

# Soil Machine Dynamics Limited

Company Number: 01028571

## Report and Financial Statements

31 December 2019

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COMPANIES HOUSE

## Soil Machine Dynamics Limited

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### **Directors**

M T Jones  
R H Howarth  
P R Atkinson  
D Zhu  
X Zhang

### **Secretary**

R H Howarth

### **Independent Auditor**

Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

### **Bankers**

Barclays Bank plc  
City Office  
71 Grey Street  
Newcastle upon Tyne  
NE99 1JP

Citibank Europe plc, UK Branch  
Citigroup Centre  
Canada Square  
Canary Wharf  
London  
E14 5LB

### **Registered Office**

Turbinia Works  
Davy Bank  
Wallsend  
Tyne and Wear  
NE28 6UZ

# Strategic report

The directors present their strategic report and audited financial statements for the year ended 31 December 2019.

## Principal activities and review of the business

*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 Company has developed a strategy with a five-year horizon, focused on business groups covering the following:

- Equipment Supply;
- Services;
- China; and
- Innovation and Technology.

SMD's strategy is to achieve a significant growth in annual revenue by 2023, 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 strong values which will shape the way we operate and behave.

### Key performance indicators

The Company's key financial performance indicators for the year are shown below. We note that performance figures for the prior reporting period include transition adjustment to IFRS 15 'Revenue from contracts with customers' which resulted in an additional £11.3m revenue and £10.4m cost of sales recognised, as well as £4.2m other operating income and £0.3m tax credit.

	2019 £000	2018 £000
Revenue	49,358	56,916
Gross profit	11,450	11,895
Gross profit %	23%	21%
Operating profit	1,909	2,109
Operating profit margin %	4%	4%

Major trading events of the year were:

- The Remotely Operated Vehicle (ROV) business continues to develop its product range. The order intake, whilst still weaker compared to the historical levels, has increased on the prior year and revenue was largely driven by seven contract wins in 2019. These contracts also saw the business diversifying into different markets to alleviate the impact of the depression in the oil and gas market. New business partnerships have been secured in 2020 and a further pickup in sales activity is expected from 2021 as the markets recover from the coronavirus pandemic.
- The Trenching business continued to execute contracts won in 2018 and saw the business secure further new contracts. Whilst revenue has fallen by £8m compared to the prior year, this reflects the impact of extra revenue of £11.3m recognised in 2018 on transition to IFRS15. The business has experienced a temporary fall in revenue in 2020 due to the pandemic but is expecting to recover in 2021/2022.
- The Deck equipment business continued to support the equipment businesses through 2019. Despite exceeding the budget, revenue for the year has fallen by c. £4.7m compared to the prior year. The business worked on three major direct sales during the year, with all three of these projects completing in 2020. Sales activity continues in this market with revenues increasing by £1.9m in 2020.
- The Services business delivered on its traditional revenue streams in 2019. Alongside delivery, the newly formed team set about fine tuning its strategy and offerings to the market.

## Principal activities and review of the business (continued)

### **Capital expenditure**

The Company invested £2,385,493 (2018 – £1,316,616) in capital expenditure to support business growth, which included capitalised product development costs of £2,052,659 (2018 - £1,062,678).

### **Taxation**

A tax charge of £814,213 (2018 - charge of £1,295,084) was recognised against a pre-tax profit of £1,229,783 (2018 - profit of £1,947,055). The Company is carrying forward unused losses as a £2,179,249 deferred tax asset (2018 – asset of £2,487,553), where management expect this to be fully utilised against future taxable profits by 2024.

### **Outlook**

COVID-19 is already having a major impact on a global scale to the way people live their lives and how businesses operate. We have experienced a year on year decline in revenues in 2020 of 20%. The developments result in a preliminary operating loss of approximately £1.9m in 2020. Whether revenues and profitability will improve in 2021 is dependent on the period during which the regions in which we operate are exposed to COVID-19, and the extent to which government measures may be prolonged, expanded or scaled down. However, whilst the initial UK lockdown did significantly reduce our business activity, at the time of this report we have seen an increase in demand and anticipate a recovery in the following years. Order backlog at 31 December 2019 was £22.8m (2018 - £20.8m) and a number of business wins in 2020, including projects awarded during the lockdown, means that SMD just narrowly missed its budgeted revenue for the year. Sales pipeline remains strong in most business areas.

## Financial risk management policies

The Company's activities expose it to a number of financial risks including contract risk, supplier risk, interest rate risk, credit risk, foreign currency risk, liquidity risk, political risk and economic environment risk. The factors affecting these risks are set out below.

### **Contract risk**

The principal contractual risks the Company 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 Company'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 Company'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 Company 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 Company invests surplus cash in floating rate interest bearing deposits, so the Company's interest income is affected by changes in interest rates. The Company is part of the UK Group headed by Specialist Machine Developments (SMD) Limited, whose funding structure is in the form of fixed rate loan notes and an overdraft. The Company has historically used interest rate swaps to control interest rate exposures but there were no swaps in place at the year end.

## **Financial risk management policies (continued)**

### ***Credit risk***

The Company's principal financial assets are cash and trade and other receivables.

The Company'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 balance sheet for receivables are net of allowances for doubtful recovery. For further information on credit risk and the loss allowance recognised, please see Note 0.

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 Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company'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 Company, 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***

As a member of the Specialist Machine Developments (SMD) Group ('SMD'), the day to day management of cash and liquidity risk is deemed to be low as the Company has access, if required, to the facilities of its parent company.

### ***Political risk***

As a company operating in a range of markets the Company is exposed to political risk from time to time. Such risks are managed through the Company's commercial risk management process on a case by case basis. Recent sanctions with Russia resulted in the rejection of an export licence which significantly impacted the Company's revenue.

