Company Registration No. 03824626

DYNEX SEMICONDUCTOR LTD

Financial Statements

31 December 2019

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DYNEX SEMICONDUCTOR LTD

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DYNEX SEMICONDUCTOR LTD

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M A Kempton
L Dawson (Appointed 14 October 2019)
S Bailey
K Liu (Appointed 28 April 2019)
R Lyle (Appointed 1 May 2019)

REGISTERED OFFICE

Doddington Road
Lincoln
LN6 3LF

PRINCIPAL BANKER

Barclays Bank Plc
3rd Floor Office,
2 High Street,
Nottingham,
NG1 2EN

AUDITOR

Deloitte LLP
Statutory Auditor
Four Brindley Place
Birmingham
B1 2HZ
United Kingdom

DYNEX SEMICONDUCTOR LTD

DIRECTORS' REPORT

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

The following disclosures required by s416(4) of the Companies Act 2006 have been included in the Strategic Report: research and development, financial risk management policies, principal risks and uncertainties, future prospects, events after the balance sheet date and employee information and form part of this report by cross reference.

OWNERSHIP AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Dynex Power Inc. of Canada. In March 2019, Zhuzhou CRRC Times Electric Co., Ltd ("CRRC Times Electric") acquired the remaining 25% shareholding in Dynex Power Inc giving them 100% ownership. CRRC Times Electric is based in Hunan Province in the People's Republic of China.

CRRC Times Electric is quoted on the Hong Kong Stock Exchange. The ultimate parent company is CRRC Corporation Limited ("CRRC Group"), which is based in Beijing in the People's Republic of China. The ultimate controlling party is the Chinese State-owned Asset Supervision and Administration Commission.

The Company's principal activities are the design, manufacture and sale of high-power semiconductors and high-power electronic assemblies, the business also has a Research & Development business unit employing ~20% of the company employee base. There have not been any significant changes in these activities since the publication of the 2018 Annual Report and Financial Statements. The directors currently have no plans for any changes in the future.

GOING CONCERN

The directors have reviewed their forecasts for the next twelve months from September 2020 onwards, particularly in relation to turnover, profits and cash flow. The Company's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Company will be able to operate within the level of its current facility of £15m for at least the next twelve months from the date of the financial statements being signed. Management considered financing available to the Company, in the form of a facility from Citibank, which is guaranteed by CRRC Times Electric and was renewed in July 2020 until July 2021 and is renewed on a rolling basis. In April 2020 the facility has been increased by £4m to £15m, of which £2.5m was drawn down in July 2020, leaving £1.5m unutilised. Financing has also been available in the form of a loan from CRRC Times Electric (Hong Kong) Co., Ltd, the previous loan was repaid in full in December 2019 and in January 2020 a replacement loan was issued, this has also been repaid in full in July 2020. In considering the ability of CRRC Times Electric to provide any necessary support to the Company, the directors have reviewed Group performance and assessed their financial strength and obtained an understanding of the Group's strategic and contingent plans. A letter of support, which details the continuing commitment of the Group to ensure sufficient funding for the Company to meet its liabilities as they fall due, was received from CRRC Times Electric and hence the directors concluded that the funds necessary to finance the Company for the next twelve months would remain available. Refer to note 2 to the financial statements for further details.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and up to the date of this report were as follows:

C G Vacher (Resigned 5th April 2019)
A G Lyons (Resigned as Director on 18th October 2019)
L. Dawson (Appointed as Director and Company Secretary 14th October 2019)
M A Kempton (Appointed 10th July 2018)
S.A. Bailey (Appointed 10th April 2018)
R Lyle (Appointed 1st May 2019)

DIVIDENDS

The directors do not recommend the payment of a dividend (2018: £nil).

DIRECTORS' INDEMNITY

The Articles of Association of the Company contain a qualifying third-party indemnity in favour of all of the directors of the Company that, subject to law, indemnifies the directors from the assets of the Company against any liability incurred by them in defending any proceedings in which judgement is given in their favour (or otherwise disposed of without any finding or admission of any material breach of duty on their part).

DYNEX SEMICONDUCTOR LTD

DIRECTORS' REPORT

The qualifying third-party indemnity provisions were in place throughout the year and remain in force at the date of this report.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:
(1) So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
(2) The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Deloitte LLP has expressed its willingness to be reappointed for another term and appropriate arrangements have been put in place for it to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

M A Kempton
Director
15th September 2020
Doddington Road
Lincoln, LN6 3LF

STRATEGIC REPORT

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

RESEARCH AND DEVELOPMENT

During 2019, Dynex further expanded its research and development activities at its power semiconductor R&D Centre in Lincoln, developing new power products and undertaking research in to new power semiconductor technologies to match the future demands of the global power electronics market. The strategic focus remains on the technology and semiconductor-based products that are required for high power electronic equipment with particular focus on railway traction, electric vehicle and transmission and distribution.

The Centre's R&D team for power semiconductors has continued to grow in strength as the leading UK industrial high-power semiconductor research group, supporting Dynex and its parent company in our shared ambition to become one of the top companies in the global high-power semiconductor field. The strategy of developing new technology and products for the future is the key objective for the R&D centre, and the R&D team has increased its attendance in key power electronics workshops, seminars and conferences in Europe and China. This will ensure continued professional development of its workforce and we will seek and recruit the best staff from the UK, Europe and China. We have continued to progress several collaborative programmes within the UK and Europe (Innovate UK and Horizon 2020) related to low carbon power electronics, and a number of new collaborative projects have been started with UK University research groups, European supply chains, and customers. These activities help to keep Dynex at the forefront of high-power semiconductor technology. During 2019 more than 6 patents have been filed to protect our intellectual property realised in these R&D activities.

In the past year, the engineering teams within research and development have focused on developing the next generation high voltage trench gate IGBT silicon chips at 3.3kV, 4.5KV and 6.5kV aimed at high power applications such as traction and renewable energy and lower voltage trench gate versions at 750V – 1700V for electric vehicle motor drives and industrial applications. Additionally, the chip design group have concentrated on the development of new silicon carbide (SiC) technologies for improved efficiency and reduced size applications as well as on chip sensing technologies for temperature and current measurement.

Our IGBTs incorporate new power module packaging and material technologies to improve performance, lower cost, enhance reliability and will ensure we are well positioned to compete in both the traction and power markets. Our next generation 4.5kV Press-pack IGBT technology is unique and focused at customer applications in HVDC, renewable energy, and other high power, high reliability projects.

Dynex ensure that R&D activity is driven by market requirements and is ultimately market led. R&D projects were re-evaluated in 2019 to more closely align with the requirements of CRRC's semiconductor business objectives and are tightly managed to ensure cost efficient and timely delivery of new products to market.

During Q4 2019 a review was held with CRRC Times Electric in regards to the commercial modelling in respect of the batch production for R&D in the Dynex wafer fabrication area, it was determined that it was essential this was transacted on an arms-length basis and therefore concluded at a market price, this will have significant benefit for Dynex in regards to both revenue and profitability in 2019 and beyond.

In March 2020, Dynex took the decision to split the research and development centre into two separate groups. The first would be called the Lincoln R&D Centre and will focus on research activity for the medium to long term development of advanced technologies while the second group, the New Product Introduction Team, will concentrate on the development of new products to be manufactured in Dynex, Lincoln to support the future growth of the business.

FINANCIAL PERFORMANCE

Turnover:

Turnover increased by 18.7% from £24.1 million in 2018 to £28.6 million in 2019. The increase in turnover was as a result of significant growth in the Bipolar area and R&D batch production commercial remodelling. The gross margin increased from 3% to 16.6% reflecting the contribution impact from increased sales and the restructuring completed in Q1 fluctuating to reduce the high fixed cost base associated with the Bipolar and IGBT parts of the business. The Company reported a profit before tax of £0.46m in 2019 compared to a loss before tax of £4.06 million in 2018.

STRATEGIC REPORT (CONTINUED)

KEY PERFORMANCE INDICATORS

	2019	2018	2017
Key Financials	**£'000**	**£'000**	**£'000**
Turnover	28,612	24,102	28,349
Gross Profit	4,753	731	3,660
Other operating expense	(3,859)	(4,428)	(4,297)
Profit /(Loss) before Tax	455	(4,057)	(239)
Key ratios			
Gross Margin	16.6%	3.0%	12.9%
% Revenue Spent on R&D (Gross)	15.0%	23.9%	20.8%
Other operating expense / turnover	13.5%	18.4%	15.2%
Profit /(Loss) before Tax/ turnover	1.6%	(16.8%)	(0.8%)
Turnover per Full Time Employee excluding R&D staff (£'000)	108.0	87.0	98.4

Gross margins:
Gross margins reflect the revenues for products sold less the direct costs of production, indirect production and overheads costs, and, any costs associated with obsolete inventory.

Gross margins in 2019 showed a significant increase compared with the previous year. This was as a consequence of higher volumes in Bipolar and Services and the restructuring in Q1 to reduce indirect production and overhead costs. The gross margin in 2018 was lower than in 2019, predominantly due to volume and services commercial model.

