkit provides solutions to NHS and private hospitals, clinics, GP practices, community pharmacies, hospices and care homes. The focus of our efforts is to empower professionals at all levels with technologies that minimise the manual demands of routine tasks so they can focus more attention on patient care. Achieving the best possible patient outcomes, within structural and economic constraints, is the common objective. Checkit contributes to that by introducing automation to reduce the physical demands of monitoring; prompting, guiding and logging procedures; and increasing the visibility of managers so they can identify and correct inefficiencies, weaknesses and errors.

Energy management

Sustainability is on the agenda of all responsible business leaders. Managing energy usage is one of the most important pathways to improved sustainability. However, it has been historically difficult to monitor and control the energy usage of the many different systems, plant and equipment types operating in most commercial buildings. Checkit's Connected Building Management technologies unify data from different sources to provide granular insight. This is a valuable guide in directing actions to improve efficiency and eradicate unnecessary energy consumption, thereby lowering a building's carbon footprint.

Technology can be a force for good

By Rachel Neaman

The term "tech for good" is no longer exclusively used within the not-for-profit sector, but is becoming more common in the public and corporate sectors too. At face value, tech for good simply means using technology for positive social impact. There are many examples of artificial intelligence, robotics, big data, biotech, mobile platforms and the Internet of Things (IoT) being used in this way. These examples include speeding up clinical diagnostics, matching teaching curricula to learning capabilities, increasing financial inclusion, managing traffic flows, and automating mundane or repetitive tasks in the workplace.

Every organisation has a responsibility to consider its place within the world. At Checkit, we take this responsibility very seriously. We see our wider societal role not as a distinct consideration but an integral part of our overall business purpose. It is not only about minimising the environmental impact of the business but proactively contributing to the conditions in which we all live and work. We apply these principles internally in terms of how we operate and strive to empower our customers with solutions that enable them to meet their social and environmental goals too.

Increasing safety

Health and safety procedures in all organisations are designed to minimise the risk to employees, customers, visitors and partners. Checkit's Connected Workflow Management and Connected Wireless Monitoring solutions are designed to reduce risk by standardising the application of best practice. Hygiene procedures, equipment checking schedules, food preparation standards, monitoring of temperature-controlled storage devices, safety drills, risk assessment protocols and activation of emergency plans are just some of the specific ways in which Checkit enhances health and safety.

Waste reduction

Our solutions reduce waste in a number of ways. Firstly, by digitising checklists and records, Connected Workflow Management dramatically reduces the use of paper and associated storage space within buildings. Secondly, the powerful combination of Connected Workflow Management and Connected Automated Monitoring reduces the proportion of valuable stock and inventory – including food, medicines and biological samples – being spoiled through exposure to unsuitable storage conditions.

But this is only the tip of the iceberg. What if we used our increasingly sophisticated technologies and the considerable brains behind them to solve some of our most pressing global challenges – climate change, ageing populations and large-scale migration?

Over the past few years there has been an increasing focus within the corporate sector on "profit with purpose". The race to improve the bottom line at all costs is no longer considered at odds with creating positive social change. Previously siloed (and often tokenistic) corporate social responsibility (CSR) activities are taking a back seat to mainstream business strategies that champion innovation and social wellbeing alongside financial stability and innovative product development. Businesses are learning that just ticking the CSR box is no longer viable in a society more concerned about sustainability in all its senses than ever before. Genuine social impact strategies actually improve a company's performance, not just its reputation.

The tech for good community is growing at pace across all sectors and verticals. I'm delighted to see Checkit embrace this philosophy in the way its tech products empower people to use their uniquely human skills to add most value, and its sustainability policies, its understanding of the importance of real-time data, and its contribution to energy efficiency through its sensor technology. It is undeniable that the ethical use of technology and data creates greater economic and social value for a business, which in turn supports a fairer, more equal society. By contributing to the growing movement for tech for good, businesses truly can balance profit with purpose, improve their bottom line and help to create a more sustainable future for all.

Closing the digital gap in healthcare

Unprecedented pressure on the healthcare sector, in the wake of the coronavirus outbreak, has accelerated the drive for greater digitisation. The effect of the crisis has highlighted the need for new and better ways to manage infection control procedures, allocation of beds and storage of essential medicines, for example.

A lot of excitement around digital transformation has focused on visionary ambitions, from the deployment of artificial intelligence in diagnostics to augmented reality in clinical appointments, all with the potential to improve patient outcomes. But a gap exists between the vision and reality. When NHS trusts in England were asked to rate their own digital maturity, the average score was 66/100.[1] Progress is constrained by factors including budgets, organisational complexity and technical concerns around interoperability.

But one of the most common obstacles to digital transformation is a failure to integrate plans with people. Humans will remain at the core of healthcare for the foreseeable future. That's why digitally enabled care is gaining momentum.

As the Secretary of State for Health and Social Care, Matt Hancock, says: "Every CEO needs to be comfortable and competent in leading digital transformation, every board needs to know what questions to ask and how to hold their CEO to account, every medical director and chief nurse needs to know how technology is going to transform what their teams do and lead that adoption."

1 www2.deloitte.com/content/dam/Deloitte/uk/Documents/life-sciences-health-care/deloitte-uk-life-sciences-health-care-closing-the-digital-gap.pdf.

Digitally enabled healthcare empowers staff to act and communicate more effectively, removing unwarranted variation by driving up consistency in safety and quality. Healthcare leaders can achieve greater visibility and control, reducing costs and risks, while alleviating pressure on the workforce.

Studies suggest that efforts to drive operational, financial and process efficiencies are the highest priority for innovation programmes in healthcare.

Infection prevention and control, for example, depends on a widely dispersed, highly mobile and extremely busy workforce, fulfilling a vital series of tasks. By better connecting teams, healthcare providers can potentially prevent escalation of risk.

Crucially, it doesn't have to be complicated. Digital checklists capture data points on actions undertaken at all levels, with photos, labels and details of samples integrated.

Digitising checks makes it easier for frontline staff to get things done. They are freed from time spent chasing paper records and copying information from one system to another. This approach delivers evidence of tasks done and processes followed in real time, creating an audit trail, to be inspection ready at all times and cutting costs and administrative burdens.

Looking ahead, new innovations will move healthcare away from siloed services and information. Cloud technology and IoT provide a way to consolidate data, creating an environment for more informed decision making.

Case study

Real-time data drives excellence in life sciences

Global life sciences specialist Abcam deployed Checkit solutions to strengthen visibility and control across two buildings where critical stock is stored.

"Checkit's monitoring system is working 24/7 across our Cambridge site, providing comprehensive data and allowing us to respond in real time. With Checkit we set the rules. We have a wide range of different requirements and Checkit enables us to meet them all."

Edward Mole
Logistics Inventory Manager, Abcam

Successful services depend on these details

There is pressure across the services sector to ensure every step of the customer journey is delivering the best possible experience without compromising cost control. Businesses must manage multiple factors that influence customer interactions – from stock availability to the condition of facilities and spaces.

Customer expectations are increasing in line with new trends. The food-to-go sector, for example, is showing significant growth as consumers seek convenient options. There's also an intensifying focus on sustainability and waste reduction, with brands being judged on their credentials like never before. Consumers are also becoming more diverse in their tastes and looking for menus that match, with veganism and plant-based diets growing in popularity.

The challenge for large service businesses is to adapt to such trends, while maintaining excellent standards across multiple sites. Consistency relies on visibility and control, which is not easy when frontline employees without a fixed workstation are dealing with unpredictable customer interactions, busy periods, long hours, complicated shift patterns and high staff turnover.

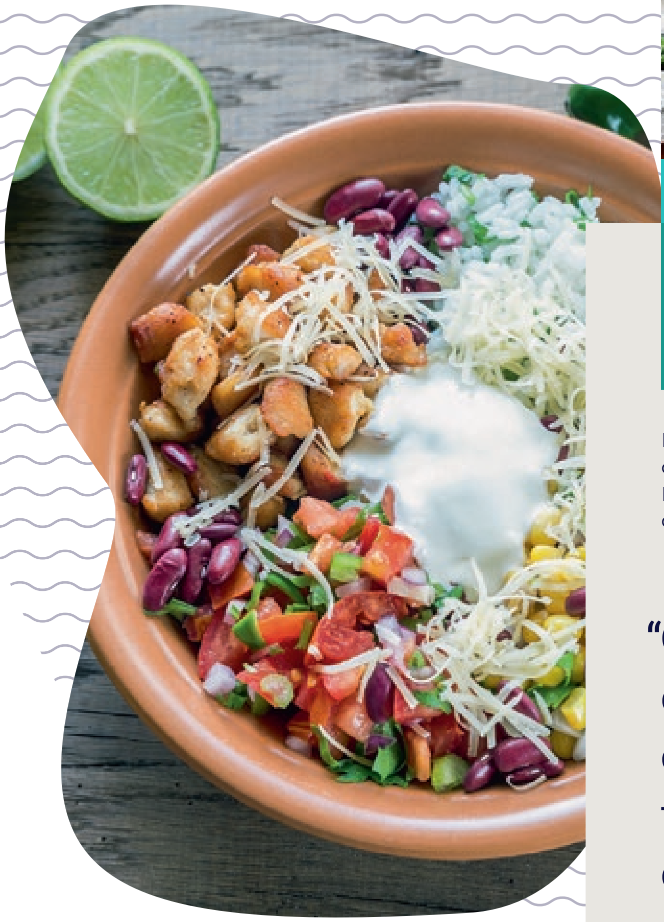
In fact, staffing, recruitment and upskilling difficulties are often cited alongside competitive pressures, consumer spending contractions and rising costs as the biggest challenges for hospitality, retail and leisure operations. In addition, the restrictions of the COVID-19 outbreak will require a strong focus on rebuilding public confidence, with safety and hygiene being high priorities.

As with many industries, digitisation has a critical role. Real-time data opens up opportunities to respond effectively in environments that are dynamic and changeable. For example, the ability to allocate stock and resources, based on live insight from the frontline, not only helps ensure customers can access what they need, but that supplies are managed in a way that minimises wastage. But it has to be part of a people-centric approach, particularly in the services sector where human interactions are so important. After all, we're still some distance from having our food served to us by robots.

Sensitive integration of digital technology that empowers frontline workers is the way forward. What are the most important criteria for this technology?

- **Mobile** – so that it moves around with employees, rather than requiring static inputs
- **Intuitive** – easy to use and hand over between shifts so that employees remain adaptive, agile and responsive
- **Configurable** – adaptable to dynamic environments and changing circumstances
- **Helpful** – supporting staff in their duties without requiring onerous training and regardless of any language barriers
- **Integrated** – seamlessly blending into daily operations to minimise disruption and maintain focus on key tasks

By empowering employees to follow the procedures that underpin brand standards and overall compliance – and sharing the status of these actions with managers in real time – variances, deviations and errors can be minimised to ensure the consistency that customers expect.



Case study

A smarter way to manage retail technology roll-out

Engineers installing Checkit at over 300 UK sites over a ten-week period used Connected Workflow Management themselves to co-ordinate the deployment quickly, efficiently and effectively.

"Checkit made it easier to capture information. At the end of each installation, there was a live report with confirmation that all checks were completed. It worked extremely well and certainly made my life easier during installation."

Rob Young
Lead Project Manager, ARC Services

Strengthening sustainability in the built environment

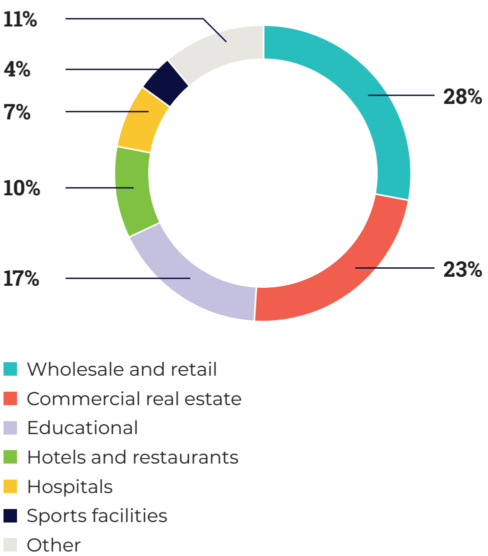
Sustainability is climbing up the corporate agenda. In a study of over 1,000 company reports, 72% mentioned the United Nations' Sustainable Development Goals (SDGs).[1] On the flipside, firms that fail to act are facing increasing scrutiny. In the UK, The Pensions Regulator is closely monitoring firms' responses to climate change.[2]

The built environment is integral to this movement. It is responsible for around 40% of the UK's total carbon footprint. Newly constructed buildings are more energy efficient, but the UK's 2030 net-zero carbon target means 80% of buildings in use will already have been built so a major priority is decarbonising our existing stock.

The non-residential built environment sector comprises a diverse range of occupancy types and uses, including wholesale and retail, which comprises 28% of the total, commercial real estate (23%), educational (17%), hotels and restaurants (11%), hospitals (7%), sport facilities (4%), and other buildings (11%) such as warehousing, transportation and garage buildings, agricultural (farms and greenhouses) buildings, and garden buildings.

This extensive assortment represents highly complex patterns of energy use because end uses such as lighting, ventilation, heating, cooling, refrigeration, IT equipment and appliances vary greatly from one building category to another.

Commercial property types



1 www.pwc.com/gx/en/services/sustainability/sustainable-development-goals/sdg-challenge-2019.html.

2 www.thepensionsregulator.gov.uk/en/document-library/statements/climate-change-joint-statement.

3 www.cibsejournal.com/news/industry-defines-net-zero-operational-carbon/.

The key targets that form the basis of an operational net-zero building were set out by a partnership of industry bodies in 2020. These included definitions of low energy use, requirements for measurement and verification and low-carbon energy supply.[3]

What this and similar initiatives underline is that measurement systems must be sufficiently advanced to provide data in an appropriate format for problem solving and decision making.

Through its Connected Building Management platform, Checkit is well positioned to support the drive for UK cities to be net-zero carbon by 2030. This enables built asset owners to capitalise on the change in attitudes from investors, building occupiers and students, who are increasingly prioritising green credentials above other criteria.

As a cloud-based platform that extracts data streams from the existing technologies within a building, the low capital cost of implementing Connected Building Management enables extensive market penetration and easily scales from a single building to a university campus to a global corporate real estate portfolio.

Connected Building Management delivers operational cost and carbon reduction in real time resulting in:

- **improved** built asset value;
- **reduced** cost of operation;
- **increased** lettable rates;
- **improved** occupier/talent attraction and retention; and
- **improved** reputation.

Case study

Reducing energy consumption in commercial real estate

Broadgate Estates achieved energy savings, greater visibility of usage and intelligent apportionment of utility costs after introducing Checkit's energy management platform.

"The platform has already identified substantial energy reduction opportunities as well as providing clear visibility of the energy use throughout the estate."

Phil Draper
Senior Technical and Sustainability Manager

Financial review

"An exceptional year of change returning £81m of cash to shareholders from the sale of Bulgin and the purchase of Checkit UK for £8.8m, whilst leaving the Group with over £14m of cash at the year end."

Andy Weatherstone
Chief Financial Officer
15 June 2020

Introduction

The financial results for 2020 reflect a year of substantial change with the acquisition of Checkit UK in May 2019 and the disposal of the Group's Bulgin business in September 2019 which resulted in a return of cash of £81m to shareholders via a tender offer.

These transactions have all but completed the transformation of the Group away from a manufacturing Group to one that is focused on Software as a Service.

EET remains for sale and has been classified as a discontinued operation. Comparative figures have been restated where appropriate.

Continuing operations

On a restated basis Group revenue grew from £1m to £9.8m, most of which was attributable to the acquisition. To better understand revenue performance a pro forma summary is set out below on the basis that Checkit UK was part of the Group for a full year.

It is pleasing to report that year-on-year sales grew on a normalised* basis in both Checkit Europe and the newly acquired Checkit UK by 30% and 7% respectively. Checkit UK achieved close to its sales budget for the year.

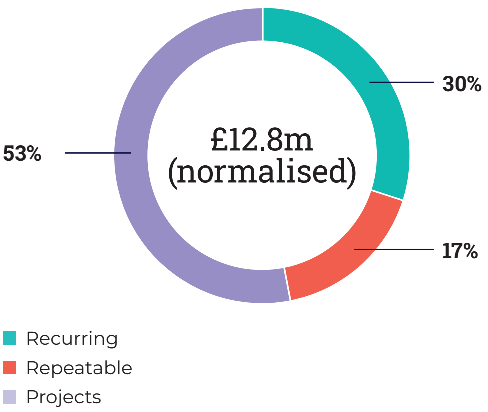
The Group's recurring revenues provide some resilience for the Group. One of the key areas of synergy with Checkit UK is to grow and convert its sales where possible to a recurring revenue model.

	FY20 actual £m	FY20 normalised* £m	FY19 actual £m	FY19 normalised* £m	Change %	Change normalised* %
Sales						
Checkit Europe	**1.3**	**1.3**	1.0	1.0	30%	30%
Checkit UK	**8.5**	**11.5**	—	10.8	—	7%
Sales total	**9.8**	**12.8**	1.0	11.8	88%	8%
Operating Loss before non-recurring or special items	**(5.2)**	**(4.8)**	(4.5)	(3.4)	—	—

* Normalised results illustrate results that would have been included in the Group's financial results had Checkit UK Limited ("CUK"), which was acquired on 14 May 2019, been owned by the Group throughout both periods.

Based on FY20 normalised revenue, the composition by revenue type was as follows:

Revenue by type



Repeatable business comprises regular service and calibration carried out by Checkit UK, which are currently covered by annually placed orders. Work is well under way to amalgamate these into the overall service contract on a 'Peace of Mind' subscription model offering similar to that of Checkit Europe. Whilst this may result in revenues reducing in the short term as one-off sales are spread into monthly revenue recognition it increases the ability to improve margins and the quality of our revenue base.

The Group operating loss before non-recurring or special items was £5.2m (2019: £4.5m loss).

The sale of Bulgin meant that most of the Group's infrastructure and support functions had to be re-established and a new management team brought in to spearhead the next stages of growth in line with our planning model. This has in the short term led to a number of restructuring costs and an increased cost base as Checkit Europe and Checkit UK are brought together. The separation from support provided by Bulgin is expected to be completed in September 2020 when all finance and operating systems are transferred to Checkit UK's operations in Fleet.

Product development continues to progress. Checkit spent £2.3m (2019: £1.9m) on product development and sustaining engineering in the financial year in respect of continuing operations, of which £1.1m was capitalised (2019: £1.3m).

As the product offering evolves, the Board regularly reviews the appropriateness of the amortisation period being applied to the capitalised development costs. Over recent years it reduced the period from four to three years. In light of the nature of current development projects and the planned roadmap, the Board has concluded that the period should be further shortened to two years. This has had the impact of accelerating amortisation by £0.3m in FY20 and has been treated as a a non-recurring and special item.

The impact of COVID-19 has predictably disrupted growth and put a brake on the progress planned for FY21. The Board has taken the decision to fully impair its intangible assets in light of the uncertainty caused by COVID-19.

During the financial year the total of non-recurring and special items incurred was as follows:

	2020 £m
Restructuring and integration costs of Checkit UK	0.5
Professional fees for the acquisition of Checkit UK	0.2
	0.7
Revision to development costs amortisation period	0.3
Amortisation of acquired intangible assets	1.0
Impairment of goodwill, development costs and acquired intangibles	9.3
	10.6
Total non-recurring or special items	11.3

The resultant Group operating loss amounted to £16.5m (2019: £4.5m loss).

Discontinued operations

Discontinued operations in FY20 related to Bulgin and Elektron Eye Technology and generated an operating profit after taxation of £5.1m (2019: £8.3m) before a remeasurement loss of £1.0m.

Profits realised from Bulgin's disposal were £85.3m, analysed as follows:

	£m
Gross proceeds	**105.0**
Director LTIP shares	(4.1)
Adjustments in respect of net debt and working capital	(1.0)
Consideration received	**99.9**
Carrying value of assets sold, including cash of £0.9m	(6.9)
Transaction costs incurred	(2.5)
Transaction and retention bonuses	(3.7)
Gain on disposal before foreign currency reserve reclassification	**86.8**
Foreign currency reserve reclassification	(1.5)
Gain on disposal	**85.3**

Tender offer

In December 2019, shareholders received £80.6m, being the bulk of proceeds from the sale of Bulgin by way of a 2 for 3 tender offer at a price of 65p per share. 124 million shares were cancelled, leaving 62 million shares in issue.

Following this the Electron Technology Employment Benefit Trust which participated in this offer was able to repay £2.7m to the Group.

Acquisition

The acquisition of Checkit UK took place in May 2019 and cost £8.8m, net of £1.7m of cash acquired with the business. £0.2m of professional fees were incurred.

Taxation

The Group is currently loss making and the current tax charge for continuing operation is £nil. It has over £6.0m of tax losses and there is no expectation of tax payments in the near future.

The deferred tax credit of £0.7m resulted from the full release of the deferred tax associated with the full impairment of the separately identifiable acquired intangible arising on the purchase of Checkit UK.

Earnings per share

The average number of ordinary shares in issue during the year was 161.0m (2019: 177.7m) (excluding shares held by the Employee Benefit Trust). Basic and diluted loss per share in respect of continuing operations was 9.8 pence (2019: 2.5 pence).

Cash

The Group generated £0.2m from operations in FY20 (FY19: £5.8m) with capital investment of £1.6m (£2.2m).

The Group spent £8.8m acquiring Checkit UK and received £15.1m net proceeds from the sale of businesses after return of £80.6m to shareholders.