### ***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 current depression in the oil and gas market has had a significant and on-going effect on revenue and margin. A number of strategic actions are in place to reduce the reliance on particular markets in future.

### ***Coronavirus***

The global coronavirus pandemic involving the spread of COVID-19 presents a number of different risks to the business. The spread is rapid and the global economic outlook uncertain. The company has a global customer base located in more than 10 countries. It follows that the risks of adverse health and safety, operational and financial impacts arising from the pandemic and the associated governmental responses in the markets where SMD operate could be significant. The safety of the Company's staff is the first priority and is at the forefront of SMD's response to the pandemic.

The counter measures adopted by governments around the world as they seek to mitigate the impact of the pandemic, the resultant disruption and economic effect in the countries where SMD operate and the actions taken by our customers in response will impact on operations and financial results leading to potential decreases in revenue, increases in costs and adverse effects on profits and cash flows.

The company has experienced a decline in revenues in 2020. There may be further demand reductions in other sectors driven by the economic effect of governmental restrictions. Increased operating costs are also likely to result from additional investment in personal protective equipment, increased workforce sickness levels and the need to furlough staff, although the impact of this is being mitigated by government financial support arrangements.

**Coronavirus (continued)**

In response to the global pandemic, a task force was set up at SMD to oversee the epidemic control measures with the primary aim to keep people safe and follow the UK government guidelines. A set of guiding principles which form basis for decision making and planning during the outbreak has been developed and communicated across the business.

SMD has taken action across a wide range of fronts in mitigation of the risks presented by the pandemic, for instance staff wearing protective equipment, social distancing and working from home. Management have reviewed cash flow and working capital projections, including running scenarios on profit and loss, balance sheet and cash-flows with various degrees of interruption. The analysis of SMD's current cost base has allowed management to take actions around overheads through eliminating or reducing discretionary and other wasteful costs, for instance recruitment and marketing.

The report has been approved by the Board of Directors and authorised for issue on 05 February 2021 and was signed on its behalf by



R H Howarth  
Secretary

05 February 2021

Registered No. 01028571

## Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2019.

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

### Results and dividends

The profit for the year after taxation amounted to £415,570 (2018 – profit of £651,971). Included within the prior year is £3.3m impairment loss on one customer, recognised as an exceptional cost. No such expenses were recognised in the current year.

Other factors affecting the result for the year ended 31 December 2019 include higher interest payable on bank loans and overdrafts (increase of £176,315). 2019 saw the Company's headcount increase by 3% as we continue to set ourselves up for organic growth. This has resulted in staff costs rising by £540,551 on the prior year.

As explained in more detail in notes 2 and 12, for the first time, SMD has adopted IFRS 16 which means that leases are now recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. The adoption of the policy resulted in the capitalisation of £1.9m of right-of-use assets and corresponding lease liabilities of £1.9m split between current and non-current liabilities during the period.

The directors do not recommend a final dividend (2018 – £nil).

### Going concern

The directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of COVID-19: Management has produced forecasts for a period of 12 months which have been reviewed by the directors. These demonstrate the Company 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 Company 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.

### Research and development

The Company 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 Company'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.

### Disabled employees

The Company 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 Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

## Directors' report (continued)

### Employee involvement

The Company 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 Company has been continued through the newsletter 'ROView' in which employees have also been encouraged to present their suggestions and views on the Company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

### Future developments

Whilst the long-term impact of COVID-19 and the ongoing global pandemic remain uncertain as the situation evolves daily, the directors have assumed that the Company would continue to be able to trade beyond 2021 and anticipate a recovery in the following years. The Company will continue to work closely with customers in 2020 providing both technical and financial solutions. The Company will continue to invest in R&D, which underpins the long-term strategy, and will increase integration with its Chinese parent to use this as a platform to gain greater access to the Far East Asian market.

### Brexit

The UK departure from the EU on 31 January 2020 increased the level of macroeconomic uncertainty. Business continuity plans have been drawn up in order to mitigate potential risks, however, some of the risk areas are considered as follows:

A number of supplies are sourced from the EU. The company is in regular contact with its suppliers and is aware of the steps they are taking to prevention to supply.

Some sale contracts are with EU customers. Most such contracts have terms which are silent on Brexit related issues or favourable to the company. As a result, negotiations may be required with some customers over any duties which are applied as a result of Brexit.

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### Events after the balance sheet date

Relevant post balance sheet events requiring disclosure are included in Note 25 to the accounts.

### Directors

The directors who served the Company during the year and up to the date of approval of the Report and Financial Statements were as follows:

M T Jones	
R H Howarth	
J Chen	(resigned 27 March 2020)
P R Atkinson	
D Zhu	
H Zhang	(resigned 25 March 2019)
X Zhang	(appointed 25 March 2019)

### Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

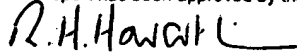
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## Directors' report (continued)

Pursuant to section 487 of the Companies Act 2006, during the year Ernst & Young LLP resigned as auditors and were replaced by Deloitte LLP. Deloitte LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

The report has been approved by the Board of Directors and was signed on its behalf by:



R H Howarth  
Director

05 February 2021

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# Independent auditor's report to the members of Soil Machine Dynamics Limited

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements of Soil Machine Dynamics Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit or the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss and other comprehensive income account;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### Other information

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

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

# Independent auditor's report to the members of Soil Machine Dynamics Limited (continued)

information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 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 company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in respect of these matters.

