Registered number: 06533623

SPECIALIST MACHINE DEVELOPMENTS (SMD) LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

COMPANY INFORMATION

Directors	M T Jones K Liu K Yu D Zhu X Cao (appointed 12 May 2022) J Niu (appointed 12 May 2022) S Sun (appointed 12 May 2022) D Zhang (appointed 12 May 2022) S Moneeb (appointed 16 April 2022)
Registered number	06533623
Registered office	Turbinia Works Davy Bank Wallsend Tyne And Wear NE28 6UZ
Independent auditor	Crowe U.K. LLP Black Country House Rounds Green Road Oldbury West Midlands B69 2DG
Bankers	Barclays Bank plc 71 Grey Street Newcastle Upon Tyne NE99 1JP Citibank Europe plc Citigroup Centre Canada Square Canary Wharf London E14 5LB

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Strategic report

The directors present their strategic report for Specialist Machine Developments (SMD) Limited (the "Company") and its subsidiaries (the "group" and/or "SMD") for the year ended 31 December 2022.

Principal activities and review of the Group

SMD is an advanced global designer and manufacturer of subsea remotely operated and autonomous power and control solutions. Operating across several technology areas, SMD specialises in subsea trenching, work class ROVs, submerged mining and vessel deck equipment, as well as providing a range of subsea components through the Curvetech brand. SMD Services offer the capability, resources and expertise to support clients in multiple operations, around the clock and on a global scale.

Our vision is that:
'As the subsea division of CRRC Times Electric, SMD will be the most advanced supplier of subsea remotely operated and autonomous power and control solutions, worldwide. SMD is a technology-focused business, set up to apply clever engineering to take technologies from concept to maturity, in order to solve an increasingly wide range of challenges in ocean, underwater and hazardous environments.'

The Group has developed a strategy with a five-year horizon, focused on business groups covering the following:
- Equipment Supply;
- Services;
- Innovation and Technology.

SMD's strategy is to achieve a significant growth in annual revenue by 2025, by applying our core skills to a wider group of markets, products, services and geographies. Our growth will be mainly organic. The growth engines are focused business units working in partnership with our customers, and a number of strategic programmes.

We will deliver all of this with a foundation of the Group's core values; honesty & respect, a passion for excellence, a commitment to safety & quality and partnering with customers which shape the way we operate and behave.

Key performance indicators

The Group's key performance indicators ("KPIs") for the year are shown below.

	2022	*2021*
	£000	*£000*
Financial KPIs		
Revenue	39,843	24,443
Gross profit	12,410	6,315
Gross profit %	31%	26%
Operating (loss)/profit	3,812	(8,421)
Operating (loss)/profit margin %	10%	(35%)
Non-financial KPIs		
Employee engagement – measured by annual Employee Survey	73%	69%
Number of accidents (RIDDOR)	0	0

The Group was able to execute the contracts in hand to budget and has secured several new projects during the year. The results for the year show an operating profit of £3.8m (2021 – loss of £8.4m driven by difficult trading environment due to the ongoing COVID-19 pandemic). The results exceed the original 2022 budget and objectives.

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

The Group generated revenue of £39.8m which represents an increase of 63% on the prior year. The gross margin percentage has increased from 26% to 31%. Despite globally high inflation experienced during the year throughout the supply chain, the gross margin percentage has increased due to increased revenues throughput in the year and the previous years' efficiency and cost reduction measures.

Administration expenses decreased by £5.7m compared 2021. This reduction reflects a £0.85m reversal of the non-recurring charges of £4.2m recognised in 2021 (specific provision of £3.7m relating to a return of equipment delivered in 2015 in addition to company restructuring costs of £0.5m) and an underlying £0.7m decrease in the administration cost base in 2022 compared to 2021.

The 2022 employee engagement survey was carried out in July 2022. There was a good level of workforce employee engagement and as in previous years, action plans have been created to respond to the results of the survey.

SMD work hard to create a culture in which safety and health are our top priorities. Our ultimate goals in this area are zero work related accidents and the provision of a safe and healthy working environment for all employees, contractors and others. We continuously improve our health and safety management systems to underpin our objectives and to ensure compliance with all health and safety related legislation. These actions have allowed us to meet our target of zero accidents in both 2022 and 2021.

Major trading events of the year were:

- The Trenching (TMR) business continued to execute contracts won in 2021. Revenue increased slightly by £0.5m from £7.5m in 2021 to £8.0m. Whilst the business has seen a downturn caused by a decline in oil and gas prices, it operates across a wider range of industries such as renewables (Offshore Wind is the major market SMD benefit from), telecoms and mining where numerous opportunities still exist in those areas. The business is expected to revive in 2023.

- The Remotely Operated Vehicle (ROV) business continues to develop its product range with the addition of an Electric powered ROV. Order intake has increased on the prior year with £15.8m of new projects won in the year. Revenue in the year of £5.9m is an increase on £2.7m in 2021 although 2021 revenue was reduced due to adjustments for revenue previously recognised being removed due to export licence refusal for a delivery into China.

- The Deck / handling system sector continued to support the equipment businesses through 2022 as well as specific projects generating revenue of £1.9m in the year.

- The Services business which incorporates the spares, repairs and upgrades to customer equipment delivered £23.8m of revenue in the year and is expected to continue to grow significantly in 2023 and beyond.

Capital expenditure
The Group invested £1,206,937 (2021 - £2,744,531) in capital expenditure to support business growth, which included capitalised product development costs of £998,907 (2021 - £1,432,470).

Taxation
A tax credit of £226,551 (2021 - charge of £nil) was recognised against a pre-tax profit of £3,079,278 (2021 - loss of £11,457,066). Group is carrying forward unused lossess of £2,662,182 as a deferred tax asset (2021 - £2,435,631)

Outlook

Through late 2022 and into 2023 demand has begun to return to the company's key markets and sectors. As such order backlog at 31 December 2022 was £24.9m (2021 - £16.6m) and the Group has been awarded additional work in excess of £12.0m at the start of 2023 and is currently involved in a number of tenders with further new projects expected to be awarded in the coming months.

The Group will continue to work closely with customers in 2023 providing both technical and financial solutions. SMD will continue to invest in R&D, which underpins the long-term strategy, and will increase integration with its Chinese parent.

Financial risk management policies

Principal risks and uncertainties

The Board has carried out a robust, systematic assessment of the principal risks facing the Group during the period, including those which would threaten its business model, future performance, solvency or liquidity.
The key business and financial risks for the Group and factors affecting these risks are set out below. This represents the Group's current risk profile and is not intended to be an exhaustive list of all risks and uncertainties that may arise.

Contract risk

The principal contractual risks the Group faces relate to scope of work and onerous commercial terms. The most common risk in respect of scope of work is related to the complexity of the contract and hence the risk that the time and materials required to complete the contract may be underestimated, leading to a loss being recorded. This is mitigated by carrying out a comprehensive scoping exercise, as well as ongoing updates, at the time of enquiry, tender, negotiation and award. Thereafter, detailed time and cost budgets are prepared, and regular reviews are performed over the life of the contract to provide revised forecasts of expected profit. Further risks remain in relation to the failure of personnel to adhere to established procedures. Ongoing business improvement activities have focused on this area and tangible improvements have resulted.

Contract risk is mitigated, where possible, through the application of the Group's own terms and conditions. Variations to these standard terms such as liquidated damages, consequential loss or acceptance of certain customer terms and conditions are referred to the Group's senior management before accepting or declining a contract. We aim to further mitigate commercial risk by passing through to our supplier base the head contract terms. Contract risks include those relating to limited warranties given to customers concerning the performance of systems supplied. These risks are mitigated by an extensive quality control process at every stage of the design and manufacturing process.

Supplier risk

The Group relies on the performance of suppliers and sub-contractors for parts, sub-assemblies and systems. There is a risk that suppliers or subcontractors do not perform to the required standard. These risks are mitigated by carefully selecting and then monitoring all suppliers.

Interest rate risk

The Group invests surplus cash in floating rate interest bearing deposits, so the Group's interest income is affected by changes in interest rates. The Group's funding structure is in the form of fixed rate loan notes and an overdraft. The Group has historically used interest rate swaps to control interest rate exposures but there were no swaps in place at the year end.

Credit risk
The Group's principal financial assets are cash and trade and other receivables.
The Group's credit risk is primarily attributable to its trade receivables, accrued income and contract assets. Before extending credit, the risk that the other party will default on payment is assessed and special payment terms such as payment before delivery may be imposed in extreme cases. The amounts presented in the statement of financial position for receivables are net of allowances for doubtful recovery. The credit risk on liquid funds placed on deposit is limited because the banks are counterparties with high credit ratings assigned by international credit rating agencies.

Foreign currency risk
The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group's overriding objective is to avoid speculating on foreign currency movements, whether by actively trading in currency instruments or by failing to take available courses of action to protect against rate movements.

Where an individual contract involves both receipts and payments in the same foreign currency a 'natural hedge' occurs to the extent that the currency risks on the separate flows can be offset.

Any residual foreign currency inflow or outflow in excess of the amounts subject to the natural hedge, and all other foreign currency receipts and payments above a de minimis limit, are assessed on a case-by-case basis where:

a) if a natural hedge can be used elsewhere in the Group, such as on the sale of spare parts or support services, it will do so; otherwise

b) they will be considered for appropriateness of a foreign exchange contract which have the effect of fixing the rate at which the relevant amounts will be converted to or from sterling.

Liquidity risk
The day to day management of cash and liquidity risk is significantly reduced as SMD has access, if required, to the facilities of its parent company.

Political risk
As a company operating in a range of markets SMD is exposed to political risk from time to time. Such risks are managed through the Group's commercial risk management process on a case-by-case basis. Recent sanctions with Russia and recent changes to UK trade policy has made sales into China more difficult and resulted in the rejection of an export licence which impacted the Group's revenue in the year.

Economic environment risk
SMD operates in multiple markets worldwide with a portfolio of clients and technical solutions that means the Group can withstand slowdowns in any of its markets. The Group has taken a number of strategic actions which have successfully limited its dependence on the Oil & Gas market. Recent developments to both the UK's and EU's energy strategies are expected to present opportunities for the Group in all of its key markets.

Climate Change
The risks and opportunities of climate change most likely do not have a material impact on the Group. Climate change is a major topic in many markets, including oil & gas, in which many of our customers operate. We are aware of the challenges faced by the oil & gas industry and the wider related industries. Any losses of contracts due to these indirect challenges, were not material to the group activities in the current year. We have also observed that these losses have been replaced with opportunities in other emerging related industries, for example Offshore Wind and Offshore Mining. We have additionally observed that the customers have started to pursue changes in their operations, in alignment with the delivery of net zero projects and a move to electrical drive systems. Our Innovation and R&D is very much focussed on meeting these changing customer and market dynamics which present a significant opportunity for business growth. We will continue to monitor the market and the impact of these rising expectations and challenges that are faced in the wider market and remain responsive to any challenges faced directly by the group.

Section 172(1) statement

The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Group are appropriately informed by s172 factors.

Through an open and transparent dialogue with our key stakeholders, we have been able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board considers the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

The table below sets out our key stakeholder groups and examples of how we engaged with them throughout the year.

Stakeholder	Stakeholder views	Examples
Shareholders	Our shareholders want us to maximise returns in a responsible way and support our strategic aims.	We have an open dialogue with our shareholders through one-to-one meetings, group meetings, webcasts and the Annual General Meeting. The Board meets on a regular basis throughout the calendar year and as required on an ad hoc basis with a mandate to consider strategy, operational and financial performance and internal controls. In advance of each meeting, the Chairman sets the agenda, with the assistance of the Company Secretary. Directors are provided with appropriate and timely information, including board papers distributed in advance of the meetings. Those papers include reports from the executive team and other operational heads. The Chairman and the CEO have separate and clearly defined roles. The Chairman is responsible for overseeing the Board and the CEO is responsible for implementing the stated strategy of the Company and for its operational performance. The Chairman is committed to ensuring that the Board comprises sufficient Non-Executive Directors to establish an independent oversight which is challenging and constructive in its operation. The Board believes that all of the Non-Executive Directors are of sufficient experience and quality to bring an expert and objective dimension to the Board. Directors are expected to attend Board and Committee meetings and to devote enough time to the Company and its business in order to fulfil their duties as Directors. Shareholder feedback is regularly reported to and discussed by the Board and their views are considered as part of decision-making. The annual strategic planning and budgeting process also provides the Board with the opportunity to understand and challenge the long-term business strategy to help deliver growth and future success of the Group.
Colleagues	Our colleagues want to be kept informed of changes to the business and to be listened to in relation to changes which will affect them and their teams. They also want the business to provide security and opportunities to develop.	We are committed to providing an environment which is stimulating, enjoyable and equitable, which also promotes a passion for excellence and empowers people to make courageous decisions. Our people are key to our success and we want them to be successful individually and as a team. There are many ways we engage with and listen to our people including newsletters, colleague surveys, forums, face-to-face briefings, internal communities, and staff committees. Regular meetings are held between local management and employees to allow a free flow of information and ideas. In 2021, we have also introduced a Mental Health Awareness Programme led by our dedicated SMD Better Health at Work team. Key areas of focus include safety, health and well-being, development, opportunities, pay and benefits. Regular reports about what is important to our colleagues are made to the Board ensuring consideration is given to colleague needs.