Other operating expense:
Other operating expense reflects those costs associated with Sales, marketing and administration. These costs decreased in 2019 and include £548k of one-time costs, as the business completed a restructuring of its management team and removed a number of personnel to create a leaner organization. The reduction also reflects the change in the R&D funding arrangement with CRRC Times Electric. Management aim to continue to drive down these costs as a percentage of Turnover through growth (increased turnover) and efficiency savings (cost reductions).

(Loss)/ Profit before tax:
The profit before tax reflects the steps taken by the business during 2019 to reduce its breakeven point and therefore its sensitivity to volume, thus enabling the growth in sales to deliver increased profitability. Other factors impacting profit include the level of other operating expense, net R&D expenditure and any other income. In 2019 the Company recorded a profit due to an increased level of turnover, full recovery of its R&D expenditure and a commercial remodelling of batch production for R&D enabling it to support the cost base that also included £1m of restructuring costs, in 2018 losses were lower due to lower volumes and write-off of the Deferred Tax Asset.

In measuring turnover per full time employee, R&D staff are excluded from the number employed. Expenditure on R&D is an investment in the future of the business and does not contribute to today's revenue. The Turnover per full time employee since 2017 reflects the increases / decreases in turnover and for 2019 reflects the reduction in headcount numbers.

The measurement of the percentage of revenue spent on research and development reflects gross expenditure on research and development as this better reflects the Company's investment in the development of new products and processes. This expenditure is financed by CRRC Times Electric or by grants or by customers. The figure shown in the financial statements for expenditure on R&D is net of such third-party funding. Although, the figures show a substantial decrease in gross expenditure in 2019, a significant proportion is now recognised in cost of sales compared to previous years.

Impairment review
On 11th March 2019 Zhuzhou CRRC Times Electric Co., Ltd.'s ("CRRC Times Electric") acquired all of the outstanding common shares of Dynex Power Inc that it did not already own for $0.65 in cash per Common Share by way of a plan of arrangement. This share value of $0.65 per share, valued the company at $52,330 million, which on a fair value basis is in excess of the asset value of the business. CRRC Times Electric offered the price of $0.65 per share following independent due diligence from professional advisors. The offer was approved by 99.95% of voting shareholders. Although not required, but there are no indicators management deemed it prudent in accordance with

STRATEGIC REPORT (CONTINUED)

IAS 36 'Impairment of assets', to perform an impairment review, based on the Company's 5-year model As the Fair value less costs to sell of the Company is the higher of the recoverable value (as against value in use), the management concluded no impairment was necessary. In addition, the expected closer cooperation with CRRC following the transaction will help the Company to sustain profitability.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a number of financial risks. Further details of these risks and how they are managed can be found in the section 'Principal Risks and Uncertainties' below. The Company does not use derivative financial instruments as part of its risk management strategy.

PRINCIPAL RISKS AND UNCERTAINTIES

Dynex Semiconductor operates in a competitive market environment and recognizes the importance of providing a high level of service in terms of cost, quality/performance and delivery. The key focus in addressing these challenges is to match, and ideally exceed, our competitors in these areas by ensuring the company invests significantly in R&D and drives continuous improvement activity in all operational and business functions. Dynex continues to increase investment in R&D to expand the product portfolio which mitigates the risk of any fundamental shift in technologies in the company's product markets.

The level of worldwide demand for power semiconductors and power semiconductor assemblies is one of the key uncertainties for the Company. Global plans to reduce carbon emissions in response to concerns about climate change, including the increased power generation from non-fossil fuels, the electrification of transport systems and the increased use of advanced power electronic equipment, together with the need for additional power generation capacity and improved power transmission and distribution systems and the increased demand for the supply of high quality electrical energy, provide strong justification for believing that demand for the Company's products will remain strong. However, any reduction in investment in these areas could be detrimental to the future of the business. The privatisation and 100% ownership by CRRC has improved access to the Chinese market which is still seeing strong year on year growth.

The Company is working closely with CRRC Times Electric, has set up several joint teams and is increasing its R&D expenditure to ensure that its products are able to meet CRRC Times Electric's needs and the needs of other power electronic equipment manufacturers both within China and the rest of the world.

The Company's manufacturing processes are highly complex and manufacturing efficiency is an important factor in the Company's competitiveness and profitability. The Company has been investing and continues to invest in new equipment to ensure it remains competitive. The Company's manufacturing yields vary significantly across the product range, depending on the complexity of a particular design and the Company's experience in manufacturing that type of product, the quality of the raw materials and bought in components used in manufacture. Deterioration in yields will increase production costs and therefore reduce margins. In addition, failure to meet planning yields may also lead to late deliveries to customers. The Company seeks to manage these risks by constantly monitoring and seeking to improve its yields through improvements in design, materials and manufacturing processes.

The Company's business is quite concentrated with over 60% of turnover typically coming from ten or fewer customers. The failure or consolidation of any of these customers around companies owned or supplied by Dynex's major competitors could significantly reduce the opportunities available to the business in future. The acquisition in 2008 of a major stake in the Company by CRRC Times Electric, and its subsequent purchase of the remaining shares in 2019 has provided the Company with a much closer relationship with this entity, fostering increased collaboration and strategic alignment; they continue to be one of the Company's major customers. The Company has developed and works to a Quality Policy, operated under ISO 9001:2015 in order to ensure it meets the requirements of its customers.

Many of the Company's expenses, particularly those relating to capital equipment and manufacturing overhead, are relatively fixed, making the Company's results sensitive to reductions in manufacturing volume. The Company seeks to manage this risk by maintaining close relationships with its main customers and by seeking new customers.

Certain raw materials, such as silicon, neutron transmutation doped ("NTD") silicon, molybdenum, ceramic housings, substrates, baseplates, wafer fabrication chemicals and gases, electricity, assembly materials and sub-contract services are critical to the manufacture of high-power semiconductors. The Company seeks to maintain close relationships with key suppliers, entering into long term supply arrangements where appropriate and by multi sourcing products where possible, in order to ensure continued access to such raw materials. In the case of electricity, the Company is a major user and because the cost of electricity in the UK is subject to significant short-term variation, Dynex is pro-actively assessing alternative sources of power generation. The Company has developed and operates a formal Energy Management System under ISO 50001 in order to minimise the use of power. The Company takes independent professional advice on the purchase of electricity and seeks to enter into long term contracts to reduce the uncertainty about future prices.

As part of its manufacturing operations, the Company uses many hazardous chemicals and gases. The Company operates a formal Health and Safety Plan and a formal Environmental Management Plan under ISO 14001 in order to ensure compliance with the relevant laws and regulations and to ensure that the risks to employees, third parties and the environment are minimised.

Although the Company buys some materials in continental Europe, the Far East and North America, the bulk of its costs are incurred in sterling. However, it sells into world markets with many sales denominated in euros and US dollars. As a consequence, the Company's results are affected by changes in exchange rates between these currencies. Management monitors these exposures but does not believe that it would be beneficial to hedge them at the present time. The need to undertake such hedging is reviewed from time to time.

The Company's future success depends, in part, upon its ability to attract and retain suitably qualified and experienced personnel in general management, engineering, research and development, operations, sales, marketing, finance and IT. The Company seeks to ensure that its remuneration, employee benefits and general terms and conditions remain competitive to ensure it is able to recruit and retain the people it needs to be competitive.

COVID-19

Following the World Health Organisation (WHO) officially declaring COVID-19 as a global pandemic on March 11th, 2020, the Management Board initiated its business continuity plan (BCP) with the primary objective of minimising the disruption and impact to its customers, suppliers and employees. A business continuity committee was created, made up of the senior leadership team and key functions to review, assess and implement continuity strategies in accordance with the UK government guidance and protective policies, such as social distancing.

In regards to its people, one third switched to home working, one third placed onto furlough, and the remaining third retained at the premises keeping our production facility in operation to complete contractual obligations. For those working on site a full Risk Assessment was concluded and mandatorily rolled out to the entire business. Management have ensured clear and regular communications to all employees regarding safety and wellbeing, business outlook and any subsequent changes to the strategic management of our BCP. It also provided an opportunity to implement new IT platforms to improve communication for remote working.

The nature of the global spread of the virus has created a staggered impact to new and existing order, with our customer base individually affected by their government and/or company policy and regulations. Full lockdown was implemented across many of our key countries' (e.g. Italy, India) with customers requesting an indefinite rescheduling until trade borders opened. The generation of new business, all industries Electric Vehicles (EV), Traction, Energy, Industrial) that we operate in have been subject to temporary shutdown, demand change and financial uncertainty. As a result, major infrastructure projects have been delayed and inventory levels reduced to critical component and minimum levels all. Our sales and execution teams continue to work collaboratively with our customers to formulate individual plans providing support and prevent long-term disruption to all parties as the lockdowns ease and to monitor markets as they show green shoots of recovery.

Furthermore, the supply chain, locally and globally, with the continued support of our parent company in China, was assessed and continues to be actively monitored. It includes substantial SME's and sole traders, although some faced temporarily closure or were unable to transact due to shipping restrictions the overall impact to our material supply has been minimal.