## **Independent auditor's report to the members of Soil Machine Dynamics Limited (continued)**

### **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.



David Johnson (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Newcastle, United Kingdom

05 February 2021

## Profit and loss and other comprehensive income

for the year ended 31 December 2019

	Note	2019 £	2018 £
<b>Revenue</b>	4	49,357,962	56,916,350
Cost of sales		(37,907,700)	(45,021,651)
<b>Gross profit</b>		11,450,262	11,894,699
Administration expenses:			
Before exceptional items		(11,796,148)	(12,368,565)
Impairments on debtors	15	-	(3,278,634)
		(11,796,148)	(15,647,199)
Other operating income	5	2,255,336	5,861,898
<b>Operating profit</b>	5	1,909,450	2,109,398
Finance income	8	1,392	-
Finance costs	8	(681,059)	(162,343)
<b>Profit before taxation</b>		1,229,783	1,947,055
Tax on profit/(loss)	10	(814,213)	(1,295,084)
<b>Profit for the year</b>		415,570	651,971
Other comprehensive income		-	-
<b>Total comprehensive income for the year attributable to the owners of the company</b>		415,570	651,971

All amounts relate to continuing activities.

## Statement of changes in equity

for the year ended 31 December 2019

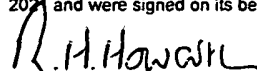
	Share capital £	Retained earnings £	Total equity £
<b>Balance 1 January 2018</b>	938,950	(33,271)	905,679
Total comprehensive income for the year	-	651,971	651,971
<b>Balance at 31 December 2018 and 1 January 2019</b>	938,950	618,700	1,557,650
Adjustment on initial application of IFRS 16 (see Note 12)	-	(212,168)	(212,168)
<b>Adjusted balance at 1 January 2019</b>	938,950	406,532	1,345,482
Total comprehensive income for the year	-	415,570	415,570
<b>At 31 December 2019</b>	938,950	822,102	1,761,052

## Statement of financial position

As at 31 December 2019

	Note	2019 £	2018 £
<b>Fixed assets</b>			
Tangible assets	11	4,970,692	3,724,336
Intangible assets	13	4,714,952	2,645,982
		<u>9,685,644</u>	<u>6,370,318</u>
<b>Current assets</b>			
Inventories	14	3,561,991	6,659,822
Contract assets	4	5,712,645	8,192,797
Debtors amounts falling due within one year	0	9,667,533	10,858,706
Debtors amounts falling due after more than one year	0	1,507,236	25,000
Cash and cash equivalents	16	281,417	69,116
		<u>20,730,822</u>	<u>25,805,441</u>
<b>Creditors: amounts falling due within one year</b>	17	(18,087,572)	(26,705,908)
Contract liabilities	4	(4,184,382)	(2,351,165)
<b>Net current liabilities</b>		<u>(1,541,132)</u>	<u>(3,251,632)</u>
<b>Total assets less current liabilities</b>		<u>8,144,512</u>	<u>3,118,686</u>
<b>Creditors: amounts falling due after more than one year</b>	18	(5,625,043)	-
Provisions	19	(758,417)	(1,561,036)
<b>Net assets</b>		<u>1,761,052</u>	<u>1,557,650</u>
<b>Equity</b>			
Share capital	20	938,950	938,950
Retained earnings		822,102	618,700
<b>Total shareholders' funds</b>		<u>1,761,052</u>	<u>1,557,650</u>

The financial statements were approved by the Board of Directors and authorised for issue on 05 February 2020 and were signed on its behalf by:



Richard Howarth  
Director

# Notes to the financial statements

at 31 December 2019

## 1. General information

Soil Machine Dynamics Limited is a private company limited by shares, incorporated in the United Kingdom and registered in England and Wales. The registered office is at Turbinia Works, Davy Bank, Wallsend, Tyne and Wear, NE28 6UZ.

The Company is principally engaged in the development and construction of subsea remote operated vehicles (ROVs) and trenching and mining equipment. At the beginning and end of the year the Company's ultimate controlling party was the CRRC Corporation Limited.

## 2. Accounting policies

### *Basis of preparation*

The financial statements of Soil Machine Dynamics Limited have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UKGAAP) FRS 101 'Reduced Disclosure Framework'. The financial statements are presented in GBP Sterling (£) under the historical cost convention. The functional currency of the Company, which has remained unchanged during the reporting period. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) The requirements of IFRS 7 Financial Instrument Disclosures and equivalent disclosures are included in the consolidated financial statements of Specialist Machine Developments (SMD) Limited, in which the entity is consolidated;
- b) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement and equivalent disclosures are included in the financial statements of Specialist Machine Developments (SMD) Limited, in which the entity is consolidated;
- c) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - i. paragraph 79(a)(iv) of IAS 1;
  - ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - iii. paragraph 118(e) of IAS 38 Intangible Assets.
- d) The requirements of paragraphs 10(d), 10(f) 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- e) The requirements of IAS 7 Statement of Cash Flows;
- f) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- g) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- h) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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 2019 as defined below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *Going concern*

The directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of COVID-19. Management has produced forecasts for a period of 12 months which have been reviewed by the directors. These demonstrate the Company 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 Company 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 acknowledge the following:

- I. The Company has net assets of £1.8m (2018 - £1.6m) and net current liabilities of £1.5m (2018 - net current liabilities of £3.3m);
- II. Management are confident when markets return the Company is in a strong position to capitalise on opportunities;

### **Going concern (continued)**

- III. The Company 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 ultimate parent company, Zhuzhou CRRC Times Electric Co. Limited. In March 2020 the Group Board confirmed that it would continue to provide dedicated facilities of 300m RMB, and the Company has also been informed that the letter of support to the bank will be renewed;
- IV. In addition, the UK Group headed by Specialist Machine Developments (SMD) Limited 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 III above and to refrain from recalling the £62.4m loan notes until the Group has enough funds to make the repayment; and
- V. The Company have already secured a number of new projects, including major wins awarded despite the global pandemic. The reduction in business activity in early 2020 has had a significant impact on the Company's results, however as countries move towards the post-lockdown phase we expect to build on the strong results seen in Q4 2020.

As such, the directors are satisfied that the Company 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.