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

Stakeholder	Stakeholder views	Examples
Customers	Our customers want propositions that work for them and for the business to operate in an ethical way.	We foster close partnerships with our customers, which together with our creativity and innovation, ensures they get the best possible value. We strive to improve our understanding of customer needs and exceed our customers' expectations through performance in technology, delivery and support. We focus on quality in all we do - "Safety is the priority; quality is the standard".
Suppliers	Our suppliers want to work in a world-class supply chain that offers opportunity for future growth.	We build strong relationships with our suppliers to develop mutually beneficial and lasting partnerships that enhance our collective capability. Key areas of focus include innovation, product development, health and safety and sustainability. The Board recognises that relationships with suppliers are important to the Company's long-term success and is briefed on supplier feedback and issues on a regular basis.
Communities	Our communities want our continued support with local causes and issues.	We engage with the communities in which we operate to build trust and understand the local issues that are important to them. Key areas of focus include how we can support local causes and issues, create opportunities to recruit and develop local people and help to look after the environment. The impact of decisions on the environment is considered with such considerations as the air, water and noise pollution from our premises, and waste management (including electrical and electronic equipment) and how this might be minimised.
Government and regulators	The government and regulators want us to operate in an ethical way and comply with laws and regulations.	We engage with the government and regulators through a range of industry consultations, forums, meetings and conferences to communicate our views to policy makers relevant to our business. Key areas of focus are compliance with laws and regulations, health and safety and product safety. The Board is updated on legal and regulatory developments and takes these into account when considering future actions.

This report has been approved by the Board of Directors, authorised for issue and signed on its behalf by:.

S Moneeb
Secretary

Date: 4 May 2023

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report and audited financial statements for the year ended 31 December 2022.

The Company has chosen, in accordance with section 414(c)(ii) of the Companies Act 2006 to set out in their strategic report the following which the directors' believe to be of significant importance:

- Financial risk management policies
- Review of the business
- Section 172(1) statement

Results and dividends

The profit for the year after taxation improved significantly to £1,033,653 *(2021 - £11,568,319)* as the Group saw an increase in demand across all of its key markets and sectors following the disruption caused by coronavirus pandemic which had a significant impact on the 2021 results.

The gross margin percentage has increased from 26% to 31% despite globally high inflation experienced during the year throughout the supply chain, due to a combination of increased revenue throughput, the previous years' efficiency and cost reduction measures together with improving the value we deliver to the customers and markets we serve.

The Board of Directors proposes £nil dividend for 2022 (2021 - £nil).

Going concern

The Directors have adopted the going concern basis in preparing these accounts after assessing the principal risks. Management has produced forecasts for a period of 12 months which have been reviewed by the Directors. These demonstrate the Group has access to sufficient financial facilities to enable it to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements. In making this assessment the Directors considered a letter of support received from the parent entity Zhuzhou CRRC Times Electric Co. Limited. The Directors have assessed the ability of this entity to provide support such that be required and have concluded that it is able to do so. As such, the Directors are satisfied that the Group has adequate resources to continue to operate for at least 12 months from the approval of these financial statements. For this reason, they continue to adopt the going concern basis for preparing these financial statements. For further detail, please see Note 2.

Research and development activities

The Group has a dedicated R&D function which is underpinned by a long-term strategy to ensure that constantly changing market demands across all business streams are met by appropriate product development, application of the latest technologies and ongoing innovation and research.
Historically, the majority of the Group's innovative developments have been an integral element of commercial contracts. In such circumstances the associated costs are not easily identifiable. More recently, a greater focus has been placed on internally funded developments as a means of maintaining competitive advantage by anticipating future customer needs and market trends.

Political donations and political expenditure

No Group company made any political donations or incurred any political expenditure in the year (2021 - £nil).

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The Group operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the Group has been continued through the newsletter 'ROView' in which employees have also been encouraged to present their suggestions and views on the Group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.
Our annual employee engagement survey provides invaluable insight into the views and opinions of our employees. Seeking feedback on a range of areas, from working conditions and leadership to reward and learning opportunities, the survey allows direct year on year comparisons to be made to allow the development of continuous improvement action plans at a corporate, site and a team level.

Further information on the Group's workforce engagement is included in Section 172(1) statement on pages 5 to 6.

Streamlined energy and carbon reporting

The Group has followed the 2020 HM Government Environmental Reporting Guidelines and has used the 2022 UK Government's Conversion Factors for Company Reporting. We have used an operational approach to define our boundary.

The primary source of data for energy consumption is invoices and supplier interval data. Where invoices are not in line with the financial year, a pro rata calculation has been used to estimate the usage for the reporting period. The electricity and gas data has been recorded over a 12-month period from January 2022 to December 2022. The data was collated directly from monthly invoices generated by suppliers.

Company transport data was provided by the Group, data was generated over the course of the mentioned supply period. Transport has been displayed using total mileage. An assumption was made regarding the split of diesel and petrol mileage used for company cars. The SMD Group have also reported for their forklift truck which are diesel and electric run. Litres consumed was not recorded and so an assumption was made based on the usage of the forklift for a half hour daily.

The consumption and emissions data for the Group has been collated and is summarised below.

	Units	2022	2021
Emissions from combustion of gas (Scope 1)	tCO2e	0	0
Emissions from combustion of fuel for transport purposes (Scope 1)	tCO2e	50	50
Emissions from purchase of electricity (Scope 2)	tCO2e	162	123
Total Gross CO2e based on above	tCO2e	212	173
Energy consumption used to calculate above emissions	kWh	938,285	624,922
Intensity metric	Annual Turnover (£)	38,965,299	24,443,000
Intensity Ratio	tCO2/ Annual turnover	0.00000543940	0.00000707769
Methodology	UK Government GHG Conversion Factors for Company Reporting		

The Group continues to monitor and review their energy usage and associated carbon dioxide emissions. They have undertaken mandatory assessments of their energy use in accordance with the ESOS regulations 2014. Following this work, SMD are focused on assessing the recommendations to drive further energy efficiency improvements across all sites.

Directors

The Directors who served during the year were:

M T Jones
K Liu
K Yu
D Zhu
X Cao (appointed 12 May 2022)
J Niu (appointed 12 May 2022)
S Sun (appointed 12 May 2022)
D Zhang (appointed 12 May 2022)
S Moneeb (appointed 16 April 2022)

Statement on engagement with suppliers, customers and others in a business relationship with the Group

In compliance with S172 of Companies Act 2006, the directors recognise the importance of engagement with stakeholders and the link this has to the long-term success of the Group. Through the discussions, presentations and reviews held at the Board meetings throughout the year, the directors are able to ensure that SMD maintains an effective working relationship with a wide range of stakeholders as well as its shareholders.
In addition, the directors maintain a face-to-face dialogue with shareholders at least twice a year, although due to the ongoing pandemic these meetings are now held online via video conference. The annual strategic planning and budgeting process also provides the directors with the opportunity to understand and challenge the long-term business strategy to help deliver growth and future success of the Group through its team and the equipment and services they offer.

The table on pages 6 and 7 sets out SMD's key stakeholder groups and examples of how the directors engaged with them throughout the year.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

Directors' responsibilities statement

The Directors are responsible for preparing the Group strategic report, Directors' report and the consolidated financial statements, in accordance with applicable law.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law they have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the UK, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and 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 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 the 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.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Auditor

Crowe U.K. LLP were appointed auditor during the year and have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

This report was approved by the board and signed on its behalf.

S Moneeb
Director

Date: 4 May 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALIST MACHINE DEVELOPMENTS (SMD) LIMITED

Opinion

We have audited the financial statements of Specialist Machine Developments (SMD) Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of financial position, the Company Statement of financial position, the Consolidated statement of cash flows, the Consolidated statement of changes in equity, the Company Statement of changes in equity and the related notes, including a summary of significant accounting policies set out on pages 27 - 41. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2022 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 United Kingdom; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's and the parent Company's ability to continue to adopt the going concern basis of accounting included:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALIST MACHINE DEVELOPMENTS (SMD) LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilites of Directors

As explained more fully in the Directors' responsibilities statement on page 13, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALIST MACHINE DEVELOPMENTS (SMD) LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks within which the Company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006. We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to the Company's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the Company for fraud. The laws and regulations we considered in this context for the UK operations were General Data Protection Regulation (GDPR), Anti-fraud, bribery and corruption legislation, environmental protection legislation, Health and safety legislation, Taxation legislation and Employment legislation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be in the following areas:

Estimate for forecast revenue and costs in determining the state of completion and revenue recognised for long term contracts; the override of controls by management, including posting of unusual journals; inappropriate treatment of non-routine transactions and areas of estimation uncertainty; and manipulating the Company's key performance indicators to meet management targets.

Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, assessing the reasonableness of the cost to complete forecast by considering historical accuracy of previous forecasts, assessing judgments made in making accounting estimates for stage of completion of long term contracts, review and discussion of non-routine transactions, sample testing on the posting of journals and income transactions and review of accounting estimates for biases.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALIST MACHINE DEVELOPMENTS (SMD) LIMITED (CONTINUED)

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.

Crowe UK LLP

Mark Evans (Senior statutory auditor)

for and on behalf of
Crowe U.K. LLP

Statutory Auditor

Black Country House
Rounds Green Road
Oldbury
West Midlands
B69 2DG
Date: 5/5/2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Revenue	6	**39,843,440**	*24,443,420*
Cost of sales		**(27,433,346)**	*(18,128,642)*
Gross profit		**12,410,094**	*6,314,778*
Other operating income	8	**553,356**	*626,599*
Administrative expenses		**(9,151,222)**	*(15,362,462)*
Profit/(loss) from operations		**3,812,228**	*(8,421,085)*
Finance income	12	**419,513**	*5,596*
Finance expense	12	**(3,449,640)**	*(3,169,053)*
Profit/(loss) before tax		**782,101**	*(11,584,542)*
Tax credit	13	**235,491**	*20,834*
Profit/(loss) for the year		**1,017,592**	*(11,563,708)*
Other comprehensive income:			
Items that will or may be reclassified to profit or loss:			
Exchange gains arising on translation on foreign operations		**16,061**	*(4,611)*
Other comprehensive income for the year, net of tax		**16,061**	*(4,611)*
Total comprehensive income		**1,033,653**	*(11,568,319)*

The notes on pages 27 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Property, plant and equipment	14	**5,296,838**	*5,471,406*
Intangible assets	15	**52,558,671**	*52,770,245*
Deferred tax assets	13	**1,887,994**	*1,661,443*
		59,743,503	*59,903,094*
Current assets	20		
Inventories	18	**5,216,132**	*3,611,632*
Contract assets	6	**5,776,144**	*5,892,497*
Trade and other receivables	19	**15,929,516**	*21,091,674*
Cash and cash equivalents	30	**573,487**	*141,544*
		27,495,279	*30,737,347*
Total assets		**87,238,782**	*90,640,441*
Liabilities			
Non-current liabilities			
Loans and borrowings	22	**62,254,784**	*62,336,335*
Current liabilities			
Bank overdraft	30	**12,933,523**	*19,045,783*
Trade and other liabilities	21	**10,961,881**	*16,042,288*
Contract liabilities		**6,779,898**	*8,463,561*
Loans and borrowings	22	**18,245,938**	*9,514,517*
Provisions	23	**485,646**	*694,498*
		49,406,886	*53,760,647*
Total liabilities		**111,661,670**	*116,096,982*
Net liabilities		**(24,422,888)**	*(25,456,541)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Issued capital and reserves attributable to owners of the parent			
Share capital	24	**44,048,325**	*44,048,325*
Share premium reserve		**689**	*689*
Foreign exchange reserve	25	**58,908**	*42,847*
Retained earnings		**(68,530,810)**	*(69,548,402)*
		(24,422,888)	*(25,456,541)*
Total deficit		**(24,422,888)**	*(25,456,541)*

The financial statements on pages 18 to 85 were approved and authorised for issue by the board of Directors and were signed on its behalf by:

S Moneeb
Director

Date: 11 May 2023

The notes on pages 27 to 85 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Other non-current investments	16	**44,970,014**	*44,970,014*
Current assets			
Trade and other receivables	19	**7,361,644**	*4,961,643*
Total assets		**52,331,658**	*49,931,657*
Liabilities			
Non-current liabilities			
Loans and borrowings	22	**60,000,000**	*60,000,000*
Current liabilities			
Trade and other liabilities	21	**298,319**	*298,318*
Loans and borrowings	22	**7,200,000**	*4,800,000*
		7,498,319	*5,098,318*
Total liabilities		**67,498,319**	*65,098,318*
Net liabilities		**(15,166,661)**	*(15,166,661)*
Issued capital and reserves attributable to owners of the parent	25		
Share capital	24	**44,048,325**	*44,048,325*
Share premium reserve		**689**	*689*
Retained earnings		**(59,215,675)**	*(59,215,675)*
TOTAL EQUITY		**(15,166,661)**	*(15,166,661)*

The Company's loss for the year was £- (2021 - £475).