The overall net cash improved by £4.2m resulting in a net cash position of £14.3m (2019: £10.1m).

COVID-19 and going concern

The Strategic Report and opening pages to the Annual Report discuss the Group's business activities and headline results, together with the financial statements and notes which detail the results for the year, net current asset position and cash flows for the year ended 31 January 2020. The Board has further considered 12 months cash flow forecasts from the date of signing the accounts and considers the assumptions used therein to be reasonable and reflective of its long-term SaaS contracts and contracted recurring revenue. The Group meets its day-to-day working capital requirements through its cash balance. It does not have a bank loan or overdraft.

The Board has considered the ongoing impact of COVID-19. Impact to date on trading has seen revenues in the short-term fall by approximately 36% in April and May 2020 compared with expectations, with minimal impact on debtor recoverability.

The impact of COVID-19 has created a high level of uncertainty as to the outlook for the remainder of the financial year and it is still too early to ascertain the full impact this may have on revenue and profitability for FY21 and beyond. The Board has therefore performed a number of stress tests to assess the Group's ability to continue as a going concern. The Directors have prepared cash flow forecasts ("base case") for the Group for a review period of 12 months from the date of approval of the 2020 financial statements. These forecasts reflect an assessment of current and future market conditions and their impact on the Group's future cash flow performance. The Group has also assessed an extreme-worst case 'reverse stress tested' scenario which has indicated that Group revenue would have to be fall to a negligible level with no action to reduce costs before the Group would require additional cash to continue to operate.

The base case has also been sensitised for a reduction in revenue to that of recurring revenue and calibration income for the remainder of 2020 to the end of the review period. In the sensitised scenario the forecasts indicate the Group would still have enough cash to continue. However, should sales reduce further than the sensitised case the Group has a number of mitigation actions such as reducing discretionary spend, delaying capital expenditure and research and development costs to ensure the Group would have enough cash.

Notwithstanding this, the Group has already taken several actions to help mitigate both the short-term financial pressure on the business. These include:

- A moratorium on uncommitted, non-essential expenditure
- A restriction on recruitment to only essential roles
- Deferment of April 2020 VAT payment to March 2021 in line with Government 'Deferral of VAT payments due to coronavirus' guidance
- Government support for employees furloughed as a result of reduced commercial activity
- Introduction of reduced pay scheme (currently for April to June 2020) for those employees that continue to work
- Limited staff reductions through redundancy

Should it become apparent that sales orders, revenue and/or cash collections are being affected for a prolonged period by a global slowdown, the Directors will undertake a further review on discretionary expenditure, staffing levels and capital investment to protect the Group's cash position.

The assessment is based on the Board's best estimate at the date of this report which may be subject to change as the situation evolves further. As at the date of this report, having considered all the above, including the Group's current strong cash position, the Directors remain confident in the long-term future prospects for the Group and therefore the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividend

Having considered the resources needed to invest in new product development and marketing with the aim of increasing future shareholder value and the impact of COVID-19, the Board believes that it is in the Group's best interests not to pay a dividend for the year.

Andy Weatherstone
Chief Financial Officer
15 June 2020

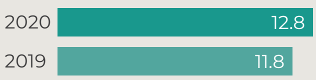
Continuing our progress

We regularly produce a wide variety of key figures for all of our businesses that enable us to identify performance against budget and the previous year and business progress.

Key performance indicators are shown below:

Total annual revenues*

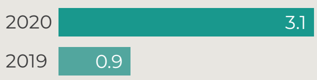
£12.8m



* Based on sales as if Checkit UK was owned by the Group for both periods

Recurring revenues

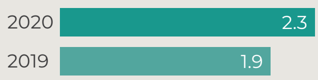
£3.1m



Current annual value of revenues recognised

Total product development and sustaining engineering spend

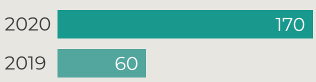
£2.3m



Investment in new products to sales in the year (capitalised and expensed)

Employee headcount

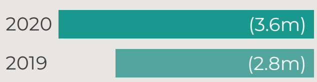
170



Total number of employees

LBITDA-GROUP

£(3.6m)

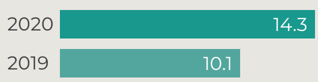


Loss* before interest tax deprecation and amortisation

* Before non-recurring and special items

Cash

£14.3m



Net cash resources available to the Group

As required by Section 172 of the UK's Companies Act, a director of a company must act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders.

In doing this, the director must have regard, amongst other matters, to the following issues

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

Engagement with stakeholders and consideration of their respective interests in the Company's decision-making process took place during the year as described below:

Shareholders

During the year the primary mechanism for engaging with shareholders in more depth was via meetings with the largest shareholders following the financial results for the half and full year. In addition, in FY20, Board members consulted informally with the largest investors on the acquisition of Next Control Systems, the sale of Bulgin and related transaction bonuses, and the capital return. Additional areas of discussion with the largest shareholders were focused on the integration of Next Control Systems and the future development of the Group.

Investors showed their support for the Board and the Company's strategy by passing all resolutions at the Annual General Meeting and the General Meeting to approve the sale of Bulgin. The highest vote against a resolution tabled during the year was 5% (Remuneration report) and the lowest was 0% (sale of Bulgin).

Employees

We have an experienced, diverse and dedicated workforce which we recognise as the key asset of our business. It is vital to the success of the Group to continue to create the right environment to encourage and create opportunities for individuals and teams to realise their full potential. The Board and management team pay close attention to the results of employee surveys taking note of trends and developments and creating action plans to address any issues arising. FY20 was a transition year for employees as we welcomed our new colleagues from Next Control Systems to the Group. Once the UK Government Coronavirus Job Retention Scheme has ended we will TUPE transfer the Next Control Systems employees onto the same payroll as all other employees. This will allow for contracts, benefits, policies and the Company Handbook to be harmonised before the end of 2020.

Throughout the COVID-19 lockdown regular update emails have been circulated and weekly employee briefings have been held.

Employees have been consulted on some of the very difficult decisions facing the Group during this crisis. We have had an overwhelming level of support throughout the organisation. We look to continue this employee engagement through the Employee Representative forum that will take the lead on driving the Corporate Social Responsibility agenda.

We have taken a significant step forward in introducing an HR software tool that will ensure we have much greater data accuracy, increased control over data, improved efficiency and a modern employee experience.

Customers

The Group ensures regular levels of contact and discussion at all levels of the large organisations that it targets. Over the past year we have established a Customer Success function focused on building stronger ongoing relationships with new and existing customers. For our Tier 1 and 2 customers regular Quarterly Business Reviews have been initiated to review progress on adoption of our solutions, address training or support needs and communicate the benefits of our new product features. The team has been progressing calls with remaining customers to assist in optimizing system performance to ensure optimum return on investment and to increase customer loyalty.

A key element in our relationships with our larger post-acquisition customer base has been to combine and integrate our customer data into a single CRM system (Salesforce). We have extended the use of the system to better manage customer pilot programmes and post-sales activities.

In addition to direct contact we have increased the flow of digital communications, such as by presenting new feature availability through the product interface at log in. Emails have been sent to all existing customers updating on our business Terms of Service to update and align contracts with our latest engagement model.

During the COVID-19 crisis we have actively supported many of our customers with payment holidays and flexible approaches on new product acquisition.

Suppliers

We operate in a way that safeguards against unfair business practices and encourages suppliers and contractors to adopt responsible business policies and practices for mutual benefit. We recognise that we must, where possible, integrate our business values and operations to meet the expectations of our stakeholders, including customers, suppliers, the community and the environment.

We use environmentally friendly suppliers. We monitor all suppliers and subcontractors to ensure that they operate in accordance with agreed contract responsibilities and arrangements. An organisation and its external providers (suppliers, contractors, service providers) are interdependent and a mutually beneficial relationship enhances the ability of both to create value for our customers.

Community and the environment

The Group tries to be a good corporate citizen, for example by:

- providing services to assist in the reduction of energy consumption of its customers;
- providing products to customers that improve efficiency and the management of remote workers in improving their collaboration and productivity, thereby reducing travel and waste;
- taking a flexible approach to home working for its employees;
- moving towards a paperless office environment;
- serving the community by providing critical monitoring services to the NHS, including free of charge services to the Nightingale Hospital in London; and
- encouraging charitable donations to good causes such as the World Wildlife Fund.

Standard of business conduct

We recognise not only the need but also the desirability of operating to the highest standards of business conduct as this benefits all stakeholders.

We seek to achieve this by:

- carefully adhering to our privacy (including GDPR), anti-bribery, modern slavery and anti-tax evasion policies;
- encouraging a culture of openness so that any stakeholder can freely raise any concerns;
- actively enforcing our conflicts of interest policy; and
- making the conscious decision to observe not just the letter but also the spirit of the law in all our dealings with stakeholders.

Principal risks and uncertainties

Effective risk management is critical to the achievement of the Group's long-term growth. It aids decision making, underpins the delivery of the Group's strategy and objectives and helps to ensure that the risks the Group takes are adequately assessed and actively managed.

The Board has overall accountability for ensuring that risk is effectively managed across the Group through the implementation and review of the Group's risk processes . The Board confirm that we have carried out a detailed assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Risks that present a potential material impact are identified and governed in accordance with our risk management policies. The principal risks listed in the table are those we believe could cause our results to differ materially from expected and historical results. They are also the risks that may impact the achievement of the Group's strategic goals.

The following risks are those that the Group considers could have the most serious adverse effect on its performance.

Increased risk ↗ No change → Decreased risk ↘ New risk New

MARKETS

1. Level of sales ↗

Risk description and potential impact
Checkit's revenues are currently principally from sales of its products and services. There can be no assurance that current revenues can be maintained or increased in the future. Sales may be affected by adverse market conditions or other factors, including pricing pressures from governments or other authorities, competition, the withdrawal of a product because of a regulatory or other reason. The Group is highly operationally geared, which means that a relatively small reduction in sales can lead to a much larger percentage reduction in profits.

See also COVID-19 under Operations below.

Mitigating actions
- The investment in product development assists in reducing the risk of sales decline by focusing on products that are unique within markets that are growing or are expected to grow.
- Ensuring appropriate level of resources are applied to key customer accounts, close relationships with key customers, and providing exceptional levels of customer service and support enables the Group to retain and secure new business.

2. Dependence on key customers ↗

Risk description and potential impact
The Group has a concentrated customer base, some of which are substantially larger than the Group and operate in the retail sector. The Group is reliant on these customers for both recurring revenues and new projects. In the event projects are cancelled or their operating footprint contracts, this could materially impact the performance of the Group.

Mitigating actions
- The Group continues to invest in key customer relationships that it has successfully retained over many years.
- The Group's strategy is to extend and diversify its customer base, with Group management involved in the growth and expansion of its sales pipeline.

3. Customer retention →

Risk description and potential impact
The Group's core business is based on a subscription model which is attractive to some customers as it provides both flexibility and low levels of initial investment to adopt Checkit's services.

Customer dissatisfaction could lead to non-renewals, seriously impacting its reputation and undermining its ability to secure new significant customers.

Mitigating actions
- The Group continues to invest in new product development, with a focus on meeting customer expectations and bug fixing. The Group has developed a customer helpdesk with front line technical resource to resolve issues quickly and efficiently.

MARKETS continued

4. International nature of the Group/Brexit

Risk description and potential impact

On 31 January 2020 the UK left the EU, creating a number of business risks including potential exposure to economic downturn particularly should the transition period end without a satisfactory trade deal. It also poses a potential risk with reduced availability of EU national resources.

Mitigating actions

- The Group's sales are substantially made in the UK and are spread across a number of sectors including the Public Sector, which will assist in mitigating a downturn in any one sector.

5. Checkit growth management

Risk description and potential impact

Checkit's growth is expected to expand significantly. The growth is reliant on conversion of the sales pipeline and control of fixed costs to support this growth. If demand were to grow too quickly, Checkit would not be able to supply products, whether for operational or financial reasons. This would tarnish the brand and cause losses or exhaust its cash resources.

Mitigating actions

- The Group manages this risk by controlling demand-creation activities (for example, by phasing the launch of new offerings and introducing lead generation activities incrementally) and by building an extremely flexible, scalable supply chain and by automating key internal processes, such as account creation, to increase scalability. The costs within the business are closely monitored to ensure they remain in line with the growth trajectory and cash resource.

6. Market development and competition

Risk description and potential impact

Checkit has a range of innovative products in the early stage of its lifecycle with several proposed features that do not exist in the market. Its target market currently uses paper and spread sheet based systems. It is therefore necessary to make assumptions as to how the market will develop until sufficient market feedback has been obtained post-product launch. If those assumptions are wrong the Company will have misallocated resources causing losses. As the market grows it is possible that new entrants will be attracted and take market share from Checkit.

Mitigating actions

- The business case for Checkit is based on feedback gained from the market and continued growth in contracted annualised recurring revenue. The Group is continually evaluating and learning from market research.
- Our approach and technology provide capabilities that mitigate some of this risk. They are suitable for a wide variety of business types and have applications in a number of large markets. We are therefore not reliant on one highly specific segment. The acquisition of Checkit UK has provided further diversification and its level of investment in product and marketing should ensure it retains its leading position.

7. Low margin business segments

New

Risk description and potential impact

The Group has low margin business segments which have a high cost base, including fixed costs. Loss of business in this area may result in it becoming loss making and distracting management effort away from the higher growth opportunities.

Mitigating actions

- A full review of the segments is being conducted with new pricing structures being introduced and a review of operating structure underway.

PRODUCT DEVELOPMENT

8. Success of product development

Risk description and potential impact
Products and services developed may not work in part or wholly. They may not be accepted in the market leading to write offs of capitalised development.

Mitigating actions
- Each project is managed through a stage-gate process during which the project is assessed on a regular basis against the market requirements (which are regularly reviewed). This allows early visibility and fixing of issues, consequently limiting exposure.

9. Control of product development

Risk description and potential impact
Development projects may overrun in time and cost causing losses to the Company.

Mitigating actions
- The scope of each project is defined by the project specifications. The project is monitored on a monthly basis against its scope. In addition, the stage-gate process continually refines the plan, eliminating major uncertainties early in the project.

10. Technological risk

Risk description and potential impact
Checkit operates in a marketplace where competitive advantage is heavily dependent on technology.

Slower adoption of Checkit's disruptive technologies will impact on revenue.

Mitigating actions
- Checkit maintains investment in a prioritised product development roadmap directly linked to commercial viability.

FINANCE

11. Exposure to financial fraud from inside and outside the Company

Risk description and potential impact
The increasing use of IT systems to manage payments increases the risk of significant financial fraud.

Mitigating actions
- The Group continuously monitors its firewalls and security of its network and systems and has user-restricted access and authorisation controls in place. There is an ongoing staff training programme for this important subject.

12. Funding

New

Risk description and potential impact
Funding constraints could impact on cash availability restricting business decisions and growth opportunities.

Mitigating actions
- The Group establishes annual budgets as part of its overall business plans to deliver growth ensuring that resources are balanced between product development and the sales and marketing activities.

13. Expansion

New

Risk description and potential impact
The Group intends to pursue future expansion organically or through acquisition. Such expansion may present some challenges including increased demands on management and support functions, dealing with new geographies and regulatory environments together with increased development and operating costs.

Mitigating actions
- The Board monitors and manages these growth strategies against market conditions, monthly performance against budgets and cash available.

OPERATIONS

14. Cloud services

Risk description and potential impact
The Group is reliant on cloud services provided by third parties in respect of Checkit products. The failure or withdrawal of these services would mean that Checkit could not function.

Mitigating actions
- This risk is mitigated by selecting large, global providers with demonstrable scale and reliability to provide the Checkit cloud offerings and by designing the systems, where possible, to allow functionality to be moved between providers.

15. Software security and cyber attacks

Risk description and potential impact
Checkit's service provides for customer data to be stored in the cloud. Security breaches could lead to data theft or corruption.

Mitigating actions
- The Group has Cyber Essentials certification and Checkit UK is ISO 27001 accredited. The Group also employs security and testing measures for the software it deploys.
- Access to the data is tightly controlled with restricted access to live systems and robust encryption protocols

16. Software reliability and performance

Risk description and potential impact
Checkit's business involves providing customers with reliable software that will perform as intended. Failure could result in loss of customers, claims from customers, loss of reputation and impact of business prospects.

Mitigating actions
- Checkit endeavours to negotiate limitations on its liability in its customer contracts. Software is tested extensively prior to any release being deployed.

17. IT systems

Risk description and potential impact
Checkit is increasingly reliant on its IT systems which if lost would mean that the Group would be unable to function.

Mitigating actions
- The Group has engaged and invested in disaster recovery and business continuity plans to reduce the risk of outage and improve recovery from major interruptions. The Group maintains an appropriate level of backup at all times.

18. Integration of Checkit UK

New

Risk description and potential impact
The Group acquired Checkit UK in May 2019. Poor management of the integration of this business could lead to the Group failing to deliver its planned synergies, or worse lead to lost sales or reduced profitability.

Mitigating actions
- The Group has developed an integration plan with a dedicated team to lead this process.

19. Separation from Bulgin

New

Risk description and potential impact
Separating from Bulgin required the Group to establish new support services in the areas of IT, finance and HR. In the interim, the Group is reliant on a transitional service agreement for its needs. Failure to manage a smooth transition to new systems could result in disruption to the business and loss of financial control.

Mitigating actions
- A separation plan has been developed and additional resource recruited to project manage the transition.

20. Reliance on key individuals and retention of high-quality staff ↗

Risk description and potential impact
The Group is increasingly dependent on key individuals in commercial or management areas. The profitability and reputation of the business may be adversely impacted if they were to depart without warning. The Group is highly dependent on its technology team in Cambridge to enable it to grow.

Mitigating actions
- The Group seeks to attract and retain well qualified staff by designing appropriate remuneration packages and making Checkit an attractive place to work. Considerable emphasis is placed on teamwork.
- The Group seeks to identify employees who may be considering leaving with a view to addressing any concerns.
- The Group has also established a protocol in the event of key Board members being unavailable for an extended period.

21. Reliance on key suppliers →

Risk description and potential impact
Certain of the Group's products are reliant on single-sourced items. If those suppliers were unable to supply, the Group would be unable to sell some products.

Mitigating actions
- The Group maintains an open dialogue with suppliers to ensure that an early warning system is in place. Where subcontracted items are single sourced, the Group ensures that appropriate technical files and work instructions are maintained.

22. Customer reliance on Group products →

Risk description and potential impact
Many of Checkit's products are essential to the running of its customers' businesses. Were those products to fail, Checkit could be liable for consequential losses.

Mitigating actions
- The Group seeks to protect itself by ensuring that all products and services meet quality standards.
- Conditions of sale contain clauses limiting losses to the amount of the sale. Consequential losses are excluded from liability.

23. COVID-19 New

Risk description and potential impact
The COVID-19 disruption has led to reduced sales in the short term, delays in cash receipts from customers and deferred projects. It has also disrupted daily business life with remote working instigated wherever possible, reducing effectiveness and having an adverse impact on staff wellbeing.

In the medium to longer term, customer decision-making may be delayed by operational priorities or a general economic downturn leading to delayed investment plans causing a reduction in the Group's sales over a sustained period.

With the continued uncertainty associated with the virus it is too early to assess the impact on the Group's operational and financial performance in FY21.

Mitigating actions
- Employees, where possible, are working from home. We have communicated sick and self-quarantine policies to our staff. Some essential operations continue, whilst we are closely following local government guidance.
- We are in regular contact with our customers and have experienced some cancellation or deferral of project-based work, whilst the impact on recurring revenue income has been controllable to date. We are working closely with our clients to mitigate the risks caused by the virus and maximise business continuity in our and their operations.
- The Group has adequate cash resources to ensure that the immediate impact of the disruption can be managed. The business has a proven track record of disciplined cost control, which will continue to be vital in the current trading environment. Mitigating actions to ensure the long future of the business already taken include temporary reduced pay schemes and furloughing of some staff.
- Scenario planning is carried out alongside stress testing and reverse stress testing to identify and develop alternative solutions, as guidance and requirements change during an evolving event. Further assessment will be made against available Government support schemes, should the need arise.

Balanced leadership

Keith Daley (65)

Executive Chairman

Experience

Appointed to the Board in 2004 and as Chairman in 2008.

Skills

Keith originally trained as a corporate banker. He is an experienced serial entrepreneur and chairman with a strong sales and marketing focus. He has bought, invested in, managed and sold numerous businesses over the past 37 years. Keith chairs the Checkit Board in an Executive capacity. He leads on all corporate finance transactions such as acquisitions and disposals.

Andy Weatherstone (56)

Chief Financial Officer

Experience

Appointed to the Board in January 2014, Andy is a Chartered Accountant with considerable experience at main board level within the small UK public quoted companies arena, working across a variety of sectors. He initially developed his career with KPMG before moving into industry, where he has built up significant experience in both financial and operational management of global-based manufacturing. His areas of expertise are business improvement and value realisation.

Skills

Andy leads the finance function and prior to the sale of Bulgin was responsible for the Group's manufacturing operations as COO. Andy was appointed as Company Secretary in October 2016 and stepped down from this role upon Sara Coate's appointment.

Ric Piper (67)

Senior Independent Director

Experience

Ric qualified as a Chartered Accountant in 1977. He held senior finance roles in ICI, Citicorp, Logica and WS Atkins, where he was group finance director from 1993 to 2002. He was a member of the Financial Reporting Review Panel from 2009 to 2019. In recent years he has been chairman or Non-executive Director of a number of Main Market and AIM businesses. He is currently a non-executive director of AIM-quoted GRC International and a partner at Restoration Partners.