### **Revenue**

The Company transitioned to IFRS 15 on 1 January 2018. Revenue accounting policies are discussed in Note 4.

### **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 Company is 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.

### **Current taxation**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### **Deferred taxation**

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is undiscounted and determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **Research and development expenditure credit (RDEC)**

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

### **Inventories**

Inventories and work in progress (WIP) are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses

## Soil Machine Dynamics Limited

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### **Tangible fixed assets**

All tangible fixed assets are recorded at cost less accumulated depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of the asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold property	–	50 years
Leasehold properties and improvements	–	Minimum lease term (3 – 20 years)
Fixtures and fittings	–	4-10 years
Motor vehicles	–	4 years
Computer Equipment	–	4 years

Freehold land is not depreciated.

### **Intangibles**

#### **(a) Computer software**

Computer software is recognised as an intangible asset when it is not found to be integral to hardware. It is recorded at cost less amortisation with a useful life of the length of the software license or 4-5 years where the license is indefinite.

#### **(b) 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.

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### **Financial instruments**

#### **(a) Financial 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. Note, whilst the Company uses forward contracts in its financial planning, no forward contracts were in existence at 31 December 2019 (31 December 2018: none). The Company does not apply hedge accounting.

#### **(b) Financial assets**

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

Trade debtors 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 Company does not engage in trade debtors which contain a significant financing component, all trade debtors are recognised at the amount of consideration that is unconditional. Aged debtors are continually reviewed for impairment and all debtors undergo an impairment review at the reporting date. In making this assessment management have identified an impairment disclosed as an exceptional item on the income statement. Please see Note 0 and for further information.

All of the Company's forward contracts qualify to be classified as fair value through the profit or loss. They are carried on the balance sheet at fair value with net changes in fair value presented as admin costs. For derivatives the Company 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 creditors and a bank overdraft.

Trade creditors represent liabilities for goods and services provided to the Company 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 creditors 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 creditors that have a due date greater than 12 months after the end of the reporting period, hence all trade creditors 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 Company 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 income statement.

### **(c) Financial asset impairment**

The Company 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 Company 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 Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### **Foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the income statement. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date).

### **Leases**

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 Company adopted IFRS 16 on 1 January 2019 replacing the extant IAS 17 "Leases". IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

#### **i. Policy applicable from 1 January 2019**

##### **Transition to IFRS 16**

The following elections and practical expedients were used on transition:

- Adopted the modified retrospective approach (with no restatement of comparatives) and adjusting the cumulative effect on the prior year periods in retained earnings as at 1 January 2019;
- Elected the exemption to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Elected the exemption to exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Elected the exemption to use hindsight to determine which renewal and termination options to include or exclude; and

**Transition to IFRS 16 (continued)**

- Elected the short-term exemption for leases with a remaining term of less than one year as at 1 January 2019. Payments relating to short-term leases are expensed rather than recognised as right-of-use assets.

Details on transition to IFRS 16 can be found in Note 12.

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A leased asset is capitalised at the commencement of the lease and recognised as a right-of-use asset representing the Company's right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the Company. After lease commencement, the right-of-use asset is then measured using a cost model with the following exemptions:

- i) the right-of-use asset is an investment property and the lessee fair values its investment property under IAS 40; or
- ii) the right-of-use asset relates to a class of PPE to which the Company applies IAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

Under the cost model the right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs.

The lease liability is subsequently remeasured to reflect changes in:

- (i) the lease term (using a revised discount rate);
- (ii) the assessment of a purchase option (using a revised discount rate);
- (iii) the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or
- (iv) future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are treated as adjustments to the right-of-use asset.

The Group has not engaged in operating leases as a lessor in any of the years reported.

**ii. Policy applicable before 1 January 2019**

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

The Company 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 comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

**ii. Policy applicable before 1 January 2019 (continued)**

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 Company's incremental borrowing rate. Generally, the Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company 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 Company 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.

**Under IAS 17**

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

**Provisions**

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

A provision is made 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.

**Pensions**

The Company contributes to individual pension scheme arrangements for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the income statement.

**New standards and interpretations applied**

The Company applied IFRS 16 (Leases) during the year. Details on transition to IFRS 16 can be found in the note above and in Note 12.

### 3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's 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 4.

In the process of applying the Company's accounting policies, management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

#### **(a) Judgements**

##### ***Contingent liabilities***

The Company is party to guarantees which include financial penalties should the Company fail to provide goods and services that meet specified performance obligations (performance guarantees) and the return of customer payments made upfront should the Company withdraw from a contract (advance payment guarantees). To secure these obligations, the Company enters into bonding arrangements with its bank as part of the facilities agreement (Note 16), where the bank will settle these guarantees should they materialise and reclaim this back from the Company.

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 Company's ability to comply with the specific conditions. The assessment found the extent of the guarantees was £12,867,681 (2018 - £16,678,929) and deemed the likelihood of any bonds materialising to be possible, therefore the guarantees have been disclosed as a contingent liability only (see Note 22).

##### ***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 Company has £19,699,956 (2018 - £18,311,664) total tax losses carried forward, which consist of brought forward unused losses from 2016 and the impairment to debtors recognised in 2018. In assessing the recoverability of these losses, management considered performance forecasts and as the Company is expected to increase in profitability in future years, it was determined that £2,179,249 losses can be recognised for future offset. 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 Company's reported tax charge. Management estimate that most of these losses will be utilised in 2023/24, which results in a deferred tax asset at the year ended 2019 of £2,179,249 (2018 - £2,487,553).

Tax losses of £7,778,176 have not been recognised on the grounds they are not expected to be utilised until beyond 2024, where there is a reasonable level of uncertainty on recoverability. Had the Company recognised these tax losses at the future rate of 19% it would result in an additional £1,477,853 deferred tax asset.

See Note 10 for further details on deferred tax.