The financial statements on pages 18 to 85 were approved and authorised for issue by the board of Directors and were signed on its behalf by:

S Moneeb
Director

Date: 4 May 2023

The notes on pages 27 to 85 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share premium	Foreign exchange reserve	Retained earnings	Total attributable to equity holders of parent	Total equity
	£	£	£	£	£	£
At 1 January 2021	44,048,325	689	47,458	(57,984,694)	(13,888,222)	(13,888,222)
Comprehensive income for the year						
Loss for the year	-	-	-	(11,563,708)	(11,563,708)	(11,563,708)
Other comprehensive income	-	-	(4,611)	-	(4,611)	(4,611)
Total comprehensive income for the year	-	-	(4,611)	(11,563,708)	(11,568,319)	(11,568,319)
At 31 December 2021	**44,048,325**	**689**	**42,847**	**(69,548,402)**	**(25,456,541)**	**(25,456,541)**
At 1 January 2022	44,048,325	689	42,847	(69,548,402)	(25,456,541)	(25,456,541)
Comprehensive income for the year						
Profit for the year	-	-	-	1,017,592	1,017,592	1,017,592
Other comprehensive income	-	-	16,061	-	16,061	16,061
Total comprehensive income for the year	-	-	16,061	1,017,592	1,033,653	1,033,653
At 31 December 2022	**44,048,325**	**689**	**58,908**	**(68,530,810)**	**(24,422,888)**	**(24,422,888)**

The notes on pages 27 to 86 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 January 2021	44,048,325	689	(59,215,200)	(15,166,186)
Loss for the year	-	-	(475)	(475)
Total comprehensive income for the year	-	-	(475)	(475)
At 31 December 2021	**44,048,325**	**689**	**(59,215,675)**	**(15,166,661)**
At 1 January 2022	44,048,325	689	(59,215,675)	(15,166,661)
Comprehensive income for the year				
Contributions by and distributions to owners				
At 31 December 2022	**44,048,325**	**689**	**(59,215,675)**	**(15,166,661)**

The notes on pages 27 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	*2021* *£*
Cash flows from operating activities			
Profit/(loss) for the year		**1,017,592**	*(11,563,708)*
Adjustments for			
Depreciation of property, plant and equipment	14	**280,142**	*479,421*
Amortisation of intangible fixed assets	15	**13,890**	*55,139*
Finance income	12	**(419,513)**	*(5,596)*
Finance expense	12	**3,449,640**	*3,169,041*
		4,341,751	*(7,865,703)*
Movements in working capital:			
Decrease/(increase) in trade and other receivables		**5,162,158**	*(11,236,085)*
Decrease in contract assets		**116,353**	*2,111,554*
Increase in inventories		**(1,604,500)**	*(689,753)*
(Decrease)/increase in trade and other payables		**(6,101,373)**	*4,881,552*
(Decrease)/increase in contract liabilities		**(1,683,663)**	*6,999,890*
Decrease in provisions		**(208,852)**	*(156,861)*
(Decrease)/increase in other liabilities		**(235,491)**	*41,357*
Cash generated from operations		**(213,617)**	*(5,914,049)*
Income taxes paid		**305,010**	-
Net cash from/(used in) operating activities		**91,393**	*(5,914,049)*
Cash flows from investing activities			
Purchases of property, plant and equipment		**(105,574)**	*(1,312,060)*
Proceeds/(Purchase) of intangibles	15	**197,684**	*(1,432,470)*
Interest received		**419,513**	*5,596*
Net cash from/(used in) investing activities		**511,623**	*(2,738,934)*

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Cash flows from financing activities			
Proceeds from borrowings		**6,250,000**	*4,500,000*
Net payments of finance lease creditors		**(130)**	-
Interest paid		**(324,744)**	*(675,619)*
Net cash from financing activities		**5,925,126**	*3,824,381*
Net cash increase/(decrease) in cash and cash equivalents		**6,528,142**	*(4,828,602)*
Cash and cash equivalents at the beginning of year		**(18,904,239)**	*(14,064,938)*
Exchange gains/(loss) on cash and cash equivalents		**16,061**	*(10,699)*
Cash and cash equivalents at the end of the year	30	**(12,360,036)**	*(18,904,239)*

The notes on pages 27 to 86 form part of these financial statements.

1. General information

Specialist Machine Developments (SMD) Limited is a private company limited by shares, incorporated in the United Kingdom and registered in England and Wales under Companies Act 2006. The registered office is at Turbinia Works, Davy Bank, Wallsend, Tyne and Wear, NE28 6UZ. The Company holds its listed debt on The International Stock Exchange.

The Group is principally engaged in the development and construction of subsea remote operated vehicles (ROVs) and trenching and mining equipment. These financial statements are presented in British Pounds Sterling, which is the currency of the primary economic environment in which the Group operates. Information on the Group's structure is provided in Note 16. Information on other related party relationships of the Group is provided in Note 28.

2. Basis of preparation

The Group's consolidated and the Company's individual financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations as adopted by the UK (collectively IFRSs). They were authorised for issue by the Company's board of directors.

Details of the Group's accounting policies, including changes during the year, are included in note 3.

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and elected not to present its own Statement of comprehensive income in these financial statements.

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas where judgements and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in note 4.

2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis, there are no items which are measured on an alternative basis on each reporting date.

2.2 Changes in accounting policies

i) New standards, interpretations and amendments effective from 1 January 2022

New standards and amendments to standards adopted in the period

- Definition of Accounting Estimates (Amendments to IAS 8)

- Definition of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

2. Basis of preparation (continued)

2.2 Changes in accounting policies (continued)

i) New standards, interpretations and amendments effective from 1 January 2022 (continued)

There are no new standards, interpretations or amendments effective from 1 January 2022 that impacted the financial statements.

ii) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

The following amendments are effective for the period beginning 1st January 2023:
- Amendments to IAS 1 Presentation of Financial Statements
- Non-current Liabilities with Covenants
- Deferral of Effective Date Amendment (published 15 July 2020)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) (published 23 January 2020)
- Lease Liabilities in a Sale and Leaseback (Amendments to IFRS 16)

As of the date of authorisation of these financial statements there are several standards that were in issue but not yet effective. The Group has not applied these standards in the preparation of the financial statements, has not adopted any new or amended standards early and does not expect these standards to have any impact on the Group.A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the UK endorsement Board. The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

3. Accounting policies

3.1 Basis of consolidation

The financial statements of the Group have been prepared in accordance with international accounting standards ("IFRS") in conformity with the requirements of the Companies Act 2006. The parent company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

The financial statements have been prepared using the significant accounting policies and measurement bases that are in effect at the end of the reporting period on 31 December 2022 as defined below. The presentation currency is GBP Sterling (£), which is also the functional currency of the Company and Group.

In these financial statements, the Company has applied all the exemptions available under FRS 101.

The financial statements have been prepared under the historical cost convention. All policies and measurement bases were in effect throughout all periods presented in the financial statements. All amounts have been shown in pounds sterling, unless otherwise stated.

3. Accounting policies (continued)

3.1 Basis of consolidation (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at this time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

3. Accounting policies (continued)

3.1 Basis of consolidation (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and its calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent account under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Separate financial statements

The separate financial statements disclose the financial information of the Specialist Machine Developments (SMD) Limited Company. Investments in subsidiaries are recorded at cost less provision for impairment, where carrying values are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

3. Accounting policies (continued)

3.2 Going concern

The Directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and uncertainties facing the Group. Management has produced forecasts for a period of 12 months which have been reviewed by the directors. These forecasts demonstrate the Group has access to sufficient financial facilities to enable it to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements. In making this assessment the directors considered a letter of support received from the parent entity Zhuzhou CRRC Times Electric Co. Limited. The Directors have assessed the ability of this entity to provide support such that be required and have concluded that it is able to do so. As such, the directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing these financial statements. In making this assessment the directors also acknowledge the following:

(i) The Group has net liabilities of £24.4m (2021 - £25.4m) and net current liabilities of £11.2m (2021 - £22.9m). The profit for the year is £1.1m (2021 - Loss - £11.5m), however included within this amount are financing costs of £3.1m (2021 - £2.9m) which predominantly relate to the £60m (2021 - £60m) loan notes with SMD's immediate parent undertaking (CRRC Times Electric (Hong Kong) Co ., Ltd). Management are confident that when markets return, the Group will be in a strong position to capitalise on opportunities

(ii) The Group remains within the limits of the current facilities agreement with Barclays, which contains no expiry date, but is underpinned by a letter of support from the parent company, Zhuzhou CRRC Times Electric Co. Limited. In March 2022 the Group Board confirmed that it would continue to provide dedicated facilities of 300m RMB (c.f30m), and the most recent letter of support to the bank was renewed in October 2022;

(iii) In addition, the Group has also received a separate letter of support from the ultimate parent company guaranteeing both financial support to the Group in reference to the facility agreement cited in point II above and to refrain from recalling the £67.2m loan notes & interest until the Group has enough funds to make the repayment. Management have reviewed the Group's cash flow requirements for the period of 12 months from the date of signing of these financial statements and are satisfied that the financial support offered by the ultimate parent company meets SMD's needs; and

(iv) The Group has already secured a number of new contracts in 2023, including major wins despite the challenging environment. As the global economy continues to recover we anticipate continued increase in business activity.

As such, the Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing these financial statements.

3. Accounting policies (continued)

3.3 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.4 Revenue

Revenue accounting policies are discussed in note 6.

3. Accounting policies (continued)

3.5 Leasing

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

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

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

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

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement rate;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index of rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment and lease liabilities in 'loans and borrowings' in the statement of financial position.

3. Accounting policies (continued)

3.6 Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds using exchange rates prevailing at the end of each reporting period. 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 dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Accounting policies (continued)

3.8 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.9 Other operating income

Other operating income relates to licence fees received from Zhuzhou CRRC Times Electric Co ., Ltd to license intellectual property rights of SMD technology to the CRRC Group. Within the terms of the licence agreement, the Group are required to provide training and support when licensing the intellectual property. This is revenue from contracts with customers, however it is disclosed separately as other operating income so as not to distort revenue from ordinary activities. As this is within the scope of IFRS 15, please see Note 4 for details on accounting policy.

3.10 Research and development expenditure credit (RDEC)

As a result of investment in R&D activities, the Group applies for an above the line tax credit under the government's RDEC scheme. The Group recognises amounts received under this scheme as a credit against cost of sales and is therefore a taxable item.

3.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. Accounting policies (continued)

3.11 Taxation (continued)

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Directors of the Group reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Directors have determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

3. Accounting policies (continued)

3.11 Taxation (continued)

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.12 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following range:

Freehold property	50 years
Long-term leasehold property	Minimum lease term (3 - 20 years)
Motor vehicles	4 years
Fixtures and fittings	4-10 years
Computer equipment	4 years

3. Accounting policies (continued)

3.13 Intangible assets

Internally-generated 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 development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(b) Computer software

Computer software is recognised as an intangible asset when it is not found to be integral to hardware. It has a useful economic life of 4 years or 4 years where the license is indefinite. It is recorded at cost less amortisation.

(c) Intellectual property

Separately acquired licence is shown at historical cost. It has a useful economic life of 4 years and is subsequently carried at cost less accumulated amortisation and impairment losses.

(d) Research and development

The Company does not capitalise research expenditure as it is recognised as an expense when it is incurred. Development costs are assessed on a case-by-case basis on whether they are capitalised as an intangible asset or expensed, applying the criteria of IAS 38.57(a-f) (intangible assets) which includes the ability to use or sell the asset, the resources and intention to complete development of the asset, if it will generate probable future economic benefits and if the expenditure can be measured reliably. It is then amortised over the period of the asset generating economic benefit, estimated at 4-5 years on average.

Product development costs are tested annually for impairment while the development is not yet available for use.

3. Accounting policies (continued)

3.13 *Intangible assets (continued)*

Internally-generated intangible assets (continued)

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the cash-generating unit 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 cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

3.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in, first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3. Accounting policies (continued)

3.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The Group recognised a warranty provision for the estimated future cost of meeting warranty and other contractual obligations in respect of sales to customers under construction contracts and sales of spare parts.

The dilapidations provision relates to the present value obligation to restore leased premises to its original condition at the end of the lease term.

3.17 Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group. Contributions payable for the year are charged in the Statement of Comprehensive Income. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position. The Group has no further payment obligations once contributions have been paid.

3.18 Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Whilst the Group uses forward contracts in its financial planning, no forward contracts were in existence at 31 December 2022 (2021 - none). The Group also does not apply hedge accounting.

(a) Financial assets

Financial assets consist of trade receivables, cash and cash equivalents and foreign exchange forward contracts.

3. Accounting policies (continued)

3.18 Financial instruments (continued)

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement between 30 to 60 days and hence are all classified as current. As the Group does not engage in trade receivables which contain a significant financing component, all trade receivables are recognised at the amount of consideration that is unconditional. Aged receivables are continually reviewed for impairment and all receivables undergo an impairment review at the reporting date. In making this assessment management have identified an impairment disclosed as an exceptional item on the statement of comprehensive income. Please see Note 4 for further information including details of the Group's impairment policies.