Skills

Having been an Elektron Technology Director from 2012–2015, Ric re-joined the Board in December 2018.

A R

A Audit Committee

R Remuneration Committee

Committee Chair

Rachel Neaman (54)

Non-executive Director

Experience

Appointed to the Board in February 2020, Rachel is an award-winning technology leader with extensive experience in the public, private and not-for-profit sectors in the UK and internationally. She has held senior digital leadership positions within both the European Union and Department of Health. A former CEO, she specialises in digital transformation, leadership, health tech and inclusion.

Skills

Rachel is a director of Neaman Consulting and devotes considerable time to public speaking, mentoring and strategic advisory services. She chaired the Digital Leaders programme for three years and continues to serve as an adviser, as well as championing Tech4Good initiatives. She is regularly listed as one of the most influential women in IT.

A R

John Wilson (44)

Non-executive Director

Experience

Appointed to the Board in an Executive capacity in August 2010, John led the MBO of Bulgin from the Group whilst serving as its CEO. John transitioned to the role of Non-executive Director upon the sale in September 2019.

Skills

John has extensive experience of North American markets and channel management, generating sales outside of the UK, and specialises in the commercialisation of innovative, fast track, product development.

Sara Coate (61)

Group Company Secretary and Solicitor

Experience

Appointed in May 2020, Sara is an experienced solicitor with significant commercial and legal knowledge. Before joining the Group she was the partner in charge of the Company and Commercial Department of a successful firm of solicitors in Surrey. She was also its compliance officer for Finance and Administration.

Skills

Having trained at a large law firm in the City of London, she has extensive experience across all aspects of business law and is an active member of the Law Society. Her approach is to combine high standards of working with practical, commercial considerations.

Applying the principles of governance

The Board recognises the importance of good corporate governance as one of the foundations of a sustainable corporate growth strategy. In March 2018, the London Stock Exchange published AIM Notice 50 outlining corporate governance practices. In accordance with the guidance, the Group has adopted the Quoted Company Alliance's (QCA) Corporate Governance Code for Small and Mid-Sized Quoted Companies as the most appropriate governance model for the Group.

Application of the QCA Code by the Group

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

Checkit's real-time operations management software makes organisations smart, safe and efficient. Our products use IoT, mobile and cloud technologies to ensure our customers get the best out of their mobile teams, processes and buildings. Our customers operate in many sectors including retail, hospitality, healthcare, real estate management and manufacturing. Checkit is headquartered in Cambridge, UK, with its operations centre in Fleet, UK. The strategy and business model is more fully explained in the Strategic Report. The business model is developed by the Executive Chairman and Chief Financial Officer and the Executive Leadership Team ("ELT") and approved by the Board in line with the Group's vision and objectives. Progress is actively tracked by the Board and the ELT, led by the Chairman, is responsible for its effective delivery.

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

The Company is committed to engaging with its shareholders, and maintaining constructive communication to ensure its strategy, business model and performance are clearly understood. We actively seek dialogue with the market by seeking to convey to analysts and investors our plans for the business and understanding what they think about us. We do so via investor roadshows, hosting capital market days and through regular reporting.

a. Private shareholders

The Annual General Meeting ("AGM") is the main forum for dialogue with private shareholders and the Board. The Notice of the meeting is sent to shareholders at least 21 days prior to the meeting. The Board is available for discussion and to answer questions at the AGM, although the forthcoming AGM in July will be closed to external shareholders as a result of the COVID-19 pandemic. Shareholders are asked to submit questions and answers will be provided via the Company's website.

Results of the AGM are always announced promptly after the conclusion of the AGM. For future AGMs, for each vote, the number of proxy votes received for, against and withheld will be announced at the meeting and will be subsequently published on the Company's website.

b. Institutional shareholders

The Board seeks to build relationships with institutional shareholders. The Chairman and CFO make presentations to shareholders and analysts immediately following the publication of its half year and full year results. The Company also hosts capital market days inviting both existing and potential new shareholders. The Board reviews and approves the material to be used in the half year and full year presentations to shareholders and it is also briefed on the feedback from shareholders by the Chairman and CFO. The Non-executive Directors are available to meet major shareholders if required.

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

Engaging with stakeholders enables the Group to understand their needs more effectively which in turn helps the Group make more informed business decisions. These stakeholders include the Group's employees, customers, suppliers, regulators and environment, as well as media and political influencers.

- The Group engages with its customers through regular calls and face-to-face meetings. Feedback is gathered by analysing how customers use our products and engage with the Group's marketing content.
- The Group engages with its employees through anonymous opinion surveys to gather feedback on all aspects of employment within the Group. This feedback is both considered by the senior management team and reported to the Board on a regular basis. Recognition is given to individual employees' needs and requirements and employees are encouraged to apply their skills, knowledge and energy. The Group recognises the importance of its employees and their training. The Group recognises that the needs of the business will continue to change. As such, training is and will be offered to enable employees to enhance their skill base to assist the business in meeting future opportunities and challenges. The Group continues to keep its staff informed on matters affecting them as employees and the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. The Executive Team hosts informal meetings with groups of employees as part of maintaining and encouraging an open dialogue on any matter impacting the workplace.

The Group is committed to equality for all, regardless of gender, race, age, disability, religion or sexual orientation, where it is reasonable and practicable within existing legislation.

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

Risk management

The Company sets out in its annual report the steps taken to ensure that effective risk management is embedded within the Company culture. The Board has identified the principal business and financial risks and has implemented control procedures. The Company has an established framework of internal financial controls which is subject to review by the Directors and the Audit Committee considering the ongoing risks faced by the Group.

The Board acknowledges its responsibility for reviewing the effectiveness of the systems that are in place to manage risk. However, no such system can provide absolute assurance against misstatement or loss. The Board considers that the internal controls that are in place are appropriate for the size and complexity of the Group. The key elements of the Group's internal control environment include:

- close involvement of the Executive Directors in the day-to-day running of the Group;
- clear lines of authority and reporting established;
- centralised control and decision making over key areas such as capital expenditure and financing; and
- a suite of daily and monthly reports focusing on the key performance and risk areas. Such reports include detailed annual budget setting with monthly monitoring and daily reporting including reports on sales, orders and cash balances compared with budget.

Given the current size of the Group and the close involvement of the Executive Directors in the day-to-day operations, the Board believes that an internal audit function is not justified, although this is kept under regular review.

The Group undertakes regular updates and reviews of its business processes, co-ordinated by the Group quality function to ensure that it not only addresses basic financial controls but that non-financial controls are also in place over areas such as health and safety, environmental issues and adherence to law and regulations.

Mitigation can only provide reasonable, but not absolute, assurance against material misstatement or loss. As such the Group maintains appropriate insurance cover for the Group's activities, with the types of cover and insured values being reviewed on a periodic basis by the Board.

The Group maintains a risk register which not only highlights risks relevant to its businesses but also details the actions being taken to mitigate these risks. These registers are reviewed regularly at executive leadership team level and are subject to scrutiny by the Board at least twice a year.

5. Principle: Maintain the Board as a well-functioning, balanced team led by the Chair

The Board currently comprises the Executive Chairman, Chief Financial Officer and three Non-executive Directors. Biographical details are set out on pages 30 and 31. These illustrate the level and range of business experience which the Board believes enables it to provide clear and effective leadership of the Group.

The Chairman has the responsibility for making sure that the Board agenda concentrates on the key strategic issues together with both operational and financial issues and an approach to good corporate governance.

After careful review the Board considers that the Non-executive Directors bring independent judgement and robust challenge to the Board's discussion with two independent Non-executive Directors, Ric Piper and Rachel Neaman. John Wilson, the previous Chief Executive Officer, became a Non-executive Director following the sale of the Bulgin business in September 2019.

Application of the QCA Code by the Group continued

5. Principle: Maintain the Board as a well-functioning, balanced team led by the Chair continued

As the Group revenue and operations grow the Board may consider adding an additional independent Non-executive Director. However, for now, the Board considers its composition appropriate given the size of its businesses, its revenues and profitability.

The Board receives regular information in respect of the Group's operational and financial performance from the Executive Directors. In addition, the minutes of the previous Board meeting are reviewed and approved by the Board and the Directors have access to the advice and services of the Company Secretary.

The Board meets at least six times a year, and in FY20 it met eight times, with all Directors attending.

The Executive Directors are required to devote substantially all of their working time to the Company. Non-executive Directors are required to commit at least ten days a year or more should the need arise.

The Company has procedures in place to monitor and manage any conflicts of interest. The Board is aware of the backgrounds and other interests of the Directors and changes to these are reported and where appropriate agreed with the rest of the Board.

The Board is supported by an Audit Committee and Remuneration Committee of which Non-executive Directors Ric Piper (Chair of Audit Committee) and Rachel Neaman (Chair of Remuneration Committee) are members. Ric Piper's financial and business experience alongside Rachel Neaman's senior leadership expertise provide the necessary level and combination of skills and knowledge to each of those Committees.

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

The Board regularly reviews its composition to ensure that it has the necessary breadth and depth of skills to support the ongoing development and growth of the business. The Board is satisfied that it has an effective and appropriate balance of skills between the Directors to deliver the strategy of the Company for the benefit of its shareholders over the medium to long term. Biographies of the Directors are provided on pages 30 and 31.

Where new Board appointments are considered, the search for candidates is conducted and appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including but not limited to gender balance.

The Directors keep their skillset up to date with ongoing training and are individually assessed on an annual basis through the annual evaluation process. The Board is supported by the Company Secretary. Every Director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

All Directors are put forward for re-election at each AGM.

All Directors, the Audit Committee and Remuneration Committee are able to take independent professional advice in the furtherance of their duties, if necessary and in addition have access to advice and the services of the Chief Financial Officer and Company Secretary.

Sara Coate was appointed Company Secretary in May 2020 and is responsible for co-ordinating meetings, distributing information to the Board, providing access to advisers for the Board should the need arise, and managing shareholder enquiries.

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

Evaluation of the Board has historically been carried out in an informal manner. It is anticipated that from 2020 the Board will formally review and consider the performance of each Director at or around the time of the publication of the Company's annual report.

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

The Board believes that the promotion of a corporate culture based on sound ethical values and behaviours is essential to creating a workplace environment that allows people to flourish and this will contribute to enhancing shareholder value. An open culture is encouraged within the Group, with employee feedback sought and regular progress and performance updates provided to all employees. The Board monitors and promotes a healthy culture which permeates every aspect of the business including how it seeks to recruit, nominate, train and engage with its employees.

The Company maintains, and reviews annually, an employee handbook that includes clear guidance as to what is expected of every employee.

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

The long-term success of the Group is the responsibility of the Board of Directors, which comprises three Non-executive Directors and two Executive Directors. The Executive Directors have responsibility for the operational management of the Group's activities. The Non-executive Directors are responsible for bringing independent and objective judgement to Board decisions.

The Board meets at least six times a year. Prior to the start of the financial year a schedule of meeting dates is agreed to ensure an appropriate spread of meetings throughout the year. This may be supplemented with additional meetings should the need arise.

There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction and also, in his capacity as an Executive in the development of the Group strategy.

The Board and its Committees receive appropriate and timely information, with a formal agenda and associated papers always circulated a few days in advance of the meeting. The Company Secretary is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are complied with.

The Board is responsible for the long-term success of the Company and has a schedule of matters reserved for it, including:

- strategy;
- allocation of resources;
- structure and sources of capital and funding;
- financial reporting;
- internal controls and compliance including monitoring of risk;
- corporate transactions and expenditure proposals beyond any delegated authority to the Executive Directors;
- communication;
- Board membership;
- corporate governance;
- advisers, litigation; and
- Directors' indemnification and insurance.

The Board receives reports from the Executive Directors, Committee Chairs and function heads ensuring matters are considered fully and enabling Directors to discharge their duties properly. In addition, senior managers are invited to attend meetings to update on business performance as appropriate.

The Board has two sub-committees as follows:

- Audit Committee: The Audit Committee oversees the integrity of the financial results of the Company. It engages and works with the external auditor and Group management. It reviews and reports to the Board on significant issues including estimates and judgements made in connection with the preparation of the Group financial statements. The Audit Committee also has a key role in the oversight of the effectiveness of risk management. Full details of the Report of the Audit Committee are set out in the annual report. The Committee met three times during FY20.
- Remuneration Committee: This Committee ensures that the Group's Executive remuneration policy is aligned to the implementation of the Company strategy and shareholder interests, after considering the views of shareholders. The Committee seeks to establish a policy that is designed to motivate, retain and attract Executives of the high calibre necessary for a business of Checkit's complexity, international scope and ambitions. Full details of the Report of the Remuneration Committee can be found on pages 38 to 43.

Given the current size and complexity of the Group the Board does not currently consider that a nominations committee is required and the Board as a whole leads the process for Board appointments and succession planning for key Senior Executives, whilst reserving its right to establish a committee for any specific appointment process.

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

The Group communicates with shareholders in a number of ways, including:

- the Group's annual report and accounts;
- full year and half-year announcements;
- other regulatory announcements;
- the Annual General Meeting;
- update meetings with existing shareholders;
- outcomes of all votes in a clear and transparent manner; and
- Audit Committee report/Remuneration Committee report.

Other corporate information, including annual reports for the last five completed financial years, full and half year results announcements, notices of general meetings for the last five completed financial years and other regulatory announcements, is also available to shareholders, investors and the public through the Group's website.

One-to-one meetings are held with large existing or potential new shareholders. The Company engages its broker and investor relations advisers to assist in shareholder interaction and feedback and the Board receives regular updates on the views of shareholders from these advisers.

The Company generally holds briefing meetings for employees following the half and full-year result announcements.

Report of the Directors

The Directors present their annual report and accounts on the affairs of the Group together with the audited financial statements for the year ended 31 January 2020.

Principal activity

Checkit plc is leading provider of a new generation of cloud-based services, supporting human work and automated monitoring.

Checkit is transitioning to a dynamic software-as-a-service (SaaS) global business model: a client-focused, lean, dynamic, market-driven, service provider, with a suite of globally accessible Connected Workflow Management, automated monitoring and building management, Internet of Things ("IoT"), and operational insight-based products and services.

Results and future developments

The Group's results are set out in the consolidated income statement on page 53 and are explained in the Chief Financial Officer's statement on pages 20 to 22. A detailed review of the business, its results and future direction is included in the strategic report set out on pages 2 to 19.

The principal activity of the Company is that of a holding company.

The Directors are not aware, at the date of this report, of any likely major changes in the Group's activities during the next year.

COVID-19 has caused disruption to the Group's business. Full details and the Group's response to this crisis is set out on page 10 within the Strategic Report.

The subsidiaries of the Group as at 31 January 2020 are listed in Note 13.

Results and dividends

There was a profit attributable to equity shareholders for the year of £73.7m (2019: profit of £4.1m).

Due to the significant and ongoing investment in developing our products, the Directors do not propose a dividend in respect of the year ended 31 January 2020 (2019: £nil).

Research and development

The continual advancement of technology and processes by the Group means costs are incurred each year in research and development. The Directors consider that research and development continues to play a vital role in maintaining and increasing the Group's competitive position in the market. Details are set out in Notes 4 and 11 to the financial statements.

Health, safety and environment

The Group recognises and accepts its responsibilities for health and safety and is committed to achieving the highest practicable standards in health and safety management for all its operations to safeguard its employees, customers and the local community.

The Group is committed to the care of the environment and the maintenance of environmental controls as they relate to the business and aims to ensure that its activities comply at all times with relevant environmental legislation.

Financial instruments

Principal financial risks and mitigating activities have been set out within the strategic report. Additionally, note 24 to the financial statements provides further details in respect of credit risk, market risk and liquidity risk.

Directors' remuneration

Details of Directors' remuneration are contained in the Remuneration report on pages 38 to 43.

Directors' indemnity arrangements

The Company has granted indemnities to each of its Directors of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as Directors to the extent permitted by the Companies Act 2006 and the Company's articles.

Such qualifying third-party indemnity provisions remain in force at the date of this report.

The Group has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors.

Directors and their interests

Biographical details of the current Directors are set out on pages 30 and 31 and details of Directors' beneficial interests in the shares of the Company as at 31 January 2020 are set out in the Remuneration report on pages 38 to 43.

As of last year, the Board is following best practice recommendations and, accordingly, the whole Board will be offering itself for re-appointment or appointment as appropriate.

Share capital

As at the date of this report, the total number of shares in issue (being ordinary shares of 5 pence each) is 62,033,617 (2019: 186,100,851).

During the year, the Company did not issue any ordinary shares of 5 pence each (2019: nil shares).

Details of the share capital are given in Note 20 to the financial statements.

Social responsibility

The Group is committed to making a positive contribution to society and charitable donations of £5,000 (2019: £nil) were made during the year. No political contributions were made during the year (2019: £nil).

Employees

The Group has human resource policies designed to meet the needs of its Group companies and employees. Recognition is given to individual employees' needs and requirements and employees are encouraged to apply their skills, knowledge and energy. The Group recognises the importance of its employees and their training.

The Group is committed to equality of opportunity for all, regardless of gender, race, age, disability, religion or sexual orientation, where it is reasonable and practicable within existing legislation. This applies equally to recruitment and to the promotion, development and training of staff. The Group recognises that the needs of the business will continue to change. As such, training is and will continue to be offered such that employees are able to enhance their skill base to assist the business in meeting future challenges.

The Group continues to keep its staff informed of matters affecting them as employees and of the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. At each of our main sites, an employee forum has been established.

Substantial shareholdings

As at the date of this report, the Company was aware, or has been notified in accordance with Chapter 5 of the Disclosure Transparency Rules, of the following interests of 3% or more in its issued ordinary share capital:

Mr K Daley	21.2%
D&A Income Limited	19.1%
Ruffer LLP	8.9%
Herald Investment Management Limited	7.5%

The Company's website, www.checkit.net, provides updated information on substantial shareholdings.

Details of the Company's share capital are set out in Note 20 to the consolidated financial statements. During the year issued share capital was reduced by two-thirds, following the tender offer which returned £81m to shareholders, leaving 62,033,617 shares in issue (2019: 186,100,851).

Financial reporting

It is the Board's responsibility to present a balanced assessment of the Group's position and prospects. The respective responsibilities of the Directors and the auditor in connection with these financial statements are explained on pages 47 to 52.

Auditor and disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Annual General Meeting

The Company's AGM will be held on 31 July 2020. Accompanying this annual report and accounts is a letter from the Chairman and a Notice of AGM that sets out the resolutions to be considered and approved at the meeting.

On behalf of the Board

Sara Coate
Company Secretary
15 June 2020

Registered number
448274

Remuneration report

Dear Shareholder

I am pleased to present our FY20 Remuneration report which has been prepared by the Remuneration Committee and approved by the Board. Shareholders will be invited to approve this report at the forthcoming Annual General Meeting.

My predecessor as Chair of the Remuneration Committee, Gio Ciuccio, stepped down from the Board on 31 January 2020 and I would like to thank him for his contribution as Chair. We wish him well for the future.

Composition of the Remuneration Committee

The Remuneration Committee consists of Non-executive Directors only and is currently made up of Ric Piper and me. During the financial year ended 31 January 2020, the Committee's members were Gio Ciuccio (Chair) and Ric Piper. I took over the role of Chair when I joined the Board on 3 February 2020. No member of the Committee has or has had any personal financial interest (other than as shareholders) or conflicts of interest from cross directorships.

Role of the Remuneration Committee

The Committee sets policy on Directors' remuneration and determines the remuneration packages of each of the Group's Executive Directors. The Committee is also responsible for elements of the employment terms of the Group's senior staff, including arrangements for long-term incentive plans (LTIPs), and for all other staff where equity is involved.

Governance framework

Companies with securities listed on AIM are not required to comply with either the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 or the UKLA Listing Rules. The Company has adopted the QCA Code and the Remuneration Committee is committed to maintaining high standards of corporate governance and open communication with shareholders. It has amended its terms of reference to reflect the adoption of the QCA Code. The Committee's terms of reference are available from the Company Secretary on request. The Company has applied the regulations and guidelines as far as is practical given the current size and development of the Group.

Unaudited information

The independent auditor is not required to audit and has not, except where indicated, audited the information included in the Remuneration report. The audited information meets the remuneration disclosure requirements of Rule 19 of the AIM Rules for Companies.

Executive Directors' remuneration policy

The Group's remuneration policy is designed to motivate, retain and attract the highest-calibre Directors and Senior Executives, and to ensure that their interests are closely aligned with those of shareholders.

The Committee regularly reviews Group remuneration, using independent external advice where appropriate, to ensure that it delivers this policy efficiently and effectively whilst maintaining value for money for the Group. The review process ensures an appropriate balance between fixed and variable remuneration.

The Executive Directors' remuneration policy table (see below) shows how the Remuneration Committee intends the policy to operate until the Company's next Annual General Meeting in 2021.

We shall continue to benchmark Director packages against market norms, using independent external advice as appropriate.