#### **(b) Estimates**

##### ***Warranty provision***

The Company 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 19 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 £ 2,437,776 at 31 December 2019 (2018 - £2,225,067). 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.

## 4. Revenue

### 4.1. Disaggregation of revenue from contracts with customers

The Company provides a variety of goods and services for the subsea and offshore industry, which are provided through four business units as seen in the table below, and designated by geographical source. 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:

#### During the year ended 31 December 2019

Revenue recognised over time	People's Republic of China	Japan	Netherlands	United Kingdom	Rest of the World	Total
	£	£	£	£	£	£
Trenching, mining and renewables Services	8,719,660	2,130,438	8,688,506	8,248,589	1,064,876	28,852,069
Remotely operated vehicles, "ROV"s	57,825	106,018	509,306	1,461,711	1,408,970	3,543,830
Deck equipment and Curvetech	246,336	-	170,058	1,894,007	-	2,310,401
	-	821,772	373,541	(105,712)	-	1,089,601
	<b>9,023,821</b>	<b>3,058,228</b>	<b>9,741,411</b>	<b>11,498,595</b>	<b>2,473,846</b>	<b>35,795,901</b>
<b>Revenue recognised at a point in time</b>						
Trenching, mining and renewables Services	-	-	-	85,943	-	85,943
Remotely operated vehicles, "ROV"s	159,765	413,758	912,717	3,827,118	3,790,224	9,103,582
Deck equipment and Curvetech	111,277	-	-	729,070	1,882,686	2,723,033
	1,649,503	-	-	-	-	1,649,503
	<b>1,920,545</b>	<b>413,758</b>	<b>912,717</b>	<b>4,642,131</b>	<b>5,672,910</b>	<b>13,562,061</b>
<b>Total revenue recognised from customers</b>	<b>11,075,368</b>	<b>3,471,986</b>	<b>10,654,128</b>	<b>16,140,726</b>	<b>8,146,756</b>	<b>49,357,962</b>

#### During the year ended 31 December 2018

Revenue recognised over time	People's Republic of China	Japan	Netherlands	United Kingdom	Rest of the World	Total
Trenching, mining and renewables Services	15,326,859	-	8,476,560	4,778,899	8,159,323	36,741,641
Remotely operated vehicles, "ROV"s	-	309,583	-	316	119,094	428,993
Deck equipment and Curvetech	1,658,242	-	59,714	345,786	-	2,063,742
	-	6,662,697	219,013	-	-	6,881,710
	<b>16,985,101</b>	<b>6,972,280</b>	<b>8,755,287</b>	<b>5,125,001</b>	<b>8,278,417</b>	<b>46,116,086</b>
<b>Revenue recognised at a point in time</b>						
Trenching, mining and renewables Services	-	-	448,473	-	69,370	517,843
Remotely operated vehicles, "ROV"s	795,553	530,311	3,619,734	1,349,107	3,368,555	9,663,260
Deck equipment and Curvetech	-	-	-	-	-	-
	-	-	-	-	619,161	619,161
	<b>795,553</b>	<b>530,311</b>	<b>4,068,207</b>	<b>1,349,107</b>	<b>4,057,086</b>	<b>10,800,264</b>
<b>Total revenue recognised from customers</b>	<b>17,780,654</b>	<b>7,502,591</b>	<b>12,823,494</b>	<b>6,474,108</b>	<b>12,335,503</b>	<b>56,916,350</b>

### 4.2. Assets and liabilities related to contracts with customers

Contract assets are the Company'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 received. 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 19 for further details on warranties held by the Company.

**4.2. Assets and liabilities related to contracts with customers (continued)**

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

	<i>Contracts in trade debtors</i>	<i>Contract assets</i>	<i>Contract liabilities</i>
	£	£	£
As at 1 January 2018	8,643,507	14,030,062	826,254
As at 31 December 2018	7,266,926	8,192,797	2,351,165
As at 31 December 2019	6,042,688	5,712,645	4,184,382

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 4.4).

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

The following table shows how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities from the prior year:

	2019 £	2018 £
Revenue recognised that was included in the contract liability balance at the beginning of the period	2,351,165	826,254

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

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) are as follows:

	2019 £	2018 £
Total contract value of unsatisfied performance obligations	13,459,779	32,720,443

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 2019.

**4.3. Other operating income**

In addition to revenue, the Company recognised other operating income of £2,255,336 (2018: £5,861,898) that also falls under the scope of IFRS 15. The entirety of other operating income relates to licence fees received from Zhuzhou CRRC Times Electric Co., Ltd, "Zhuzhou", (the parent of the Group's parent company and based in China) to transfer intellectual property rights of SMD technology to the CRRC Group. This income is recognised over time, by reference to the costs incurred in delivering training required to SMD Shanghai, to effect the transfer of the license.

**4.4. Accounting policies and significant judgements**

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

**(a) 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.

### **(a) Revenue recognised over time (continued)**

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. 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.

### **(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 Company 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 Company'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.

## Soil Machine Dynamics Limited

### (b) Revenue recognised at point in time (continued)

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.

Short term contracts relate to small commercial contracts which are short term in length i.e. several days or weeks. They include upgrades, repairs and the supply and build of small pieces of equipment.

Management have judged that the most appropriate accounting treatment is to recognise revenue at point in time when the obligation is fulfilled on the basis that the contract length and value is immaterial.