All of the Group's forward contracts qualify to be classified as fair value through the profit or loss. They are carried on the statement of financial position at fair value with net changes in fair value presented as admin costs. For derivatives the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial assets are primarily derecognised when the rights to receive cash flows from the asset have expired or when substantially all risks and rewards of the asset have been transferred.

(b) Financial liabilities

Financial liabilities consist of trade payables, a bank overdraft and issued loan notes traded on the International Stock Exchange.

Trade payables represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period in which case they are treated as non-current. Note there were no trade payables that have a due date greater than 12 months after the end of the reporting period, hence all trade payables are classified as current.

The bank overdraft is part of a revolving credit facility which accrues interest on a daily basis at the Bank of England, "BoE", base rate. The Group recognises the overdraft liability equal to the total amount outstanding including accrued interest at the end of the reporting period, where interest charges incurred during the year are recognised within finance costs in the consolidated statement of comprehensive income.

Issued loan notes traded on the International Stock Exchange are initially recognised at fair value net of any directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. They are derecognised when the obligation under the liability has either been discharged, cancelled or expired. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated statement of comprehensive income.

3. Accounting policies (continued)

3.18 Financial instruments (continued)

(c) Financial asset impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group applies a default definition that is consistent with the definition used for internal credit risk management purposes. Under IFRS 9, a 90-day threshold is applied to customer invoices past their due date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors such as observable changes in national or local economic conditions that correlate with default on receivables. For details of all financial instruments disclosed see Note 17.

4. Accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of the contingent liabilities. Judgements, estimates and assumptions relating to revenue are discussed separately in Note 6. In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Judgements

Revenue recognised over time

The Company principally operates fixed contracts for the provision of subsea equipment such as seabed trenchers, remotely operated vehicles "ROVs" and deck equipment. In applying the criteria of IFRS 15 the Company identifies a contract with a customer when:

- the parties to the contract have approved the contract;
- the Company can identify each party's rights regarding the goods or service transferred;
- the Company can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance; and
- it is probable the Company will collect the consideration to which it will be entitled in exchange for the goods or services transferred to the customer.

In identifying performance obligations, the Company determine on an individual contract basis whether the contract contains a bundle of goods and services (one performance obligation), or if there is a series of separate distinct goods and services (multiple performance obligations). Typically, contracts with customers include not only the supply of a product i.e. a subsea vehicle, but also a suite of ancillary equipment and spare parts. In making the assessment, management consider subsea vehicles and ancillary equipment as one individual performance obligation, on the grounds that both products are interdependent. Spares are considered a separate performance obligation, given their nature, unless their value is deemed immaterial, in which case the entire contract is considered as one performance obligation. However, as the Company ensures contractual arrangements separately disclose the selling price of equipment and spares, the Company does not have to estimate the allocation of contract value to the transaction price should equipment and spares be considered separate performance obligations. When a contract includes the provision of equipment and spares, the Company allocates the transaction price to the performance obligation on the basis of standalone price.

In assessing the satisfaction of performance obligations of contracts, management deem revenue can be recognised over time on the grounds that the equipment the Company manufactures is unique in nature, has no alternative use to the Company and the Company has an enforceable right (as stipulated in the contract) to payment for performance completed to date. In the event the equipment is not unique or the contract lacks the enforceable right to payment for performance to date it may be that revenue will be recognised at point in time, although historically this has never been the case.

Assessments are made on an individual contract basis of the various methods of measurement towards complete satisfaction of a performance obligation; for all contracts in the current and prior year the method applied was to take total contract costs incurred against total forecasted costs on a percentage completion basis. This is on the grounds that cost accurately reflects the efforts towards satisfaction of the performance obligation, as it factors all forms of cost i.e. materials and labour, and cost can be measured reliably on the Company's IT system. Alternative input methods such as total hours done per total forecasted hours do not necessarily reflect the Company's financial commitment on a contract as it does not take into account material costs. In addition, alternative output methods such as surveys of performance completed are deemed speculative and unreliable. In applying the cost input method, management are required to exercise judgement in determining the total forecasted cost of the contract.

4. Accounting estimates and judgements (continued)

Judgement (continued)

This is decided as part of periodic contract reviews which include consultation with senior individuals across the business including project management, procurement and quality.

On an individual contract basis management assess costs incurred that are not proportionate to the Company's progress in satisfying performance obligations, as they are not considered when measuring stage of completion. In the current and prior year, the assessment deemed no costs as disproportionate on any contract on the grounds that whilst the vast majority of goods used in the products are procured from third parties, they are custom fabrications based on designs by the Company and specialised in nature. Accordingly, costs reflect progress in satisfying the performance obligation. Parts used on contracts which are not specialised in nature have been deemed immaterial.

Variations to contracts are assessed on a case-by-case basis as to whether they are part of the original contract performance obligation or a distinct performance obligation (and if so, whether the separate performance is priced on a standalone selling price basis). In making this assessment management take into account a number of factors such as the nature and purpose of the variations, the date of delivery of the variation and materiality; the majority of variations are minor adjustments to the equipment supplied and are small in value.

Liquidated damages are not considered by the Company as requiring an adjustment to constrain the transaction price, as they do not occur with such regularity as to represent a highly probable reversal of revenue.

Contingent liabilities

The Group is party to guarantees which include financial penalties should the Group fail to provide goods and services that meet specified performance obligations (performance guarantees) and the return of customer payments made upfront should the Group withdraw from a contract (advance payment guarantees). To secure these obligations, the Group enters into bonding arrangements with its bank as part of the facilities agreement (Note 20), where the bank will settle these guarantees should they materialise and reclaim this back from the Group. Management made an assessment on the likelihood of circumstances of this nature arising, considering the current and forecasted future performance of its products and the Group's ability to comply with the specific conditions. The assessment found the extent of the guarantees was £2,632,839 (2021 - £5,169,590) and deemed the likelihood of any bonds materialising to be remote, therefore the guarantees have been disclosed as a contingent liability only (see Note 31).

Capitalised Development Costs

IAS 38 'Intangible Assets' requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new or substantially improved product, are capitalised, subject to certain criteria being met. Determining the technical feasibility and estimating the future cash flows generated by the products in development requires the use of management estimates.

The estimates made in relation to capitalised development costs include identification of relevant assets, future growth rates, expected inflation rates and the discount rate used. Management also make estimates of the useful economic lives of the intangible assets.

4. Accounting estimates and judgements (continued)

Judgement (continued)

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future tax profits together with tax planning strategies. The Group has £33,984,104 (2021 - £32,130,863) total tax losses carried forward, which consist of unused losses from 2016, corporate interest restriction and the receivables impairment recognised in the prior year. In assessing the recoverability of these losses, management considered performance forecasts and as the Group is expected to increase in profitability in future years, it was determined that £10,648,728 losses can be recognised for future offset (2021 - £12,819,112). On analysis, management deem it at least probable these tax losses will be fully utilised by 2024 but note that changes in assumptions made could have a material impact on the Group's reported tax charge. Management estimate that most of these losses will be utilised in 2024/2025, resulting in a deferred tax asset at the year ended 2022 of £2,662,182 (2021 - £2,435,631). Tax losses of £23,335,376 (2021: £19,311,751) have not been recognised on the grounds they are not expected to be utilised until beyond 2025, where there is a reasonable level of uncertainty on recoverability. Had the Group recognised these tax losses at the future rate of 19% it would result in an additional £5,833,844 (2021 - £3,669,233) deferred tax asset. See Note 13 for further details on deferred tax.

Goodwill impairment review

Management were required to make judgements, estimates and assumptions when performing the goodwill impairment review, to support the carrying value recognised in the financial statements. This was based on the criteria that an impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

To determine if an impairment exists management used a discounted cash flow (DCF) model based on forecasted cash flows over a five-year period plus the terminal year. The model was sensitive to assumptions based on revenue, EBITDA (earnings before interest, tax, depreciation and amortisation) margin and discount rate, the effects of which are discussed in greater detail in Note 17.

Capitalised Development Cost impairment review

Management make judgements, estimates and assumptions when performing Capitalised Development cost impairment reviews, to support the carrying value recognised in the financial statements.

Expected revenues generated form capitalised developments are estimated for the next 5 years as part of an ongoing forecast cycle, based on both internal and 3rd party market specific information. Based on the estimated revenues an impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. Accounting estimates and judgements (continued)

Judgement (continued)

Estimates

Warranty provision

The Group offers warranty on its products, typically for one year, covering machine and component part failures. Due to the uncertainty of the timing and extent of such failures management estimate a warranty provision based on 1% of total revenue, In arriving at this assumption management performed a comparison of warranty cost as a proportion of revenue on historical performance and found a consistent relationship of 1%. Management then consider the likelihood of future warranty claims based on customer feedback and will increase or decrease the warranty provision if necessary. Please see Note 23 which includes disclosure of the warranty provision recognised.

Inventory provision

The Group recognises a provision against inventory based on an estimation where the net realisable value is lower than the original cost for ageing inventory, which was estimated to be £1,561,634 at 31 December 2022 (2021 - £5,759,442). In determining this provision, management have made the assumption that all inventory which have not been consumed, either on a contract or sold as a spare, in at least a year incurs a provision of 20% of the original cost, increasing by a further 20% for each year thereafter. Inventory that is five years or older is therefore fully impaired.

5. Capital management

For the purpose of the Group's capital management, capital includes issued share capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise shareholder value.

The Group does not actively manage its capital structure to a fixed amount or rate and instead makes adjustments in light of changes in economic conditions and requirements of its financial obligations. Prior to April 2015 this included meeting financial covenants imposed by the Group's bank, but subsequent to that date the covenants were removed when the Group was acquired by the CRRC Corporation Limited. Since acquisition, the capital structure is now determined by the CRRC Corporation Limited and may change depending on profitability and cash flow.

The Group monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt; within net debt the Group includes interest-bearing loans and borrowings and trade and other payables, less cash and short-term deposits.

5. Capital management (continued)

The gearing ratios at 31 December 2022 and 31 December 2021 were as follows:

	2022 £	*2021* *£*
Interest-bearing loans and borrowings	**90,883,523**	*88,345,783*
Trade and other payables	**10,961,881**	*16,042,288*
Lease liabilities	**2,550,722**	*2,550,852*
Contract liabilities	**6,779,898**	*8,463,561*
Less: Cash and short term deposits	**(573,487)**	*(141,544)*
Net debt	**110,602,537**	*115,260,940*
Capital and reserves	**(24,422,888)**	*(25,406,533)*
Net debt	**110,602,537**	*115,260,580*
Total equity	**86,179,649**	*89,854,047*
Net debt to total equity ratio	**128 %**	**128 %**

5. Capital management (continued)

In order to achieve the primary objective, the Group's capital management, amongst other things, aims to ensure that it meets the financial obligations attached to the interest-bearing loans and borrowings that define capital structure requirements. A cash flow reconciliation of the Group's and Company's borrowings is shown in the following tables.

	Borrowings £
Group	
At 1 January 2021	77,060,510
Cash flows:	
- Drawdown of parent company loan	4,500,000
- Interest paid	(447,859)
- Drawdown of overdraft	4,385,273
Non-cash flows:	-
- interest expense	2,847,859
	88,345,783
At 31 December 2021 and 1 January 2022	
Cash flows:	
- Interest paid	(324,744)
- Drawdown of parent company loan	6,250,000
- Drawdown of overdraft	(4,737,156)
Non-cash flows:	-
- Interest expense	2,724,744
At 31 December 2022	92,258,627

5. Capital Management (continued)

	Borrowings £
Company	
At 1 January 2021	**62,400,000**
Cash flows:	
- interest paid	**-**
Non-Cash flows:	
- interest expense	**2,400,000**
At 31 December 2021 and 1 January 2022	**64,800,000**
Cash flows:	
Non-Cash flows:	
- interest expense	**2,400,000**
At 31 December 2022	**67,200,000**

6. Revenue

6.1. Disaggregation of revenue from contracts with customers

Management examined the Group's performance, from both a product and a geographic perspective, and has identified four reportable segments of its business.

(i) Trenching, mining and renewables (TMR) - this business supplies towed and self-propelled vehicles, with a comprehensive range of in-house engineered launch and recovery systems (LARS) and control systems for offshore and onshore submerged mineral extraction.
(ii) Services - SMD Services works closely with clients to ensure maximum performance from their assets. The SMD Services business, established in 2016, supports customers through the full life cycle of any subsea asset. The business provides 24/7 operational and engineering support, intelligent spares support, asset management, life extension, repurposing and original equipment manufacturer (OEM) training.
(iii) Remotely operated vehicles (ROVs) - business offers a wide range of systems including work-class ROVs, TMS systems, winches and tool skids.
(iv) Deck equipment and Curvetech - this part of the business offers cable handling solutions and also sells Curvetech subsea component products which include underwater thrusters, hydraulic valve packs, sensors and electronics, skids and full control systems for ROVs.

6. Revenue (continued)

Revenues from external customers are attributed to the entity's country of domicile.