In order to minimise the financial impact to the business, a risk analysis was performed in the event of the worst-case scenario of a full government enforced shutdown. A decision was taken to furlough employees utilising the Coronavirus Job Retention Scheme (CJRS) as well as implementing a more cautious and rigorous approach to our cash flow management, conscious of the impact to all our stakeholders, we were also able to renegotiate the payment terms with some of our larger suppliers.

STRATEGIC REPORT (CONTINUED)

Throughout our parent company CRRC, have maintained a constant dialogue with us, providing support, guidance and reassurance, prioritising and providing the extension to the Citibank loan facility, the resolution of intercompany debt and funding agreements, as well providing practical support such as protective equipment and sanitisation.

BREXIT

Following on from the United Kingdom's exit from the European Union there is now a transition period until the end of 2020 while the government negotiate additional arrangements with the EU. We are proactively liaising with the Department for Trade & Industry, Chamber of Commerce and HMRC to understand and assess the government provided updates on these additional arrangements. The full implications of Brexit will not be understood until all the future tariffs, trade, regulatory, tax and other trade agreements to be entered into by the United Kingdom are established. A cross-functional working group is in place that meets on a regular basis to identify and assess with all major functions within our business represented. We continue to monitor the risk area very closely, as well as the broader environment risks, including a continuous focus on identifying critical decision points to ensure we are prepared for the new rules, and take prudent actions to mitigate risk and maximise opportunity wherever practical. Furthermore, we could experience changes to laws and regulations post Brexit, in areas such as IPR (Intellectual Property 'Rights), employment, environment, supply chain logistics, data protection, and health & safety. We are ensuring future contracts contain the necessary terms to reduce risk where clarity is still required around trading arrangements. With a significant proportion of our business generated from outside of the EU, along with the transactional nature of our business, we continue to believe that the long-term impact and direct financial impact to the business will not be material.

ENVIRONMENT & CLIMATE CHANGE

The Company believes that protection of the environment and reduction of the carbon footprint is an integral part of good business practice and contributes to the preservation of the environment through an environmental management system. The environmental management system seeks to minimise environmental impacts resulting from the Company's business activities and products. The Company provides education and training to all staff to improve understanding of the environmental management system appropriate to their responsibilities. The Company pursues a course of continual environmental improvement; adopting environmentally friendly technologies to prevent environmental pollution. Objectives and targets in parallel with sound management practices drive continual improvement. The Company minimises pollution by replacing and improving its processes when necessary and recycling and re-using materials where possible. The Company performs a perpetual review of its power generation and monitors the viability for greener energy sources, and has invested in a Combined, Heat & Power (CHP) solution reducing 1.5Mw of grid demand, expected to be in full operation early in 2021. The Company also continues to explore solar PV options in addition to its current installation and is investing in the installation of EV points on site to promote the use of electrical vehicles for its employees.

In support further of climate change the Company works alongside CRRC Corporation, educational institutes and government funded agencies on projects designed to support electrification of vehicles and the decarbonisation of rail.

The Company complies, and will continue to comply, with all applicable legal requirements and with other requirements to which it subscribes which relate to environmental aspects. The Company has introduced an environmental impact assessment process used when introducing new products. The Company will continue to minimise environmental impacts by the recycling of waste products and packaging materials.

s172 STATEMENT

In accordance with section 172 of the Companies Act 2006, each of our directors acts in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. Our directors have regard, amongst other matters, to the:

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

The directors also take account of the views and interests of a wider set of stakeholders when making decisions. In line with our strategy, our purpose is to grow and develop as an independent manufacturer of high power and high

STRATEGIC REPORT (CONTINUED)

reliability power products investing and empowering our management to unlock operational improvements to drive value and performance for the benefit of all our stakeholders.

Financial robustness is an important part of this value creation process and we aim to provide a prudent approach to capital allocation that considers working capital requirements, investment, capital expenditure and research and development. For each of these, and all relevant events and circumstances that have arisen during the relevant period are considered, alongside the interests of the Company's stakeholders and its long-term viability. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By considering the Company's purpose and values, together with its strategic priorities and having a process in place for decision-making, we do, however, aim to balance those different perspectives.

As a company operating on a small footprint the authority for day-to-day management of the company resides with the board in their primary management functions, then engage our Senior Leadership Team (SLT) and managers in setting, approving and overseeing the execution of the strategy and related policies. Management actively encourages smaller representative groups within the business deliberately decentralising and ensuring the voice of the workforce is heard where it is most effective in the business decision making process. Clarity and oversight of all action across these groups are heard at our weekly SLT meetings.

Fostering positive business relationships with key stakeholders, such as customers and suppliers, is also important to the success of the business. As a result, engagement for customers and suppliers is a matter largely delegated to the management teams of each respective area who know the stakeholders best. The board has been, and continues to be, available to support the as and when required. The Company has multiple interactions with many government bodies which are of strategic importance to the Company's long-term success, such as Department of Trade and Industry and the Bank of England. The Company specifically has regular dialogue with various bodies e.g. MAKE UK, to enable us to thrive in innovation, gain insight and expertise.

In their decision making, the Directors need to have regard to the impact of the Company's operations on the community and environment. Its success is a key contributor to the local economy, providing a vital source of employment in the city of Lincoln often employing multiple members of the same family. It strives to be an employer of choice, offering sustainable long-term employment, opportunity and development for its people. The board plays a constructive role in tackling issues through engagement and investment.

It is important for the long-term future of our business that we protect and enhance the environment. Climate change will affect how much non-renewable energy is available, and stakeholders are rightly concerned about the resilience of supplies and are looking to companies to adapt and take the necessary steps to reduce their climate change risk. We encourage our business to innovate, invest and develop new technologies to solve environmental challenges for our future generations. We are also committed to reducing our carbon footprint and contribution to climate change where economically viable.

The Board recognises that culture, values and standards are key contributors to how a company creates and sustains value over the longer term, and to enable it to maintain a reputation for high standards of business conduct. High standards of business conduct guide and assist in the Board's decision making, and in doing so, help promote the Company's success, recognising, amongst other things, the likely consequences of any decision in the long-term and wider stakeholder considerations. The standards set by the Board mandate certain requirements and behaviours with regards to the activities of the Directors and its employees.

Responsibility for the adoption of policies, practices and initiatives sits with the board, however in certain circumstance this may be delegated to an appointed expert. The Company engages an external audit firm to monitor and verify performance which is conducted in respect of both financial and non-financial performance.

On the basis of the above, the members of the board consider both individually, and together, that they have acted in a considered way, in good faith, that would be most likely to promote the success of the Company, having regard to the matters set out in section 172(1) (a)-(f) of the Companies Act 2006 when discharging their section 172 duties, in the decisions taken during the year ended 31st December 2019.

STRATEGIC REPORT (CONTINUED)

EMPLOYEE INFORMATION

Details of the number of employees and their costs can be found in Note 11 to the Financial Statements. The Company keeps employees informed on matters relevant to them as employees through regular meetings and discussions. Emphasis is placed on developing greater awareness of the financial and economic factors that affect the performance of the Company. The Company is committed to equal opportunities for all, free from discrimination and harassment. All job applicants and employees, customers, visitors, or contractors will receive equal treatment regardless of sex, race, disability, sexual orientation, religion or belief, age, marital status, trade union membership, nationality or ethnic or national origins.

Within the Company, applicants and employees will be recruited, selected, trained and promoted on objective grounds. Wherever possible the Company will assist disabled employees to enable them to work for the Company and maximise their contribution and performance.

EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 31 to the financial statements.

FUTURE PROSPECTS

The directors believe the market for high power semiconductor and power assembly products will continue to grow steadily over the medium term. The expectation is to secure an increased share of this market through the introduction of new products and a more concentrated, market led sales approach. The company continues to invest heavily in research and development activity to develop new high-power semiconductor technologies that meet market requirements and will provide the foundation for future business growth. Consequently, the directors expect the solid performance of 2019 to be steadily built upon in terms of revenue and profitability for the foreseeable future.

Further, the 100% ownership of Dynex Power Inc. the Company's immediate parent is expected to result in increased support and cooperation with CRRC Times Electric, its parent company that will lead to improved operational and financial performance and will help the Company sustain profitability. This closer cooperation is already being developed and resulted in a commitment to 100% funding of certain project costs for R&D Services and more collaboration on Power Assembly and other orders that will help increase volumes in the Lincoln facility.

Approved by the Board of Directors
and signed behalf of the Board

M A Kempton

Director

15th September 2020

DIRECTORS RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and 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 FRS101 "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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DYNEX SEMICONDUCTOR LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Dynex Semiconductor 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 for 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 account and statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 31.

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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DYNEX SEMICONDUCTOR LIMITED (CONTINUED)

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. 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.

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.

