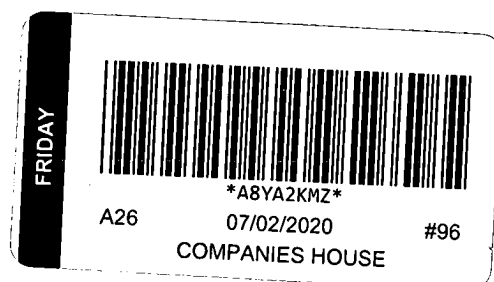


**KEY TECHNOLOGIES LIMITED**

**DIRECTORS' REPORT AND CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2019**



# KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

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**COMPANY INFORMATION**

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**DIRECTORS**

J D Grove  
S L Grove  
K Hilton  
L R Litwinowicz  
C G Rowe  
T Middleton

**COMPANY NUMBER**

06515775

**COMPANY SECRETARY**

K Hilton

**REGISTERED OFFICE**

5 The Courtyard  
Timothy's Bridge Road  
Stratford Upon Avon  
Warwickshire  
CV37 9NP

**AUDITOR**

Mazars LLP  
45 Church Street  
Birmingham  
B3 2RT

**BANKERS**

Barclays Bank Plc  
Barclays Business Centre  
15 Colmore Row  
Birmingham  
B3 2BH

**SOLICITORS**

Gateley Plc  
One Eleven  
Edmund Street  
Birmingham  
B3 2HJ

STRATEGIC REPORT

The directors present their Strategic Report of the group for the year ended 30 June 2019.

**PRINCIPAL ACTIVITIES**

The principal activity of Key Technologies Limited is that of a holding company to the following group of companies;

- STS Defence Limited, whose principal activities involve the development of technology and engineering solutions, specialising in mission-critical communications, electronics and intelligent systems across the defence, marine, aerospace and nuclear sectors. Capabilities include the research, design and manufacture of high reliability electronic and electro-mechanical products and equipment as well as the installation and integration of systems, including through-life logistics support and training;
- Primetake Limited, whose principal activities involve the design and manufacture of ammunition and explosive devices for specialised applications for the defence and homeland security markets;
- S R Antenna Limited, a dormant company; and
- STS International Limited, a dormant company.

**BUSINESS REVIEW**

The Group delivered a solid performance in the twelve months to 30 June 2019 and the financial results for the year are satisfactory. Overall revenues were higher than the previous year at £21.881m (2018: £19.472m) with underlying operating profit increasing by 29.2% to £2.382m (2018: £1.843m) reflecting the investments made in recent years to improve operational performance across the businesses.

A positive cash flow from operating activities of £1.529m (2018: £0.776m) was generated for the year and the Group continues to operate well within its banking facilities with headroom of £1.9m (2018: £2.2m) as at the year end.

Investments in research, product development, safety, machinery & equipment and enhancing our capabilities continue to yield benefits and improvements in operational performance. Investments in these areas will continue and are fundamental to the future success of the business in the medium to long term in order to mitigate the risk posed by competitive pressures from around the world.

The Group enters the new financial year with an increased order book and a stronger pipeline of opportunities than at this time last year which gives the Directors confidence the Group is well positioned to show further progress in 2019.

The directors recognise the challenges the Company will face due to Brexit and are continuously analysing the scenarios and putting in place all the necessary measures to make sure the Company does not incur any major impact after Brexit. The Directors have reasonable expectation that Brexit will not have any major impact on the Business.

**FINANCIAL KEY PERFORMANCE INDICATORS**

The Group uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the key financial KPI's are:

	2019	2018
Revenue	£21.881m	£19.472m
Gross profit %	35.3%	34.0%
Underlying operating profit	£2.460m	£1.975m

Underlying operating profit comprises operating profit adjusted to remove the impact of exceptional items and other income.

# KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

## STRATEGIC REPORT

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### PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties that can impact the performance of the Group, some of which are beyond the control of Key Technologies and its Board. The Group's businesses closely monitor market trends and risks on an on-going basis. These trends and risks are the focus of monthly management meetings where each business unit's performance is assessed versus budget, forecast and prior year, key performance indicators are also used to benchmark operational performance. Such meetings are rotated around the different locations of each business and at least two executive directors are present. An annual assessment of trends and risks is also an integral part of each business's annual review of its strategic plan and budget, which are submitted to the Group Board for consideration and approval. A combination of all of this, in what is a bottom up and top down approach, enables the Board to determine and assess the Group's risk environment.