Executive Directors' remuneration policy

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Basic salary			
To pay competitive basic salaries to attract, retain and motivate the talent required to operate and develop the Group's businesses and to develop and deliver the Group's strategy.	Basic salaries are reviewed on an annual basis.	Salaries are benchmarked against the market.	None, although the Committee takes an individual's overall performance into consideration when reviewing and setting salary levels.
Pension			
To provide an opportunity for Executives to build up income on retirement.	All Executive Directors are eligible to participate in the Group Personal Pension Scheme, to receive a contribution to self-invested personal pension plans, or to receive a payment in lieu of the above.	Amounts are benchmarked against the market.	Not applicable.
Benefits			
To provide market-competitive, non-cash benefits.	Executive Directors receive benefits including car allowance, income protection in case of long-term ill health, private family healthcare insurance and death-in-service benefits.	Benefits may vary by role and are set at levels which the Committee considers to be appropriate based on the role and individual circumstances.	Not applicable.
Annual bonus plan based on current year performance			
To incentivise and reward strong performance against annual financial targets, thus delivering value to shareholders.	The bulk of any increase in annual cash remuneration comes as a result of this bonus scheme. Financial performance targets are typically set in the first quarter of the financial year and adjusted, if necessary, in light of any corporate transaction. The Remuneration Committee assesses actual performance against targets at the end of the financial year and determines the bonus payable to each individual. Bonus payments may be delivered in cash or shares at the Remuneration Committee's discretion. The plan is reviewed annually.	The maximum amount paid to Executive Directors will not normally exceed 100% of basic salary. The Committee has discretion to pay higher levels of bonuses in the case of exceptional performance.	The Committee determines performance on an annual basis according to specific profit and other targets.
Long Term Incentive Plan (LTIP) arrangements			
To drive sustained long-term performance that supports the creation of shareholder value.	LTIPs are designed to provide a meaningful reward to Executive Directors linked to the long-term success of the business.	Following the satisfaction of the 2016 LTIP as part of the sale of Bulgin, the Committee will be considering the design and implementation of a new LTIP in due course.	To be aligned with shareholders' interests.
Company Share Option Plans (CSOP) and Enterprise Management Incentive (EMI) schemes			
To drive sustained long-term performance that supports the creation of shareholder value.	Option grants are made from time to time at the Committee's discretion.	Any aggregate outstanding CSOP and EMI awards made may not relate to shares with value(s) at the time of grant(s) exceeding £30,000 or £250,000 respectively, the limits approved by HM Revenue & Customs (HMRC).	Vesting of options is subject to a vesting period of at least three years and continued employment. If no entitlement has been earned at the end of the relevant period, option awards will lapse.

Notes

Basic salary

The basic salaries for Keith Daley and Andy Weatherstone will not be reviewed during the current financial year.

Transaction bonuses and settlement of the 2016 LTIP

Following the sale of Bulgin, which resulted in a cash return of £81m to shareholders, the Remuneration Committee recommended to the Board that certain bonus and incentive payments be made to the Executive Directors. Whilst there was no legal or regulatory requirement for these payments to be voted on and approved by shareholders, the Remuneration Committee and the Board considered it a matter of good corporate governance that they should ask shareholders to consider and specifically approve them at the General Meeting held on 3 September 2019.

Separately, the outstanding obligations payable to each of the A ordinary shareholders under the 2016 LTIP were settled as part of the transaction and the 2016 LTIP cancelled.

Full details of all transaction bonuses and settlement of the 2016 LTIP are provided in the Circular dated 31 July 2019 that was reported to shareholders ahead of the General Meeting held on 3 September 2019 and is available on the Checkit website. All payments were subsequently approved by shareholders at the General Meeting.

Annual bonus plan

Bonuses are not contractual and remain at the discretion of the Remuneration Committee.

FY20

In FY20 the Committee implemented a bonus scheme relating to the sale of Bulgin in lieu of the annual bonus scheme. As noted in last year's report, John Wilson was entitled to a supplement of £80,000 per annum to be paid monthly providing certain confidential profitability-related milestones were met. John Wilson received £53,333 up to the date he ceased to be an Executive Director.

FY21

In light of the impact of COVID-19, it has been agreed with the Executive Directors that no annual bonus plan will be in place for the current financial year. A reorganisation bonus of £200,000, approved by shareholders as part of the transaction bonus arrangements, is payable to Keith Daley upon completion of specific operational and system targets and the disposal of EET in FY21.

Long-term incentive plans

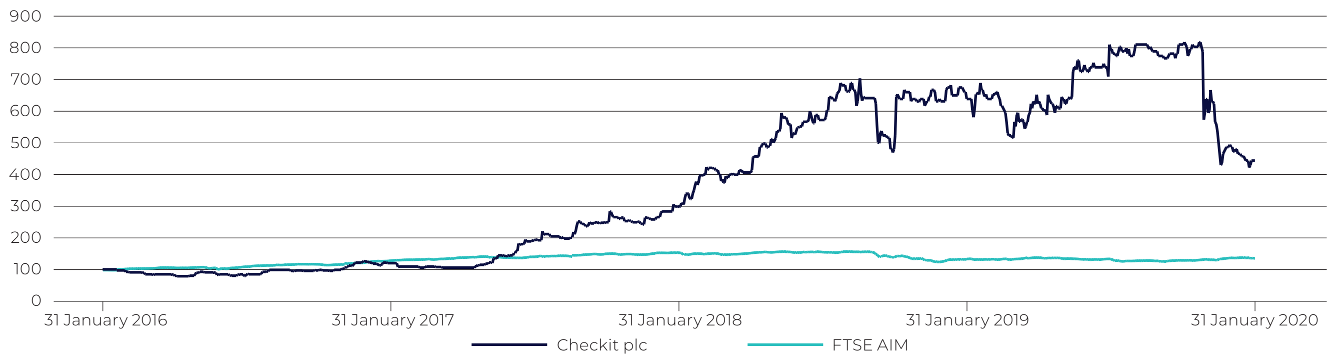
(a) Market value options

These options, granted on the unwinding of the 2012 LTIP scheme, enable Keith Daley to acquire shares at the higher of mid-market price at close of business on the previous business day and 5 pence. John Wilson's options were cancelled as part of the transaction bonus arrangements and Keith Daley exercised his remaining options on 18 December 2019. Their interests as at 31 January 2019 and 31 January 2020 are set out in the table below.

(b) New long-term incentive plans

As noted above, the Committee will be considering the design and implementation of a new LTIP in due course.

Total shareholder return



The Company's share price over the five-year measurement period rose from 7.10 pence to 30.5 pence.

The chart shows the value at 31 January 2020 of £100 invested at 31 January 2015, compared with the value of £100 invested in the FTSE AIM Index.

Company Share Option Plan

The Company operates a tax-advantaged Company Share Option Plan (CSOP) for Executives, up to the £30,000 individual limit under the relevant regime. John Wilson and Andy Weatherstone exercised their options in full and no options were issued during the year. The Directors' interests under the CSOP as at 31 January 2019 and 31 January 2020 are set out below:

Directors' interests in approved options over ordinary shares of 5 pence each	Exercise period	Option price	**No. of options at 31 January 2020**	No. of options at 31 January 2019
J Wilson	12/12/2020–12/12/2027	16.87	—	175,000
A Weatherstone	30/07/2019–30/07/2026	5.25	—	571,425
Total			—	746,425

Summary of long-term awards and options to Directors in issue at 31 January 2020

Directors' interests in approved options over ordinary shares of 5 pence each	**Market value options 31 January 2020**	Market value options 31 January 2019	**LTIP 31 January 2020**	LTIP 31 January 2019	**CSOP 31 January 2020**	CSOP 31 January 2019
K Daley	—	541,500	—	—	—	—
J Wilson	—	1,357,661	—	5,000,000	—	175,000
A Weatherstone	—	—	—	2,500,000	—	571,425
Total	—	1,899,161	—	7,500,000	—	746,425

Enterprise Management Incentive Plan

The Board approved in May 2020 a tax-advantaged Enterprise Management Incentive (EMI) Plan (the Plan) to grant options to staff. The Plan was drafted with input from Deloitte LLP and complies with the provisions of the EMI Code of the Income Tax (Earnings & Pensions) Act 2003. Under the Plan the Company may grant share options to staff over shares with a value up to a limit of £250,000 per employee as part of the Company's reward and retention policy. Non-executive Directors are not eligible for this scheme. Vesting of options is subject to a vesting period of at least three years and continued employment. If no entitlement has been earned at the end of the period, option awards will lapse.

The Remuneration Committee is responsible for approving the number of shares to be granted to each employee.

Employment contracts – Executive Directors

All Executive Directors are employed on service contracts terminable on six months' notice by the Company or the Director.

Non-executive Directors

All Non-executive Directors serve under letters of appointment that either party can terminate on three months' written notice. Their remuneration is determined by the Board (excluding the Non-executive Directors) within the limits set by the Articles of Association and is based on fees paid in similar companies and the skills and expected time commitment of the individual concerned. The basic fees were reviewed during 2019 and have as a result been increased. The Non-executive Directors receive no remuneration or benefits in kind other than their basic fees and are not eligible for any equity-based incentive schemes.

Rachel Neaman, who was appointed on 3 February 2020, will provide additional marketing consultancy to the Company at a cost of £10,000 per annum, in addition to her basic fees.

Following the sale of the Bulgin business, the Board (excluding the Non-executive Directors) awarded additional fees to Ric Piper and Gio Ciuccio of £45,000 and £30,000 respectively for significant additional time spent on the successful transaction.

John Wilson was an Executive Director until 24 September 2019 and now serves as a Non-executive director.

Total emoluments and the single figure of total remuneration

Emoluments for the Executive and Non-executive Directors are set out below. The figures represent amounts earned during the relevant financial year. Such emoluments are paid in the same financial year, with the exception of bonuses, which may be paid in the year following that in which they are earned but are charged in the year to which they relate.

Audited information

Year to 31 January 2020	Basic pay £'000	Salary supplement £'000	Fees for additional work £'000	Benefits[1] £'000	Bonuses £'000	Transaction bonuses £'000	Total £'000	Pension contribution[2] £'000	LTIPs vested/ options exercised in the year £'000	Single figure of total remuneration £'000
Executive Directors										
K Daley	206	—	—	15	—	920	1,141	21	—	1,162
J Wilson (as Executive)	151	53	—	8	—	1,105	1,317	15	2,818	4,150
A Weatherstone	191	—	—	13	—	465	669	19	1,662	2,350
Non-executive Directors										
G Ciuccio	33	—	30	—	—	—	63	—	—	63
R Piper	36	—	45	—	—	—	81	—	—	81
J Wilson (as Non-executive)	12	—	—	—	—	—	12	—	—	12
Total 2020	**629**	**53**	**75**	**36**	**—**	**2,490**	**3,283**	**55**	**4,480**	**7,818**

1 Benefits include car or car allowance, fuel and private medical insurance for Directors and dependants.

2 Includes payments made in lieu of pension contributions.

Year to 31 January 2019	Basic pay £'000	Salary supplement £'000	Fees for additional work £'000	Benefits[1] £'000	Bonuses £'000	Transaction bonuses £'000	Total £'000	Pension contribution[2] £'000	LTIPs vested/ options exercised in the year £'000	Single figure of total remuneration £'000
Executive Directors										
K Daley	203	—	—	15	100	—	318	20	—	338
J Wilson	223	—	—	12	184	—	419	22	—	441
A Weatherstone	188	—	—	14	108	—	310	19	—	329
Non-executive Directors										
G Ciuccio	24	—	8	—	—	—	32	—	—	32
R Piper (from appointment)	6	—	—	—	—	—	6	—	—	6
P Welch	36	—	10	—	—	—	46	—	—	46
Total 2019	680	—	18	41	392	—	1,131	61	—	1,192

1 Benefits include car or car allowance, fuel and private medical insurance for Directors and dependants.

2 Includes payments made in lieu of pension contributions.

The Executive Directors elected to take payments in lieu of Company pension contributions for the full year. The emoluments of the highest paid Director were £4,147,000 (2019: £419,000) and, in addition, the Group made pension contributions or payments in lieu of pension contributions of £15,000 (2019: £22,000).

The annual basic pay for each of the current serving Directors at the year end and as at the date of this report is listed below:

	Basic pay at date of report £'000	**2020 £'000**	2019 £'000
K Daley	206	**206**	203
J Wilson	36*	**227**	223
A Weatherstone	191	**191**	188
R Piper	44	**36**	6
R Neaman	40**	**—**	—

* John Wilson's fee relates to a 10 day time commitment per year.

** In addition, Rachel Neaman will provide marketing consultancy at a cost of £10,000 per annum. With effect from May 2020, Rachel will also provide sales consultancy with the principal focus of developing strategies for the healthcare sector at a rate of £1,250 per day.

Unaudited information

Directors' share ownership

The shares owned by the current Directors serving at 31 January 2020, including their interests in shares, are shown below:

	Shares owned outright at date of this report	**Shares owned outright at 31 January 2020**	Shares owned outright at 31 January 2019
Executive Directors			
K Daley	13,128,339	**8,528,339**	21,710,516
A Weatherstone	151,764	**151,764**	50,000
Non-executive Directors			
R Neaman	2,738	**—**	—
R Piper	100,317	**100,317**	380,333
J Wilson	789,259	**688,530**	2,600,000
Total	14,172,417	**9,468,950**	24,740,849

Amounts payable to outside advisers in respect of Directors' remuneration

The Committee engaged independent remuneration consultants H2Glenfern during the year at a total cost of £13,500 (2019: £26,000). The Committee also during the year sought advice on its new Enterprise Management Incentive plan from Deloitte LLP at a cost of £19,000 (2019:£nil).

Approval

This report was approved by the Board of Directors on the date shown below and signed on its behalf by:

Rachel Neaman
Chair of the Remuneration Committee
15 June 2020

Audit Committee report

I am pleased to present the Audit Committee's ("Committee") report which describes the membership and operation of the Audit Committee.

I would like to draw shareholders' attention to note 11 Intangible assets of the annual report which details the reasoning behind the Group's decision to fully impair its intangible assets.

I also draw shareholders' attention to the Report of the Independent Auditor on pages 48 to 52, which sets out their reasons for not agreeing with this approach to impairment.

See impairment of intangible assets below.

Membership

The Audit Committee consists only of the Non-executive Directors.

Gio Ciuccio was the Chair until the conclusion of the Annual General Meeting on 30 July 2019. He stepped down from the Committee, leaving the Board on 31 January 2020. I should like to thank Gio for his wise counsel.

Ric Piper became Chair of the Committee, having previously been the Committee's Chair in 2012–13 and a member in 2013–15 and from 2018.

Since the year end, on 3 February 2020, Rachel Neaman joined the Committee on her appointment to the Board.

The biographies of Ric Piper and Rachel Neaman can be found on pages 30 and 31 and on the Company's website.

Key responsibilities

- monitoring the integrity of the half-yearly and annual financial statements and formal announcements relating to the Group's financial performance;
- reviewing significant financial reporting issues, accounting policies and disclosures in financial reports;
- reviewing the effectiveness of the Group's internal control procedures and risk management systems;
- considering how the Group's internal audit requirements shall be satisfied and making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of the Group's independent external auditor;
- a review of the independent auditor's audit strategy and implementation plan and its findings in relation to the annual report and interim report;
- overseeing the Board's relationship with the independent auditor, including its continuing independence and, where appropriate, the selection of a new independent auditor; and
- reviewing the Group's procedures for detecting and responding to fraud and bribery and ensuring that an effective whistleblowing procedure is in place.

The Board considers that throughout the financial year and subsequently the Committee is properly constituted, with appropriate recent and relevant financial and accounting experience. The Board considers that the Committee as a whole has competence relevant to the sector in which the Group operates.

The Committee met three times during the financial year. The independent auditor attended two of the meetings and the Committee met privately with the independent auditor during the year.

Subsequent to the year end the Committee has met twice with the independent auditor. The first of the meetings included specifically consideration of the impact on COVID-19 on the preparation of the Group's financial statements and the independent audit.

The Executive Directors are routinely invited to Committee meetings, particularly attending the meetings at which the interim and annual results are reviewed.

Operation of the Committee

The Committee's terms of reference were reviewed, updated and approved by the Board in January 2019, shortly before the start of FY20.

The major updates accommodated the Group's adoption of the Quoted Companies Alliance (QCA) Corporate Governance Code and clarifications regarding appointments during the transitional period where there was a change in the Committee, as had been encountered during FY19.

The Terms of Reference will be next reviewed by January 2021.

The Terms of Reference are available on request from the Company Secretary.

The main activities of the Committee during the year were as follows:

Oversight of financial reporting

The Committee acts in an oversight role in respect of the annual report and announcements with financial content that is prepared by executive management. The Committee received reports on the annual from the external auditor, which attended its meetings.

The Independent auditor's report is set out on pages 48 to 52 and contains a qualification in respect of the Group's decision to fully impair its intangible assets.

The Committee's work also included reviewing the financial statements, key financial policies, including accounting, tax and treasury, and significant issues of judgement, detailed as follows:

Going concern

The Group continues to prepare its financial statements on a going concern basis, as set out in Note 1 to the financial statements.

Management produces working capital forecasts on a regular basis. The forecasts are reviewed by the Board, particularly ahead of the publication of interim and annual results. Having reviewed the forecasts as at the date of this report, the Committee concluded that it was appropriate for the Group to continue to prepare its financial statements on a going concern basis.

Revenue recognition

The revenue recognition accounting policies, both for the existing business and for the acquisition made during the year, are set out in Note 1 to the financial statements.

Impairment of intangible assets

The Committee reviewed the Group's intangible assets for impairment in light of the economic uncertainty created by COVID-19.

In considering the matter the Committee discussed extensively with management whether it would be able prepare long-term projections given the level of economic uncertainty and deemed that it was not possible. Accordingly it was agreed that the intangible assets should be fully impaired. The Independent Auditor did not concur with this view as it considers that the impairment assessment should be based on a probability weighting of different scenarios and that in any event the impact of COVID-19 is not an adjusting event at the balance sheet date.

Acquisition during the year

On 15 May 2019 the Group acquired Next Control Systems Limited. The Committee has reviewed the accounting for the acquisition, with further information set out in Note 27 to the financial statements. This gave rise to separately identifiable intangible assets of £4m relating principally to customer relationships with a deemed useful life of three years and goodwill of £4.3m.

Discontinued operations

On 3 September 2019 shareholders approved the disposal of Elektron Technology UK Limited (which holds the Bulgin business). The accounting for this disposal plus the subsequent return of cash to shareholders and for the intended sale of Elektron Eye Technology Limited is set out in Note 26 to the financial statements.

Deferred taxation

The Committee reviewed the appropriateness of the recognition of deferred taxation. The level of deferred tax asset recognition in relation to accumulated tax losses is underpinned by a range of judgements. The Committee was satisfied that no recognition of deferred tax asset is included.

Further details on these are disclosed in Notes 8 and 14 respectively.

The main activities of the Committee during the year were as follows:

Internal financial control systems

The Audit Committee is required to assist the Board in its annual assessment of the effectiveness of risk management and internal control systems. The Committee reviewed the updated risk register prepared by Board members and senior management which is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, with regular review by the Board.

Key procedures designed to provide an effective system of internal control are that:

- Clearly defined lines of responsibility ultimately reporting to the Executive are established, all with appropriate segregation of duties.
- Annual budgets are prepared and agreed by Board at the start of each financial year and updated as necessary.
- Management accounts are prepared monthly and compared to budgets and forecasts to identify any significant variances.
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities.

In addition, recommendations made by the independent auditor and management's responses and subsequent implementation actions are reviewed.

The Committee was satisfied that it was appropriate for the Board to make the statements regarding internal controls included in the Report of the Directors and the Directors' responsibilities statement.

Internal audit

Given the size of the Group the position remained that it was not appropriate for the Group to undertake formal internal audit activities during the year.

Where applicable, the Chair of the Committee reported to the Board on the Committee's activities after each meeting, identifying relevant matters requiring communication to the Board and recommendations on the steps to be taken.

Independent auditor: re-appointment

The appointment of the independent external auditor is approved by shareholders annually. The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs), issued by the Auditing Practices Board.

Going concern continued

Independent auditor: re-appointment continued

There are no contractual obligations that act to restrict the Committee's choice of external auditor.

As reported last year, Grant Thornton UK LLP was appointed as independent auditor for FY2019, with re-appointment for FY2020 approved by shareholders at the Annual General Meeting.

This year, having considered the effectiveness and performance of the independent auditor, the Committee has recommended to the Board the appointment of Grant Thornton UK LLP as independent auditor of the Company for the next financial year.

Independent auditor: services, independence and fees

The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing (ISAs) (UK) issued by the Auditing Practices Board.

The independent auditor, with Alison Seekings as Senior Statutory Auditor, provides the following services:

- a report to the Committee giving an overview of the results, significant contracts and judgements and observations on the control environment; and
- an opinion on the truth and fairness of the Group and Company accounts.

The Committee monitors the cost effectiveness of audit and (if any) non-audit work performed by the independent auditor and considers the potential impact, if any, of this work on independence.

Further, the Committee seeks positive evidence of the independence of the independent auditor through its challenge to management.

Approval is required prior to the independent auditor commencing any material non-audit work in accordance with a Group policy approved by the Committee.

Certain work, such as providing bookkeeping services, is prohibited.

The Committee also regulates the appointment of former employees of the independent auditor to positions in the Group. The Committee regularly reviews all fees for non-audit work paid to the independent auditor. Details of these fees can be found in Note 4 to the financial statements.

Non-audit fees amounted to £61,600 were incurred in FY20 (FY19: £nil).

The independent auditor also operates procedures designed to safeguard its objectivity and independence. These include the periodic rotation of audit partner, use of independent concurring partners, use of a technical review panel (where appropriate) and annual independence confirmations by all staff.

The independent auditor reports to the Committee on matters including independence and non-audit work on an annual basis.

Reporting to the Board

The Committee reports back to the Board regularly on matters under its purview.