Peter Gallimore FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
Date: 15 September 2020

DYNEX SEMICONDUCTOR LTD

PROFIT & LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
TURNOVER	6,7	28,612	24,102
Cost of sales		(23,859)	(23,371)
GROSS PROFIT		4,753	731
Other operating expense		(3,859)	(4,428)
Other operating income	7	49	93
OPERATING PROFIT/(LOSS)		943	(3,604)
Profit on sale of intangible fixed assets		-	-
Loss on sale of tangible fixed assets		(33)	(17)
Other gains/(losses)	8	44	(12)
PROFIT/(LOSS) BEFORE INTEREST BEING OPERATING PROFIT/(LOSS)		954	(3,633)
Interest payable and similar expenses	9	(499)	(424)
PROFIT/(LOSS) BEFORE TAXATION	10	455	(4,057)
Tax on profit/(loss)	13	97	(1,624)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		552	(5,681)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE FINANCIAL YEAR		552	(5,681)

All results are derived from continuing operations.

DYNEX SEMICONDUCTOR LTD

BALANCE SHEET
At 31 December 2019

	Note	2019 £'000	2018 £'000
FIXED ASSETS			
Intangible assets	14	593	795
Tangible assets	15	13,522	15,503
Right of use assets	16	658	-
		14,773	16,298
CURRENT ASSETS			
Stocks	18	8,895	7,482
Debtors - amounts falling due within one year	19	8,292	10,535
Cash at bank and in hand		856	2,106
		18,043	20,123
CREDITORS: amounts falling due within one year	20	(21,095)	(24,905)
NET CURRENT LIABILITIES		(3,052)	(4,782)
TOTAL ASSETS LESS CURRENT LIABILITIES		11,721	11,516
CREDITORS: Amounts falling due after more than one year	21	(1,004)	(1,451)
PROVISIONS FOR LIABILITIES	24	(78)	(66)
NET ASSETS		10,639	9,999
CAPITAL AND RESERVES			
Called up share capital	26	15,000	15,000
Profit and loss account	27	(4,361)	(5,001)
TOTAL SHAREHOLDER'S FUNDS		10,639	9,999

These financial statements of Dynex Semiconductor Limited (company registration number: 03824626) were approved by the Board of Directors and authorised for issue on 15th September 2020.

Signed on behalf of the Board of Directors

M A Kempton,

Director

	Called up share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2018	15,000	680	15,680
Loss for the period	-	(5,681)	(5,681)
Other comprehensive income for the period	-	-	-
Total comprehensive loss for the period	-	(5,681)	(5,681)
Balance at 31 December 2018	15,000	(5,001)	9,999
Profit for the period	-	552	552
Other comprehensive income for the period	-	-	-
Total comprehensive income/(expense) for the period	-	552	552
IFRS 16 Adjustment	-	9	9
Capital Contribution	-	79	79
Balance at 31 December 2019	15,000	(4,361)	10,639

1. CORPORATE INFORMATION

Dynex Semiconductor Limited (the "Company"), a private company limited by shares, was incorporated on 13 August 1999 under the Companies Act 2006 and registered in England and Wales. The registered office of the Company is Doddington Road, Lincoln, LN6 3LF.

The Company is engaged in the design and manufacture of industrial power equipment.

The immediate parent company of the Company is Dynex Power Inc. which is established in Canada. The ultimate parent company of the Company is CRRC Corporation Limited ("CRRC Group"), which is established in The People's Republic of China. The ultimate controlling party is the Chinese State-owned Asset Supervision and Administration Commission based in Beijing in The People's Republic of China.

2. BASIS OF PREPARATION

Accounting framework

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of.comparative information in respect of certain assets, presentation of a cash-flow statement, impairment of assets, financial instruments, remuneration of key management personnel and the requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from contracts with Customers; the requirements of paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

The policies set out below were consistently applied to all periods presented except in the case of IFRS 16 Leases, where the transition provisions of IFRS 16 allow an entity not to restate comparatives. Where required, equivalent disclosures are given in the group accounts of Zhuzhou CRRC Times Electric Co, Ltd ("Zhuzhou") an intermediate holding company, which holds Dynex Power Inc, and CRRC Group. Refer note 30 where the financial statements of Zhuzhou and CRRC Group can be obtained as Dynex Power Inc financial statements are not publicly available.

Going Concern

The Company' management has judged that the accounts should be prepared on a going concern basis.

The directors have reviewed their forecasts for the next twelve months from September 2020 onwards, particularly in relation to turnover, profits and cash flow. The Company's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Company will be able to operate within the level of its current facility of £15m for at least the next twelve months from the date of the financial statements being signed. Management considered financing available to the Company, in the form of a facility from Citibank, which is guaranteed by CRRC Times Electric and was renewed in July 2020 until July 2021 and is renewed on a rolling basis. In April 2020 the facility has been increased by £4m to £15m, of which £2.5m was drawn down in July 2020, leaving £1.5m unutilised. Financing has also been available in the form of a loan from CRRC Times Electric (Hong Kong) Co., Ltd, the previous loan was repaid in full in December 2019 and in January 2020 a replacement loan was issued, this has also been repaid in full in July 2020. In considering the ability of CRRC Times Electric to provide any necessary support to the Company, the directors have reviewed Group performance and assessed their financial strength and obtained an understanding of the Group's strategic and contingent plans. A letter of support, which details the continuing commitment of the Group to ensure sufficient funding for the Company to meet its liabilities as they fall due, was received from CRRC Times Electric and hence the directors concluded that the funds necessary to finance the Company for the next twelve months would remain available. Refer to note 2 to the financial statements for further details.

As at the date of signing these financial statements, CRRC Times Electric holds significant cash deposits which could called upon if required by the Company.

2. BASIS OF PREPARATION (CONTINUED)

Historical cost convention

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16.

3. CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Company which have not been applied in these financial statements were in issue but are not yet effective:

IFRS 17 Insurance Contracts
Amendments to IFRS 9 Prepayment Features with Negative Compensation
Amendments to IAS 28 Long-term Interests in Associates and Joint Venture
Annual Improvements to IFRS Standards 2015–2017 Cycle - Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits- Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

It is expected that the impact of changes arising on the adoption of the other standards would not be material.

ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has applied the following new standard:

IFRIC 23 Uncertainty over Income Tax Treatments

It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes

IFRIC 23 is effective 1 January 2019 and does not apply to the Company.

IFRS 16 Leases

IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 4. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the modified retrospective approach. Under this method the Company has recognized the cumulative effect of adopting IFRS 16 as an adjustment to equity at the date of initial application and comparative figures are not restated.

3. CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED STANDARDS (continued)

ADOPTION OF NEW AND REVISED STANDARDS (continued)

IFRS 16 Leases (Continued)

Impact of definition of a new lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company undertook a review of all leases. This review has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting – Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS17. In applying IFRS 16 the Company has, for all leases:

a) Recognised a lease liability in the balance sheet at 1 January 2019. This is measured at the present value of the remaining lease payments discounted using the company's incremental borrowing rate (5%).

b) Recognised a right-of-use asset in the balance sheet at 1 January 2019. This is measured at an amount equal to the lease liability which is adjusted by the amount of any prepaid or accrued lease payments relating to that lease which is recognised in the balance sheet immediately before the date of initial application.

c) Recognised depreciation of right-of-use assets and interest on lease liabilities in the profit and loss account.

Under IFRS 16 right-of-use assets are tested for impairment in accordance with IAS 36.

For short term leases, those with a lease term of less than 12 months, and leases of low value assets (i.e. assets less than £1,000), the Company has elected to recognise the lease payments as an expense in the profit and loss account on a straight-line basis over the lease term as permitted by IFRS 16.

Impact on Lessee Accounting – Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW AND REVISED STANDARDS (continued)

ADOPTION OF NEW AND REVISED STANDARDS (continued)

IFRS 16 (Continued)

Financial Impact of the initial application of IFRS 16

At 1 January 2019, on transition to IFRS 16, the Company recognized an additional £772,000 of right-of-use assets and £763,000 of lease liabilities in the balance sheet. The difference of £9,000 is recognised in retained earnings on the statement of changes in equity.

In measuring lease liabilities the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 5%.

An analysis of the difference between the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate of 5%, and the lease liabilities recognized in the balance sheet at 1 January 2019 is as follows:

	1 Jan 2019
	£'000
Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	**319**
Discounted using the incremental borrowing rate at 1 January 2019	**300**
Finance lease liabilities recognised as at 31 December 2019	**104**
Extension and termination options reasonably certain to be exercised	**463**
Lease liabilities recognised at 1 January 2019	**867**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Turnover recognition

Turnover is measured at the fair value of the consideration received or receivable.

The Company recognises revenue based on the transaction price allocated to such performance obligation when a performance obligation is satisfied i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to a customer. The transaction price is based on the value agreed with the customer by means of a contact or an order acknowledgement issued in response to their purchase order. A performance obligation represents the commitment that a good and service that is distinct shall be transferred by the Company to the customer. Transaction price refers to the consideration that the Company is expected to charge due to the transfer of goods or services to the customer, but it does not include payments received on behalf of third parties and amounts that the Company expects to return to the customer.

The Company recognises turnover based on the contractual shipping terms, i.e. for Delivered at Place, they are recognised when goods are delivered, while for ex works, revenue is recognised when the goods are collected from the production facility.