The principal risks and uncertainties facing the Group are outlined below:

#### *Market conditions*

The Group's products are targeted at principally the defence, aerospace and homeland security markets. As a result demand is dependent on activity levels in these respective markets, which vary by geographical area and are subject to the usual drivers of activity (i.e. general economic conditions and volatility, interest rates, business/consumer confidence levels, unemployment, population growth, etc.). While our markets are inherently cyclical, regulations continue to act positively on the underlying demand for many of the Group's products.

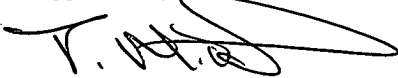
#### *Input prices and availability*

The Group's operating performance is impacted by the pricing and availability of its key inputs, which include electrical components, cartridges and chemical compounds. The pricing of such inputs can be quite volatile at times due to supply and demand dynamics and the input costs of the supply base. The Group manages the effect of such movements through its procurement process, long-term relationships with suppliers, economic purchasing, multiple suppliers and inventory management. The Group continually mitigates risk by avoiding over-reliance on a single supplier and by developing in house capability.

#### *Research & development and quality control*

Innovation is fundamental to the ethos of the Group and underpins its competitive advantage. With the support of external audits, quality control systems are reviewed and improved on an on-going basis to ensure each business is addressing the control environment around product and process development and the formal sign off from development to production. New products also go through a qualification process in line with recognised military standards before they are brought to market.

Approved by the Board on 30 January 2020 and signed on its behalf by:



T Middleton  
Director

## KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

### REPORT OF THE DIRECTORS

---

The directors present their Directors' Report and the financial statements of the group for the year ended 30 June 2019.

#### DIRECTORS

The following directors held office from 1 July 2018 up to the date of signing these financial statements;

J D Grove  
S L Grove  
K Hilton  
L R Litwinowicz  
C G Rowe  
T Middleton

#### RESPONSIBILITIES OF DIRECTORS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law. 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 Group and of the profit or loss of the Group 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 IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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 and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### DISCLOSURE OF INFORMATION TO THE AUDITOR

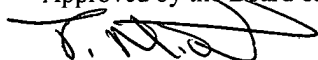
In so far as the directors are, individually, aware

- there is no relevant audit information of which the company's auditor is unaware, and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

#### AUDITOR

Mazars LLP were auditor during the year and a resolution to reappoint Mazars LLP as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

Approved by the Board on 30 January 2020 and signed on its behalf by:



T Middleton  
Director

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

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**Opinion**

We have audited the consolidated financial statements of Key Technologies Limited (the parent company) and its subsidiaries (the Group) for the year ended 30 June 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**The impact of uncertainties due to Britain exiting the European Union on our audit**

The Directors' view on the impact of Brexit is disclosed on page 2.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Group and Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or parent 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

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**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 this regard.

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

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

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

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

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

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

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

**Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

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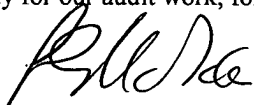
**Auditor's responsibilities for the audit of the financial statements**

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

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

**Use of the audit 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.



Ian Holder (Senior Statutory Auditor)  
For and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
45 Church Street  
Birmingham,  
B3 2RT

6 February 2020

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 30 June 2019

		2019	2019	2019	2018	2018	2018
	Notes	Underlying	Non-Underlying	Total	Underlying	Non-Underlying	Total
		£000	£000	£000	£000	£000	£000
<b>CONTINUING OPERATIONS</b>							
Revenue		21,881	-	21,881	19,472	-	19,472
Cost of sales		(14,153)	-	(14,153)	(12,858)	-	(12,858)
<b>Gross profit</b>		<b>7,728</b>	<b>-</b>	<b>7,728</b>	<b>6,614</b>	<b>-</b>	<b>6,614</b>
Administrative expenses		(4,974)	-	(4,974)	(4,520)	-	(4,520)
Impairment/amortisation	5	(294)	(792)	(1,086)	(119)	(792)	(911)
Other income		27	-	27	53	-	53
Exceptional costs	2	(105)	-	(105)	(185)	-	(185)
<b>Operating profit</b>	2	<b>2,382</b>	<b>(792)</b>	<b>1,590</b>	<b>1,843</b>	<b>(792)</b>	<b>1,051</b>
Finance income		1	-	1	1	-	1
Finance costs	3	(298)	-	(298)	(333)	(35)	(368)
<b>Profit before income tax</b>		<b>2,085</b>	<b>(792)</b>	<b>1,293</b>	<b>1,511</b>	<b>(827)</b>	<b>684</b>
Taxation	4	86	-	86	(10)	-	(10)
Profit for the year from continued operations		2,171	(792)	1,379	1,501	(827)	674
<b>Total comprehensive income for the year</b>		<b>2,171</b>	<b>(792)</b>	<b>1,379</b>	<b>1,501</b>	<b>(827)</b>	<b>674</b>

All of the activities of the company are classed as continuing.


KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	2019 £000	2018 £000
<b>Non-current assets</b>			
Intangible assets	5	6,847	7,794
Property, plant and equipment	6	1,291	1,321
Deferred tax	13	710	710
		<u>8,848</u>	<u>9,825</u>
<b>Current assets</b>			
Inventories	8	1,419	1,422
Construction contract work in progress	9	1,369	528
Trade and other receivables	10	7,462	4,615
Current tax receivable	10	90	119
Cash and cash equivalents	10	-	853
		<u>10,340</u>	<u>7,537</u>
<b>Total assets</b>		<u><u>19,188</u></u>	<u><u>17,362</u></u>
<b>Current liabilities</b>			
Cash and cash equivalents	11	1,061	-
Borrowings	11	1,000	2,500
Trade and other payables	11	7,065	5,111
		<u>9,126</u>	<u>7,611</u>
<b>Net current assets/(liabilities)</b>		<u><u>1,214</u></u>	<u><u>(74)</u></u>
<b>Non-current liabilities</b>			
Long term borrowings	12	2,219	3,019
Other creditors	12	-	244
Deferred tax	13	111	135
		<u>2,330</u>	<u>3,398</u>
<b>Total liabilities</b>		<u><u>11,456</u></u>	<u><u>11,009</u></u>
<b>Net assets</b>		<u><u>7,732</u></u>	<u><u>6,353</u></u>
Share capital	14	84	84
Share premium account		1,777	1,777
Merger reserve		3,410	3,410
Other reserves		31	31
Retained profit		2,430	1,051
<b>Total equity</b>		<u><u>7,732</u></u>	<u><u>6,353</u></u>

The financial statements were approved by the board of directors on 30 January 2020 and are signed on its behalf by:



K Hilton – Director  
Company number 06515775

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

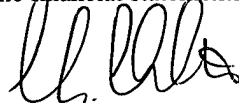
**COMPANY BALANCE SHEET**

As at 30 June 2019

	Notes	2019 £000	2018 £000
<b>Non-current assets</b>			
Investments	7	12,958	12,958
Tangible assets	6	-	1
Retirement benefit scheme asset	20	-	-
Trade and other receivables more than one year	10	4,000	4,000
		<u>16,958</u>	<u>16,959</u>
<b>Current assets</b>			
Trade and other receivables	10	118	39
Cash and cash equivalents	10	-	-
		<u>118</u>	<u>39</u>
<b>Total assets</b>		<u>17,076</u>	<u>16,998</u>
<b>Current liabilities</b>			
Cash and cash equivalents	10	2,956	2,212
Borrowings	11	1,000	2,500
Trade and other payables	11	696	430
		<u>4,652</u>	<u>5,142</u>
<b>Net current liabilities</b>		<u>(4,534)</u>	<u>(5,103)</u>
<b>Non-current liabilities</b>			
Long term borrowings	12	7,862	8,026
		<u>7,862</u>	<u>8,026</u>
<b>Total liabilities</b>		<u>12,514</u>	<u>13,168</u>
<b>Net assets</b>		<u>4,562</u>	<u>3,830</u>
<b>Share capital</b>			
Share capital	14	84	84
Share premium account		1,777	1,777
Merger reserve		3,410	3,410
Other reserves		31	31
Retained loss		(740)	(1,472)
<b>Total equity</b>		<u>4,562</u>	<u>3,830</u>

In accordance with the Companies Act 2006, Section 408, a separate income statement of Key Technologies Limited is not presented. The profit after tax of Key Technologies Limited for the year ended 30 June 2019 was £732,000 (2018: profit £229,000).

The financial statements were approved by the board of directors on 30 January 2020 and are signed on its behalf by:

  
 K Hilton - Director  
 Company number 06515775

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 30 June 2019

<b>Group</b>	<b>Share capital £000</b>	<b>Share premium £000</b>	<b>Merger reserve £000</b>	<b>Retained earnings £000</b>	<b>Other reserves £000</b>	<b>Total £000</b>
Balance as at 1 July 2017	84	1,777	3,410	377	31	5,679
Profit for the year	-	-	-	674	-	674
Balance as 30 June 2018	84	1,777	3,410	1,051	31	6,353
Profit for the year	-	-	-	1,379	-	1,379
<b>Balance as 30 June 2019</b>	<b>84</b>	<b>1,777</b>	<b>3,410</b>	<b>2,430</b>	<b>31</b>	<b>7,732</b>