### 5. Operating profit

This is stated after charging/(crediting):

	2019	2018
	£	£
Amount of inventories recognised as an expense	26,521,158	23,125,887
Write down of inventories in the year	117,133	155,793
Auditor's remuneration – audit of the financial statements	120,000	77,580
Auditor's remuneration – non-audit	-	-
Depreciation of owned tangible assets (Note 11)	437,324	439,754
Depreciation of right-of-use assets (Note 112)	290,997	-
Amortisation of owned intangible assets (Note 13)	29,353	94,680
Loss on disposal of tangible assets	588	17,114
Research and development costs	224,298	774,444
R&D above the line tax credit	(601,564)	(528,706)
Licence fee income – other operating income (Note 4.3)	(2,255,336)	(5,861,898)
Net loss/(gain) on foreign currency translation	272,870	(394,007)
Operating lease rentals – land and buildings (prior to transition to IFRS 16)	-	382,132
Staff costs	12,917,236	13,457,787
Exceptional items:		
Impairment on debtors (see Note 0)	-	3,278,634

### 6. Directors' remuneration

	2019	2018
	£	£
Aggregate remuneration in respect of qualifying services	661,061	648,340
Value of company pension contributions to money purchase schemes	17,319	21,911
	<u>678,380</u>	<u>670,251</u>

	No.	No.
Members of money purchase pension schemes	<u>3</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	2019	2018
	£	£
Remuneration in respect of qualifying services	198,976	193,047
Value of company pension contributions to money purchase schemes	977	5,676
	<u>199,953</u>	<u>198,723</u>

## Soil Machine Dynamics Limited

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### 7. Staff costs

	2019 £	2018 £
Wages and salaries	11,144,470	11,640,925
Social security costs	1,156,176	1,222,852
Other pension costs	616,590	594,010
	<u>12,917,236</u>	<u>13,457,787</u>

The average monthly number of employees during the year was made up as follows:

	No.	No.
Administration	69	68
Production	168	162
	<u>237</u>	<u>230</u>

In addition, the Company utilises the service of temporary contractors engaged through agencies.

### 8. Finance income

	2019 £	2018 £
Other interest receivable	1,392	-
	<u>1,392</u>	<u>-</u>

### 9. Finance costs

	2019 £	2018 £
Bank interest payable	204,517	28,202
Right-of-use asset interest (2018: Finance lease interest)	84,718	1,337
Other interest payable	100,857	892
Bonding charges	290,967	131,912
	<u>681,059</u>	<u>162,343</u>



## Soil Machine Dynamics Limited

### (d) Change in corporation tax rate

Finance Bill 2016 enacted provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the tax expense for the period by £256,382 and to increase the deferred tax asset by £256,382.

### 11. Tangible fixed assets

	Freehold property	Leasehold properties and improvement	Fixtures and fittings	Motor vehicles	Computer equipment	Total
	£	£	£	£	£	£
<b>Cost:</b>						
At 1 January 2019	3,302,125	2,389,365	1,813,114	22,230	767,170	8,294,004
Transition to IFRS 16	-	3,406,176	-	-	-	3,406,176
At 1 January 2019 (revised)	3,302,125	5,795,541	1,813,114	22,230	767,170	11,700,180
Additions	50,398	-	151,209	-	85,563	287,170
Disposals	-	-	-	-	(3,530)	(3,530)
Reclassifications	97,920	7,680	(105,600)	-	-	-
At 31 December 2019	3,450,443	5,803,221	1,858,723	22,230	849,203	11,983,820
<b>Depreciation:</b>						
At 1 January 2019	(1,345,246)	(1,204,589)	(1,429,635)	(22,230)	(567,968)	(4,569,668)
Transition to IFRS 16	-	(1,718,081)	-	-	-	(1,718,081)
At 1 January 2019 (revised)	(1,345,246)	(2,922,670)	(1,429,635)	(22,230)	(567,968)	(6,287,749)
Disposals	-	-	-	-	2,942	2,942
Reclassifications	(10,305)	(1,152)	11,457	-	-	-
Charge for the year	(57,990)	(392,959)	(148,892)	-	(128,480)	(728,321)
At 31 December 2019	(1,413,541)	(3,316,781)	(1,567,070)	(22,230)	(693,506)	(7,013,128)
<b>Net book value:</b>						
At 31 December 2019	2,036,902	2,486,440	291,653	-	155,697	4,970,692
At 1 January 2019 (revised)	1,956,879	2,872,871	383,479	-	199,202	5,412,431

Included in property, plant and equipment, the Company held right-of-use assets with a net book value of £1,397,098 at the end of the reporting period (2018 - £nil). On these assets the Company incurred a depreciation charge of £290,997 during the year (2018 - £nil). Amounts relating to right-of-use assets are disclosed in Note 12.

## Soil Machine Dynamics Limited

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### 12. Leases

As indicated in note 2, the Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2019
	£
Property, plant and equipment owned (Note 11)	3,573,594
Right-of-use assets	1,397,098
	4,970,692

Information about leases for which the Company is a lessee is presented below.

#### **Right-of-use assets**

	<i>Property</i>	<i>Total</i>
	£	£
Balance at 1 January 2019	1,688,095	1,688,095
Depreciation charge for the year	(290,997)	(290,997)
Balance at 31 December 2019	1,397,098	1,397,098

Additions to the right-of-use assets during 2019 were £nil.

#### **Lease liabilities**

	2019
	£
<b>Maturity analysis – contractual undiscounted cash flows</b>	
Less than one year	300,804
One to five years	984,105
More than five years	688,874
Total undiscounted lease liabilities at 31 December	1,973,783
<b>Lease liabilities included in the statement of financial position as at 31 December</b>	
Current	229,779
Non-current	1,373,070
	1,602,849

#### **Amounts recognised in profit or loss**

	2019
	£
Interest on lease liabilities	84,718
	84,718

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	2019
	£
Total operating lease commitments disclosed at 31 December 2019	2,352,108
Discounted using the lessee's incremental borrowing rate at the date of initial application	(451,845)
Total lease liability recognised under IFRS 16 at 1 January 2019	1,900,263