When the Company collects amounts of sold goods or services in advance from the customer, the Company will firstly recognise the amounts as a liability and then transfer to revenue until satisfying relevant performance obligations.

Returns, refunds and other obligations

The Company provides a standard warranty of 12 months on products supplied. Any items returned under warranty are examined and if it is deemed to be a failure under warranty a replacement part or credit is offered. Credits are generally reflected against revenue.

Foreign currency translation

These financial statements are presented in Pounds Sterling (£). Foreign currency transactions are recorded by applying the exchange rate ruling at the date of the transaction. At the end of each accounting period monetary items are re-translated using the closing rate. All exchange gains and losses are included in other gains and losses in the profit and loss account. Non-monetary items measured in terms of historical cost are translated at the exchange rate at the date of the transaction and non-monetary items measured in terms of fair value are translated at the exchange rate at the date when the fair value was determined.

Pension costs

The Company operates a defined contribution plan in the UK. The Company's obligations under the plan are limited to the amount it agrees to contribute to the scheme. The Company recognises these contributions when incurred as employee benefits.

Research and development costs

Expenditures on research are recognised as expenses when incurred. Expenditures on development are recognised as an expense when incurred unless the criteria for recognition as an intangible asset under IAS 38 "Intangible Assets" are met. To date, no such costs have been capitalised. Expenditures for research and development equipment are recognised in tangible assets and depreciated over the useful life of the asset.

Borrowing costs

Borrowing costs relating to qualifying assets are capitalised as part of the cost of the asset. All other borrowing costs are recognised in the profit and loss account in interest payable and similar charges in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all the conditions attached to it have been complied with.

When the grant relates to an asset it is recognised in deferred income and credited to other operating income on a systematic basis over the useful life of the asset.

When the grant relates to expenditure it is deducted in reporting the related expense on a systematic basis over the periods in which the related costs for which the grant is intended to compensate are incurred.

Income taxes

Income taxes are accounted for using the liability method. Income tax expense comprises current and deferred taxes and is included in profit for the period unless it relates to items recognised outside of profit or loss, in which case it is recognised in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the accounting period.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying value of an asset or liability in the financial statements and its tax base and measured using the tax rates for the periods in which the differences are expected to reverse that have been enacted or substantively enacted by the end of the accounting period. Deferred tax assets for the benefits of tax losses, tax credits and other deductible temporary differences available to be carried forward to future years are recognised when management believes it is probable that they will be realised.

Intangible Assets

Intangible assets comprise business systems and simulation software and are recorded at cost less accumulated amortisation and accumulated impairment losses.

Amortisation begins when the asset becomes available for use and ceases when the asset is disposed of or when no future benefits are expected from its use or disposal. Amortisation is calculated using the straight-line method over the anticipated useful lives of the assets. The estimated useful life of intangible assets is 3-8 years. The amortisation is included in Other operating expense line.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

For classification and measurement of financial assets, the new standards for financial instrument require that the financial assets should be classified into three categories: "financial assets measured at amortized cost", "financial assets at fair value through other comprehensive income (FVTOCI)" and "financial assets at fair value through profit or loss (FVTPL)" based on characteristics of contractual cash flows and business models for the enterprise to manage these assets. The Company measures its financial assets at amortised cost.

For impairment of financial assets, the new standards for financial instruments on impairment are applicable to financial assets measured at amortised cost and at FVTOCI, lease receivables, contract assets, etc. The new standards for financial instruments require adoption of the expected credit losses model to replace the original credit-impaired model. The new impairment model requires the credit loss allowance be made based on the expected credit losses within 12 months or during the whole life according to whether the credit risks of relevant items have been significantly increased since initial recognition. If the trade receivables, contract assets and lease receivables have a simplified method, it is allowed to recognise impairment allowances for the expected credit losses during the whole life.

The Company does not apply Hedge accounting.

Credit risk

The Company measures loss provision based on the amount equal to the lifetime ECL for all the contractual assets and trade receivables arising from the transactions under revenue standards. In assessing whether the credit risk has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

(1) Whether internal price indicator resulted from change in credit risk has changed significantly;

(2) If the existing financial instruments are derived into or issued as new financial instruments at the balance sheet date, whether interest rates or other terms of the above financial instruments have changed significantly (including harsher contractual terms, increase in collaterals or higher yield rate etc.);

(3) Whether external credit rating of the financial instrument has actually changed significantly or is expected to change significantly;

(4) Whether expected detrimental changes in business, financial and economic conditions of the borrower which will affect borrower's ability to perform repayment obligation have changed significantly;

(5) Whether the actual or expected operating results of the borrower have changed significantly;

(6) Whether credit risk of other financial instruments issued by the same borrower has increased significantly;

(7) Whether supervisory, economic or technical environment for the borrower has significant detrimental changes;

(8) Whether the economic motive that will lower the borrower's repayment based on contractual stipulation has changed significantly;

(9) Whether the borrower's expected performance and repayment activities have changed significantly;

(10) Whether the contract payment is overdue.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Credit risk (continued)

The Company determined that credit risk of trade receivables has not increased significantly since initial recognition based on past experience of write off of bad debts and is exposed to a lower credit risk. Trade receivables are regarded to have relatively low credit risk provided that:

1) the financial instrument has low default risk,

2) the borrower has strong ability to perform its contractual cash flow obligation within a short term, and

3) it may not reduce the ability of the borrower to perform its contractual cash obligation even though the economic situation and operating environment are changed adversely within a relatively long term.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

The Company determined that credit risk of trade receivables has not increased significantly since initial recognition based on past experience of write off of bad debts and is exposed to a lower credit risk. Trade receivables are regarded to have relatively low credit risk provided that:

1) the financial instrument has low default risk,

2) the borrower has strong ability to perform its contractual cash flow obligation within a short term, and
(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) Whether the contract payment is overdue significantly

Expected credit loss:

As part of the Company's credit risk management, the Company evaluates the expected credit losses of trade receivables using ageing information to indicate repayment risks and also assess the ability of customers to pay as payments fall due. The Company uses this data and prior experience to determine bad debt provisions required.

Recognition and de-recognition

Financial assets are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the asset have expired. Financial liabilities are recognised on the trade date. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

Guarantees

At the present time, the Company does not have any financial guarantee contracts or financial liabilities designated upon initial recognition as at fair value through profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tangible Assets

Tangible assets are recorded at cost less accumulated depreciation and accumulated impairment losses.

Depreciation begins when the asset becomes available for use and ceases when the asset is disposed of or when no future benefits are expected from its use or disposal.

Depreciation is calculated using the straight-line method over the anticipated useful lives of the assets. The estimated useful lives are as follows:

Freehold buildings	40 years
Plant & machinery	2-25 years

When parts of a tangible asset have different useful lives, they are accounted for as separate items (major components) of tangible assets.

Impairment of Intangible, Tangible and Right-of-use Assets

The carrying amounts of intangible, tangible and right-of-use assets are reviewed at the end of each accounting period to determine whether there is any indication those assets may be impaired. Where an indication of impairment exists, the asset's recoverable amount is estimated.

The asset's recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Recoverable amount is determined for an individual asset unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, in which case it is determined for the cash generating unit to which the asset belongs.

An impairment loss is only recognised if the recoverable amount of an asset is less than its carrying value and is charged to profit and loss in the period in which it arises. To date, no such impairment losses have been recognised.

Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

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

Lease liabilities due within one year are included within Creditors: amounts falling due within one year and lease liabilities due after more than one year are included within Creditors: amounts falling due after more than one year on the balance sheet and the amounts are disclosed separately in the related notes.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Right-of-use assets are presented as a separate line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Tangible Assets' policy.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stocks

Stocks are valued at the lower of cost and net realisable value using the weighted average cost formula. Raw materials are valued at their purchase cost. Work in progress and finished goods are valued using the standard cost of direct materials and labour plus allocated overheads. Standard costs take into account normal levels of materials, labour, efficiency and capacity utilisation and are reviewed regularly. Purchase price and other variances are expensed as they arise.

The Company's management reviews the condition of stocks at the end of each accounting period and recognises a provision for slow-moving and obsolete items of stock when they are no longer suitable for use or sale. Net realisable value is estimated based on the selling price less any costs to completion and disposal costs.

Cash

Cash comprises cash on hand and demand deposits.

Financial instruments

Debtors are classified as loans and receivables; that is non-derivative financial assets with fixed or determinable payments that are not quoted on any active market.

When initially recognised, debtors are measured at fair value. As these assets are all short-term with no stated interest rate they are valued at the original invoice amounts less payments received rather than being discounted. Fair value approximates amortised cost.

Financial assets are assessed at the end of each accounting period to determine whether there is any objective evidence of impairment. Where such evidence exists, a provision is made for the loss in value and charged in the profit and loss account to other operating expense.

Financial assets are recognised on the trade date. Financial assets are derecognised when the rights to receive cash flows from the asset have expired.

At the present time, the Company does not have any financial assets classified as held for trading, available for sale or held to maturity. The Company has not designated any financial assets upon initial recognition at fair value through profit or loss.