Revenues of £7,989,057 (2021 - £10,996,050) are derived from a single external customer. In the current year, these revenues are attributed to multiple projects, mainly in the ROV business, and relate to a customer based in United Arab Emirates (2021 - Brazil). In accordance with the criteria of IFRS 15, these goods and services are recognised either over time or at a point in time as follows:

For the year ended 31 December 2022

	China	Brazil	United Arab Emirates	United Kingdom	Rest of the World	Total
Revenue recognised over time	£	£	£	£	£	£
Trenching, mining and renewables	525,579	-	7,004,889	799,068	895,814	9,225,350
Services	27,205	-	112,814	4,499,341	7,242,928	11,882,288
Remotely operated vehicles, "ROV"s	38,448	5,182,368	-	-	665,566	5,886,382
Deck Equipment and Curvetech	-	-	-	-	606,363	606,363
	591,232	5,182,368	7,117,703	5,298,409	9,410,671	27,600,383
Revenue recognised at a point in time						
Trenching, mining and renewables	-	-	-	-	-	-
Services	3,780,510	372,009	874,018	2,556,604	4,659,915	12,243,056
Remotely operated vehicles, "ROV"s	-	-	-	-	-	-
Deck Equipment and Curvetech	-	-	-	-	-	-
	3,780,510	372,009	874,018	2,556,604	4,659,915	12,243,056
Total revenue recognised from customers	4,371,742	5,554,377	7,991,721	7,855,013	14,070,587	39,843,440

For the year ended 31 December 2021

	France	Brazil	United Arab Emirates	United Kingdom	Rest of the World	Total
Revenue recognised over time	£	£	£	£	£	£
Trenching, mining and renewables	24,214	-	3,722,254	1,745,357	1,676,723	7,168,548
Services	1,900	-	226,234	1,963,247	2,078,248	4,269,629
Remotely operated vehicles, "ROV"s	-	10,589,572	1,200	-	(7,862,092)	2,728,680
Deck Equipment and Curvetech	1,558,429	-	-	-	289,811	1,848,240
	1,584,543	10,589,572	3,949,688	3,708,604	(3,817,310)	16,015,097
Revenue recognised at a point in time						
Trenching, mining and renewables	-	-	-	-	-	-
Services	988,361	517,205	227,328	2,054,765	4,640,664	8,428,324
Remotely operated vehicles, "ROV"s	-	-	-	-	-	-
Deck Equipment and Curvetech	-	-	-	-	-	-
	988,361	517,205	227,328	2,054,765	4,640,664	8,428,324
Total revenue recognised from customers	2,572,904	11,106,777	4,177,016	5,763,369	823,354	24,443,421

6. Revenue (continued)

Rest of the world revenues in the year ended December 2022 include a reversal of £nil (2021 - £3.7m), reducing profit by the same amount. This was caused by a customer rejection during 2021 of equipment delivered in 2015 on which revenue had been substantially recognised in 2015. The rejected equipment was made to the specific customer's requirements and so has been returned to stock at £nil value.

Rest of the world revenues in the year also include a separate reversal of £nil (2021 - £4.7m) previously recognised during 2020 for equipment due for dispatch in early 2021. This was due to an export licence not being granted despite previous export licences having been obtained for similar supplies to the region. This resulted in the cancellation of the contract by the customer. This equipment was subsequently sold to a customer in Brazil. This affected profit by £nil (2021 - (£145,783))

Included within the rest of the world is £6,133,205 (2021 - £1,918,738) relating to customers based in the EU. This comprises of spares & support sales of £2,493,334 (2021 - £690,576) sales relating to equipment of £1,262,167 (2021 - £387,175) and £2,377,704 (2021 - £840,986) relating to RMU & services.

The following is an analysis of the Group's revenue for the year from continuing operations:

	2022 £	2021 £
Revenue in relation to the principal activity	**39,843,440**	*24,443,420*

6. Revenue (continued)

6.2 Assets and liabilities related to contracts with customers

Contract assets are the Group's conditional right to consideration in exchange for goods and services the entity has transferred to a customer. When the entity is entitled to invoice the customer in accordance with the billing schedule established in the contract (which is generally based on meeting contractual milestones), the right to consideration is unconditional (other than the passage of time) and is recognised in trade receivable or accrued income (as appropriate).

Billing schedules typically comprise of an advanced payment to secure the contract followed by future payments in accordance with key milestones throughout the contract, including design completion, build completion, successful testing and delivery. Occasionally billing schedules also include a retention, allowing the customer to defer payment until a period after the delivery of goods. Historically, retentions are due within 12 months of satisfaction of the performance obligation and on this basis, it was deemed immaterial for retentions to factor the time value of money.

Contract liabilities arise where payments are received from the customer in advance of satisfaction of the performance obligations in the contract. Often this is at the beginning of the contract when advanced payments are receipted. In addition, all contracts include warranty on equipment only (typically covering a 12-month period) and is therefore not deemed to be a separate performance obligation. Please see Note 23 for further details on warranties held by the Group.

The Group has recognised the following assets and liabilities related to contracts with customers:

	Contracts in trade debtors	Contract assets	Contract liabilities
	£	£	£
As at 1 January 2021	6,135,328	8,004,051	1,463,671
As at 31 December 2021	13,185,856	5,892,497	8,463,561
As at 31 December 2022	3,140,903	5,776,144	6,779,898

Movement in contract asset and liability balances in the year are due to:

- timing of progress made in respect of satisfying performance obligations and meeting the contractual milestones for payments;
- new contracts awarded in the year; and
- changes in estimates (see 3).

During the year, no gains or losses were recognised in profit or loss in relation to impaired contract assets.

Revenue recognised that was included in the contract liability balance at the beginning of the period was £8,454,813 (2021 - £1,463,671).

There was no revenue recognised in the current reporting period from performance obligations satisfied in the prior year.

6. Revenue (continued)

The total value of unsatisfied performance obligations on contracts in existence at the end of the reporting period (which are to be recognised as revenue in future periods) were £21,851,854 (2021 - £16,661,599).

All unsatisfied contracts at the end of the reporting period are due to have all performance obligations satisfied by at the most 12 months from the year end. The Company recognised no assets in relation to costs to fulfil contracts with customers at the year ended 31 December 2022.

Accounting policies and significant judgements

The following accounting policies are applied to all business units of the SMD Group:

(a) Revenue recognised over time The Group principally operates fixed contracts for the provision of subsea equipment such as seabed trenchers, remotely operated vehicles "ROVs" and deck equipment. In applying the criteria of IFRS 15 the Group identifies a contract with a customer when:

- the parties to the contract have approved the contract;
- the Group can identify each party's rights regarding the goods or service transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance; and
- it is probable the Group will collect the consideration to which it will be entitled in exchange for the goods or services transferred to the customer.

In identifying performance obligations, the Group determine on an individual contract basis whether the contract contains a bundle of goods and services (one performance obligation), or if there is a series of separate distinct goods and services (multiple performance obligations). Typically, contracts with customers include not only the supply of a product i.e ., a subsea vehicle, but also a suite of ancillary equipment and spare parts. In making the assessment, management consider subsea vehicles and ancillary equipment as one individual performance obligation, on the grounds that both products are interdependent. Spares are considered a separate performance obligation, given their nature, unless their value is deemed immaterial, in which case the entire contract is considered as one performance obligation. However, as the Group ensures contractual arrangements separately disclose the selling price of equipment and spares, the Group does not have to estimate the allocation of contract value to the transaction price should equipment and spares be considered separate performance obligations. When a contract includes the provision of equipment and spares, the Group allocates the transaction price to the performance obligation on the basis of standalone price.

In assessing the satisfaction of performance obligations of contracts, management deem revenue can be recognised over time on the grounds that the equipment the Group manufactures is unique in nature, has no alternative use to the Group and the Group has an enforceable right (as stipulated in the contract) to payment for performance completed to date. In the event the equipment is not unique, or the contract lacks the enforceable right to payment for performance to date it may be that revenue will be recognised at point in time, although historically this has never been the case.

Assessments are made on an individual contract basis of the various methods of measurement towards complete satisfaction of a performance obligation; for all contracts in the current and prior year the method applied was to take total contract costs incurred against total forecasted costs on a percentage completion basis. This is on the grounds that cost accurately reflects the efforts towards satisfaction of the performance obligation, as it factors all forms of cost i.e materials and labour, and cost can be measured reliably on the Group's IT system. Alternative input methods such as total hours done per total forecasted hours do not necessarily reflect the Group's financial commitment on a contract as it does not take into account material costs. In addition, alternative output methods such as surveys of performance completed are deemed speculative and unreliable. In applying the cost input method, management are required to

6. Revenue (continued)

exercise judgement in determining the total forecasted cost of the contract. This is decided as part of periodic contract reviews which include consultation with senior individuals across the business including project management, procurement and quality.

On an individual contract basis management assess costs incurred that are not proportionate to the Group's progress in satisfying performance obligations, as they are not considered when measuring stage of completion. In the current and prior year, the assessment deemed no costs as disproportionate on any contract on the grounds that whilst the vast majority of goods used in the products are procured from third parties, they are custom fabrications based on designs by the Group and specialised in nature. Accordingly, costs reflect progress in satisfying the performance obligation. Parts used on contracts which are not specialised in nature have been deemed immaterial.

Variations to contracts are assessed on a case-by-case basis as to whether they are part of the original contract performance obligation or a distinct performance obligation (and if so, whether the separate performance is priced on a standalone selling price basis). In making this assessment management take into account a number of factors such as the nature and purpose of the variations, the date of delivery of the variation and materiality; the majority of variations are minor adjustments to the equipment supplied and are small in value.

Liquidated damages are not considered by the Group as requiring an adjustment to constrain the transaction price, as they do not occur with such regularity as to represent a highly probable reversal of revenue.

(b) Revenue recognised at point in time

Revenue recognised at point in time includes spare part sales and support services. The vast majority of revenue recognised at point in time falls under the Services business stream. It is standard policy for payment terms to be 30 days.

Spare part sales consist of goods procured by the Group from its supply chain. Once the customer has been notified the goods are available for delivery, revenue is recognised in accordance with Ex works terms. Whilst the goods sold are usually on the Group's premises at the point of sale, the responsibility for the goods and hence the risks and rewards have at this point transferred to the customer.

Support services relates to the provision of personnel, typically offshore, to provide customers with support for their equipment, charged at either an hourly or daily rate. The performance obligation is not deemed to be satisfied until the customer has formally accepted the work is complete, therefore revenue is recognised as and when the service is performed. Expenses incurred chargeable at a marked-up rate.

7. Auditor's remuneration

During the year, the Group obtained the following services from the Company's auditor:

	2022 £	*2021* *£*
Fees payable to the Company's auditor for the audit of the consolidated and parent Company's financial statements	**29,000**	*17,500*

The auditor's remuneration is included within administrative costs. Non-audit service costs totalled £nil (2021 - £nil). Audit fees for the company, inclusive of its subsidiary undertakings, totalled £80,000 (2021: £175,000).

8. Other operating income

	2022 £	*2021* *£*
RDEC credits received	**553,356**	*381,190*
Government grants receivable	**-**	*245,409*
	553,356	*626,599*

The Group received government grants of £Nil (2021 - £218,477) under the Coronavirus Job Retention Scheme. As this scheme involves a transfer of resources from government to the entity, it meets the definition of a government grant. The scheme is designed to compensate for staff costs of certain employees who were asked to stop working, but who were being kept on the payroll. The amounts received by the Company were recognised in the statement of profit and loss and other comprehensive income over the same period as the costs to which they relate.

The Group received tax credits relating to research and development claims during the year of £603,356 (2021 - £190,595).

The Group did not benefit directly from any other forms of government assistance.

There are no unfulfilled conditions or other contingencies attaching to this grant.

9. Operating loss

This is stated after charging/(crediting):

	2022 £	2021 £
Depreciation of owned property, plant and equipment	**280,142**	*479,421*
Amortisation of owned intangible assets	**13,890**	*23,178*
Loss on disposal of property, plant and equipment	**-**	*12*
Research and development costs	**116,969**	*186,768*
R&D above the line tax credit	**(553,356)**	*(190,595)*
Government grants - other operating income	**-**	*(245,409)*
Net (gain)/loss on foreign currency translation	**(119,304)**	*3,137*
Dilapidation provision	**7,827**	*25,000*

10. Employee benefit expenses

Group

	2022 £	2021 £
Employee benefit expenses (including Directors) comprise:		
Wages and salaries	**7,878,393**	*10,245,004*
National insurance	**865,189**	*1,061,997*
Defined contribution pension cost	**522,570**	*532,537*
	9,266,152	*11,839,538*

The above figures do not include government grants of £Nil (2021 - £218,477) received under the UK Coronavirus Job Retention Scheme and the Jobs Support Scheme offered to businesses in Singapore. Other pension costs include only those defined benefit plan costs included within operating costs and the defined contribution plan charge.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company listed on page 1, and the Financial Controller of the Company.