Approval

This report was approved by the Committee, on behalf of the Board, on the date shown below and signed on its behalf by:

Ric Piper
Chair of the Audit Committee
15 June 2020

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the annual report includes a fair review of the development and performance of the business, the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that it faces; and
- the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Andy Weatherstone
Chief Financial Officer
15 June 2020

Opinion

Qualified opinion

We have audited the financial statements of Checkit Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 January 2020, which comprise the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, notes to the consolidated financial statements, parent company balance sheet, parent company statement of changes in equity and notes to the parent company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the matter described in the basis for qualified opinion section of our report:

- 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 January 2020 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

The Group has fully impaired its intangible assets. The charge recognised included impairment of goodwill of £4.3m and customer relationships of £3.0m related to the acquisition of Checkit UK Limited (formerly Next Control Systems Limited) in May 2019, impairment of capitalised development cost relating to continuing operations of £2.0m and impairment of certain capitalised development costs of £0.4m which are part of the Elektron Eye Technology disposal group. Management has determined that the impact of COVID-19 should be incorporated into the measurement of assets and liabilities at the reporting date and given the level of uncertainty concluded that no reliable long term projections supporting the asset base could be prepared. Based on the application of the principles of the Financial Reporting Standard IAS 10, 'Events after the Reporting Period', we consider that the economic impact of COVID-19 is a non-adjusting post balance sheet event for the Group. As a result, the carrying value of intangibles recognised in its financial statements at 31 January 2020 should not be adjusted for the economic impact of COVID-19 which occurred after the balance sheet date. We were not provided with an impairment analysis which did not include the impact of COVID-19. Consequently, we were unable to determine the extent of impairment that may have been necessary and whether any adjustment to the impairment charge and carrying value were necessary.

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

Audit work performed

In auditing the impairment assessment, our procedures evaluated management's assessment of the basis of the impairment and the rationale for including the impact of COVID-19 in the impairment assessment at the balance sheet date. Our work included, but was not restricted to, comparing the trading performance of the acquired business in the period since acquisition to 31 January 2020 against historical performance and whether the results were consistent with our understanding of the business derived from other detailed work undertaken to identify whether the economic consequences of COVID-19 were in existence at the balance sheet date.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Conclusions relating to going concern continued

In our evaluation of the directors' conclusions, we considered the risks associated with the Group's business, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group will continue in operation.

GrantThornton

Overview of our audit approach

- Overall materiality: £273,000, which was determined based on 5% of the Group's estimated loss before tax (continuing operations), excluding non-recurring and special items;
- Key audit matters were identified as revenue recognition, accounting for discontinued operations and business combination accounting and
- We performed full scope audit procedures on the financial statements of Checkit Plc and on the financial information of Checkit Europe Limited, Checkit UK Limited, Elektron Eye Technology Limited and specific audit procedures on the discontinued operation of Bulgin. Analytical procedures were performed for all other components.

Key audit matters

In addition to the matter described in the basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Key Audit Matter – Group

Revenue Recognition

Under International Standard on Auditing (UK) 240 'The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue.

The Group's continuing revenue arises from automated monitoring and work management services and the provision of building energy management systems. Service delivery is recognised over time with revenue recognition for projects being determined based on stage of completion of the work done.

As the charges for services is variable based on the number of sites and judgement is required to determined stage of project completion, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Assessing whether revenue recognition policy is consistent with relevant accounting standards, including management's assessment of the implications of IFRS 15 on the revenue streams from the business acquired in the year;
- Analysing revenue trends across the year, by month and revenue stream, in comparison to prior periods, investigating variances and corroborating management explanations;
- Corroborating a sample of customer contracts to signed agreements and supporting documentation;
- Testing a sample of recurring income and recalculating expected revenue to be recognised, including the amount of deferred income at the year end; and
- Testing a sample of project revenue including corroborating management's calculations supporting the stage of completion.

The group's accounting policy on revenue recognition is shown in note 1 to the financial statements and related disclosures are included in note 2.

Key observations

Based on our audit work, we did not identify any evidence of material misstatement of revenue.

Key audit matters continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Accounting for discontinued operations The Group disposed of the Bulgin business during the year. The revenue of £19.4 million and profit of £5.1 million from this business has been disclosed as discontinued in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations'. The Group is committed to the disposal of Elektron Eye Technology Limited and has classified this as a discontinued operation at 31 January 2020 in line with the provision of IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations'. Due to the nature and amounts involved, we identified accounting for discontinued operations as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Obtaining management's calculations and assessing their accounting treatment for the disposal of the Bulgin business and discontinuance of Elektron Eye Technology in line with IFRS 5; • Corroborating terms of the sale of the Bulgin business to contractual agreement including cash receipts and transaction payments and recalculating the gain on disposal; • Corroborating status of proposed sale of Elektron Eye Technology business to potential acquirors; • Substantively testing a sample of profit and loss transactions in the period to acquisition; • Evaluating management's assessment of the recoverable amount of the Elektron Eye Technology disposal group; and • Assessing management's accounting for the discontinued operations within the financial statements including the associated disclosures and assessing that these were in compliance with IFRS 5. The group's accounting policy on discontinued operations is shown in note 1 to the financial statements and related disclosures are included in note 26. **Key observations** Based on our audit work, in respect of the accounting for the disposal of the Bulgin business, we did not identify any evidence of material misstatement of accounting for discontinued operations. In respect of the Elektron Eye Technology disposal group, we note that management have fully impaired certain capitalised development costs which is described in the basis for qualified opinion section of our report.
Business Combination Accounting The Group acquired 100% of Next Control Systems Limited (renamed as Checkit UK Limited) during the year for £10.5m. Management are required to fair value separately identifiable assets and liabilities on acquisition in line with IFRS 3 'Business Combinations'. This includes identifying and valuing separable intangibles distinct from goodwill. Due to the inherent estimation involved in determining the allocation between acquired intangibles assets and goodwill, we identified business combination accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Inspecting the purchase agreement to confirm the acquisition details • Assessment of accounting policies applied by management to ascertain whether they are in line with the Group's accounting policies and accounting standards; • Obtaining management's board paper setting out their assessment of identifiable intangibles existing at the acquisition date; • Obtaining and assessing the acquisition accounting workpapers which identified the net assets acquired, fair value of acquired intangibles and resulting goodwill recognised on consolidation; • Confirming the mathematical accuracy of the models prepared by management to determine the fair value of acquired intangibles; • Using our internal valuations team to assess the valuation models prepared by management in respect of the acquisition, including the basis and methodology adopted for identifying separate intangibles distinct from goodwill; • Considering reasonableness of key assumptions, including discount rate; and • Assessing whether the disclosures made are in accordance with the financial reporting framework. The group's accounting policy on business combinations is shown in note 1 to the financial statements and related disclosures are included in note 27. **Key observations** Based on our audit work, we did not identify any evidence of material misstatement in business combination accounting.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£273,000 was determined based on 5% of the Group's estimated loss before tax (continuing operations), excluding non-recurring and special items. This benchmark is considered the most appropriate because the profit/(loss) before tax from continuing operations is a key performance indicator used by management and shareholders in assessing performance of the continuing Group. Materiality for the current year is lower than the level that we determined for the year ended 31 January 2019 due to the disposal of operations in the year.	£205,000 which is less than 2% of the parent company's total assets, capped at component materiality. This benchmark is considered the most appropriate because the parent company is a non-trading holding company. Materiality for the current year is lower than the level that we determined for the year ended 31 January 2019 reflecting the group changes in the year.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£13,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. We considered the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed on the financial information of each entity, which in particular included:

- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the Group's total assets and earnings before taxation;
- The continuing entities in the Group are based at two primary locations. Group management are responsible for all judgemental areas in respect of the consolidated financial statement but the acquired business, Checkit UK Limited, has a local accounting function. The group engagement team conducted all the audit work on the Group and visited both locations;
- Performance of full scope audits of the financial statements of the parent company Checkit Plc, and of the financial information of Checkit Europe Limited, Checkit UK Limited, Elektron Eye Technology Limited and specific procedures for the Bulgin disposal group. These accounted for 100% of the Group's continuing revenues and 100% of the Group's total assets. For all other entities in the Group, we performed analytical procedures to support the Group audit opinion.
- The audit risks identified for each trading component are the same audit risks identified for the Group as a whole, except for the significant risks of accounting for discontinued operations and accounting for business combination which only apply for the consolidated financial statements.
- Our audit approach in the current year was a substantive testing approach compared to a combination of controls and substantive testing for the year ended 31 January 2019.

Other information

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

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

As described in the basis for qualified opinion section of our report, our audit opinion is qualified for the inclusion of full impairment of intangibles Information included in the strategic report also includes the details of the full impairment and accordingly we have concluded that the other information is materially misstated for the same reason.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

Except for the matter described in the basis for qualified opinion section of our report, 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 under the Companies Act 2006

Except for the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Arising from the matter described in the basis for qualified opinion section of our report:

- We have not obtained all the information and explanations that we considered necessary for the purpose of the audit.

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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 47, 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.

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

Use of our report

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

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
16 June 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended 31 January 2020

	Notes	2020 £m	2019 £m
Revenue	2	**9.8**	1.0
Cost of sales		**(7.2)**	(1.0)
Gross profit		**2.6**	—
Operating expenses			
Operating expenses (excluding non-recurring or special items)	3	**(7.8)**	(4.5)
Operating loss before non-recurring or special items		**(5.2)**	(4.5)
Non-recurring or special items	4	**(11.3)**	—
Total operating expenses	3	**(19.1)**	(4.5)
Operating loss	4	**(16.5)**	(4.5)
Finance income	5	**0.1**	—
Loss before taxation		**(16.4)**	(4.5)
Taxation	8	**0.7**	—
Loss from continuing operations		**(15.7)**	(4.5)
Profit from discontinued operations	26	**89.4**	8.6
Profit for the year attributable to equity shareholders		**73.7**	4.1
Other comprehensive income/(expense)			
Exchange differences on translation of foreign operations		**0.7**	(0.7)
Reclassification of exchange differences to income statement for discontinued items		**1.5**	—
Total comprehensive income for the financial year attributable to equity shareholders		**75.9**	3.4
Loss per share from continuing operations			
Basic EPS		**(9.8)p**	(2.5)p
Diluted EPS	10	**(9.8)p**	(2.5)p

CONSOLIDATED BALANCE SHEET

as at 31 January 2020

	Notes	2020 £m	Restated 2019 £m
Assets			
Non-current assets			
Capitalised development costs	11	**—**	2.6
Other intangible assets	11	**—**	0.3
Property, plant and equipment	12	**1.2**	1.7
Deferred tax asset	14	**—**	0.4
Total non-current assets		**1.2**	5.0
Current assets			
Inventories	15	**1.7**	4.3
Trade and other receivables	16	**3.4**	5.1
Cash and cash equivalents		**14.3**	10.1
Total current assets		**19.4**	19.5
Total assets		**20.6**	24.5
Current liabilities			
Trade and other payables	17	**5.1**	6.6
Current tax payable		**—**	0.3
Contract lease liabilities	22	**0.5**	—
Provisions	19	**—**	1.0
Total current liabilities		**5.6**	7.9
Non-current liabilities			
Long-term contract lease liabilities	22	**0.4**	—
Long-term provisions	19	**0.3**	0.3
Total non-current liabilities		**0.7**	0.3
Total liabilities		**6.3**	8.2
Net assets		**14.3**	16.3
Equity attributable to the owners of the Company			
Called up share capital	20	**3.1**	9.3
Share premium	20	**5.4**	5.4
Merger reserve	20	**—**	1.1
Capital redemption reserve	20	**6.4**	0.2
Own shares	20	**(0.7)**	(1.9)
Other reserves	20	**—**	0.8
Translation reserve	20	**—**	(2.2)
Retained earnings	20	**0.1**	3.6
Total equity		**14.3**	16.3

The financial statements of Checkit plc (registered no. 00448274) were approved by the Board of Directors on 15 June 2020 and were signed on its behalf by:

Keith Daley
Director

Andy Weatherstone
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

year ended 31 January 2020

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares[1] £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
At 31 January 2018	9.3	5.4	1.1	0.2	(1.9)	0.8	(1.5)	(0.5)	12.9
Profit for the year	—	—	—	—	—	—	—	4.1	4.1
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	(0.7)	—	(0.7)
Total comprehensive income for the year	—	—	—	—	—	—	(0.7)	4.1	3.4
At 31 January 2019	9.3	5.4	1.1	0.2	(1.9)	0.8	(2.2)	3.6	16.3
Profit for the year	—	—	—	—	—	—	—	73.7	73.7
Recycled translation reserve	—	—	—	—	—	—	1.5	—	1.5
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	0.7	—	0.7
Total comprehensive income for the year	—	—	—	—	—	—	2.2	73.7	75.9
Correction to classification[2]	—	—	—	—	(1.5)	1.5	—	—	—
Merger reserve realised			(1.1)					1.1	—
Own shares sold	—	—	—	—	2.7	—	—	—	2.7
Share options and incentives exercised	—	—	—	—	—	(2.3)	—	2.3	—
Repurchase and cancellation of shares	(6.2)	—	—	6.2	—	—	—	(80.6)	(80.6)
Transaction with owners	(6.2)	—	(1.1)	6.2	1.2	(0.8)	—	(77.2)	(77.9)
At 31 January 2020	**3.1**	**5.4**	**—**	**6.4**	**(0.7)**	**—**	**—**	**0.1**	**14.3**

1 The shares held by the Elektron Technology 2012 EBT are treated as treasury shares.

2 The correction to own shares reserves relates to a share-based payment adjustment that was incorrectly classified within own shares.

CONSOLIDATED STATEMENT OF CASH FLOWS

year ended 31 January 2020

	Notes	2020 £m	2019 £m
Net cash inflow from operating activities	6	**0.2**	5.8
Investing activities			
Interest received on bank deposits		**0.1**	—
Purchase of property, plant and equipment		**(0.3)**	(0.7)
Investment in product development projects		**(1.3)**	(1.5)
Purchase of business (net of cash acquired)	27	**(8.8)**	
Sale of businesses (net of cash sold)	26	**93.0**	1.3
Net cash generated by investing activities		**82.7**	(0.9)
Financing activities			
Repurchase and cancellation of shares*		**(77.9)**	—
Repayment of contract lease liabilities		**(0.8)**	—
Net cash used in financing activities		**(78.7)**	—
Net increase in cash and cash equivalents		**4.2**	4.9
Cash and cash equivalents at the beginning of the year		**10.1**	5.2
Cash and cash equivalents at the end of the year		**14.3**	10.1

* Net of £2.7m repaid by Elektron Technology Employment Benefit Trust from proceeds of the tender offer.

General information

Checkit plc (the "Group" or "Checkit") is a public limited liability company incorporated in England and Wales and domiciled in the UK. The address of its registered office is Broers Building, JJ Thomson Avenue, Cambridge CB3 0FA. The nature of the Group's operations and its principal activities are set out in the Report of the Directors on pages 36 and 37.

These financial statements are presented in Sterling, the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest hundred thousand (£0.1m) except where otherwise stated. Foreign operations are included in accordance with the accounting policies set out in Note 1.

1. Summary of significant accounting policies

The particular accounting policies adopted by the Directors in the preparation of these consolidated financial statements are described below:

Basis of accounting

The consolidated financial statements of Checkit plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

(a) New standards, interpretations and amendments effective from 1 February 2019

IFRS 16 "Leases"

In the current year, the Group, for the first time, has applied IFRS 16. The date of initial application of IFRS 16 for the Group is 1 February 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Group is not party to any material leases where it acts as a lessor, but the Group does have a number of property and equipment leases. Details of the Group's accounting policies under IFRS 16 are set in its accounting policies below, followed by a description of the impact of adopting IFRS 16 which is set out in Note 22. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(i). Under IFRS 16.C8(b)(i) right-of-use assets are calculated as if the Standard applied at lease commencement but discounted using the borrowing rate at the date of initial application. The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 February 2019 is 3%.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019. As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- right-of-use assets have been adjusted by the carrying amount of onerous lease provisions at 31 December 2018 instead of performing impairment reviews under IAS 36;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- non-lease components have not been separated from lease components, and instead both components have been treated as a single component for the purpose of accounting under IFRS 16; and
- hindsight has been used in determining the lease

There were no other new standards or interpretations effective for the first time for periods beginning on or after 1 February 2019. None of the amendments to standards that are effective from that date had a significant effect on the Group's financial statements.

(b) New standards, interpretations and amendments becoming effective

The following new IASB standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, are not expected to have a material impact on these financial statements:

- IFRS 17 "Insurance Contracts"
- Definition of a Business (Amendment to IFRS 3)
- Definition of Material (Amendment to IAS 1 and IAS 8)

1. Summary of significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are:

Critical accounting judgements

Impact of COVID-19

Since 31 December 2019, the spread of COVID-19 has severely impacted many global economies. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The Board considers as at 31 January 2020 that its business and the sectors it serves would be severely affected by the uncertainties posed by COVID-19. The Company has determined based on the Directors' judgement that these events are subsequent adjusting events. Accordingly, the financial position and results of operations as of and for the year ended 31 January 2020 have been adjusted to reflect their impact. The duration and long-term impact of the COVID-19 pandemic remains sufficiently unclear at this time and is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods. It is for this reason the Company has been unable to provide with confidence long term forecasts to be used to determine the value in use of its intangible asset impairment testing. It has, instead decided due to the economic uncertainty to fully impair these assets.

The classification of non-recurring or special items (Note 4): In line with the way the Board and chief operating decision maker reviews the business, non-recurring or special items are separately identified. Management has defined and reports such items as restructuring and site closure costs, costs associated with acquisitions, amortisation of acquired intangible assets and other non-recurring and non-operating items.

Development costs – Under IAS 38, research and development costs and internally generated technology should be capitalised if the capitalisation criteria are met. Assumptions and judgements are made with regard to assessing the expected future economic benefits, the economic useful life and the level of completion of the project. Under IAS 38, at the point where activities no longer relate to development but to maintenance, capitalisation is to be discontinued. In accordance with IAS 38 the Group will only recognise the costs of an intangible asset if and only if:

1. It is more likely than not that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.
2. If the costs associated with the potential recognition of an intangible asset do not meet criteria 1 set out above then no intangible asset will be recognised.
3. The above criteria will also need to be satisfied and performed each time an entity incurs potentially eligible expenditures relating to expenditure in connection with a potential acquisition or internally generated expenditure in respect of an intangible asset.
4. The Group's policy which is in accordance with IAS 38 states that if the criteria above are not met at the time that the expenditure is incurred an expense is recognised and such costs are never reinstated as an intangible asset in the future.

The key judgement here is reliably measuring the expenditure attributable to development projects and determining whether the project meets the criteria to recognise an asset. An assessment is made when looking at the costs incurred and criteria for development costs, including the commercial and technical viability of the costs being assessed. The main costs attributed to development costs are that of payroll and dedicated third party resources.

Furthermore, estimation of the useful economic life is reviewed regularly and amended when there is judged to be a change regarding the future economic benefits to be derived from the capitalised development costs. Accordingly, in this year the estimated useful economic life of two years was assessed as being more appropriate and accelerated amortisation of £0.3m was charged.

Deferred tax

- The recognition of the deferred income tax asset (Note 14): deferred taxation assets are only recognised for subsidiaries with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that taxable profits are anticipated.

Sources of estimation uncertainty

- The recoverability of internally generated intangible assets: at each balance sheet date, the Group reviews the carrying amounts of its internally generated intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Estimated future cash flows deriving from these assets must be determined and an appropriate discount rate applied to calculate present value. In the case of the uncertainty posed by COVID-19 has prevented the Company from ordinarily preparing such forecasts reliably and as a result of this uncertainty the Company has deemed that these be fully impaired in the absence of reliable forecasted future cash flows.
- The fair value estimation of separable intangibles on business combinations. The key judgements here are the identification of an intangible assets that can be recognised and accounted for independently of goodwill and the determination of a fair value of such an asset at the date of acquisition.

1. Summary of significant accounting policies continued

Going concern

The Strategic Report and opening pages to the Annual Report discuss the Group's business activities and headline results, together with the financial statements and notes which detail the results for the year, net current asset position and cash flows for the year ended 31 January 2020. The Board has further considered 12 months cash flow forecasts from the date of signing the accounts and consider the assumptions used therein to be reasonable and reflective of its long-term SaaS contracts and contracted recurring revenue. The Group meets its day-to-day working capital requirements through its cash balance. It does not have a bank loan or overdraft.

The Board has considered the impact of the ongoing COVID-19 impact. Impact to date on trading has seen revenues in the short-term fall by approximately 36% in April and May 2020 compared with expectations, with minimal impact on debtor recoverability.

The impact of COVID-19 has created a high level of uncertainty as to the outlook for the remainder of the financial year and it is still too early to ascertain the full impact this may have on revenue and profitability for FY21 and beyond. The Board has therefore performed a number of stress tests to assess the Group's ability to continue as a going concern. The Directors have prepared cash flow forecasts ("base case") for the Group for a review period of 12 months from the date of approval of the 2020 financial statements. These forecasts reflect an assessment of current and future market conditions and their impact on the Group's future cash flow performance. The Group has also assessed an extreme-worst case 'reverse stress tested' scenario which has indicated that Group revenue would have to be fall to a negligible level with no action to reduce costs before the Group would require additional cash to continue to operate.

The base case has also been sensitised for a reduction in revenue to that of recurring revenue and calibration income for the remainder of 2020 to the end of the review period. In the sensitised scenario the forecasts indicate the Group would still have enough cash to continue. However, should sales reduce further than the sensitised case the Group has a number of mitigating actions such as reducing discretionary spend, delaying capital expenditure and research and development costs to ensure the Group would have enough cash.