Creditors are all classified as other liabilities; that is non-derivative financial liabilities with fixed or determinable payments that are not quoted on any active market.

When initially recognised, creditors are measured at fair value. When these liabilities are short-term liabilities with no stated interest rate they continue to be to be valued at the original invoice amounts less amounts paid. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at proceeds received less payments made. Any gains or losses are credited or charged in the profit and loss account to interest payable and similar charges.

Financial liabilities are recognised on the trade date. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each accounting period and adjusted to reflect the current best estimate of the expected future cash flows.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the Company's management to make judgements and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the accounting period presented. However, actual results could differ from the estimates made by management requiring a material adjustment to the carrying values of assets and liabilities in the future.

Following are the key critical judgements:

Capitalisation of development costs

The Company carries out significant research and development work. Research activities generally relate to background work that seeks to give the Company a better understanding of how semiconductor performance, applications and robustness can be improved. Under IFRS, research costs cannot be capitalised and so costs relating to research activities are always expensed. Development activities relate to the design and development or improvement of the Company's products and so can be considered for capitalisation. To date, the Company's design and development work has enabled the Company to remain competitive but has not generated an intangible asset with a definable economic benefit and so, to date, no such costs have been capitalised.

There are no key sources of estimation uncertainty at the end of the reporting period.

6. TURNOVER BY BUSINESS CLASS

For management purposes the Company's activities are attributable to a single business class, engaged in the design and manufacture of industrial power equipment. Consequently, the Company does not present any business class information.

Major customers

For the year ended 31 December 2019, the Company had one customer accounting for more than 10% of revenue, generating £12,746,034 (CRRC Group). (2018 – one customer accounting for more than 10% of revenue, generating £9,987,657 (CRRC Group).

7. TURNOVER AND OTHER OPERATING INCOME

Turnover by geographic market

The location of the customer determines the geographic market for revenue.

	2019	2018
	£'000	£'000
United Kingdom	**3,190**	2,788
China	**8,730**	7,330
France	**3,752**	3,091
USA	**2,797**	852
Other (None > 10%)	**10,143**	10,041
	28,612	24,102

Analysis of turnover

An analysis of the Company's turnover and other operating income is as follows:

	2019	2018
Revenue:	**£'000**	£'000
Sale of goods	**22,121**	19,472
Rendering of services	**6,491**	4,630
	28,612	24,102
Other operating income:		
Insurance Claim	**19**	-
Legal Claim	**-**	50
Sale of scrap materials	**25**	37
Other income	**5**	6
	49	93

8. OTHER GAINS AND LOSSES

An analysis of the Company's other gains and losses is as follows:

	2019	2018
	£'000	£'000
Foreign exchange gain/(loss)	**44**	(12)

9. INTEREST PAYABLE AND SIMILAR EXPENSES

An analysis of interest payable and similar expenses is as follows:

	2019	2018
	£'000	£'000
Interest on bank borrowings	**320**	289
Interest on other borrowings	**131**	132
Interest on finance leases	**48**	3
	499	424

Interest on other borrowings includes £120,000 (2018 - £122,000) relating to interest on loans from related parties.

10. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Cost of inventories sold	**20,488**	18,623
Staff costs (including director's remuneration)	**12,379**	12,457
Operating lease rentals	**-**	302
Foreign exchange differences (net)	**(44)**	12
Amortisation of intangible assets:		
owned assets	**238**	245
leased assets	**-**	5
Depreciation of items of property, plant and equipment:		
owned assets	**2,493**	2,666
leased assets	**-**	7
Depreciation of right-of-use assets	**305**	-
Research and development expenses (before government grants and contribution from CRRC	**4,287**	5,761
Contribution from CRRC Times Electric	**(3,521)**	(3,694)
Government grants:		
Research and development	**(124)**	(642)
Research and development tax credit	**(501)**	(400)
Fees payable to the Company's auditors:		
For audit services	**138**	73
For other audit related services	**8**	5
For tax compliance services	**13**	14
For other tax services	**16**	24
Total for all non audit services	**29**	38
Provision for obsolete inventories	**287**	214

Fees paid to the Company's auditor for audit services are in relation to the audit of the financial statements, including £13k in respect of 2018.
Fees paid to the Company's auditor for other audit related services are in relation to R&D Grant audits. Fees paid to the Company's auditor for other tax services are in relation to R&D claim audits.

The contribution from CRRC Times Electric is towards R&D expenses.

11. STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2019	2018
	No.	No.
Production	209	219
Sales & distribution	24	24
Research & development	53	65
Administration	27	28
Management	4	6
	317	342

Their aggregate remuneration comprised:

	2019	2018
	£'000	£'000
Wages and salaries	10,816	10,961
Social security costs	1,103	1,113
Pension costs	460	383
	12,379	12,457

12. DIRECTORS' REMUNERATION

Details of directors' emoluments and the highest paid director are as follows:

	2019	2018
	£'000	£'000
Directors' emoluments		
Emoluments	888	759
Pension contributions to money purchase schemes	41	28
Loss of office compensation	-	5
	929	792

	2019	2018
	£'000	£'000
Highest paid director		
Emoluments	447	313
Pension contributions to money purchase schemes	23	12
	470	325

Contributions are made by the Company to a money purchase pension scheme for six directors (2018: five) and to a defined benefit scheme in respect of nil directors (2018: nil).

In 2019 one of the directors' remuneration (2018: none) are borne by other companies in the group, and the rest are remunerated by the Company.

For the directors who resigned during the year, there was no compensation payment made or due.

13. TAX ON PROFIT/(LOSS)

The tax (recovery)/charge comprises:

	2019	2018
	£'000	£'000
UK corporation tax	**63**	76
Deferred tax - current year tax charge	**(160)**	1,548
Total tax on profit/(loss)	**(97)**	1,624

The charge for the year can be reconciled to the loss in the profit and loss account as follows:

	2019	2018
Profit/(loss) before tax	**455**	(4,057)
Tax on profit/(loss) at UK corporation tax rate of 19% (2018: 19%)	**87**	(771)
Factors affecting charge:		
Expenses for which tax relief not available	**24**	9
Income not subject to tax	**-**	(13)
Reduction in tax rates	**(9)**	(93)
Unused tax losses and tax offsets not recognised as deferred tax assets	**(220)**	2,492
Over provision at start of year	**21**	-
Total income tax (recovery)/charge	**(97)**	1,624

The Finance (No 2) Act 2015 reduced the standard rate of corporation tax from its current level of 19% to 18% from April 2020. In September 2016, the Government enacted the Finance Act 2016, which further reduces the standard rate of corporation tax to 17% from April 2020. As these changes had been substantively enacted at the balance sheet date, the deferred tax assets and liabilities included in these financial statements have been calculated using these rates based on when the temporary differences are expected to reverse. The Finance Act 2019, which received Royal Assent in February 2019, has no impact on these financial statements.

In the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will now not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at 17%. The estimated impact of the rate change is an increase in the carry value of the deferred tax liability of £74,000.

14. INTANGIBLE ASSETS

	2019	2018
	£'000	£'000
Cost		
At 1 January	**1,439**	1,263
Additions	**120**	179
Reclassification	**(61)**	-
Disposals	**(97)**	(3)
At 31 December	**1,401**	1,439
Amortisation		
At 1 January	**644**	394
Charge for the year	**238**	250
Reclassification	**(5)**	-
Eliminated on disposal	**(69)**	-
At 31 December	**808**	644
Carrying value at 31 December	**593**	795
Leased Assets included above at 31 December	**-**	56

Intangible assets relate to software.

On 1 January 2019 the Company reclassified leased assets included in intangibles with a net book value of £56,000 as right-of-use assets under the transitional arrangements of IFRS 16. Comparative figures were not restated.

15. TANGIBLE ASSETS

	Freehold Land £'000	Freehold Buildings £'000	Plant & Machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2018	1,761	2,924	31,942	340	36,967
Additions	-	-	454	458	912
Reclassifications	-	-	425	(425)	-
Disposals	-	-	(36)	-	(36)
At 31 December 2018	1,761	2,924	32,785	373	37,843
Additions	-	-	129	445	574
Reclassifications	-	-	454	(516)	(62)
Disposals	-	-	(177)	-	(177)
At 31 December 2019	**1,761**	**2,924**	**33,191**	**302**	**38,178**
Depreciation					
At 1 January 2018	-	446	19,240	-	19,686
Charge for the year	-	73	2,600	-	2,673
Eliminated on disposal	-	-	(19)	-	(19)
At 31 December 2018	-	519	21,821	-	22,340
Charge for the year	-	73	2,420	-	2,493
Reclassifications	-	-	(5)	-	(5)
Eliminated on disposal	-	-	(172)	-	(172)
At 31 December 2019	**-**	**592**	**24,064**	**-**	**24,656**
Net Book Value					
At 31 December 2019	**1,761**	**2,332**	**9,127**	**302**	**13,522**
At 31 December 2018	1,761	2,405	10,964	373	15,503
Leased Assets included above:					
At 31 December, 2019	**-**	**-**	**-**	**-**	**-**
At 31 December, 2018	-	-	57	-	57

On 1 January 2019 the Company reclassified leased assets included in tangible assets with a net book value of £57,000 as right-of-use assets under the transitional arrangements of IFRS 16. Comparative figures were not restated.