	2022 £	2021 £
Salary	**684,380**	*594,784*
Defined contribution scheme costs	**38,365**	*7,264*
	722,745	*602,048*

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

	2022 No.	2021 No.
Administration	**60**	*57*
Production	**110**	*143*
	170	*200*

11. Directors' remuneration

	2022 £	*2021* *£*
Directors' emoluments	**684,380**	*594,784*
Group contributions to pension schemes	**38,365**	*7,264*
	722,745	*602,048*

The highest paid Director's emoluments were as follows:

	2022 £	*2021* *£*
Directors' emoluments	**253,326**	*206,418*
Group contributions to pension schemes	**7,893**	*-*
	261,219	*206,418*

12. Finance income and expense

Recognised in profit or loss

	2022 £	*2021* *£*
Finance income		
Other interest receivable	**419,513**	*5,596*
Total finance income	**419,513**	*5,596*
Finance expense		
Bank and loan note interest payable	**3,124,896**	*2,847,859*
Interest on lease liabilities	**115,722**	*93,434*
Other loan interest payable	**128,585**	*35,609*
Other interest payable	**80,437**	*192,151*
Total finance expense	**3,449,640**	*3,169,053*
Net finance expense recognised in profit or loss	**(3,030,127)**	*(3,163,457)*

13. Tax expense

13.1 Income tax recognised in profit or loss

	2022 £	*2021* *£*
Current tax		
Current tax on profits for the year	**(8,940)**	*(20,834)*
Total current tax	**(8,940)**	*(20,834)*
Deferred tax expense		
Origination and reversal of timing differences	**(226,551)**	-
Total deferred tax	**(226,551)**	-
	(235,491)	*(20,834)*
Total tax expense		
Tax expense excluding tax on sale of discontinued operation and share of tax of equity accounted associates and joint ventures	**(235,491)**	*(20,834)*
	(235,491)	*(20,834)*

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2022 £	*2021* *£*
Profit/(loss) for the year	**1,017,592**	*(11,563,708)*
Profit/(loss) before income taxes	**1,017,592**	*(11,563,708)*
Tax using the Company's domestic tax rate of 19% (2021:19%)	**193,342**	*(2,197,105)*
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	**3,563**	*224,063*
Adjustments to tax charge in respect of prior periods	-	*(20,300)*
Other timing differences leading to an increase/(decrease) in taxation	**9,737**	*15,271*
Deferred tax not recognised	**(451,073)**	*1,957,237*
Foreign tax	**8,940**	-
Total tax expense	**(235,491)**	*(20,834)*

13. Tax expense (continued)

13.1 Income tax recognised in profit or loss (continued)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

At the year ended 2022 the Group recognised total tax losses of £10,648,728 (2021 - £12,819,112) as recoverable resulting in a deferred tax asset of £1,887,994 (2021 - £1,661,443) on the basis that sufficient taxable profits are expected to be available to allow all or part of the asset to be recovered. For further information on the recognition of deferred tax losses please see Note 4.

The Group has a non-refundable R&D expenditure credit (RDEC) carried forward of £263,857 (2021 - £263,857) which can be offset against future corporation tax liability.

Changes in tax rates and factors affecting the future tax charges

The UK Government announced in the Spring Budget 2021, that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This was substantively enacted on 24 May 2021 and accordingly deferred tax has been provided at 25%.

Estimates and assumptions

Any assumptions that have been made are referenced in note 5.

13.2 Current tax assets and liabilities

	2022 £	*2021* *£*
Current tax assets		
Corporation tax repayable	**1,725**	-
	1,725	-
Current tax liabilities		
Corporation tax payable	**298,319**	*524*
	298,319	*524*

13. Tax expense (continued)

13.3 Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	2022	*2021*
	£	*£*
Deferred tax assets	**1,887,994**	*1,661,443*
	1,887,994	*1,661,443*

	Opening balance	Recognised in profit or loss	Closing balance
	£	£	£
2022			
Property, plant and equipment	(1,079,571)	-	(1,079,571)
Intangible assets	41,700	-	41,700
Investment property	(174)	-	(174)
Restricted RDEC	263,857	-	263,857
Tax losses carried forward	2,435,631	226,551	2,662,182
	1,661,443	226,551	1,887,994

14. Property, plant and equipment

Group

	Freehold property £	Long-term leasehold property £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation						
At 1 January 2021	2,404,260	4,473,949	22,230	1,611,945	881,005	9,393,389
Additions	196,076	1,109,848	-	6,136	-	1,312,060
Disposals	-	(140,889)	-	-	(423,781)	(564,670)
Foreign exchange movements	-	102	-	-	-	102
At 31 December 2021	2,600,336	5,443,010	22,230	1,618,081	457,224	10,140,881
Additions	52,934	-	-	13,991	101,513	168,438
Disposals	-	(1,386,405)	-	-	-	(1,386,405)
At 31 December 2022	**2,653,270**	**4,056,605**	**22,230**	**1,632,072**	**558,737**	**8,922,914**

	Freehold property £	Long-term leasehold property £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Accumulated depreciation and impairment						
At 1 January 2021	420,303	2,094,811	22,230	1,442,150	775,015	4,754,509
Charge owned for the year	77,155	294,361	-	54,647	53,258	479,421
Disposals	-	(140,877)	-	-	(423,781)	(564,658)
Exchange adjustments	-	203	-	-	-	203
At 31 December 2021	497,458	2,248,498	22,230	1,496,797	404,492	4,669,475
Charge owned for the year	81,349	94,761	-	54,843	49,189	280,142
Disposals	-	(1,323,541)	-	-	-	(1,323,541)
At 31 December 2022	**578,807**	**1,019,718**	**22,230**	**1,551,640**	**453,681**	**3,626,076**
Net book value						
At 31 December 2021	2,102,878	3,194,512	-	121,284	52,732	5,471,406
At 31 December 2022	2,074,463	3,036,887	-	80,432	105,056	5,296,838

14. Property, plant and equipment (continued)

included in property, plant and equipment, the Company held right-of-use assets with a net book value of £1,963,542 at the end of the reporting period (2021 - £2,279,480). On these assets the Company incurred a depreciation charge of £198,043 during the year (2021 - £189,435) . Amounts relating to right-of-use assets are disclosed in Note 27.

All assets included in leasehold properties and improvement relate to short leasehold.

15. Intangible assets

Group

	Goodwill £	Development expenditure £	Computer software £	Total £
Cost				
At 1 January 2021	44,970,014	6,350,419	1,816,736	53,137,169
Additons	-	1,432,470	-	1,432,470
At 31 December 2021	44,970,014	7,782,889	1,816,736	54,569,639
Additions	-	998,907	39,600	1,038,507
Impairment	-	(1,236,191)	-	(1,236,191)
At 31 December 2022	**44,970,014**	**7,545,605**	**1,856,336**	**54,371,955**

	Goodwill £	Development expenditure £	Computer software £	Total £
Accumulated amortisation and impairment				
At 1 January 2021	-	-	1,776,215	1,776,215
Charge for the year - owned	-	-	23,179	23,179
At 31 December 2021	-	-	1,799,394	1,799,394
Charge for the year - owned	-	-	13,890	13,890
At 31 December 2022	**-**	**-**	**1,813,284**	**1,813,284**
Net book value				
At 1 January 2021	44,970,014	6,350,419	40,521	51,360,954
At 31 December 2021	44,970,014	7,782,889	17,342	52,770,245
At 31 December 2022	44,970,014	7,545,605	43,052	52,558,671

15. Intangible assets (continued)

Amortisation charge in respect of the above assets is recognised within administrative expenses in the consolidated statement of profit and loss and other comprehensive income.

The entirety of product development relates to ongoing innovation projects which are expected to be completed between 2023 and 2025. The Group does not capitalise research expenditure as it is recognised as an expense when it is incurred. Development costs are assessed on a case-by-case basis on whether they are capitalised as an intangible asset or expensed, applying the criteria of IAS 38 which includes the ability to use or sell the asset, the resources and intention to complete development of the asset if it will generate probable future economic benefits and if the expenditure can be measured reliably. It is then amortised over the period of the asset generating economic benefit, estimated at 4-5 years on average. Product development costs are tested annually for impairment while the development is not yet available for use.

Goodwill impairment review

The Board monitor the business at a Group level and goodwill is allocated to a single CGU, being the entirety of the Group and was tested for impairment at this overall Group level. Management deem a single CGU to be appropriate on the grounds that whilst operationally the Group is split into business streams (as discussed in Note 6), as each segment is significantly interrelated management could not clearly allocate goodwill on any other basis other than a single CGU.

The carrying value of goodwill is £44,970,014 (2021 - £44,970,014).

In accordance with IAS 36 management performed a goodwill impairment assessment based on a value in use calculation using cash flow projections from financial budgets. Having considered the impact of the current economic volitility, the assessment concluded that the recoverable amount exceeds its carrying amount by £47,793,620 and therefore no goodwill impairment is to be recognised reflecting the Group's continuingly strong order book and expected return to profitability despite difficult trading conditions.

The value of the goodwill is supported by the value in use of the business, but it is highly sensitive to movements in revenue and EBITDA margin. Management has therefore considered other reasonably possible changes in key assumptions that would cause the carrying value of goodwill to exceed the value in use of the business.

Value in use

Value in use was calculated using discounted free cash flows covering a four-year period plus terminal year. The model uses a pre-tax discount rate of 11.3% (2021 - 9.56%), as discussed below, on cash flow projections with revenue growth and EBITDA margin seen below. Terminal year growth has been assumed 2% in line with the Bank of England inflation target. The table below shows revenue growth based on the Group's £39,843,440 revenue generated in the year.

	2023	*2024*	*2025*	*2026*	Terminal year
Revenue growth	28.4%	20.0%	33.3%	12.5%	2.0%
EBITDA margin	12.2%	12.9%	12.8%	14.0%	14.0%

In comparison with the prior year projection both revenue and EBITDA margin targets are lower, reflecting management's shift to taking a more conservative assessment in its forecasts.

Overall, the discounted free cash flow model yielded a value in use which comfortably exceeded the carrying amount of the Group's CGU. The key assumptions used in calculating the value in use are *revenue*, EBITDA *margin and discount rate.*

Revenue and EBITDA margin

Whilst the current year results are affected by the impact of economic uncertainty, this has not significantly changed management's growth expectations for the business other than delaying progress on the Group's five-year strategy plan: Management also emphasise that whilst forecasted annual revenue growth averages 23.6%. In conjunction with a closing order book of £24m, diversification of product offerings and support from its parent company to establish SMD's presence in the Far-East, management are confident forecasted revenue and EBITDA margins are realistic and sustainable.

Discount rate

The pre-tax discount rate of 11.3% (2021 - 9.56%) used in the model was calculated using the weighted average cost of capital method, "WACC", where cost of equity was calculated using the capital asset pricing model. The cost of debt was assumed to be 5.89% (2021- 3.56%), when considering the Group's primary interest-bearing debt (being the loan notes discussed in Note 22) which has been deemed reflective of market rates. This resulted in a WACC of 11.3% (2021 - 8.1%), where an additional risk premium of 1.0% was included to provide additional comfort over the assumptions used in the calculation, giving a post-tax discount rate of 9.42% (2021 - 8.28%). A post-tax value in use model was created where a pre-tax discount rate was calculated on comparison with a pre-tax value in use model.

Sensitivity of key assumptions on value in use

Further scrutinising the cash flow model, management have considered the impact of the key assumptions on the value in use. The table below sets out a scenario illustrating the extent to which assumptions must change such that the value in use from the impairment model is equal to the carrying value of the assets in the books i.e., a verge of breach scenario leaving no headroom in the impairment test. It follows that were the assumptions to further change unfavourably, either individually or cumulatively, it could result in an impairment that would have a material impact on the Group's financial statements. The revenue growth assumptions are for the short-term cash flows of years 2023-2026.

Impairment model assumptions

Revenue growth - 19.3% (2021 - 26.1%)
EBITDA margin - 13.2% (2021 - 11.3%)
Discount rate - 11.3% (2021 - 9.6%)

Scenario below which impairment occurs

Revenue growth - 3.1% (2021 - 14.0%)
EBITDA margin - 8.3% (2021 - 8.0%)
Discount rate - 19.0% (2021 - 20.0%)

16. Subsidiaries

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group (%) 2022	2021
1) Soil Machine Dynamics Limited	Subsea Engineering	United Kingdom	100	100
2) SMD Offshore Support Limited	Subsea Engineering	United Kingdom	100	100
3) SMD Robotics Limited	Subsea Engineering	United Kingdom	100	100
4) Soil Machine Dynamics Singapore Pte Limited	Subsea Engineering	Singapore	100	100
5) SMD do Brasil Ltda	Subsea Engineering	Brazil	99	99
6) *SMD do Brasil Ltda	Subsea Engineering	Brazil	1	1

*held by subsidiary

All entities have the registered office of Turbinia Works, Davy Bank, Wallsend, Tyne and Wear other than the following;

- Soil Machine Dynamics Singapore Pte Limited at 16 Raffles Quay, #33-03 Hong Leong Building, Singapore; and
- SMD do Brasil Ltda at Rua da Quitanda n.86 - 2nd floor, Centro, Rio de Janeiro, Brazil

Group

	Note	2022 £	*2021 £*
Investments in subsidiary companies	16	**44,970,014**	*44,970,014*
		44,970,014	*44,970,014*

17. Financial instruments - fair values and risk management

17.1 Accounting classifications and fair values

Financial assets

The Company and Group have recognised no financial assets at the year ended 31 December 2022 and 2021 other than cash and cash equivalents and trade and other receivables. The maximum exposure for both the Group and the Company to credit risk for trade receivables at the reporting date is listed in the notes below.