<b>Company</b>	<b>Share capital £000</b>	<b>Share premium £000</b>	<b>Merger reserve £000</b>	<b>Retained earnings £000</b>	<b>Other reserves £000</b>	<b>Total £000</b>
Balance as at 1 July 2017	84	1,777	3,410	(1,701)	31	3,601
Profit for the year	-	-	-	229	-	229
Balance as 30 June 2018	84	1,777	3,410	(1,472)	31	3,830
Profit for the year	-	-	-	732	-	732
<b>Balance as 30 June 2019</b>	<b>84</b>	<b>1,777</b>	<b>3,410</b>	<b>(740)</b>	<b>31</b>	<b>4,562</b>

The merger reserve arose when the shares of STS International Limited were exchanged for shares in Key Technologies Limited.

Other reserves relate to the fair value of the equity component of convertible unsecured loan stock issued during a previous year.

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES****CONSOLIDATED CASHFLOW STATEMENT  
for the year ended 30 June 2019**

	<b>Cashflow Note</b>	<b>2019 £000</b>	<b>2018 £000</b>
<b>Cash inflows from operating activities</b>	1	<u>1,529</u>	<u>776</u>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(412)	(263)
Acquisition of intangible assets		(139)	(484)
Deferred consideration payment		(294)	(344)
<b>Net cash used in investing activities</b>		<u>(845)</u>	<u>(1,091)</u>
<b>Financing activities</b>			
Interest and similar expenses paid		(298)	(333)
Net movement on borrowings		(2,300)	662
<b>Net cash used in financing activities</b>		<u>(2,598)</u>	<u>329</u>
Net (decrease)/increase in cash and cash equivalents		(1,914)	14
Cash and cash equivalents at beginning of year		<u>853</u>	<u>839</u>
Cash and cash equivalents at year end		<u>(1,061)</u>	<u>853</u>

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES****COMPANY CASHFLOW STATEMENT**  
for the year ended 30 June 2019

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	Cashflow Note	2019 £000	2018 £000
<b>Cash flows from operating activities</b>	1	<u>932</u>	<u>(623)</u>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		-	-
<b>Net cash from investing activities</b>		<u>-</u>	<u>-</u>
<b>Financing activities</b>			
Interest and similar expenses paid		(276)	(298)
Net movement on borrowings		(1,400)	662
<b>Net cash used in financing activities</b>		<u>(1,676)</u>	<u>364</u>
Net decrease in cash and cash equivalents		(744)	(259)
Cash and cash equivalents at beginning of year		<u>(2,212)</u>	<u>(1,953)</u>
Cash and cash equivalents at year end		<u><u>(2,956)</u></u>	<u><u>(2,212)</u></u>

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED AND COMPANY CASHFLOW STATEMENT**  
for the year ended 30 June 2019

**1. Reconciliation of operating profit to net cash flow from operating activities**

	2019 Group £000	2019 Company £000	2018 Group £000	2018 Company £000
Profit before income tax for the year	1,293	468	684	229
Add back net financing costs	298	276	367	333
	<u>1,591</u>	<u>744</u>	<u>1,051</u>	<u>562</u>
<b>Adjustments for</b>				
Depreciation of property, plant and equipment	442	1	400	5
Amortisation of intangible assets	1,086	-	911	-
	<u>3,119</u>	<u>745</u>	<u>2,362</u>	<u>567</u>
Operating cash flows before movements in working capital				
Decrease/(increase in inventories	(838)	-	(309)	-
Decrease/(increase) in receivables	(2,847)	(79)	(354)	6
Increase/(decrease) in payables	1,974	266	(1,162)	(1,196)
Taxation	121	-	239	-
	<u>1,529</u>	<u>932</u>	<u>776</u>	<u>(623)</u>
<b>Net cash flow from operating activities</b>	<u><u>1,529</u></u>	<u><u>932</u></u>	<u><u>776</u></u>	<u><u>(623)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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**1 ACCOUNTING POLICIES**

**1.1 General information**

Key Technologies Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 5 The Courtyard, Timothy's Bridge Road, Stratford Upon Avon, Warwickshire, CV37 9NP.

The principal activity of Group is set out in the principal activities and business review set out on page 2 of the financial statements.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign transactions are included in accordance with the accounting policy set out in 1.12 below.

**1.2 Presentation of financial statements**

These consolidated and company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as endorsed by the International Accounting Standards Board and adopted by the EU ("adopted IFRS"). They have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing accounts under IFRS. The consolidated financial statements have been prepared under the historical cost convention except in the case of financial instruments required to be included in the financial statements at fair value.