16. RIGHT-OF-USE ASSETS

	Buildings £'000	Plant & Machinery £'000	Software £'000	Total £'000
Cost				
At 1 January 2018 and 31 December 2018	-	-	-	-
IFRS16 Adjustment	89	683	-	772
Reclassifications under IFRS16	-	62	61	123
At 1 January 2019	89	745	61	895
Additions	-	78	-	78
Disposals	-	(25)	-	(25)
At 31 December 2019	**89**	**798**	**61**	**948**
Depreciation				
At 1 January 2018 and 31 December 2018	-	-	-	-
Reclassifications under IFRS16	-	5	5	10
At 1 January 2019	-	5	5	10
Charge for the year	44	241	20	305
Eliminated on disposal	-	(25)	-	(25)
At 31 December 2019	**44**	**221**	**25**	**290**
Net Book Value				
At 31 December 2019	**45**	**577**	**36**	**658**
At 31 December 2018	-	-	-	-

17. CAPITAL COMMITMENTS

Capital commitments are as follows:

	2019 £'000	2018 £'000
Contracted but not provided for:		
Intangible assets	**550**	1
Tangible assets	**182**	102
	732	103

18. STOCKS

	2019	2018
	£'000	£'000
Raw materials	2,825	2,399
Work in progress	4,393	3,487
Finished goods	1,677	1,596
	8,895	7,482

At 31 December 2019 the carrying value of inventories valued at fair value less costs to sell is £665,000 (2018 - £299,000)

19. DEBTORS

	2019	2018
Due within one year	£'000	£'000
Trade debtors	2,144	2,857
Amounts owed by group undertakings	4,304	6,196
VAT	439	506
Other debtors	969	631
Prepayments	436	345
	8,292	10,535

Amounts owed by group undertakings are in the normal course of business and are trading balances payable on demand with the exception of its immediate parent. The amounts due from group undertakings include £706,000 (2018: £292,000) due from its immediate parent which is in relation to recoverable expenses.

The Company's maximum exposure to credit risk in relation to trade receivables is equal to the carrying value of trade receivables. The Company does not hold any collateral or other credit enhancements as security over these balances. The majority of the Company's trade receivables are due from customers with whom the Company has had a business relationship for many years. As part of the Company's credit risk management, the Company evaluates the expected credit losses of trade receivables using ageing information to indicate repayment risks and also assess the ability of customers to pay as payments fall due. The Company uses this data and prior experience to determine bad debt provisions required.

Other debtors consist of accrued income for R&D tax credits and grants.

20. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£'000	£'000
Bank loans and overdrafts	11,000	11,000
Amounts borrowed from group undertakings	-	2,400
Lease liabilities	291	40
Other loans	-	53
Trade creditors	1,578	1,832
Amounts owed to group undertakings	4,514	5,798
Other taxation and social security	280	321
Other creditors	3	45
Accruals	1,943	1,229
Deferred income	1,408	2,119
Defined contribution pension scheme accrual	78	68
	21,095	24,905

Deferred income includes £795,000 (2018 - £2,112,000) in respect of related party balances.

Amounts owed to group undertakings namely our intermediate parent are in the normal course of business and are trading balances payable on demand.

The total amount (included in less than one year and more than one year) borrowed from group undertakings is an unsecured loan from a fellow subsidiary of CRRC Times Electric for £nil (2018 - £3.0 million). The loan was repaid in full on 30 December 2019. Interest accrued of £651,000 (2018: £531,000) is included within Accruals.

21. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019	2018
	£'000	£'000
Amounts borrowed from group undertakings	-	600
Lease liabilities	377	64
Deferred tax liability (Note 25)	627	787
	1,004	1,451

22. BORROWINGS

Borrowings are repayable as follows:

		2019	2018
		£'000	£'000
Bank loans and overdrafts:			
On demand or within one year	(i)	11,000	11,000
		11,000	11,000
Amounts borrowed from group undertakings			
Between one and two years	(iii)	-	600
		-	600
On demand or within one year	(iii)	-	2,400
		-	3,000
Lease liabilities			
Between one and two years		370	42
Between two and five years		7	22
		377	64
On demand or within one year		291	40
	(ii)	668	104
Other Loans			
On demand or within one year	(iv)	-	53
		-	53
Total borrowings			
Between one and two years		370	622
Between two and five years		7	22
		377	644
On demand or within one year		11,291	13,493
		11,668	14,137

22. BORROWINGS (CONTINUED)

(i) The Company has a bank loan of £11.0 million (2018 - £11.0 million) under an uncommitted revolving loan facility, which in April 2020 was increased to £15m. The repayment date and the interest on drawings under the facility are set at the time each drawing is made and varies depending on the length of the drawing. The rate on drawings at the end of 2019 was 2.7% (2018 – 2.7%). The facility matures in July 2021. Renewals occur on a rolling basis. The facility is guaranteed by CRRC Times Electric, the immediate parent company of Dynex Power Inc for a period of one year from 23 July 2020 and is renewed on an annual basis. CRRC Times Electric has also confirmed to continue to guarantee the loan facility as long as the Company requires this.

(ii) Included in lease liabilities are leases which are secured by the equipment leased which has a carrying value of £95,000 (2018 - £113,000).

(iii) The Company had an unsecured loan from a fellow subsidiary of CRRC Times Electric for £nil (2018 - £3.0 million, 4% interest rate). The loan was repaid in December 2019 and a new loan for £2.5million was availed in January 2020 bearing interest of 2.9% to be paid annually, subsequently repaid in July 2020.

(iv) The Company has an unsecured interest free loan from an unrelated party for £nil (2018 - £53,000). The loan was repaid in November 2019.

23. LEASE LIABILITIES

The Company has rental agreements for certain items of equipment. This includes a nitrogen generation plant which has been rented since 2006. The plant is subject to 12 months' notice before removal and there are no current plans to give notice. In determining the lease term over which the lease liability is recognised the Company considers it is reasonably certain the lease will continue until the end of 2022.

Other items leased include production equipment, motor vehicles, IT equipment and software, and temporary buildings.

The maturity analysis of lease liabilities is provided in note 22.

The total cash outflow for leases is £334,000 (2018: £9,000)

The amounts recognised in profit or loss for leases are as follows:

	2019	2018
	£'000	£'000
Depreciation expense on right-of-use assets:		
Buildings	**44**	-
Plant & machinery	**241**	7
Software	**20**	5
Interest expense on lease liabilities	**48**	3
Expense relating to short term leases	**2**	9
Operating lease rentals	-	302

The average lease term is 46 months. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Company's obligations under leases which transfer ownership of the underlying asset to the Company are secured by the lessor's rights over the leased assets. Details of the amounts secured are provided in note 22.

24. PROVISIONS

The movements in provisions are as follows:

	Restructuring costs £'000	Warranties £'000	Removal of equipment £'000	Other Provisions £'000	Total £'000
At 1 January 2018	68	34	30	-	132
Charged to profit and loss	114	-	-	2	116
Utilisation of provision	(182)	-	-	-	(182)
At 31 December 2018	-	34	30	2	66
Charged to profit and loss	-	14	-	(2)	12
Utilisation of provision	-	-	-	-	-
At 31 December 2019	**-**	**48**	**30**	**-**	**78**

The Company generally provides a one-year warranty to customers on products under which faulty goods are repaired or replaced. The amount of the provision is based on past levels of repairs and returns.

The Company has contractual obligations for the removal of certain items of equipment from the Company's site in Lincoln, England. The provision is based on the contractual obligations. The timing of these outflows is uncertain as the Company has no clear plans to remove these items of equipment.

The Restructuring cost related to the loss of office of a Director. These provisions were fully utilised in 2018.

Other provisions consist of amounts in respect of employment matters.

25. DEFERRED TAX (LIABILITY)/ASSET

An analysis of the movement in deferred tax (liabilities)/assets is as follows:

	Property, plant and equipment £'000	Inventories £'000	Unused tax losses £'000	Other temporary differences £'000	Total £'000
At 1 January 2018	(1,110)	47	1,583	241	761
Recognised in profit or loss	312	(47)	(1,583)	(230)	(1,548)
At 31 December 2018	(798)	-	-	11	(787)
Recognised in profit or loss	161	-	-	(1)	160
At 31 December 2019	**(637)**	**-**	**-**	**10**	**(627)**

The Company has unused tax losses in the UK of £9.6 million (2018 - £11.5 million), unused R&D tax credit of £342,000 (2018: £273,000) and deferred tax on stock provision £43,000 (2018: £43,000) which are available to carry forward and have no expiry date, for which it ceased to recognize a deferred tax asset in 2018, as it is not considered probable of recovery in the foreseeable future.

26. CALLED UP SHARE CAPITAL

The Company's authorised share capital is as follows:

	2019 £'000	2018 £'000
Authorised	**15,000**	15,000
Allotted, called up and fully paid		
15,000,000 shares of £1 each	**15,000**	15,000

The Company has no issued and outstanding preferred shares.