Financial liabilities

	Interest rate	Maturity	2022	2021
Current interest-bearing loans			**£**	**£**
Lease obligations (IFRS 16)	*5.00%*	*Various*	295,938	214,517
Series 'A' unsecured loan notes	*4.00%*	*Dec-23*	7,200,000	4,800,000
	BoE base rate			
Bank overdraft	*2.15%*	*On demand*	12,933,523	19,045,783
Parent loan and accumalated interest	*2.90%*	*Dec-23*	10,750,000	4,500,000
			31,179,461	**28,560,300**
Non-current interest bearing loans and borrowings				
Series 'A' unsecured loan notes	*4.00%*	*Nov-23*	60,000,000	60,000,000
Lease obligations (IFRS 16)	*5.00%*	*Various*	2,254,784	2,336,335
Total interest-bearing loans and borrowings			**62,254,784**	**90,896,635**

17. Financial instruments - fair values and risk management (continued)

17.1 Accounting classifications and fair values (continued)

Bank overdraft

The bank overdraft was secured alongside the bonding facility by a Parental Foreign Guarantee from Zhuzhou CRRC Times Electric Co ., Ltd. During the year the Group renewed its facilities agreement that included an overdraft facility with limit of £20,000,000. The overdraft is repayable on demand.

Obligations under right-of-use assets

The Group has transitioned to IFRS 16 'Leases' on 1 January 2019. Under the new policy, it has recognised contractual lease obligations of £2,550,722 (2021 - £2,550,852) discounted using the incremental borrowing rate of 5%, and right-of-use assets of £1,963,542 (2021 - £2,279,735) Further information is disclosed in Note 27 Leases.

Series 'A' unsecured loan notes

On 1 December 2015 Series 'A' unsecured loan notes of £60,000,000 (2022 - £60,000,000) were issued by Specialist Machine Developments (SMD) Limited and listed on the International Stock Exchange. The loan notes were issued to CRRC Times Electric (Hong Kong) Co ., Ltd, the Group's immediate parent, and will mature on 20 November 2023, redeemable at par value. The notes are interest bearing at a rate of 4 per cent, payable annually. The loan notes were recognised at initial cost and subsequently measured at amortised cost using the effective interest rate method

Management assessed that carrying value cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their fair value largely due to the short-term maturities of these instruments. The Group held no other financial instruments which could be assessed on a different basis at the year ended 2022.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2022	Note	Amortised cost	Other financial liabilities	Total
		£	£	£
Financial assets not measured at fair value				
Trade and other receivables	19	5,974,932	-	5,974,932
Cash and cash equivalents	30	573,487	-	573,487
Amounts owed from related parties		1,511,165	-	1,511,165
		8,059,584	-	8,059,584

17. Financial instruments - fair values and risk management (continued)

17.1 Accounting classifications and fair values (continued)

31 December 2022	Note	Amortised cost £	Carrying amount Other financial liabilities £	Total £
Financial liabilities not measured at fair value				
Bank overdrafts	30	-	2,933,523	2,933,523
Financial lease liabilities	22	-	2,550,722	2,550,722
Trade payables	21	-	2,037,876	2,037,876
		-	7,522,121	7,522,121

17. Financial instruments - fair values and risk management (continued)

17.1 Accounting classifications and fair values (continued)

31 December 2021	Note	Amortised cost	Other financial liabilities	Total
		£	£	£
Financial assets not measured at fair value				
Trade and other receivables	19	3,683,555	-	3,683,555
Cash and cash equivalents	30	141,544	-	141,544
Amounts due from related parties		4,447,634	-	4,447,634
		8,272,733	-	8,272,733
Financial liabilities measured at fair value				
Financial liabilities not measured at fair value				
Bank overdrafts	30	-	19,045,783	19,045,783
Financial lease liabilities	22	-	2,550,852	2,550,852
Trade payables	21	-	4,838,577	4,838,577
		-	26,435,212	26,435,212

17.2 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and price risks.

17. Financial instruments - fair values and risk management (continued)

17.3 Foreign currency risk management

The Group has foreign currency obligations amongst its trade receivables and trade payables balances and is exposed to changes in exchange rates. To manage this the Group engages in foreign currency forward contracts over short-term periods, usually with a contract length of one month. To minimise the Group's exposure to fluctuations in foreign currency exchange rates, forward contracts are taken out at the time the obligation arises, where multiple one-month contracts are engaged on a rolling basis should the obligation exceed the forward contract length. However, due to timing circumstances there were no forward contracts in existence by the year ended 2022.

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates of foreign currency net receivables and payables that were not hedged.

Currency	*Change in GBP currency rate*	2022 Effect on profit before tax £	2022 Effect on pre-tax equity £	2021 Effect on profit before tax £	2021 Effect on pre-tax equity £
AUD	5%	(1,314)	(1,314)	(3,381)	(3,381)
CNY	5%	(1,890)	(1,890)	-	-
EUR	5%	5,287	5,287	17,618	17,618
NOK	5%	-	-	(275,652)	(275,652)
SGD	5%	-	-	(24,969)	(24,969)
USD	5%	13,416	13,416	28,013	28,013
		15,499	15,499	(258,371)	(258,371)

Currency	*Change in GBP currency rate*	2022 Effect on profit before tax £	2022 Effect on pre-tax equity £	2021 Effect on profit before tax £	2021 Effect on pre-tax equity £
AUD	-5%	(1,314)	(1,314)	3,381	3,381
CNY	-5%	(1,890)	(1,890)	-	-
EUR	-5%	5,287	5,287	(17,618)	(17,618)
NOK	-5%	-	-	275,652	275,652
SGD	-5%	-	-	24,969	24,969
USD	-5%	13,416	13,416	(28,013)	(28,013)
		15,499	15,499	258,371	258,371

17. Financial instruments - fair values and risk management (continued)

17.3 Foreign currency risk management (continued)

Overall, should GBP strengthen against other currencies the Group expects to make an exchange loss; conversely the Group expects to make an exchange gain should GBP weaken. Management have considered the potential impact of unfavourable exchange rates when considering cash flow forecasts and have ensured there is sufficient working capital available.

17.4 Interest rate risk management

The Group considers interest rate risk to be insignificant for all the long-term interest-bearing debt obligations as they consist of a fixed rate of interest only.

The Group also owes short-term interest-bearing debt relating to a bank overdraft of £12,933,523 plus accumulated interest, which is borrowed at a floating rate of Bank of England base rate plus 2.15%. However, as this represents an immaterial proportion of total debt and it is unlikely interest rates will substantially increase in the immediate future, the Group has deemed interest rate risk on short-term interest-bearing debt to be insignificant.

17.5 Other price risks

Whilst the Group does not own commodity or equity securities it is exposed to price risk on contracts agreed with customers when a commitment is made to provide goods and services at a fixed price, the costs of which are subject to change depending on market prices. However, the Group mitigates this risk by fixing costs with suppliers in advance, using contract clauses to use fixed foreign exchange rates and using tender bonds (tender bonds are covered in the Group's facilities agreement where the provider, Citibank, will pay for costs associated from withdrawing a tender application when a commitment has been made).

17. Financial instruments - fair values and risk management (continued)

17.6 Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (trade receivables and contract assets) and from financing activities, including deposits with banks and financial institutions.

As the Group primarily engages in low volume, high value contracts, credit risk is assessed on a case by case basis. Credit risk is initially managed by:

- requesting upfront payment prior to incurring cost on the contract;
- performing credit checks through external credit assessors;
- reviewing customer credit history and considering the value of debt and timeliness of payments; and
- performing detailed assessments of the customer's financial information, such as audited financial statements and management accounts to determine their ability to settle debt.

Credit risk is then managed by the following activities:

- continual monitoring of outstanding debt;
- regular dialogue with customers pursuit of outstanding debt; and
- refusing new sales to customers (where necessary).

Management then make an assessment on a case by case basis of the expected credit losses on outstanding debt. Factors in the assessment include the length of overdue debt, customer feedback and market intelligence. Management view the most likely causes of impairment to be customer disputes or insolvency. In the event a customer disputes an amount owed management will make assessment of the likelihood and magnitude of the recoverability of the debt (which may require legal advice) and will recognise an expected credit loss accordingly. In the event a customer enters liquidation, the Group will recognise an impairment to the total amount of debt owed less the expected amount recoverable through the liquidation process. For details on additional assessments on contract assets please see Note 4.

At 31 December 2022 the Group had total debt due from customers (being trade receivables, accrued income and contract assets) of £13,528,311 (2021 - £25,890,330). Of this amount £7,763,454 (2021 - £9,888,183) has been paid post year end and £5,764,857 remains outstanding. On the grounds that the Group's financial assets relate to trade receivables, accrued income and contract assets which all have an expected lifetime of less than 12 months, the Group have elected to measure the expected credit losses at 12 months only. On that basis the loss allowance as at 31 December 2022 and 1 January 2022 was determined in the following tables. Intragroup receivables, to the extent that they represent trading balances, are subject to the same ECL assessment as trade receivables. Non-trading intragroup receivables are reviewed by reference to the credit risk of the balance and the counterparty's likelihood of default. The only such balance at the year-end is due from the Ultimate Parent, CRRC. By reference to CRRC's current position and financial performance, management assess that no ECL is required. For further information on trade and other receivables please see Note 19.

17. Financial instruments - fair values and risk management (continued)

17.6 Credit risk management (continued)

31 December 2022	Neither past due nor impaired	<30 days	31-60 days	61-90 days	>90 Days	Total
	£	£	£	£	£	£
Expected credit loss rate	0%	0%	0%	0%	0%	
Gross trade receivables	3,134,475	836,974	625,420	282,237	1,095,826	5,974,932
Gross accrued income	1,660,882	-	-	-	-	1,660,882
Gross contract assets	5,776,144	-	-	-	-	5,776,144

31 December 2021	Neither past due nor impaired	<30 days	31-60 days	61-90 days	>90 Days	Total
	£	£	£	£	£	£
Expected credit loss rate	0%	0%	0%	0%	0%	
Gross trade receivables	2,343,886	7,226,787	182,771	2,488,798	1,441,314	13,683,556
Gross accrued income	1,866,644	-	-	-	-	1,866,644
Gross contract assets	5,892,497	-	-	-	-	5,892,497

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. With regards to financing activities, the Group considers credit risk to be negligible for its cash deposits with Barclays Bank plc, as it is a large blue-chip organisation that complies with regulatory capital requirements. The maximum exposure to credit risk on cash at 31 December 2022 is the carrying value of the cash and cash equivalents.

17. Financial instruments - fair values and risk management (continued)

17.7 Liquidity risk management

Group Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group manages its risk of shortage of funds through cash flow forecasting and reliance on a bank overdraft provided by Barclays Bank plc. The overdraft is limited to £20,000,000, although there is flexibility between the various facilities provided to the Group by the bank so long as the total facility of £29,000,000 is not exceeded.

This flexibility, alongside cash flow projections and the current assets position at the end of the year provide management with confidence that the Group will have enough funds to pay all debt maturing within 12 months.

Even in the event the facilities agreement is breached, the Group have been provided assurance via a letter of support from its parent, the CRRC Group, it has access to cash reserves to meet working capital requirements if necessary. The maturity profile of the Group's financial liabilities based on contractual undiscounted payments is as outlined in the following table:

2022	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	£	£	£	£	£	£	£
Bank overdraft	12,933,523	-	-	-	-	-	-
Lease liabilities	-	49,475	152,182	211,975	590,883	1,546,207	2,550,722
Trade payables	-	2,037,876	-	-	-	-	-
	12,933,523	2,087,351	152,182	211,975	590,883	1,546,207	2,550,722

2021	On demand	Less than 3 months	3 to 12 months	1 to 2 years	1 to 5 years	Greater than 5 years	Total
	£	£	£	£	£	£	£
Bank overdraft	19,045,783	-	-	-	-	-	19,045,783
Lease liabilities	-	4,888,052	152,182	151,604	454,810	1,742,780	2,550,852
Trade payables	-	4,838,577	-	-	-	-	4,838,577
	19,045,783	9,726,629	152,182	151,604	454,810	1,742,780	26,435,212

Company

The liquidity risk to the Company is comparatively similar to the Group as it is the holder of all interest-bearing loan notes at 31 December 2022. Whilst the Company does not directly have the cash and cash equivalents to cover this debt, as owner of the entire SMD Group the Company indirectly has access to funds from its subsidiary undertakings. The Company is therefore liable to all obligations from its subsidiaries and would therefore be open to the same liquidity risk.

18. Inventories

Group

	2022 £	2021 £
Raw materials	**4,949,971**	*3,179,161*
Work in progress	**266,161**	*432,471*
	5,216,132	*3,611,632*

The cost of inventories is recognised after a provision for impairment of £1,561,634 (2021 - £5,759,442) during the year the provision was increased by £99,386 (2021 - £3,886,241) and the utilised amount was £4,297,194 (2021 - £503,591).