The directors consider it appropriate that the financial statements are prepared on a going concern basis. The Directors have prepared cash and profit forecasts for the next 5 years and together with their other enquiries leads them to conclude that the company has a reasonable expectation of being able to meet its liabilities as they fall due, at least for the next 12 months from the date of approval of these financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

**1.3 Basis of consolidation**

The acquisition of subsidiary undertakings is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired business. Acquisition costs incurred are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

If the business combination is achieved in stages, the Group's previously held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Statement of Comprehensive Income.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

**1.4 Goodwill and other intangible assets**

Goodwill arising on consolidation represents the excess of the fair value of the consideration for investment in subsidiary undertakings over the group's interest in the fair value of identifiable assets and liabilities acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Acquired goodwill is stated at cost and reviewed annually for impairment.

Licences are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal instalments over their estimated useful life of between 3 and 5 years.

Products, contracts and brands are valued at cost less amortisation. Amortisation is calculated to write off the cost in equal instalments over their useful life of 10 years.

**1.5 Revenue recognition**

Under IFRS 15, Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is recognized when goods are delivered and title has passed, or the group has otherwise fulfilled its performance, obligations or in line with accounting policy 1.8 for construction contracts.

**1.6 Investments**

Non-current investments are stated at cost less provision for impairment. A review is carried out at the end of each financial year end to determine if any assets have suffered an impairment loss.

**1.7 Inventories and work in progress**

Inventories and work in progress (other than construction contracts) are stated at the lower of cost and net realisable value. Costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Costs are allocated on a first in first out basis.

Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

A provision is made for obsolete, slow moving or otherwise impaired inventory.

**1.8 Construction contracts**

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion at the balance sheet. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the income of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recovered. Contract costs are recognised as expenses in the year in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Payments on account are firstly deducted from construction contract work in progress, any excess is included in creditors as payments on accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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**1.9 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost over its expected useful lives, using the straight-line method, as follows:

Leasehold improvements	- over the length of the lease
Plant and equipment	- 20% & 33% per annum straight line
Motor vehicles	- 20% per annum straight line
Fixtures, fittings and equipment	- 20% per annum straight line.

**1.10 Leasing and hire purchase commitments**

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the group ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation is charged to the income statement on the same basis as owned assets.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement on the sum of digits basis.

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases and are accounted for on a straight line basis over the term of the lease.

**1.11 Impairment of assets**

A review is carried out at the end of each financial year to determine if any assets have suffered an impairment loss. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Impairment losses are recognised in the income statement when an asset's carrying value exceeds its recoverable amount.

**1.12 Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

**1.13 Research and development**

Research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off to the income statement in the year in which it is incurred unless the expenditure meets, and the company demonstrates, the following criteria; the completion is technically feasible to make the intangible asset available for use or for sale; there is the intention to complete the intangible asset and use or sell it; the company is able to use or sell the intangible asset; there are probable future economic benefits likely to result from the intangible asset; adequate technical, financial and other resources exist to complete the development and the expenditure attributable to the intangible asset can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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**1.14 Retirement benefit costs**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The group operates a defined benefit retirement benefit plan which requires contributions to be made to a separately administered funds. For the defined benefit retirement benefit plan, the cost of providing benefits is determined using the projected unit credit method, with interim actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are immediately recognised in full. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

**1.15 Warranty provision**

Provision is made for the estimated future cost of fulfilling the company's warranty obligations, based upon historical warranty experience and future expectations.

**1.16 Taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full using the balance sheet liability method. Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the balance sheet. Deferred tax assets and liabilities are not recognised if they arise in the following situations; the initial recognition of goodwill or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax charges and credits are recognised in the income statement unless they relate to items taken to the statement of comprehensive income in which case the related deferred tax charge or credit is also taken to the statement of comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**1.17 Government grants**

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the income statement over the expected useful life of the assets. Grants towards revenue expenditure are released to the income statement as the related expenditure is incurred.

**1.18 Financial instruments**

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

**1.19 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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**1.20 Borrowings**

Interest bearing borrowings and overdrafts are recorded when the proceeds are received, net of direct issue costs. Finance charges, including premiums payable on settlement of redemption and incremental costs directly attributable to the issue, are accounted for on an accruals basis as part of finance expenses in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period that they arise.

**1.21 Financial instruments**

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

*Financial Assets*

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets, comprising trade receivables, other receivables and amounts due from related undertakings, are recognised in the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus directly attributable transaction costs.