## 12. Leases (continued)

On transition to IFRS 16 the average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5%. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by £0.4m, being the lease payments, and net cash used in financing activities has increased by the same amount. The adoption of IFRS 16 did not have an impact on net cash flows.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	<i>Within 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	£	£	£
Extension options expected to be exercised	192,572	33,983	226,555
	<u>230,415</u>	<u>33,983</u>	<u>264,398</u>

## 13. Intangible assets

	<i>Computer software</i>	<i>Product Development</i>	<i>Total</i>
	£	£	£
<b>Cost:</b>			
At 1 January 2019	1,771,072	2,590,869	4,361,941
Additions	45,664	2,052,659	2,098,323
Disposals	-	-	-
At 31 December 2019	<u>1,816,736</u>	<u>4,643,528</u>	<u>6,460,264</u>
<b>Amortisation:</b>			
At 1 January 2019	(1,715,959)	-	(1,715,959)
Disposals	-	-	-
Provided during the year	(29,353)	-	(29,353)
At 31 December 2019	<u>(1,745,312)</u>	<u>-</u>	<u>(1,745,312)</u>
<b>Net book value:</b>			
At 31 December 2019	<u>71,424</u>	<u>4,643,528</u>	<u>4,714,952</u>
At 31 December 2018	<u>55,113</u>	<u>2,590,869</u>	<u>2,645,982</u>

## 14. Inventories

	<i>2019</i>	<i>2018</i>
	£	£
Raw materials	1,777,134	3,042,130
Work in progress	240,699	1,277,383
Finished goods	1,544,158	2,340,309
	<u>3,561,991</u>	<u>6,659,822</u>

Included in the figures above the Company holds a provision against stock as follows:

	<i>2019</i>	<i>2018</i>
	£	£
Opening inventory provision	2,225,067	2,028,563
Increase in provision	849,592	623,996
Utilised	(636,883)	(427,492)
Closing inventory provision	<u>2,437,776</u>	<u>2,225,067</u>

## 15. Debtors

<i>Amounts falling due within one year</i>	2019 £	2018 £
Trade debtors	5,844,685	4,272,555
Amounts owed by group undertakings	622,162	513,253
Prepayments	714,140	905,402
Accrued income	355,012	522,080
Deferred tax assets (Note 10)	-	2,026,225
Other debtors	2,131,534	2,619,191
	<u>9,667,533</u>	<u>10,858,706</u>

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 and therefore management have not recognised a loss allowance within trade debtors. In the prior year a significant impairment indicator was identified on one customer which owed £3.3m. As this debt has an expected lifetime of less than 12 months, management recognised a loss allowance of £3.3m within trade debtors, measured at 12 months only.

Deferred tax assets relate to losses generated in the year that are available for offset against future taxes. As these are not deemed to be recoverable in the next 12 months, the asset recognised as at 31 December 2019 has been classified as non-current.

Amounts owed by group undertakings as at 31 December 2019 and 2018 wholly relate to amounts owed by related parties and are disclosed in more detail in Note 23. The balances are payable on demand, are unsecured in nature and bear no interest. No provisions are held against these amounts.

Included within other debtors are £1.4m (2018 - £1.2m) relating to Research and Development Expenditure Credits (RDEC). The remaining balance mainly relates to other taxation and social security costs.

<i>Amounts falling due after more than one year</i>	2019 £	2018 £
Hire purchase debtor	-	25,000
Deferred tax assets (Note 10)	1,507,236	-
	<u>1,507,236</u>	<u>25,000</u>

## 16. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and on hand	281,417	69,116
Bank overdrafts (Note 17)	(4,927,517)	(4,765,744)
	<u>(4,646,100)</u>	<u>(4,696,628)</u>

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 on 2 September 2020 and includes a bank overdraft of up to £15,250,000, a separate credit facility of up to £9,750,000 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 £25,000,000 is not exceeded. At 31 December 2019 the Group had an overdraft facility of £14,250,000 and a separate credit facility of £10,750,000.

## 17. Creditors

<i>Amounts falling due within one year</i>	2019	2018
	£	£
Trade creditors	3,144,210	6,666,966
Amounts owed to group undertakings	2,897,210	7,764,728
Accruals	6,376,806	4,778,313
Other taxes and social security costs	390,555	359,397
Bank overdraft (Note 16)	4,927,517	4,765,744
Right-of-use asset obligations (Note12)	229,779	-
Other creditors	121,494	2,370,760
	<u>18,087,572</u>	<u>26,705,908</u>

Amounts owed to group undertakings include £4,591,210 (2018: £5,357,020) with fellow subsidiaries of the Specialist Machine Developments (SMD) Group. Included within this balance is £4,251,973 (2018: £nil) which has been classified as non-current (Note 18) on the basis that it is not expected to be settled in the next 12 months. The remaining £339,236 (2018: £5,357,020) is recognised in amounts due within one year. Both 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 related parties (Note 23) are disclosed in amounts owed by group undertakings.

## 18. Creditors

<i>Amounts falling due within more than one year</i>	2019	2018
	£	£
Right-of-use asset obligations (Note12)	1,373,070	-
Amounts owed to group undertakings	4,251,973	-
	<u>5,625,043</u>	<u>-</u>

## 19. Provisions for liabilities

	<i>Warranty provision</i>	<i>Supplier provision</i>	<i>Dilapidations provision</i>	<i>Total</i>
	£	£	£	£
At 1 January 2019	715,530	800,000	45,506	1,561,036
Charge for the year	1,792,500	182,000	910	1,975,410
Utilised during the year	(1,978,029)	(800,000)	-	(2,778,029)
At 31 December 2019	<u>530,001</u>	<u>182,000</u>	<u>46,416</u>	<u>758,417</u>

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. The utilised provision is recognised at a value of the cost of the replacement part and services when the customer makes a successful warranty claim and is expected to be spent in line with the warranty terms provided. The Company has no obligation to provide warranty cover for claims that have been logged after the end of the warranty period.