19. Trade and other receivables

Group

	2022 £	2021 £
Current		
Trade receivables	**5,974,932**	*13,540,030*
Receivables from related parties	**1,511,165**	*4,447,634*
Total financial assets other than cash and cash equivalents classified as loans and receivables	**7,486,097**	*17,987,664*
Prepayments and accrued income	**3,175,810**	*878,605*
Other receivables	**5,267,609**	*2,225,405*
Total current trade and other receivables	**15,929,516**	*21,091,674*

Group

	2022 £	2021 £
Current		
Receivables from related parties	**7,361,644**	*4,961,643*
Total current trade and other receivables	**7,361,644**	*4,961,643*

19. Trade and other receivables (continued)

Trade receivables			Past due but not impaired			
	Total	Neither past due nor impaired	<30 Days	31-60 days	61-90 days	>90 days
	£	£	£	£	£	£
2022	5,974,932	3,134,475	836,974	625,420	282,237	1,095,826
2021	13,540,031	2,343,886	7,226,787	182,771	2,488,798	1,297,789

Amounts owed to the Group by related parties are disclosed in related party transactions in Note 28. These balances are payable on demand, they are unsecured in nature and bear no interest. No provisions are held against amounts owed by group undertakings.

Amounts owed to the Company by group undertakings include £4,961,644 (2021 - £4,961,643) with fellow a fellow subsidiary of the Specialist Machine Developments (SMD) Group. This balance is payable on demand, it is unsecured in nature and bears no interest. No provisions are held against amounts owed by group undertakings.

Management perform an assessment on a case by case basis of the expected credit losses on outstanding debt factoring in the length of overdue debt, customer feedback and market intelligence. The assessment did not identify any significant impairment indicators.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 95 per cent against all receivables over 90 days past due because historical experience has indicated that these receivables are generally not recoverable.

For further information on the Group's credit risk management including loss allowance disclosures please see Note 17.

The following table details the risk profile of trade receivables based on the Group's provision matrix, As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

Company

All amounts owed to the Company are from fully owned subsidiaries in the SMD Group. Management have assessed the recoverability of Group debt and are fully confident this can be settled on the grounds the vast majority of the debt has been settled shortly after the end of the reporting period

20. Cash and cash equivalents

Group

Cash at banks earns interest at floating rates based on daily bank deposit rates. The latest facilities agreement with Barclays Bank Plc was signed by the SMD Group in October 2022 and includes a bank overdraft of up to £20,000,000, a separate credit facility of up to £9,000,000 for the issue of letters of credit, including bonds and foreign exchange agreements.

There is also flexibility between facility limits of the agreement so long as the total facility of £29,000,000 is not exceeded.

21. Trade and other payables

Group

	2022 £	2021 £
Current		
Trade payables	2,037,876	5,012,934
Other payables	574,601	393,429
Accruals	7,737,403	10,365,214
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	10,349,880	15,771,577
Other payables - tax and social security payments	612,001	270,711
Total current trade and other payables	10,961,881	16,042,288

Group

	2022 £	2021 £
Current		
Other payables - tax and social security payments	298,319	298,318
Total current trade and other payables	298,319	298,318

22. Loans and borrowings

Group

The book value and fair value of loans and borrowings are as follows:

	Book value 2022 £	**Fair value 2022 £**	*Book value 2021 £*	*Fair value 2021 £*
Non-current				
Loan notes - unsecured	**60,000,000**	**-**	*60,000,000*	-
Lease liabilities	**2,254,784**	**-**	*2,336,335*	-
	62,254,784	**-**	*62,336,335*	-
Current				
Overdrafts	**12,933,523**	**-**	*19,045,783*	-
Loan notes - unsecured	**7,200,000**	**-**	*4,800,000*	-
Term loan - unsecured	**10,750,000**	**-**	*4,500,000*	-
Lease liabilities	**295,938**	**-**	*214,517*	-
	31,179,461	**-**	*28,560,300*	-
Total loans and borrowings	**93,434,245**	**-**	*90,896,635*	-

The carrying value of loans and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

Bank borrowings

The Group remains within the limits of the current facilities agreement with Barclays, which contains no expiry date. The supporting security in favour of Barclays Bank was provided in the form of a parental foreign guarantee from the ultimate parent company, Zhuzhou CRRC Times Electric Co. Limited.

The Group has undrawn committed borrowing facilities at 31 December, for which all conditions have been met, as follows:

2022	**Floating rate £**	**Total £**
Expiry within 1 year	12,933,523	12,933,523
	12,933,523	12,933,523

22. Loans and borrowings (continued)

2021	Floating rate £	Total £
Expiry within 1 year	19,045,783	19,045,783
	19,045,783	19,045,783

Parent company loan

For further information relating to the parent company loan of £10,750,000 (2021 - £4,500,000) please see related party transactions detailed in Note 28.

Loan notes

On 1 December 2015 series 'A' unsecured loan notes of £28,345,783 were issued by Specialist Machine Developments (SMD) Limited and listed on the International Stock Exchange. The loan notes were issued to CRRC Times Electric (Hong Kong) Co. Ltd and will mature on 20 November 2023, redeemable at par value. The notes are interest bearing at a rate of 4 per cent, payable annually in arrears on 31 December and conducted at arms' length. The notes are unsecured obligations of the SMD Group and are payable solely from the assets, whether present or future from the Group.

Fair value measurement

The fair value of the items classified as loans and borrowings is disclosed below and is classified as in the fair value hierarchy:

	Carrying value	2022 Fair value	*Carrying value*	*2021 Fair value*
	£	£	*£*	*£*
Loans and borrowings	**(93,434,245)**	**-**	*(90,896,635)*	*-*

Group

	2022 £	*2021 £*
Non-current		
Loan notes - unsecured	**60,000,000**	*60,000,000*
	60,000,000	*60,000,000*
Current		
Loan notes - unsecured	**7,200,000**	*4,800,000*
	7,200,000	*4,800,000*
Total loans and borrowings	**67,200,000**	*64,800,000*

23. Provisions

Group

	Warranty provision £	Dilapidations £	Total £
At 1 January 2022	522,543	171,955	694,498
Charged to profit or loss	157,551	66,955	224,506
Utilised during the year	(299,448)	(133,910)	(433,358)
At 31 December 2022	**380,646**	**105,000**	**485,646**
Due within one year or less	380,646	105,000	485,646
	380,646	**105,000**	**485,646**

Warranty provision

Warranty cover is typically provided for one to two years and covers machine and component failure where the major uncertainty is the timing and extent of such failures. The provision is calculated on the assumption of 1% of total revenue based on historical figures, which includes contracts still in progress.

Dilapidations

The dilapidations provision relates to the present value obligation to restore leased premises to its original condition at the end of the lease term. The restoration cost is estimated to be £105,000. At the time of this report negotiations with the landlord are still ongoing. Management expect that the restoration cost was to become payable in 2022.

24. Share capital

Authorised

	2022 Number	2022 £	*2021 Number*	*2021 £*
Shares treated as equity				
Ordinary shares of £0.01 each	**4,404,832,500**	**44,048,325**	*4,404,832,500*	*44,048,325*
	4,404,832,500	**44,048,325**	*4,404,832,500*	*44,048,325*

25. Reserves

Foreign exchange reserve

Nature and purpose of reserves the retained earnings reserve is the accumulated profit or loss generated by the company less any dividends that have been issued to the shareholders of the Group.

The foreign translation reserve of £58,908 (2021 - £42,847) relates to exchange differences arising from restating the Group's net investment in its overseas subsidiary undertakings using the closing rate method. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

26. Pensions

The Group operates a defined contribution stakeholder pension scheme under which the group contributes a fixed percentage of salary provided the employee contributes a matching amount. As at 31 December 2022 the Group had unpaid pension contributions of £101,101 (2021 - £89,056).

27. Leases

Group

(i) Leases as a lessee

This note provides information for leases where the Group is a lessee. The Group is not a lessor.

Amounts recognised in the statement of financial position

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property. Net Book Value of amounts held as Property, plant and equipment owned are £3,036,280 (2021 - £3,191,670), in addition, amounts held as Right-of-use assets are £1,963,542 (2021 - £2,279,736).

Additions to the right-of-use assets during the 2022 financial year were £nil (2021 - £1,109,848).

Lease liabilities are due as follows:

	2022 £	*2021* *£*
Contractual undiscounted cash flows due		
Not later than one year	**323,267**	*295,937*
Between one year and five years	**1,187,342**	*1,232,653*
Later than five years	**1,806,714**	*2,084,670*
	3,317,323	*3,613,260*
Lease liabilities included in the Consolidated Statement of Financial Position at 31 December	**2,550,722**	*2,550,852*

27. Leases (continued)

Non-current	**2,254,784**	*2,336,335*
Current	**295,938**	*214,517*

The following amounts in respect of leases have been recognised in profit or loss:

	2022 £	*2021* £
Interest expense on lease liabilities	**115,722**	*93,434*
Depreciation charge for the year	**198,043**	*195,560*

The total cash outflow for leases in 2022 was £295,938 (2021 - £214,517).

At 31 December 2022 the Group has no commitments for short-term leases. There are no expenses in relation to variable lease payments not included in the measurement of the lease liabilities.

The Group's leasing activities

The Group leases office units and warehouse space. Rental contracts are typically made for fixed periods of 12 months to 25 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases for real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Variable lease payments

There are no leases that contain variable payment terms. Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options are exercisable only by the Group and not by the respective lessor.

Residual value guarantees

The Group does not provide residual value guarantees in relation to any of its leased property.

28. Related party transactions

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

CRRC SMD (Shanghai) Ltd (SMD Shanghai)

During the year the Group sold goods of £3,881,690 (2021 - £2,521,755) and received the latest installments of funding in relation to innovation of £1,000,000 (2021 - £2,500,000).

In the current year the Group also paid £nil (2021 - £208,633) in relation to management costs for the year. These costs were reclaimed back from SMD Shanghai. These transactions are disclosed in Note 19 as amounts owed by group undertakings respectively. All transactions were conducted at arms' length.

CRRC Times Electric (Hong Kong) Co., Ltd (CRRC)

The Companies entered into a Technology Development contract during the year, costs of £583,584 were incurred and reclaimed back from CRRC Times Electric Co Ltd in 2022. A Loan of £4,500,000 was agreed on September 2021 with interest payable at 2.25% annually with repayments equally every 6 months from Jan 2022 to fund the sale of equipment on a hire purchase basis over the same term.

A Further loan of £7,000,000 was agreed on April 2022 with interest payable at 2.25% annually with repayment in 2023 for short-term working capital management.

Soil Machine Dynamics Ltd

During the year SMD paid £Nil interest to CRRC on behalf of the Company. The Company then charged SMD management fees of £2,400,000 (2021 - £2,400,000) in respect of management of the Group financing costs that netted off against the interest charged on the Company's behalf. All transactions with SMD were conducted at arm's length.

29. Controlling party

In the opinion of the directors, the Company's ultimate parent company and ultimate controlling party is CRRC Corporation Limited, incorporated in China with registered office at No. 16 West 4th Ring Road, Haidan District, Beijing, 100036, China. The CRRC Corporation Limited is the parent of the largest group to consolidate these financial statements of which the State-owned Assets Supervision and Administration Commission of the State Council (the Chinese State) owns the majority shareholding. The financial statements are publicly available on the CRRC Corporation Limited website at www.crrcgc.cc.

The parent undertaking of the smallest such group and the Company's immediate parent undertaking is CRRC Times Electric (Hong Kong) Co ., Ltd with registered office at Room 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong, China.

The consolidated financial statements of the Specialist Machine Developments (SMD) Group are held at the registered office, Turbinia Works, Davy Bank, Wallsend, Tyne and Wear.

30. Notes supporting statement of cash flows

Group

	2022 £	2021 £
Cash at bank available on demand	**573,480**	*141,537*
Cash on hand	**7**	*7*
Cash and cash equivalents in the statement of financial position	**573,487**	*141,544*
Bank overdrafts used for cash management purposes	**(12,933,523)**	*(19,045,783)*
Cash and cash equivalents in the statement of cash flows	**(12,360,036)**	*(18,904,239)*

31. Contingent liabilities

The Group had nil capital expenditure commitments at the year ended 31 December 2022 (2021 - £nil).

At the year ended 2022 the Group was party to guarantees which include financial penalties should the Group fail to provide goods and services that meet specified performance obligations (performance guarantees) and the return of customer payments made upfront should the Group withdraw from a contract (advance payment guarantees). To secure these obligations, the Group entered into bonding arrangements with its bank as part of the facilities agreement, where the bank will settle these guarantees should they materialise before reclaiming this back from the Group.

The group has contingent liabilities as at the balance sheet date relating to Guarantees (bonding) of £2,632,839 (2021 - £5,169,590).

Management made an assessment on the likelihood of these obligations arising, considering the current and forecasted future performance of its products and the Group's ability to comply with the specific conditions. The assessment deemed this possible. However, as the settlement is not probable, the guarantees are disclosed as a contingent liability only.