Notwithstanding this, the Group has already taken a number of actions to help mitigate both the short-term financial pressure on the business, these include:

- A moratorium on uncommitted, non-essential expenditure
- A restriction on recruitment to only essential roles
- Deferment of April 2020 VAT payment to March 2021 in line with Government 'Deferral of VAT payments due to coronavirus' guidance
- Government support for employees furloughed as a result of reduced commercial activity
- Introduction of reduced pay scheme (currently for April to June 2020) for those employees that continue to work
- Limited staff reductions through redundancy

Should it become apparent that sales orders, revenue and/or cash collections are being affected for a prolonged period by a global slowdown, the Directors will undertake a further review on discretionary expenditure, staffing levels and capital investment to protect the Group's cash position.

The assessment is based on the Board's best estimate at the date of this report which may be subject to change as the situation evolves further. As at the date of this report, having considered all the above, including the Group's current strong cash position, the Directors remain confident in the long-term future prospects for the Group and therefore the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Consolidation

The consolidated financial statements incorporate the financial statements of Checkit plc and all subsidiary undertakings drawn up to 31 January each year. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies so as to obtain benefit from their activities. The results of businesses acquired during the year are included from the effective date of acquisition. The results of businesses discontinued during the year are included until the date of disposal. Balances between Group companies are eliminated, and no profit is taken on intra-group sales.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, equity instruments issued and cash paid by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the statement of comprehensive income as incurred.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are re-measured to fair value at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) "Business Combinations" are recognised at their fair value at the acquisition date.

1. Summary of significant accounting policies continued

Other intangible assets

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

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

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project; and
- the Group has the ability to use or sell the services and product developed.

The cost of acquiring software (including associated implementation costs where applicable) that is not specific to an item of property, plant and equipment is classified as an intangible asset.

Other intangible assets that are separately acquired by the Group are stated at fair value.

Amortisation of intangible assets is charged on a straight line basis over the estimated useful lives of intangible assets determined on an asset-by-asset basis. The estimated useful lives are as follows:

• Computer software	3–10 years
• Marketing, customer and technology-related assets	3 years
• Development costs	2 years

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the cost of each property, plant and equipment asset individually on a straight line basis and is designed to write off the costs of the assets less any residual value over their estimated useful lives. The estimated useful lives are:

• Plant, equipment and tools	3–15 years
• Motor vehicles	4 years
• Fixtures and fittings	8–16 years
• Leasehold improvements	Term of the lease

Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable.

Impairment of tangible and intangible assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment loss recognised as an operating expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct expenditure and, where appropriate, production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow-moving and defective stocks. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion.

Employee benefits

Pensions to employees are provided through defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

1. Summary of significant accounting policies continued

Share-based employee remuneration

The Group's management awards certain employee incentives from time to time on a discretionary basis and through its Company Share Option Plan (CSOP) and Long Term Incentive Plan (LTIP).

In accordance with IFRS 2 "Share-based Payments", the Group reflects the economic cost of awarding shares and share options to employees by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded, fair value being estimated using the Black-Scholes option pricing model. The expense is recognised in the statement of comprehensive income over the vesting period of the award. Equity-settled share-based payments to employees, and others providing similar services, are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 20.

Share capital

(a) Treasury shares

Where the Group purchases its own equity share capital (Treasury shares) the consideration paid, including any directly attributable incremental costs (net of taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of.

(b) Trust shares

The Elektron Technology 2012 Employee Benefit Trust (EBT) uses funds provided by the Group to meet the Group's obligations under the employee share option plans and LTIP. All shares acquired by EBT are purchased on the open market or may be issued directly to EBT at the then market value. Where the Group holds its own equity shares through EBT, these shares are shown as a reduction in equity; consideration paid or received is shown in the reconciliation of equity movements and no gain or loss is recognised within the consolidated income statement or the statement of comprehensive income on the purchase, sale, issue or cancellation of these shares.

Leases

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

In addition, the Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group does not have any leases that transfer ownership of the underlying asset. The Group does not have any leases with a purchase option where there is a reasonable expectation that the option will be exercised. The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment.

1. Summary of significant accounting policies continued

Leases continued

For short-term leases (lease term of twelve months or less) and leases of low value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight line basis as permitted by IFRS 16.

Prior to 1 February 2019 the Group accounted for lease in accordance with IAS 17 "Leases", whereby the economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

Financial liabilities/assets

The Group's financial liabilities are overdrafts, revolving credit and invoice discounting facilities, trade and other payables and finance leasing liabilities. They are included in the balance sheet line items "borrowings" and "trade and other payables".

Financial liabilities are recognised when the Group becomes party to the contractual arrangements of the instrument.

All interest-related charges are recognised as an expense in "finance costs" in the statement of comprehensive income.

Trade payables are stated at their amortised cost.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods directly to a debtor. Receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the statement of comprehensive income.

Provision against trade receivables represents the expected lifetime credit losses for all trade receivables. The expected lifetime credit loss reflects assumptions on the ageing of overdue debts that may become unrecoverable, based upon historical observed default rates, adjusted for current economic environment.

Equity instruments

Share capital is determined using the nominal value of shares that have been issued. Equity-settled share-based employee remuneration is credited to other reserves until the related equity instruments are realised by the employee.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts, and include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts and invoice discounting advances are presented as current liabilities to the extent that there is no right of offset with cash balances. The carrying value of these assets is approximately equal to their fair value.

Accounting for taxes

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the statement of comprehensive income, any related tax generated is recognised as a component of tax expense in the statement of comprehensive income. Where an item is recognised directly to equity and presented within the statement of comprehensive income, any related tax generated is treated similarly.

Deferred taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

1. Summary of significant accounting policies continued

Revenue recognition

The Group sells software as a service as part of a fee-based subscription service. It also installs building energy management systems. In respect of discontinued operations revenue arises from the manufacture and sale of engineered and ophthalmic products. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

To determine whether to recognise revenue, the Group follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligations;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and
5. recognising revenue when/as performance obligation(s) are satisfied.

Software as a service

The Group recognises revenue depending on the substance and legal form of the contracts with its customers. Revenue is recognised once a legally binding contract between the Group and its customers has been established and the delivery of the service including support and maintenance has commenced. Service delivery is triggered once the customer has been provided access to the software. The Group has assessed that the provision of these goods and services represent a single combined performance obligation over which control is considered to transfer over time as the respective elements are considered as being intertwined and therefore inseparable due to their value together in respect of Checkit Europe sales. Checkit UK's contractual terms include the provision of hardware sold under a separate contract, and a sale is recognised upon its installation upon completion of this separate performance obligation. Checkit UK's service provision is recognised over time similar to Checkit Europe.

Revenues are recognised monthly as the Group has an enforceable right to payment for contracted services provided.

The Group recognises liabilities for consideration received in respect of unsatisfied performance obligations under the service contracts and reports these amounts as part of other creditors.

Consultancy and other services

Consultancy or training service revenues are recognised at the point when the service has been delivered and are considered as separate performance obligations.

A receivable is recognised when the performance obligations are satisfied, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Projects and installations

Revenue arising on contracts where the customer has control over the project, and for which the Group has a right to payments for work performed, is recognised over time. Revenue and costs are recognised over time with reference to the stage of completion of the contract activity at the balance sheet date where the outcome of a contract can be estimated reliably. This is normally measured by surveys of work performed to date. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. When goods to be installed are delivered to site at the start of contract, revenue is recognised but no profit is recognised at that point in time for these goods. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Sale of engineered and ophthalmic products (discontinued operations)

Revenue from the sales of these products for a fixed price is recognised when the Group transfers control of the assets to the customer. Invoices for goods fall due for settlement upon dispatch to the customer, the customer has full discretion over the use of the components and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Transfer of control does not occur until the risks of obsolescence and loss have been transferred, and either the products have been accepted in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

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

1. Summary of significant accounting policies continued

Foreign currencies continued

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

Financial risk management

The Group's multinational operations and debt financing expose it to a variety of financial risks. In the course of its business, the Group is exposed to foreign currency risk, interest rate risk, liquidity risk and credit risk. Financial risk management is an integral part of the way the Group is managed. Financial risk management policies are set by the Board. Further details are included in the Report of the Directors.

The Group does not hold or use derivative financial instruments.

(i) Foreign currency risk

Foreign currency risk arises both where sale or purchase transactions are undertaken in currencies other than the respective functional currencies of Group companies (transactional exposures) and where the results of overseas companies are consolidated into the Group's reporting currency of Sterling (translational exposures). The Group has overseas operations that record their results in different local functional currencies. In countries where the Group does not have operations, it frequently has some customers or suppliers that transact in a foreign currency. The Group is therefore exposed to the changes in foreign currency exchange rates between a number of different currencies, but the Group's primary exposures relate to the US Dollar, Euro and Tunisian Dinar.

The Group's policy is not to hedge its exposure using financial instruments, but to mitigate exposure by natural hedges.

The Group's translational exposures to foreign currency risks can relate both to the statement of comprehensive income and net assets of overseas subsidiaries. The Group's policy is not to hedge the translational exposure that arises on consolidation of the statements of comprehensive income of overseas subsidiaries.

(ii) Interest rate risk

Interest rate risk arising from borrowing at variable rates is not hedged.

(iii) Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk by maintaining adequate levels of cash resources.

(iv) Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on prior experience and its assessment of the current economic environment. Trade receivables are subject to credit limits and control and approval procedures in the operating companies. Due to its large geographic base and number of customers, the Group is not exposed to material concentrations of credit risk on its trade receivables.

Credit risk associated with cash balances is managed by transacting with financial institutions with high-quality credit ratings. Accordingly, the Group's associated credit risk is limited. The Group has no significant concentration of credit risk.

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Group balance sheet.

1. Summary of significant accounting policies continued

Capital management

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Details of share-based payments are disclosed in Note 20.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

From time to time the Group purchases its own shares in the market; the timing of these purchases depends on market prices. Buy and sell decisions are made on a specific transaction basis by the Board.

There were no changes to 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.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate line of business or geographical area of operation that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

Discontinued operations are presented on the statement of comprehensive income as a separate line and are shown net of tax.

Assets and businesses held for sale

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and gains or losses on subsequent re-measurements are included in the income statement. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. The asset or business must be available for immediate sale and the sale must be highly probable within one year.

Non-GAAP measure

These financial statements contain references to operating profit before non-recurring or special items, EBITDA and alternate cash measures. These financial measures do not have any standardised meaning prescribed by IFRS and are therefore referred to as non-GAAP measures. The non-GAAP measure used by the Company may not be comparable to similar measures used by other companies.

The definition of operating profit before non-recurring or special items is set out earlier in this note (critical accounting judgements and key sources of estimation uncertainty). The Board believes that this is a useful supplemental metric as it provides an indication of the results generated by the Company's principal business activities prior to consideration of how the results are impacted by one-time exceptional charges.

Non-recurring items or special items

Non-recurring items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material one-off items of income or expense that have been shown separately due to the significance of their nature or amount and do not reflect the on-going cost base or revenue generating ability of the Group. In addition, management has defined charges in respect of amortisation of acquired intangibles as a special item requiring separate disclosure, if material.

2. Segmental reporting

Management provides information reported to the Chief Operating Decision Maker ("CODM") for the purpose of assessing performance and allocating resources. The CODM is the Executive Chairman.

During the year Bulgin was sold and EET has been classified as a discontinued operation, leaving the Group with Checkit as its sole operating segment.

Currently the Group's main activities are the supply of Connected Workflow Management, automated monitoring and building management, Internet of Things ("IoT"), and operational insight-based products and services. The Board is integrating the business of Checkit UK into the Group and intends to introduce more detailed segmentation of its business in due course.

Revenue by type of the continuing operations

The following table presents the different revenue streams of Checkit:

	2020 £m	2019 £m
Recurring revenues from subscription services	**3.1**	0.9
Installation maintenance and support	**6.7**	0.1
Total	**9.8**	1.0

2. Segmental reporting continued

Geographical information

The Group considers its operations to be in the following geographical regions:

	Revenue from external customers	
	2020 £m	2019 £m
United Kingdom	**9.4**	1.0
The Americas	**0.4**	—
Total	**9.8**	1.0

Information about major customers of the continuing operations

During 2019, the Group had one customer who generated revenues of greater than 39% of total revenue.

Revenue expected to be recognised

The Group expects to recognise revenue amounting to £1.0m (2019: £0.2m) in FY21 relating to performance obligations from existing contracts that are unsatisfied or partially satisfied as at 31 January 2020.

3. Net operating expenses

	2020 £m	2019 £m
Net operating expenses		
Selling and distribution costs	**3.2**	1.5
Administrative expenses	**4.6**	3.0
Operating expenses excluding non-recurring or special items	**7.8**	4.5
Non-recurring or special items (see Note 4)	**11.3**	—
Total operating expenses	**19.1**	4.5

Non-recurring or special items are disclosed separately to improve visibility of the underlying business performance.

Management has defined such items as restructuring, impairments and amortisation of acquired intangibles and other no-recurring items incurred outside the normal course of business.

4. Operating loss – continuing operations

	2020 £m	2019 £m
Operating loss is after charging/(crediting):		
Depreciation on owned property, plant and equipment	**0.2**	0.1
Depreciation on right-of-use assets	**0.5**	—
Amortisation of intangible assets (excluding amounts charged as special items below)	**0.9**	1.6
Product development costs expensed	**1.2**	0.6
Profit on foreign currency translation	**—**	—
Auditor's remuneration:		
– fees payable to the Company's auditor for the audit of the Company's annual accounts	**—**	—
– fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Total audit fees for audit services	**0.1**	0.1
Tax services	**0.1**	—
Total auditor's remuneration	**0.2**	0.1
Non-recurring or special items:		
– Revision to development costs amortisation period	**0.3**	—
– Impairment of development costs	**2.0**	—
– Restructuring and integration costs of Checkit UK	**0.5**	—
– Acquisition costs of Checkit UK	**0.2**	—
– Amortisation of acquired intangible assets	**1.0**	—
– Impairment of goodwill and acquired intangible assets	**7.3**	—
Total non-recurring or special items	**11.3**	—

Included within auditor's remuneration for audit services in FY20 is a sum for less than £0.1m (2019: less than £0.1m) for the audit of overseas subsidiaries carried out by an auditor other than Grant Thornton UK LLP.

Grant Thornton UK LLP was paid £0.1m for tax advisory and compliance services (2019: £nil).

Further details on the changes to amortisation periods and impairment charges are set out in note 11. The acquisition of Checkit UK resulted in transaction costs together with costs of integration including recruitment costs of new management and business consultancy to assist in implementation of new computer systems.

5. Finance income

Finance income comprised:

	2020 £m	2019 £m
Interest receivable on cash and bank balances, and treasury deposits	**0.1**	—

The Group incurred finance costs in relation to IFRS 16 right-of-use contract liabilities of less than £0.1m.

6. Net cash flows from operating activities

	Notes	2020 £m	2019 £m
(Loss)/profit before taxation			
– from continuing operations		**(16.4)**	(4.5)
– from discontinued operations (before tax)	26	**89.9**	9.5
Adjustments for:			
Depreciation		**1.3**	0.4
Amortisation of development costs and computer software		**2.3**	1.8
Impairment of intangible assets and goodwill		**9.9**	—
Loss on disposal of tangible fixed assets		**0.1**	—
Gain on the sale of discontinued businesses	26	**(85.3)**	(0.4)
Finance income		**(0.1)**	—
Operating cash flow before working capital changes		**1.7**	6.8
Increase in trade and other receivables		**(0.9)**	(0.2)
Decrease/(increase) in inventories		**0.1**	(0.6)
(Increase)/decrease in trade and other payables		**(0.1)**	—
Operating cash flow after working capital changes		**0.8**	6.0
(Increase)/decrease in provisions		**(0.1)**	0.3
Cash generated by operations		**0.7**	6.3
Tax paid		**(0.5)**	(0.5)
Net cash inflow from operating activities		**0.2**	5.8

7. Staff information (including Directors)

Employee costs were:

		2020			2019		
	Note	**Continuing £m**	**Discontinued £m**	**Total £m**	Continuing £m	Discontinued Number	Total £m
Wages and salaries		**6.7**	**4.1**	**10.8**	3.5	4.4	7.9
Social security costs		**0.9**	**0.5**	**1.4**	0.3	0.7	1.0
Other pension costs	23	**0.2**	**0.1**	**0.3**	0.1	0.1	0.2
		7.8	**4.7**	**12.5**	3.9	5.2	9.1

Redundancy costs of less than £0.1m (2019: £0.1m) were incurred in the year and were included within operating costs. Employee costs of the discontinued businesses are included within the discontinued result for the year.

The average monthly number of people employed by the Group during the year, including Executive Directors, was as follows:

	2020			2019		
	Continuing Number	**Discontinued £m**	**Total £m**	Continuing Number	Discontinued Number	Total Number
Administration and sales	**66**	**38**	**104**	29	61	90
Development	**29**	**9**	**38**	22	11	33
Field service	**32**	**—**	**32**	4	—	4
Production	**4**	**449**	**453**	5	663	668
	131	**496**	**627**	60	735	795

Details of Directors' remuneration are included in the Remuneration report on pages 38 to 43. Employee costs of the discontinued businesses are included within the discontinued result for the year.

8. Taxation

(a) Analysis of tax (credit)/charge for the year – continuing operations

	2020 £m	2019 £m
Current taxation:		
UK corporation tax charge on profit for the year	—	—
Total current taxation	—	—
Deferred tax:		
On separately identifiable acquired intangibles (as a result of impairment and amortisation)	(0.7)	—
Total deferred taxation	(0.7)	—
Tax charge on continuing operations	(0.7)	—

(b) Analysis of tax charge for the year – discontinued operations

	2020 £m	2019 £m
Current taxation:		
UK corporation tax charge on profit for the year	0.2	0.5
Overseas corporation tax charge on profit for the year	0.3	0.2
Overprovision for prior year – UK	(0.1)	(0.1)
Total current taxation	0.4	0.6
Deferred tax:		
Origination and reversal of temporary differences	0.2	0.2
Under provision in respect of prior years	(0.1)	—
Total deferred taxation	0.1	0.2
Tax charge on discontinued operations	0.5	0.8

(c) Factors affecting taxation charge for the year – continuing operations

The effective tax rate for the year was 19%.

	2020		2019	
	Tax rate	£m	Tax rate	£m
Loss on continuing operations before taxation	—	(16.4)	—	(4.5)
Loss on ordinary activities multiplied by weighted average standard rate of corporation tax in the UK of 19%	19%	(3.1)	19%	(0.9)
Effects of:				
Expenses not deductible for tax purposes	—	—	1.1%	0.1
Goodwill impairment not subject to tax	5.3%	0.8	—	—
Temporary differences not recognised	3.0%	0.5	—	—
Tax losses not recognised	5.3%	0.8	—	—
Surrender of losses to discontinued operations	2.1%	0.3	17.9%	0.8
	3.3%	(0.7)	—	—

(d) Factors affecting taxation charge for the year – discontinued operations

	2020		2019	
	Tax rate	£m	Tax rate	£m
Profit on discontinued operations before taxation	—	89.9	—	9.4
Profit on ordinary activities multiplied by weighted average standard rate of corporation tax in the UK of 19%	19%	17.1	19%	1.8
Effects of:				
Profits not subject to tax	(18.0)%	(16.1)	—	—
Temporary differences not recognised	—	(0.1)	—	—
Surrender of losses from continuing operations	(0.4)%	(0.3)	(9.6)%	(0.9)
Prior year adjustments	—	(0.1)	(0.9)%	(0.1)
	0.6%	0.5	8.5%	0.8

8. Taxation continued

(e) Factors that may affect future taxation charges

Deferred taxation assets amounting to £1.9m (2019: £0.7m) have not been provided in respect of unutilised income tax losses of £10.2m (2019: £4.1m) that can only be carried forward against future taxable income of that same trade as there is currently insufficient evidence that these assets will be recovered.

9. Dividends paid

No interim or final dividend was paid for the year ended 31 January 2020 (2019: £nil).

10. Earnings per share

Earnings per share (EPS) is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation.

Both of these measures are also presented on an adjusted basis, to remove the effects of non-recurring or special items, being items of both income and expense which are sufficiently large, volatile or one-off in nature, to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group. The note below demonstrates how this calculation has been performed.

	Key	**2020 m**	2019 m
Weighted average number of shares for the purpose of basic earnings per share	A	**161.0**	177.7
Dilutive effect of employee share options*		**—**	10.4
Weighted average number of shares for the purpose of diluted earnings per share	B	**161.0**	188.1

	Key	**£m**	£m
Profit for the year		**73.7**	4.1
Profit from discontinued operations, net of tax	E	**(89.4)**	(8.6)
Continuing loss for the year attributable to equity shareholders	C	**(15.7)**	(4.5)
Total non-recurring or special items net of tax		**10.6**	—
Loss for adjusted EPS	D	**(5.1)**	(4.5)

	Key	**2020**	2019
EPS measures			
Basic and diluted* continuing EPS	C/A	**(9.8)p**	(2.5)p
Adjusted EPS measures			
Adjusted basic and diluted* continuing EPS	D/A	**(3.2)p**	(2.5)p

The adjusted EPS information is considered to provide a fairer representation of the Group's trading performance.

Discontinued earnings per share

	Key	**2020**	2019
EPS measures			
Basic EPS	(E)/A	**55.6p**	4.8p
Diluted EPS*	(E)/B	**55.6p**	4.5p

Total earnings per share for the year attributable to equity shareholders

	Key	**2020**	2019
EPS measures			
Basic EPS	(E)/A	**45.8p**	2.3p
Diluted EPS*	(E)/B	**45.8p**	2.0p

* In the current year, the dilutive impact of employee share options is ignored since there is no dilutive impact on continuing operations EPS measures given the continuing loss for the year.