The supplier provision relates to a specific provision to provide replacement parts owed on a contract with a customer, which were returned when they did not meet the customer's specifications and failed factory acceptance testing. At the year ended 2019 the parts have been replaced and accepted by the customer, however management have recognised a provision in respect of liquidated damages which may become payable under the contract.

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 £47,000 and will be payable when the lease expires on July 2020.

## Soil Machine Dynamics Limited

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### 20. Issued share capital

<i>Authorised, allotted, called up and fully paid</i>	No.	2019 £	No.	2018 £
Ordinary shares of £1 each	938,950	<u>938,950</u>	938,950	<u>938,950</u>

### 21. Pensions

The Company operates an individual pension scheme under which the Company contributes a fixed percentage of salary provided the employee contributes a matching amount. As at 31 December 2019 the Company had a pension liability of £124,519 (2018 – £105,375).

### 22. Commitments and contingencies

#### *Operating leases*

Future minimum rentals under non-cancellable operating leases (under IAS 17) are as follows:

	2019 £	2018 £
Operating leases which expire:		
Within one year	-	382,132
After one year but not more than five years	-	898,942
Over five years	-	1,071,034
	-	<u>2,352,108</u>

#### *Contingent liabilities*

	2019 £	2018 £
Guarantees (bonding)	<u>12,867,681</u>	<u>16,678,929</u>

The Company had nil capital expenditure commitments at the year ended 31 December 2019 (2018 - £nil).

At the year ended 2019 the Company was party to guarantees which included clawback provisions should the Company fail to provide goods and services that meet specified performance obligations (performance guarantees) and the return of customer payments made upfront should the Company withdraw from a contract (advance payment guarantees). To secure these obligations, the Company entered into bonding arrangements with its bank as part of the facilities agreement (Note 16), where the bank will settle these guarantees should they materialise before reclaiming this back from the Company. Management made an assessment on the likelihood of these obligations arising, considering the current and forecasted future performance of its products and the Company'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.

### 23. Related party transactions

The Company has taken advantage of the exemption available under FRS 101 from disclosing transactions between fully-owned members of the Specialist Machine Developments (SMD) Ltd Group. The following disclosures provide the total amount of other transactions that have been entered into with related parties.

<b>Trading</b>	<i>Sale of goods/services</i>		<i>Balance owed (to)/from</i>	
	2019	2018	2019	2018
	£	£	£	£
<b>CRRC SMD (Shanghai) Ltd</b>				
Recharged costs	-	849,831	491,108	346,551
Goods sold	1,896,811	1,606,167	108,808	(151,836)
<b>Zhuzhou CRRC Times Electric Co., Ltd</b>				
Goods purchased	28,500	30,400	-	(49,400)
<b>Non-Trading</b>				
	<i>Transaction amount</i>		<i>Balance owed (to)/from</i>	
	2019	2018	2019	2018
	£	£	£	£
<b>Zhuzhou CRRC Times Electric Co., Ltd</b>				
Licence fee income	2,255,336	5,861,898	(1,464,388)	(1,382,432)
Recharged costs	17,141	166,702	-	166,702
<b>CRRC Times Electric (Hong Kong) Co., Ltd (CRRC)</b>				
Loan notes, interest and payments	2,507,151	-	(2,507,151)	-

#### **CRRC SMD (Shanghai) Ltd (SMD Shanghai)**

During the year the Company sold goods of £1,896,811 (2018 - £1,606,167) to SMD Shanghai, whose shareholding is owned by the SMD Group's parent company CRRC Times Electric (Hong Kong) Co, Ltd. In the prior year the Company also provided business set up support totalling £849,831. The setup costs included fixed asset purchases, consultancy and travel costs reclaimed back from SMD Shanghai. The vast majority of these transactions were settled by the year ended 2019 and are disclosed in Notes 15 and 17 as amounts owed by/to group undertakings respectively. All transactions were conducted at arms' length.

#### **Zhuzhou CRRC Times Electric Co., Ltd (Zhuzhou)**

On 15 December 2015 the Company entered into an agreement to license intellectual property to Zhuzhou, the shareholder of the SMD Group's parent company. Licence fee income of £2,255,336 (2018 – £5,861,898) was recognised in the year. The Company will recognise further licence income of £1,464,384 (net of withholding tax) in the next reporting period.

During the year the Company also acquired goods of £28,500 (2018 - £30,400) from Zhuzhou and is disclosed in Note 17, creditors, until the balance is settled. The Company also collaborated with Zhuzhou on a joint R&D project of which £17,141 costs incurred by the Company have been recharged over to Zhuzhou. This balance was settled in full at the year ended 2019. All transactions conducted with Zhuzhou were at arms' length.

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

On 25 November 2019 the Company entered into an agreement with CRRC, the SMD's Group parent company. A loan of £2,500,000 was advanced to the Company with interest payable at 2.9% annually. The loan was repaid in full on 9 January 2020.

**24. Ultimate parent undertaking and controlling party**

The immediate parent undertaking is Specialist Machine Developments (SMD) Limited with registered office Turbinia Works, Davy Bank, Wallsend, Tyne and Wear, NE28 6UZ, United Kingdom which also holds the consolidated financial statements of the Specialist Machine Developments (SMD) Group. These statements are the smallest Group to consolidate the financial statements of the Company.

The ultimate parent undertaking and controlling party is the CRRC Corporation Limited, incorporated in China with registered office at No.16 West 4<sup>th</sup> 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](http://www.crrcgc.cc).

**25. Subsequent events**

As noted in the Strategic Report on pages 2 to 6, the circumstances resulting from COVID-19 are creating an unprecedented level of uncertainty for the UK and beyond. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The going concern statements on pages 7 and 15 detail the additional work undertaken, and factors considered as a result of COVID-19 and confirm the Company's ability to continue as a viable going concern.