After initial recognition, financial assets are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss on financial assets at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. For other receivables and amounts due from group undertakings a 12 month expected credit loss model is applied.

*Cash and cash equivalents*

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts and similar short term financing facilities. Bank overdrafts and similar short term financing facilities are shown within borrowings in current liabilities in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

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*Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the fair value on initial recognition net of transaction costs.

*Financial liabilities*

Financial liabilities are classified as either financial liabilities at 'fair value through profit or loss' or 'other financial liabilities'.

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest basis is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the Statement of Comprehensive Income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**1.21 Share based payment**

The group issues share options to certain employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimated, if any, in the income statement, with a corresponding adjustment to equity.

Fair value is measured using the Black-Scholes model.

KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

1.22 Adoption of new and revised standards

Standards, amendments and interpretations adopted in the current financial year ended 30 June 2019

The adoptions of the following standards, amendments and interpretations in the current year have not had a material impact on the Group's financial statements.

	<i>EU effective date periods beginning on or after</i>
IAS 40 Investment Property: Amendment in relation to transfers of investment property	1 January 2018
IFRS 2 Share-based Payment: Amendment in relation to classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 Insurance Contracts: Amendment in relation to applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers including the subsequent clarifications	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to IFRSs (2014 - 2016)	1 January 2018

The adoptions of the following standards, amendments and interpretations in future years are not expected to have a material impact on the Group's financial statements.

	<i>EU effective date – Periods beginning on or after</i>	<i>IASB effective date – periods beginning on or after</i>
IAS 19 Employee Benefits: Amendment in relation to plan amendment, curtailment or settlement	1 January 2019†*	1 January 2019
IAS 28 Investments in Associates and Joint Ventures: Amendment in relation to Long-term interests in Associates and Joint Ventures	1 January 2019†	1 January 2019
Annual Improvements to IFRSs (2015 - 2017)	1 January 2019†*	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019	1 January 2019
Conceptual Framework (Revised) and amendments to related references in IFRS Standards	1 January 2020†**^	1 January 2020
Amendment to IFRS 3 Business Combinations	1 January 2020†*	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020†*	1 January 2020
IFRS 17 Insurance Contracts	†**	1 January 2021

Standards, amendments and interpretations cannot be adopted in the EU until they have been EU-endorsed.

† Pending endorsement

\* Expected to be endorsed by the IASB effective date.

\*\* Not expected to be endorsed by the IASB effective date.

^ Scope of endorsement limited to related references in IFRS Standards

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

There is no material impact anticipated from transition to the other standards and amendments listed above. The Group has decided not to early adopt these new standards.

**Impact of transition to IFRS 16 Leases (effective 1 January 2019)**

IFRS 16 (effective 1 January 2019) eliminates the classification of leases as either operating or finance leases and introduces a single accounting model. It will require the Group to recognise substantially all of its current operating lease commitments on the Statement of Financial Position.

The Group has performed an impact assessment by collating all lease information and assessing relevant information against the IFRS 16 requirements. Material judgements and estimates are required in identifying and accounting for leases, determining the discount rate, as well as choosing the transition methodology. The Group is continuing to assess the impact of these, and based on current information and range of transition methodologies, expects a material impact to the statement of financial liabilities in the region of £2.765m.

**1.23 Critical accounting judgments and key sources of estimation uncertainty**

The preparation of accounts in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates the key source of estimation uncertainty at the balance sheet date derives from management assumptions in relation to the level of completion of construction contracts. The accounting policy in relation to this item is disclosed in note 1.8 above. Impairment tests have been undertaken on Goodwill as detailed in note 5.

**2. Operating profit**

	<b>2019</b>	2018
	<b>£000</b>	£000
Operating profit is stated after charging/(crediting)		
Depreciation of property, plant and equipment	<b>442</b>	400
Research and development	<b>1,111</b>	640
Operating lease rentals		
- Plant and machinery	<b>20</b>	30
- Other operating leases	<b>505</b>	613
Amortisation of intangible assets	<b>1,086</b>	911
Exceptional costs	<b>105</b>	185
Profit on foreign exchange	<b>(34)</b>	(2)
Fees payable to company's auditor for the audit of the company's annual accounts	<b>6</b>	6
Fees payable to company's auditor for other services:		
-The audit of the company's subsidiaries pursuant to legislation	<b>18</b>	17
-Other services	<b>3</b>	3

Exceptional costs in the year comprise costs relating to professional fees relating to a lease renewal of £23,000, refinancing fees of £53,000 professional fees relating to share option scheme £21,000 and other costs of £8,000.