11. Intangible assets

	Development costs £m	Computer software £m	Acquired intangible assets £m	Goodwill £m	Total £m
Cost					
At 1 February 2018	7.1	1.9	0.4	—	9.4
Additions	1.5	—	—	—	1.5
Reclassified as assets held for sale	—	—	—	—	—
Disposals	(0.5)	—	(0.1)	—	(0.6)
At 31 January 2019	8.1	1.9	0.3	—	10.3
Additions	1.3	—	—	—	1.3
Businesses sold	(1.3)	(1.9)	—	—	(3.2)
Businesses acquired	0.6	0.1	4.0	4.3	9.0
Disposals	(0.2)	—	—	—	(0.2)
At 31 January 2020	**8.5**	**0.1**	**4.3**	**4.3**	**17.2**
Amortisation					
At 1 February 2018	4.3	1.9	—	—	6.2
Charge for the year	1.7	—	0.1	—	1.8
Disposals	(0.5)	—	(0.1)	—	(0.6)
At 31 January 2019	5.5	1.9	—	—	7.4
Charge for the year	1.0	—	1.0	—	2.0
Change in amortisation rates	0.3	—	—	—	0.3
Impairment	2.3	—	3.3	4.3	9.9
Businesses sold	(1.1)	(1.9)	—	—	(3.0)
Businesses acquired	0.5	0.1	—	—	0.6
Disposals	—	—	—	—	—
At 31 January 2020	**8.5**	**0.1**	**4.3**	**4.3**	**17.2**
Carrying amount					
At 1 February 2018	2.8	—	0.4	—	3.2
At 31 January 2019	2.6	—	0.3	—	2.9
At 31 January 2020	**—**	**—**	**—**	**—**	**—**

Development cost additions by project	**2020 £m**	2019 £m
Bulgin	**—**	0.1
EET	**—**	0.1
Checkit	**1.3**	1.3
Total development cost additions	**1.3**	1.5

	Cost value		Net book value	
Total amounts by project	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Bulgin	**—**	1.4	**—**	0.2
EET	**—**	0.5	**—**	0.4
Checkit	**8.5**	6.2	**—**	2.0
Total development costs	**8.5**	8.1	**—**	2.6

Acquired intangible assets are made up of purchased intellectual property for the EET business and the separately identified intangibles acquired with the purchase of Next Control Systems (see Note 27).

11. Intangible assets continued

Checkit Europe and Checkit UK

The Board considers that COVID-19 had no discernible impact on the Group's trading in FY20.

As the financial year came to its end, the Board became aware of reports of the early impacts of COVID-19, especially in China.

On 30 January 2020, the day immediately prior to the Group's year end, an emergency committee of the World Health Organization (WHO) declared that COVID-19, which had broken out in China and spread to 18 countries, was a public health emergency of international concern (PHEIC). The WHO stated this highest state of alert required an immediate response. In the absence of a vaccine, the WHO insisted that the virus should be addressed like the operation mounted in South Korea, with extensive testing, tracing people with whom a person testing positive has had close contact, and isolating all of them, "to interrupt virus spread".

In the UK the Scientific Advisory Group for Emergencies' Minutes of the meeting held on 4 February 2020 note that on 27 January 2020, the Scientific Pandemic Influenza Modelling Operational sub-group (SPI-M-O) concluded that while there was not sufficient evidence to estimate a reasonable worst case scenario (RWC) for 2019-nCoV, the RWC for pandemic influenza would be an appropriate planning scenario at that point. SPI-M-O would keep updating their assessment of the reasonable worst case as the outbreak progresses.[1]

Accordingly, in its year end test of impairment of acquired and self-generated intangible assets, the Board has sought to include the situation as at 31 January 2020, as set out above.

In undertaking this work, the Board recognises that the COVID-19 crisis has clearly increased the level of uncertainty affecting the Group's prospects, as it has many companies.

This accords with the Financial Reporting Council's (FRC) assessment that "'during the current emergency and unprecedented pace of change, any reasonable level of expectation would naturally carry a much lower level of confidence" than it would under normal circumstances.[2]

1 Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882710/15-spi-m-o-consensus-statement-03022020.pdf. Paragraph 20.

2 Source: https://www.pwc.co.uk/covid-19/assets/reporting-on-the-impact-of-covid-19.pd.f Page 15.

The Directors in light of the economic uncertainty posed by COVID-19 concluded that it was not possible to prepare any reliable long-term projections and that the Group should immediately fully impair its intangible assets. The Group's auditors did not concur that COVID-19 was an adjusting event as at 31 January 2020 and have accordingly issued an audit report qualified in this respect. This is set out on pages 48 to 52.

Elektron Eye Technology

The Group has fully impaired the carrying value of its acquired intangibles based upon indicative level of proceeds should the sale of this business be completed.

12. Property, plant and equipment

	Leasehold improvements £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost				
At 1 February 2018	0.9	7.0	2.1	10.0
Additions	—	0.6	0.1	0.7
Currency revaluation	(0.1)	(0.1)	—	(0.2)
Disposals	—	(0.4)	(0.7)	(1.1)
At 31 January 2019	0.8	7.1	1.5	9.4
As at 1 February 2019 – restated for IFRS 16 (see Note 22)	4.1	7.1	1.9	13.1
Additions	0.2	0.1	0.3	0.6
Currency revaluation	0.1	0.1	—	0.2
Businesses sold	(3.2)	(6.9)	(0.9)	(11.0)
Businesses acquired	—	—	1.1	1.1
Disposals	—	(0.1)	(1.0)	(1.1)
At 31 January 2020	**1.2**	**0.3**	**1.4**	**2.9**
Depreciation				
At 1 February 2018	0.5	6.0	2.0	8.5
Charge for the year	0.1	0.2	0.1	0.4
Currency revaluation	(0.1)	(0.1)	—	(0.2)
Disposals	—	(0.4)	(0.6)	(1.0)
At 31 January 2019	0.5	5.7	1.5	7.7
As at 1 February 2019 – restated for IFRS 16 (see Note 22)	1.4	5.7	1.6	8.7
Reclassification	—	0.2	(0.2)	—
Charge for the year	0.7	0.2	0.4	1.3
Currency revaluation	—	—	0.1	0.1
Businesses sold	(1.4)	(5.9)	(0.7)	(8.0)
Businesses acquired	—	—	0.7	0.7
Disposals	(0.1)	—	(1.0)	(1.1)
At 31 January 2020	**0.6**	**0.2**	**0.9**	**1.7**
Net book value				
At 1 February 2018	0.4	1.0	0.1	1.5
At 31 January 2019	0.3	1.4	—	1.7
At 31 January 2020	**0.6**	**0.1**	**0.5**	**1.2**

The net book value of tangible fixed assets held under finance leases and hire purchase contracts was £nil (2019: £nil).

13. Investment in subsidiary undertakings

The subsidiary undertakings at 31 January 2020 were:

Name	Registered office	Country of incorporation	Nature of business	Shares held by parent	Shares held by Group
Checkit Europe Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Web-based service for work management and automated monitoring	100%	100%
Checkit UK Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Building energy management and automated monitoring systems	100%	100%
Checkit Inc	11849 Telegraph Road, Santa Fe Springs, California 90670, USA	USA	Web-based service for work management and automated monitoring	100%	100%
Elektron Eye Technology Ltd	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Design, manufacture and sale of ophthalmic products	100%	100%
Elektron Eye Technology Inc	11849 Telegraph Road, Santa Fe Springs, California 90670, USA	USA	Sale of ophthalmic products	100%	100%
Elektron Technology PTE Ltd	Room 2124 Centennial Tower, 3 Temasek Avenue, Singapore 039190	Singapore	Dormant company	100%	100%
Elektron Technology (Shanghai) Trading Limited	Suite 802, 568 Hengfeng Road, Jin An Dist, Shanghai, China	China	Dormant company	100%	100%
Hartest Precision Instruments Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Dormant company	100%	100%
Hartest Precision Instruments India Private Limited	304, Plot No.7, Mahajan Tower LSC, Shreshtha, Vihar, Delhi-110092	India	Dormant company	100%	100%
Elektron Enterprises 1 Limited	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Dormant company	100%	100%
Elektron Technology 2012 Employee Benefit Trust	Broers Building, JJ Thomson Avenue, Cambridge, UK	England and Wales	Trust to hold shares to satisfy employee share benefit plans	100%	100%

All subsidiary undertakings are operated primarily in the country of incorporation. Elektron Technology (Shanghai) Trading Limited was deregistered and Elektron Eye Technology Inc dissolved subsequent to the year end.

14. Deferred tax

	Deferred tax asset		Deferred tax liability	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Deferred tax asset	**—**	0.4	**—**	—

The gross movement on the deferred tax is as follows:

	Notes	**2020 £m**	2019 £m
Deferred tax asset at 1 February		**0.4**	0.6
Businesses sold		**(0.3)**	—
Businesses acquired including on separately identifiable acquired intangibles		**(0.8)**	—
Deferred tax on capitalised development costs	8	**0.4**	(0.2)
Deferred tax on amortisation of separately identifiable acquired intangibles		**0.8**	—
Deferred tax on losses utilised	8	**(0.4)**	—
Origination and reversal of other temporary differences	8	**(0.1)**	—
Deferred tax asset at 31 January		**—**	0.4
Analysed as follows:			
Depreciation in excess of capital allowances		**—**	0.3
Deferred tax on capitalised development costs		**—**	(0.4)
Other short-term temporary differences		**—**	0.2
Taxation losses		**—**	0.3
		—	0.4

14. Deferred tax continued

Deferred taxation assets have only been recognised for subsidiaries with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that taxable profits are anticipated to arise in the foreseeable future. Deferred taxation assets have not been provided in respect of unutilised income tax losses that can be carried forward against future taxable income as there is currently uncertainty over their offset against future taxable profits and therefore their recoverability.

No deferred tax liabilities have been provided in respect of the unremitted earnings of the overseas subsidiaries. The amount of such unremitted earnings is estimated to be a retained profit of £0.5m (2019: £6.2m).

15. Inventories

	2020 £m	2019 £m
Raw materials	**0.4**	2.6
Work in progress	**0.3**	0.3
Finished goods and goods for resale	**1.0**	1.4
	1.7	4.3

In the ordinary course of business, the Group makes provision for slow-moving, excess and obsolete inventory as appropriate. Inventory is stated after charging impairments of £0.2m in the year (2019: less than £0.1m), which are included within operating profit.

The amount of inventory recognised as an expense within the cost of sales for continuing operations amounted to £2.9m (2019: £0.4m).

16. Trade and other receivables

	2020 £m	2019 £m
Gross trade receivables	**2.5**	3.6
Less: expected credit losses	**(0.1)**	(0.1)
Trade receivables – net	**2.4**	3.5
Other receivables	**0.6**	0.7
Prepayments	**0.4**	0.9
	3.4	5.1

The fair values of trade and other receivables are considered to be as stated above.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables, as these do not have a significant financing component. The expected lifetime credit losses reflect assumptions on the ageing of the overdue debts that may become unrecoverable, equivalent to a total Group rate of 2.0% (2019: 1.8%). The provision is based upon historical observed default rates over the expected life of trade receivables, adjusted for an assessment of the current economic environment.

Trade receivables are normally due within 30 to 90 days and do not bear any effective interest rate. Failure to receive payment within 180 days of payment due date is considered indication of no reasonable expectation of recovery. One customer makes up 36% of Group annualised revenues but based on the Group's assessment of its credit rating the risk of failure is considered low.

Trade receivable days are 63 days (2019: 38 days).

Trade receivables of £0.1m (2019: £0.1m) are considered potentially impaired.

Ageing of balances with expected credit losses is as follows:

	Expected credit loss	
	2020 £m	2019 £m
Not past due	**—**	—
Between one month and two months past due	**—**	—
Over two months past due	**0.1**	0.1
	0.1	0.1

Movements on the provision for impairment of trade receivables are as follows:

	Expected credit loss	
	2020 £m	2019 £m
At 1 February 2019	**0.1**	—
Increase in provision	**—**	0.1
At 31 January 2020	**0.1**	0.1

16. Trade and other receivables continued

The gross carrying amounts of trade and other receivables are denominated in the following currencies:

	2020 £m	2019 £m
Sterling	**3.4**	3.3
US Dollar	**0.1**	1.3
Euro	**—**	0.6
Other	**—**	—
	3.5	5.2

17. Trade and other payables

	2020 £m	2019 £m
Trade payables	**1.7**	3.1
Other payables	**0.8**	1.0
Accruals	**1.6**	2.3
Deferred service and subscription income	**0.8**	0.2
Advances received for project and installation work	**0.2**	—
	5.1	6.6

Management considers the carrying amounts of trade and other payables recognised in the balance sheet to be a reasonable approximation of their fair value.

Trade payable days are 49 days (2019: 66 days).

Advances received for project and installation work and deferred service and subscription income represents customer payments received in advance of performance that are expected to be recognised in revenue in FY21. Project and installation contracts range from 3-12 months from design to completion.

Service and subscription income contracts vary from 12-36 months in length, however, customers are only required to pay in advance for each successive twelve month period.

The amounts recognised as a contract liability will generally be utilised within the next reporting period.

18. Borrowings

The Group has no borrowings or facilities as at 31 January 2020.

The Group had invoicing discount facilities of up to £5m and overdraft facilities of £0.1m as at 31 January 2019.

19. Provisions

	2020 £m	2019 £m
Current	**—**	1.0
Non-current	**0.3**	0.3
	0.3	1.3

	Credit note provision £m	Product rectification and commercial disputes £m	Dilapidation costs £m	Total £m
At 1 February 2019	0.7	0.3	0.3	1.3
Utilised	—	(0.3)	(0.1)	(0.4)
Increase in provision	0.2	—	0.1	0.3
Business sold	(0.9)	—	—	(0.9)
At 31 January 2020	**—**	**—**	**0.3**	**0.3**
Anticipated utilisation				
Within one year	—	—	—	—
Beyond one year	—	—	0.3	0.3

The dilapidation costs relate to redecoration, maintenance and reinstatement costs required to meet the terms of property leases held by the Group.

Product rectification and commercial dispute provisions relate to costs required to meet potential costs of replacing faulty product and legal and estimated settlement costs arising on disputed commercial agreements relating to the discontinued operations. A claim was settled in 2019 fully utilising the provision.

The credit note provision reflects management estimates based upon the business operations and experience of credit notes issued to customers in respect of customer stock returns and rebates under the terms agreed with individual customers. This provision related to the discontinued operations.

20. Share capital and reserves

Share capital

	2020 £m	2019 £m
Authorised		
200,000,000 (2019: 200,000,000) ordinary shares of 5 pence each	**10.0**	10.0
Allotted, called up and fully paid		
62,033,617 (2019: 186,100,851) ordinary shares of 5 pence each	**3.1**	9.3

Of the allotted, called up and fully paid share capital, 1,837,795 shares (2019: 7,769,811) are held by the Elektron Technology 2012 Employee Benefit Trust (EBT). Excluding these shares, the issued share capital at 31 January 2020 was 60,195,822 (2019: 178,331,040).

On 3 December 2019 the Company completed a 2 for 3 tender offer, following the sale of its Bulgin business, resulting in 124,067,234 being bought by the Company and cancelled, returning £80.7m to shareholders.

The mid-market price of the ordinary shares at 31 January 2020 was 30.5 pence per share and the range during the year was 56.5 pence per share to 29.5 pence per share.

Market value options

As part of the unwind of the JSOP, on 28 July 2016 Messrs Keith Daley and John Wilson were awarded market value options (mid-market price at close of business immediately preceding dealing day) of 3,541,500 shares and 2,941,500 shares respectively which can be bought from the EBT at any time. The number of options remaining as at 31 January 2020 was as follows:

	Number of options	
	2020	2019
K Daley	—	541,500
J Wilson	—	1,357,661
Total	—	1,899,161

Keith Daley exercised options over 541,500 ordinary shares at an exercise price of 29.5 pence per ordinary share on 18 December 2019 for a total consideration of £159,743. John Wilson's options were cancelled during the year.

Share options

Elektron Technology plc Company Share Option Plan (CSOP)

			Number of options	
Year of grant	Exercise period	Option price	**2020 '000**	2019 '000
2015	2017–2023	8.00p	—	1,130
2016	2019–2026	5.25p	—	571
2017	2020–2027	16.87p	—	1,055
2019	2020–2027	12.33p	**414**	—

The weighted average exercise price of all options under the CSOP is 12.33 pence (2019: 10.8 pence).

Movement in share options during the year:

	2020		2019	
	No. of shares '000	**Weighted average**	No. of shares '000	Weighted average
Outstanding at beginning of the year	**2,756**	**10.8p**	3,446	11.0p
Repriced options during the year	**414**	**12.3p**	—	—
Exercised during the year	**(2,256)**	**(9.50)p**	(330)	(10.7)p
Forfeited during the year	**(500)**	**(16.87)p**	(360)	(12.9)p
Outstanding at the year end	**414**	**12.33p**	2,756	10.8p
Exercisable at the end of the period	**414**	**12.33p**	1,130	8.0p

During the year, 200,000 (2019: 360,000) share options lapsed as a result of employees leaving the Group and 2,256,000 share options were exercised by employees (2019: 330,000). In addition, following the share buyback 300,000 share options, included within forfeited, were repriced in accordance with the rules of the CSOP to ensure that the cost of exercise and potential gain on the options remained unaffected by the tender offer undertaken during the year. Accordingly, these were replaced with 414,000 options with an exercise price of 12.33 pence, with the exercise period unchanged.

20. Share capital and reserves continued

Stock appreciation options

Options in the form of stock appreciation rights not included in the above table over 230,000 shares were granted in October 2015 for employees outside the UK. The exercise period for these options is 2018–2025 and the exercise price is 8.00 pence. These options were exercised in full during the year.

Valuation of share awards

Share-based payments, including awards under the CSOP, and the stock appreciation options are valued using an independent probability valuation model and take account of performance criteria (if any).

The Group recognised a charge of less than £0.1m in the year (2019: less than £0.1m).

Reserves

The nature of the reserves shown in the consolidated balance sheet and consolidated statement of changes in equity is as follows:

Share premium

Amount subscribed for share capital in excess of nominal value.

Merger reserve

Amount arising on an acquisition in prior years satisfied substantially by the issue of share capital and thereby eligible for merger relief under the provisions of Section 612 of the Companies Act 2006. The investments to which this reserve relate have disposed of and therefore the reserve has been related and transferred to profit and loss reserves during the year.

Capital redemption reserve

The cumulative nominal value of own shares acquired by the Company.

Own shares

The value of the Company's shares held by the Elektron Technology 2012 EBT.

Translation reserve

Gains and losses arising on retranslating the net assets of overseas operations into Sterling of less than £0.1m (2019: losses £2.2m).

Other reserves

A reserve arising from the application of IFRS 2 "Share-based Payments".

Retained earnings

Cumulative gains and losses recognised in the consolidated statement of comprehensive income not included above.

21. Capital commitments

Expenditure sanctioned but not contracted for amounted to less than £0.1m (2019: less than £0.1m), and expenditure contracted but not provided for in the financial statements amounted to £nil (2019: £nil).

22.Lease obligations

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases, the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 "Impairment of Assets". This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 operating leases previously gave rise to a straight line expense in other operating expenses.

Former finance leases

The Group had no finance leases as at 31 January 2019.

22. Lease obligations continued

Transition to IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities. The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

	As previously reported at 1 February 2019 £m	Impact of IFRS 16 £m	As restated at 1 February 2019 £m
Non-current assets	3.3	—	3.3
Property, plant and equipment	1.7	2.7	4.4
Current assets	19.5	—	19.5
Impact on assets	24.5	2.7	27.2
Current liabilities	(7.9)	—	(7.9)
Lease liabilities	—	(0.7)	(0.7)
Non-current liabilities	(0.3)	—	(0.3)
Lease liabilities	—	(2.0)	(2.0)
Impact on liabilities	(8.2)	(2.7)	(10.9)
Impact on net assets	16.3	—	16.3
Equity and other reserves	12.7	—	12.7
Retained earnings	3.6	—	3.6
Impact on net assets	16.3	—	16.3

The right-of-use assets recognised and the movement during the year is as follows:

	Property £m	Motor vehicles and equipment £m	Total £m
Cost			
At 1 February 2019	3.3	0.4	3.7
Additions	0.2	0.1	0.3
Currency revaluation	—	—	—
Businesses sold	(2.2)	(0.2)	(2.4)
Businesses acquired	—	0.3	0.3
Disposals	—	(0.1)	(0.1)
At 31 January 2020	**1.3**	**0.5**	**1.8**
Depreciation			
At 1 February 2019	0.9	0.1	1.0
Charge for the year	0.6	0.3	0.9
Currency revaluation	—	—	—
Businesses sold	(0.8)	(0.1)	(0.9)
Businesses acquired	—	—	—
Disposals	—	(0.1)	(0.1)
At 31 January 2020	**0.7**	**0.2**	**0.9**
Net book value			
At 1 February 2019	2.4	0.3	2.7
At 31 January 2020	**0.6**	**0.3**	**0.9**

22. Lease obligations continued

Transition to IFRS 16 continued

The table below presents a reconciliation from operating lease commitments disclosed at 31 January 2019 to lease liabilities recognised at 1 February 2019.

	£m
Operating lease commitments disclosed under IAS 17 at 31 January 2019	3.1
Effect of discounting	(0.4)
Lease liabilities recognised at 1 February 2019	2.7

The operating lease commitment disclosed in last year's financial statements of £5.1m has been restated to £3.1m due to a translation error of £2.0m.