27. PROFIT AND LOSS ACCOUNT

	2019 £'000	2018 £'000
At 1 January	(5,001)	680
Net profit/(loss) for the year	552	(5,681)
IFRS 16 Adjustment	9	-
Capital Contribution	79	-
At 31 December	(4,361)	(5,001)

The contribution was in lieu of the assets transferred to TEIC, another subsidiary of CRRC.

28. PENSIONS

The Company incurred expenses of £460,000 (2018 - £383,000) with respect to the defined contribution pension plan. At 31 December 2019, £78,000 was outstanding to the pension plan (2018 - £68,000) and is included in Creditors –amounts falling due within one year. This amount was paid in January 2020.

29. RELATED PARTY BALANCES

The Company's management regards the directors, senior managers of Dynex Semiconductor Limited and their immediate families, Dynex Power Inc., the members of the board of directors of Dynex Power Inc. and their immediate families, Dynex Power's immediate parent company, Zhuzhou CRRC Times Electric Co., Ltd, its directors and their immediate families and CRRC Corporation and all of its affiliates as related parties.

The Company had the following material transactions and balances with related parties.

29. RELATED PARTY BALANCES (CONTINUED)

		2019	2018
		£'000	£'000
Transactions with CRRC Times Electric:			
Sale of goods	(i) (ii)	**1,402**	3,047
Rendering of services	(iii)	**4,670**	1,988
Amounts in respect of jointly funded research and development activity which is accounted for as a reduction in research and development expenses	(iii)	**3,521**	3,694
Reimbursed expenses	(iv)	**3**	4
Purchases of materials and components	(i) (v)	**2,949**	2,940
Capital contribution	(vi)	**79**	-
Transactions with CRRC Corporation Ltd:			
Rendering of services	(vii)	**85**	83
Transactions with fellow group subsidiaries:			
Sale of goods	(viii) (ix)	**5,141**	2,839
Rendering of services	(x) (xi)	**1,448**	2,031
Interest expense	(xii)	**120**	122
Reimbursed expenses	(xiii)	**272**	3
Balances with Dynex Power Inc:			
Amounts owed by group undertakings	(xiv)	**706**	292
Balances with CRRC Times Electric:			
Amounts owed by group undertakings	(i) - (iv)	**2,651**	3,092
Amounts owed to group undertakings	(i) (v)	**4,514**	5,798
Deferred income	(iii)	**795**	1,786
Balances with fellow group subsidiaries:			
Amounts borrowed by group undertakings	(xii)	**-**	3,000
Amounts owed by group undertakings	(viii)-(x)	**947**	2,812
Accruals	(xii)	**651**	531

(i) CRRC Times Electric is the Company's main distributor for high power semiconductors in The People's Republic of China and the Company is CRRC Times Electric's main distributor for high power semiconductors in Europe and parts of Asia. The parts are sold to the distributor at the market price less a discount to cover the cost of the work carried out by the party handling the distribution.

(ii) CRRC Times Electric uses the Company to buy certain raw materials and to provide IGBT die and module products for its own use and to construct certain pieces of equipment for use in its IGBT assembly and test facility in Zhuzhou, China.

29. RELATED PARTY BALANCES (CONTINUED)

(iii) On April 4th, 2017 the Company signed a new agreement with CRRC Times Electric to provide technical support to CRRC Times Electric for its 8-inch wafer fabrication facility in China and to share the costs of carrying out research and development projects for high power semiconductor devices at the Company's premises in Lincoln, England. Under the new agreement it was estimated that the costs for the technical support would be £7.2 million and the total costs of the joint research and development, of which TEG would contribute 80% of the costs and the Company will contribute 20%, would be £17.2 million over a three-year period commencing January 2017. CRRC Times Electric paid £1.8 million in advance being 25% of its estimated contribution for 2019. From 1 January 2019 TEG agreed to increase its contribution to the joint costs of research and development costs from 80% to 100%.

(iv) From time to time the Company pays incidental expenses in the UK on behalf of CRRC Times Electric. These costs are reimbursed in full.

(v) The Company uses CRRC Times Electric to make purchases of materials and components for it in China.

(vi) In December 2019 the Company received a capital contribution from CRRC Times Electric.

(vii) The Company provides management training courses to CRRC Corporation Limited.

(viii) In 2011 the Company appointed Times Electric USA LLC, a fellow subsidiary of CRRC Times Electric, to act as the Company's main distributor for high power semiconductors in North, Central and South America.

(ix) CRRC (Hong Kong) Co., Ltd, a subsidiary of CRRC Group, purchases IGBT die from the Company.

(x) On October 18th, 2017 the Company signed an agreement with Zhuzhou CRRC Times Electric UK Innovation Center ("TEIC"), a branch of CRRC Times Electric, to provide technical support for its automotive assemblies' development project at the Company's premises in Lincoln, England. Under the agreement it was estimated that the costs for the project would be £2.1 million over a 12-month period commencing January 2018. This agreement was renewed in 2019 for an eight-month period with estimated project costs of £1.4m, 25% payable in advance.

(xi) In 2018 the Company provided administrative and technical support to TEIC in preparations for the transfer of its automotive assemblies' development project from the Company to the new branch. This transfer took place in 2019. The Company continues to provide support to TEIC.

(xii) On 13 August 2015 the Company was provided with a loan for £6 million by CRRC Times Electric (Hong Kong) Co., Ltd, a fellow subsidiary of CRRC Times Electric, which bears interest at 4% per annum and is repayable in 10 biannual instalments between December 2015 and June 2020. The loan was repaid in full on 30 December 2019. Accrued interest on this loan is reported as part of Accruals.

(xiii) The Company incurred costs on behalf of CRRC Times Electric in respect of their other UK subsidiary Soil Machine Dynamics Ltd. The Group reimbursed these costs in full.

(xiv) The balance represents amounts paid by the Company on behalf of Dynex Power Inc, its immediate parent.

Advances to and from the parent company are recorded at amortised cost. All amounts due to and from related parties are recorded as current liabilities and current assets since they are due upon demand or on the basis of normal creditor terms apart from the loan from CRRC Times Electric (Hong Kong) Co., Ltd, of which £nil (2018 - £2.4 million) is recorded in current liabilities and £nil (2018 - £0.6 million) is recorded in non-current liabilities.

30. CONTROLLING PARTY

In the opinion of the directors, the Company's ultimate parent company is CRRC Corporation, a company incorporated in The People's Republic of China. CRRC Corporation is the parent company of the largest group that prepares group accounts which includes the Company. The smallest group which prepares group accounts that include the Company is Zhuzhou CRRC Times Electric Co, Ltd ("Zhuzhou") an intermediate holding company, which holds Dynex Power Inc, incorporated in The People's Republic of China with a registered office at Shidai Road,Shifeng District,Zhuzhou,Hunan, China . Copies of Zhuzhou and CRRC Corporation financial statements are available from The Company Secretary, Dynex Semiconductor Limited, Doddington Road, Lincoln LN6 3LF, UK. The registered office of Dynex Power Inc is 515 Legget Drive, Suite 800, Kanata, Ontario, K2K 3G4. The registered office of CRRC Corporation is No 16-5 Xisihuan Zhonglu, Haidan District, Beijing 100038, China.

The Company's ultimate controlling party is the State-owned Asset Supervision and Administration Commission of The People's Republic of China based in Beijing.

31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2020, the Company signed a new short-term loan agreement with CRRC Times Electric (Hong Kong) Co., Ltd for £2.5m repayable in November 2020.

Following on from the sub-station and HV switchgear replacement in December 2019, in March 2020, the Company awarded the contract for a Combined, Heat and Power (CHP) solution to reduce grid demand and significantly reduce the long-term costs of power generation. The total cost of the project including boiler upgrades is £1.5m.

In April 2020, following board approval from CRRC Corporation an amendment to the Facility Agreement with Citibank was signed by the Company and Citibank increasing the facility to £15m. The revised agreement was registered in the CRRC SAFE process during July and funds were immediately available for drawdown. The Company plans to utilize the additional £4m to consolidate debt and for critical capital expenditure, and has already utilised £2.5m, repaying the aforementioned CRRC Times Electric (Hong Kong) Co., Ltd loan early and in full.

With the unprecedented magnitude and duration of the global COVID-19 pandemic in 2020, economies are experiencing conditions often associated with a significant economic downturn. These circumstances are highly dependent on variables beyond the Company's control and that are difficult to predict.

On 1st July 2020, the Company also announced that due to the economic impact COVID-19 has had on the business that the projected sales for 2020 is insufficient to support the current cost base and regrettably would be making up to 40 jobs redundant, to ensure sustainability in the short and long-term.

Amongst others, the uncertainties that may impact on the below balance sheet items in the future reporting periods:

- Impairment of intangible, tangible and right of use assets (notes 14,15 and 16)
- Provisioning of stock (note 18)
- Recoverability of Trade and Other receivables (note 19)
- Provisions (note 24)

It is not currently possible to make a quantified estimate of this potential impact.