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2019

**3. Finance costs**

	<b>2019</b>	2018
	<b>£000</b>	£000
Interest on bank loans and overdrafts	88	104
Interest on other loans	210	229
Fees relating to costs of financing:		
- Amortisation of debt issue costs	-	35
	<u>298</u>	<u>368</u>

**4. Taxation**

	<b>2019</b>	2018
	<b>£000</b>	£000
<b>UK current tax</b>		
UK Corporation tax		
Current year	(57)	(50)
Adjustment for prior year	(5)	-
<b>Current tax charge</b>	<u>(62)</u>	<u>(50)</u>
<b>Deferred tax</b>		
Deferred tax charge for the current year	(21)	60
Adjustment for prior year	(3)	-
<b>Taxation for the year</b>	<u>(86)</u>	<u>10</u>
<b>Factors affecting taxation for the year</b>		
Profit on ordinary activities before taxation	<u>1,266</u>	<u>684</u>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2018: 19.0%)	241	130
Non-deductible expenses	9	1
Other tax adjustments	(37)	10
Additional deduction for R&D expenditure	(217)	(199)
Deferred tax not recognised	(74)	68
Adjustments to prior year	(8)	-
<b>Taxation for the year</b>	<u>(86)</u>	<u>10</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 5. Intangible assets

Group	Products £000	Contracts £000	Brands £000	Licences £000	Goodwill £000	Total £000
<b>Cost</b>						
At 30 June 2017	10,036	316	1,051	2	5,322	16,727
Additions	484	-	-	-	-	484
At 30 June 2018	10,520	316	1,051	2	5,322	17,211
Additions	139	-	-	-	-	139
<b>At 30 June 2019</b>	<b>10,659</b>	<b>316</b>	<b>1,051</b>	<b>2</b>	<b>5,322</b>	<b>17,350</b>
<b>Amortisation</b>						
At 30 June 2017	7,421	250	833	2	-	8,506
Provided during the year	803	25	83	-	-	911
At 30 June 2018	8,224	275	916	2	-	9,417
Provided during the year	978	25	83	-	-	1,086
<b>At 30 June 2019</b>	<b>9,202</b>	<b>300</b>	<b>999</b>	<b>2</b>	<b>-</b>	<b>10,503</b>
<b>Net book value</b>						
At 30 June 2019	1,457	16	52	-	5,322	6,847
At 30 June 2018	2,296	41	135	-	5,322	7,794

Impairment tests on the carrying values of goodwill are performed by analysing the carrying value allocated to each significant cash generating unit against its value in use. All goodwill is allocated to specific cash generating units which are in all cases no larger than operating segments. Value in use is calculated for each cash generating unit as the present value of that unit's discounted future cash flows. Cash flow projections are based on the next three years budgets and plans approved by management based on their view of industry growth forecasts and expectations for the future. Cashflow projections beyond that three-year period have been extrapolated on the basis of a 2% growth rate.

The Company carries out an impairment test of goodwill on an annual basis. For the year ended on 30 June 2019, a detailed impairment was undertaken. The impairment test has been carried out using a Discounted Cash Flow unlevered model covering a 2 year period.

The principal assumptions made in determining value in use are analysed as follows:

Cash flow projections are based on the next two years budgets and plans approved by management based on their view of industry growth forecasts and expectations for the future. Cash flow projections beyond that three-year period have been extrapolated on the basis of a 2% growth rate.

The pre tax discount rate used to discount projected cash flows have been derived from the Company's post tax weighted average cost of capital of 5.1% and adjusted to account for currency risk, country risk and other factors affecting the income generating unit.

The directors have tested the above assumptions and a 1% increase in the pre tax discount rate would not require any extra impairment, this is because the NPV is still greater than the NBV.

KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. Property, plant and equipment - Group

	Leasehold improvements £000	Plant, office equipment and vehicles £000	Total £000
<b>Cost</b>			
At 30 June 2017	951	3,515	4,466
Additions	17	246	263
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2018	968	3,761	4,729
Additions	146	266	412
Disposals	(1)	(97)	(98)
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2019</b>	<b>1,113</b>	<b>3,930</b>	<b>5,043</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>			
At 30 June 2017	739	2,269	3,008
Charge for year	28	372	400
Estimated on disposal	-	-	-
	<hr/>	<hr/>	<hr/>
At 30 June 2018	767	2,641	3,408
Charge for year	46	396	442
Estimated on disposal	(1)	(97)	(98)
	<hr/>	<hr/>	<hr/>
<b>At 30 June 2019</b>	<b>812</b>	<b>2,940</b>	<b>3,752</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>			
<b>At 30 June 2019</b>	<b>301</b>	<b>990</b>	<b>1,291</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2018	201	1,120	1,321
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