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 January 2020, in relation to leases under IFRS 16, the Group recognised the following amounts in the consolidated income statement (including the impact of new right-of-use assets recognised on acquisition of Checkit UK):

	2020 £m
Depreciation	**0.8**

Of the above £0.3m of depreciation and less than £0.1m of interest expense related to discontinued operations.

The movement on the lease liability during the year is summarised as follows:

	£m
As at 1 February 2019	2.7
New leases entered into during the year	0.3
Acquisitions	0.3
Disposals	(1.6)
Payments made during the year	(0.8)
At 31 January 2020	**0.9**
Presented as:	
Lease liability within one year	0.5
Lease liability in more than one year	0.4
At 31 January 2020	**0.9**

The table below summarises the maturity profile of the Group's financial liabilities based upon the contractual undiscounted payments as at 31 January 2020.

	2020 £m
No later than one year	0.5
Later than one year and no later than five years	0.4
Later than five years	—
	0.9

23. Retirement benefit schemes

The Group operates a Group Personal Pension Plan (which is a defined contribution scheme) for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees.

Contributions to the Group Personal Pension Plan and to other personal pension plans are charged to the statement of comprehensive income as they become payable. The pension cost charge for the year for continuing operations was £0.2m (2019: £0.1m) and outstanding contributions at the year end amounted to less than £0.1m (2019: less than £0.1m).

24. Financial assets and liabilities

(i) Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and various items such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivative transactions nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board's policy on each is described in Note 1 and is subject to regular monitoring and review, and remain unchanged since 2019. Operations are financed through working capital management and existing cash resources.

Treasury matters are dealt with on a Group basis and are approved by the Board.

(ii) Financial assets

Details of trade and other receivables are provided in Note 16. The only other current financial asset held is cash and cash equivalents. The cash balances as at 31 January 2020 are detailed below:

	2020 £m	2019 £m
US Dollar	**—**	1.9
Tunisian Dinar	**—**	0.1
Indian Rupee	**0.1**	0.1
Euro accounts	**—**	1.1
Pound Sterling	**14.2**	6.9
	14.3	10.1

(iii) Financial liabilities

The only financial liabilities of the Group which are subject to interest charges are bank loans, invoice discounting facilities, overdrafts and obligations under finance leases and hire purchase contracts. All borrowings attract interest at variable rates. At 31 January 2020 the Group had no borrowings.

(iv) Maturity

All financial liabilities are contractually due within six months.

(v) Fair value of financial assets and liabilities

IFRS 7 "Financial Instruments" requires disclosure of fair value measurements by the level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets (Level 1);
- inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2); and
- inputs for the asset or liability that are not based on observable market data (Level 3).

There are no applicable financial assets at the end of 31 January 2020. At 31 January 2019 the financial asset relates to deferred consideration arising from the sale of Queensgate Nano in 2019 (see Note 26). This deferred consideration outstanding at 31 January 2019 amounted to £0.2m and is considered to be a Level 3 financial asset measured at fair value.

(a) The following table shows the valuation techniques used in measuring this Level 3 fair value as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value measurements
Queensgate Nano – deferred consideration	Discounted cash flows	Timing of receipt	Not applicable

(b) Sensitivity analysis

There is no reasonably possible change that would cause a significant difference in the value of consideration receivable as the only variable is the timing of receipt.

(vi) Committed undrawn borrowing facilities

At the year end the Group had committed undrawn facilities of £nil (2019: £0.9m). In 2019 these related to invoice discounting, leasing and overdraft facilities repayable on demand in the event of any breaches in the covenants given by the Group.

24. Financial assets and liabilities continued

(vii) Currency risk

Following the sale of Bulgin the Group's principal functional currency remains Pound Sterling with limited transactions in Euro and US Dollar. Previously, the Group's principal currency risk comprised translational and transactional risk from its exposure to movements in US Dollar, Euro and Tunisian Dinar. The transactional exposure at the previous year end arose on net trading assets analysed below, being trade and other receivables, cash and cash equivalents, and trade and other payables. Translational exposure that arose on the foreign entity total equity is also analysed below:

	Net trading assets		Total equity	
	2020 £m	2019 £m	**2020 £m**	2019 £m
US Dollar	**—**	3.0	**—**	0.8
Euro	**—**	1.6	**—**	—
Tunisian Dinar	**—**	—	**—**	5.1
	—	4.6	**—**	5.9

The Group does not trade in derivatives or make speculative hedges. At 31 January 2020 the Group had no commitments under non-cancellable forward contracts (2019: £nil).

(viii) Sensitivity analysis

The Group considers that the most significant foreign exchange risk relates to the US Dollar, Euro and Tunisian Dinar. The Group's sensitivity to a 10% strengthening in UK Sterling against each of these currencies (with all other variables held constant) is as follows:

Transactional sensitivity	**2020 £m**	2019 £m
Decrease in net trading assets (at spot rates)		
US Dollar:UK Sterling	**—**	0.3
Euro:UK Sterling	**—**	0.2
Tunisian Dinar:UK Sterling	**—**	—

Translational sensitivity	**2020 £m**	2019 £m
Decrease in adjusted operating profit (at average rates)		
US Dollar:UK Sterling	**—**	—
Euro:UK Sterling	**—**	—
Tunisian Dinar:UK Sterling	**—**	0.1
Decrease in total equity (at spot rates)		
US Dollar:UK Sterling	**—**	0.1
Euro:UK Sterling	**—**	—
Tunisian Dinar:UK Sterling	**—**	0.5

(ix) Categories of financial instruments

Financial assets held at amortised cost	**2020 £m**	2019 £m
Cash and bank balances	**14.3**	10.1
Trade and other receivables (Note 16)	**3.0**	4.2
	17.3	14.3

Financial liabilities held at amortised cost	**2020 £m**	2019 £m
Trade and other payables (Note 17)	**2.5**	4.1

25. Related party transactions

(a) Transactions between Group companies, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

(b) Key management of the Group are the Directors and other members of the Executive Leadership Team of the Group business segements.

Key management personnel remuneration was:

	2020 £m	2019 £m
Short-term employee benefits:		
Salaries including bonuses	**3.8**	1.5
Social security costs	**0.5**	0.2
Company benefits (car, PMI, etc.)	**0.1**	0.1
Post-employment benefits:	**4.4**	1.8
Defined contribution pension plans	**0.1**	0.1
Total remuneration	**4.5**	1.9

Share-based payments to key management amounted to £4.3m (2019: less than £0.1m) and includes £4.1m settlement of the outstanding obligations payable under the 2016 LTIP that were settled as part of the sale of Bulgin and the 2016 LTIP subsequently cancelled.

26. Discontinued operations

During the year the Group sold its Bulgin operations and was committed to selling its Elektron Eye technology business. Consequently, both businesses have been classed as discontinued operations and accordingly comparatives have been restated. In 2019 the Group sold its Queensgate Nano business for a profit of £0.4m less attributable tax of £0.1m.

Total discontinued operations comprise:

	2020 £m	2019 £m
Revenue	**21.3**	32.7
Cost of sales	**(10.2)**	(16.4)
Gross profit	**11.1**	16.3
Operating expenses	**(5.5)**	(7.2)
Operating profit	**5.6**	9.1
Finance costs	**—**	—
Profit before tax	**5.6**	9.1
Attributable tax	**(0.5)**	(0.8)
Profit from discontinued operations before gain on disposal	**5.1**	8.3
Gain on disposal and loss on remeasurement	**84.3**	0.4
Attributable tax to gain	**—**	(0.1)
Profit from discontinued operations attributable to equity shareholders	**89.4**	8.6
Foreign currency reserve reclassification	**1.5**	—
Other comprehensive income from discontinued operations	**1.5**	—

Sale of Bulgin

On 24 September 2019 the Group disposed of its Bulgin business for net proceeds of £93.7m paid in cash. The gain on disposal is summarised as follows:

	£m
Gross proceeds	**105.0**
Director LTIP shares	**(4.1)**
Adjustments in respect of net debt and working capital	**(1.0)**
Consideration received	**99.9**
Carrying value of assets sold	**(6.9)**
Transaction costs incurred	**(2.5)**
Transaction and retention bonuses	**(3.7)**
Gain on disposal before foreign currency reserve reclassification	**86.8**
Foreign currency reserve reclassification	**(1.5)**
Gain on disposal	**85.3**

26. Discontinued operations continued

Sale of Bulgin continued

Within the assets sold was £0.9m of cash balances. The net cash received was as follows:

	£m
Consideration received	**99.9**
Transaction cost and bonuses	**(6.2)**
Net proceeds	**93.7**
Cash balances sold	**(0.9)**
Net cash received	**92.8**

The results of the Bulgin discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2020 £m	2019 £m
Revenue	**19.4**	30.1
Cost of sales	**(9.2)**	(15.1)
Gross profit	**10.2**	15.0
Operating expenses	**(4.6)**	(6.0)
Operating profit	**5.6**	9.0
Finance costs	**—**	—
Profit before tax	**5.6**	9.0
Attributable tax	**(0.5)**	(0.8)
Profit from Bulgin discontinued operations before gain on disposal	**5.1**	8.2
Gain on disposal	**85.3**	—
Profit from Bulgin discontinued operations	**90.4**	8.2
Foreign currency reserve reclassification	**1.5**	—
Other comprehensive income from Bulgin discontinued operations	**1.5**	—

Cash flows from Bulgin

	2020 £m	2019 £m
Net cash inflow from operating activities	**5.6**	8.2
Net cash (outflow)/inflow from investing activities		
Purchase of tangible fixed assets	**(0.1)**	(0.7)
Expenditure on intangible assets	**—**	(0.1)
Cash received from the sale of Bulgin	**99.9**	—
Disposal costs	**(6.2)**	—
Total net cash inflow/(outflow) from investing activities	**93.6**	(0.8)
Interest payable	**—**	—
Total net cash outflow from financing activities	**—**	—

26. Discontinued operations continued

Elektron Eye Technology

The results of the Elektron Eye Technology discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	2020 £m	2019 £m
Revenue	**1.9**	2.6
Cost of sales	**(1.0)**	(1.3)
Gross profit	**0.9**	1.3
Operating expenses	**(0.9)**	(1.2)
Operating profit	**—**	0.1
Finance costs	**—**	—
Profit before tax	**—**	0.1
Attributable tax	**—**	—
Profit from Elektron Eye Technology	**—**	0.1
Loss on remeasurement to fair value	**(1.0)**	—
(Loss)/profit from Elektron Eye Technology discontinued operation attributable to equity shareholders	**(1.0)**	—

Cash flows from Elektron Eye Technology

	2020 £m	2019 £m
Net cash inflow from operating activities	**(0.1)**	0.2
Net cash outflow from investing activities		
Purchase of tangible fixed assets	**—**	—
Expenditure on intangible assets	**(0.1)**	(0.1)
Total net cash outflow from investing activities	**(0.1)**	(0.1)
Interest payable	**—**	—
Total net cash outflow from financing activities	**—**	—

Sale of Queensgate

	2020 £m	2019 £m
Gain on disposal	**—**	0.4
Attributable tax to gain	**—**	(0.1)
Profit from discontinued operations attributable to equity shareholders	**—**	0.3

The Group received £0.2m of deferred consideration during the year.

27. Acquisition of Next Control Systems Limited

On 14 May 2019 the Group acquired 100% of the equity of Next Control Systems Limited (renamed Checkit UK Limited "Checkit UK") a UK-based business.

Checkit UK is an excellent strategic fit for Checkit, providing technology and software that enable management teams to monitor, control and optimize business processes. It is being combined with Checkit Europe to create a global leader in the field of real-time operations management. It adds scale and is one which the Board believes will significantly accelerate the path to profitability of Checkit.

Checkit UK is a leader in high-end service-based temperature monitoring for healthcare and life sciences and provides data-related Building Energy Management System (BEMS) services. It has a major relationship with a leading UK retailer covering smart building and plant technologies.

27. Acquisition of Next Control Systems Limited continued

The details of the business combination are as follows:

Fair value of consideration transferred	£m
Amount settled in cash	**10.5**
Recognised amounts of identifiable net assets	
Property, plant and equipment	0.4
Development costs capitalised	0.1
Other intangibles	4.0
Total non-current assets	**4.5**
Inventories	0.9
Trade and other receivables	2.5
Cash and cash equivalents	1.7
Total current assets	**5.1**
Trade and other payables	(2.3)
Lease liabilities	(0.2)
Total current liabilities	**(2.5)**
Lease liabilities	(0.1)
Deferred tax liabilities	(0.8)
Total non-current liabilities	**(0.9)**
Identifiable net assets	**6.2**
Goodwill on acquisition	**4.3**
Consideration settled in cash	10.5
Cash and cash equivalents acquired	(1.7)
Net cash outflow on acquisition	**8.8**

Consideration transferred

The acquisition of Checkit UK was settled in cash amounting to £10.5m. Acquisition-related costs amounting to £0.2m were expensed and treated as a non-recurring item.

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination amounted to £2.1m, with a gross contractual amount of £2.1m. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to less than £0.1m.

Separable intangible assets

Specific recurring revenue streams from specific customers and the medical sector was valued by assessing a discounted cash flow for the acquired customer list, based on customer attrition rates and using a discount factor of 12.5%. The useful life has been estimated at three years.

Goodwill

Goodwill is primarily related to the core growth expectations, expected future profitability and expected cost synergies. Goodwill has been allocated to the Checkit segment and is not expected to be deductible for tax purposes.

Checkit UK's contribution to the Group results

Checkit UK generated a profit of £0.7m for the period from 14 May 2019 to the reporting date. Revenue for the period to 31 January 2020 was £8.5m.

If Checkit UK had been acquired on 1 February 2019, revenue of the Group for the year ended 31 January 2020 would have been £3.0m higher, and loss for the period would have reduced by £0.4m.

28. Post balance sheet events

The Directors have considered the impact of COVID-19 on its businesses and concluded in their judgement that it should be treated as an adjusting event as at 31 January 2020 and accordingly have made adjustments to the carrying value of its intangible assets on the grounds of the significant uncertainty created, making long-term forecasts of business performance impossible.

The Group's auditors did not concur with this view and have qualified the Group's audit report in this regard as set out on pages 48 to 52.

29. Non-GAAP performance measures

A reconciliation of non-GAAP performance measures to reported results is set out below:

Profit measures – LBITDA – continuing operations

	2020 Total £m	2019 £m
LBITDA	**(3.6)**	(2.8)
Depreciation and amortisation	**(1.6)**	(1.7)
Reported operating loss for the year before non-recurring and special items	**(5.2)**	(4.5)

	Notes	2020 £m	2019 £m
Fixed assets			
Investments in subsidiary undertakings	3	**9.6**	13.8
Tangible fixed assets	4	**0.5**	—
		10.1	13.8
Current assets			
Debtors	5	**0.3**	1.3
Cash in hand and at bank		**13.0**	0.2
		13.3	1.5
Creditors: amounts falling due within one year	6	**(4.9)**	(2.5)
Net current assets/(liabilities)		**8.4**	(1.0)
Total assets less current liabilities		**18.5**	12.8
Long-term contract lease liabilities		**(0.2)**	—
Long-term provisions	7	**(0.2)**	—
Net assets		**18.1**	12.8
Capital and reserves			
Called up share capital	8	**3.1**	9.3
Share premium		**5.4**	5.4
Merger reserve		**—**	1.1
Capital redemption reserve		**6.4**	0.2
Other reserves		**—**	2.0
Profit and loss account		**3.2**	(5.2)
Shareholders' funds		**18.1**	12.8

The parent company's profit for the financial year amounted to £85.9m (2019: £0.3m loss).

The notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 15 June 2020 and were signed on its behalf by:

Keith Daley
Director

Andy Weatherstone
Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

year ended 31 January 2020

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 February 2018	9.3	5.4	1.1	0.2	2.0	(4.9)	13.1
Profit for the year	—	—	—	—	—	(0.3)	(0.3)
Total comprehensive expense for the year	—	—	—	—	—	(0.3)	(0.3)
At 31 January 2019	9.3	5.4	1.1	0.2	2.0	(5.2)	12.8
Profit for the year	—	—	—	—	—	85.9	85.9
Total comprehensive expense for the year	—	—	—	—	—	85.9	85.9
Repurchase and cancellation of shares	(6.2)	—	—	6.2	—	(80.6)	(80.6)
Merger reserve realised			(1.1)			1.1	—
Share options and incentives realised	—	—	—	—	(2.0)	2.0	—
Total transaction with owners	(6.2)	—	(1.1)	6.2	(2.0)	(77.5)	(80.6)
At 31 January 2020	**3.1**	**5.4**	**—**	**6.4**	**—**	**3.2**	**18.1**

1. Accounting policies

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework" as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 1 to the consolidated financial statements except as noted below:

Investments

Investments in subsidiaries and associates are stated at cost less, where appropriate, provisions for impairment.

2. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year amounted to £85.9m (2019: £0.3m loss).

3. Investments in subsidiary undertakings

	2020 £m	2019 £m
At 1 February	**13.8**	13.8
Acquisitions – external	**10.5**	—
Acquisitions – intra-group	**12.3**	—
Disposals	**(13.7)**	—
Provisions	**(13.3)**	—
At 31 January	**9.6**	13.8

Investment in subsidiary undertakings are made up as follows:

			Net book value	
	Cost £m	**Impairment £m**	**2020 £m**	2019 £m
Elektron Technology UK Limited	**—**	**—**	**—**	13.7
Checkit Europe Limited	**9.0**	**(5.0)**	**4.0**	—
Checkit UK Limited	**10.5**	**(5.0)**	**5.5**	—
Elektron Eye Technology Limited	**2.6**	**(2.6)**	**—**	—
Other	**0.8**	**(0.7)**	**0.1**	0.1
	22.9	**(13.3)**	**9.6**	13.8

Other investments comprise the Company's investments in Elektron Technology (Shanghai) Trading Limited, Checkit Inc, Elektron Eye Technology Inc, Elektron Technology PTE Ltd, Hartest Precision Instruments Limited, Hartest Precision Instruments India Private Ltd, Elektron Enterprises 1 Limited, Elektron Precision Instruments Limited and the Elektron Technology 2012 Employee Benefit Trust, all of which individually are less than £0.1m (2019: less than £0.1m).

In the year the Group undertook restructuring of its ownership structure of its subsidiary undertakings to facilitate the sale of Bulgin with a number of companies owned by Elektron Technology UK Limited (ETUK) being sold to the Company and, in addition, the Company selling to ETUK its Bulgin related subsidiary undertakings.

The Group is loss making and this is an indicator for potential impairment of its investments. Management has completed impairment reviews through estimating the recoverable value of these assets and concluded a number of impairments are required as set out above.

4. Tangible fixed assets

	Property – right-of-use asset £m
Cost	
At 1 February 2019 – restated	1.1
Additions	—
At 31 January 2020	**1.1**
Depreciation	
At 1 February 2019 – restated	0.3
Charge for the year	0.3
At 31 January 2020	**0.6**
Net book value	
At 1 February 2019 – restated	0.8
At 31 January 2020	**0.5**

5. Debtors: amounts falling due within one year

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	**0.1**	1.0
Other debtors and repayments	**0.2**	0.3
	0.3	1.3

6. Creditors: amounts falling due within one year

	2020 £m	2019 £m
Amounts owed to subsidiary undertakings	**3.5**	1.1
Other creditors	**1.1**	1.4
Contract lease liabilities	**0.3**	—
	4.9	2.5

7. Provisions

	Dilapidation costs £m
At 1 February 2019	—
Utilised	—
Increase in provision	0.2
At 31 January 2020	**0.2**
Anticipated utilisation	
Within one year	—
Beyond one year	0.2

8. Share capital and reserves

Details of the share capital and reserves are given in Note 20 of the notes to the consolidated financial statements.

9. Capital expenditure commitments

Capital expenditure contracted but not provided for in the financial statements amounted to £nil (2019: £nil).

10. IFRS 16 transition

As indicated in Note 22 of the consolidated financial statements, the Group and its subsidiaries have adopted IFRS 16 retrospectively from 1 February 2019 but have not restated comparatives for the 2019 reporting period, as permitted under specific transition provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 February 2019. The new accounting policies are disclosed in the equivalent disclosure in Note 1 of the consolidated financial statements. On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principals of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 February 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 February 2019 was 3%. The impact of the change in accounting policy affected the following items in the balance sheet on 1 February 2019.

	As previously reported at 31 January 2019 £m	Impact of IFRS 16 £m	As restated at 1 February 2019 £m
Non-current assets			
Right-of-use asset	—	0.8	0.8
Impact on assets			
Current liabilities			
Lease liabilities	—	(0.3)	(0.3)
Non-current liabilities			
Lease liabilities	—	(0.5)	(0.5)
Impact on liabilities	—	(0.8)	(0.8)
Impact on net assets	—	—	—

During the year ended 31 January 2020, in relation to leases under IFRS 16, the Group recognised £0.3m of deprecation and less than £0.1m of interest expense.

The table below summarises the maturity profile of the Group's financial liabilities based upon the contractual undiscounted payments as at 31 January 2020

	2020 £m
No later than one year	**0.3**
Later than one year and no later than five years	**0.2**
Later than five years	**—**
	0.5

11. Contingent liabilities

The Company guaranteed rental obligations of certain subsidiary companies up to £0.4m (2019: £0.4m).

12. Related party transactions

Related party transactions are the same for the Company as for the Group. Details can be found in Note 25 of the notes to the consolidated financial statements.

Web property

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www.checkit.net

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www.elektron-eye-technology.com

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