6. Property, plant and equipment (continued) – Company

	Leasehold improvements £000	Office equipment £000	Total £000
<b>Cost</b>			
At 30 June 2017	595	108	703
Additions	-	-	-
At 30 June 2018	595	108	703
Additions	-	-	-
<b>At 30 June 2019</b>	<b>595</b>	<b>108</b>	<b>703</b>
<b>Depreciation</b>			
At 30 June 2017	595	102	697
Charge for year	-	5	5
At 30 June 2018	595	107	702
Charge for year	-	1	1
<b>At 30 June 2019</b>	<b>595</b>	<b>108</b>	<b>703</b>
<b>Net book value</b>			
At 30 June 2019	-	-	-
At 30 June 2018	-	1	1

7. Fixed asset investments - Company

	Shares in subsidiary undertakings £000
At 30 June 2018 and at 30 June 2019	12,958

Name of undertaking	Country of Incorporation	Description of shares held	Proportion of nominal value of issued shares held by the group %
STS International Limited*	England and Wales	Ordinary	100
STS Defence Limited	England and Wales	Ordinary	100
Primetake Limited	England and Wales	Ordinary	100
SR Antenna Systems Limited	England and Wales	Ordinary	100**

All the above subsidiary undertakings have been consolidated in the financial statements using the acquisition method.

\*STS International Limited is exempt from preparing individual accounts and filing these accounts with the registrar by virtue of s394a and s448a of Companies Act 2006 respectively.

\*\*Held by STS Defence Limited

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 June 2019**

**8. Inventories - Group**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	<u>1,419</u>	<u>1,422</u>

In the opinion of the directors there is no significant difference between the replacement cost and the value disclosed for inventories.

The total inventory charged as an expense in the year amounted to £9,496,000 (2018: £9,591,000).

**9. Construction contracts - Group**

The breakdown of the amounts included in the balance sheet is as follows:

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Construction contracts	<b>1,369</b>	528
Invoicing account to customers	-	-
	<u>1,369</u>	<u>528</u>
Of which amounts are disclosed		
Under assets	<b>1,369</b>	528
Under liabilities	-	-
	<u>1,369</u>	<u>528</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 10. Other financial assets

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Trade and other receivables				
Trade receivables	6,849	-	3,885	-
Provision for doubtful debts		-		-
	<u>6,849</u>	<u>-</u>	<u>3,885</u>	<u>-</u>
Current tax receivable	90	-	119	-
Related party receivables	-	4,000	-	4,000
Other debtors	155	110	122	15
Prepayments and accrued income	458	8	608	24
	<u>7,552</u>	<u>4,118</u>	<u>4,734</u>	<u>4,039</u>
Included in other debtors above are:				
Other debtor more than one year	-	4,000	-	4,000
	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>

Cash, cash equivalents and bank overdrafts include the following for the purpose of the cash flow statement:

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Cash and cash equivalents	1,895	-	3,199	-
Bank overdrafts	(2,956)	(2,956)	(2,346)	(2,212)
	<u>(1,061)</u>	<u>(2,956)</u>	<u>853</u>	<u>(2,212)</u>

As the group has a pooling arrangement with regard to the individual company bank balances the net position has been shown as an asset within the group and company financial statements.

## 11. Other financial liabilities

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
<b>Trade and other payables</b>				
Trade payables	4,077	97	2,880	131
Other taxation and social security	1,101	102	699	52
Related party payables	-	123	-	66
Other creditors	687	186	348	14
Accrued expenses and deferred income	1,200	188	1,184	167
	<u>7,065</u>	<u>696</u>	<u>5,111</u>	<u>430</u>
Bank and other loans (see note 12)	1,000	1,000	2,500	2,500
Cash and cash equivalents (see note 10)	1,061	2,956	-	2,212
	<u>9,126</u>	<u>4,652</u>	<u>7,611</u>	<u>5,142</u>

For details on borrowings and security see note 12.

KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

12. Non-current liabilities

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Bank and other loans	2,219	2,219	3,019	3,019
Related party loan	-	5,643	-	5,007
	<u>2,219</u>	<u>7,862</u>	<u>3,019</u>	<u>8,026</u>
Other creditors	-	-	244	-
	<u>2,219</u>	<u>7,862</u>	<u>3,263</u>	<u>8,026</u>
The bank and other loans are repayable as follows:				
On demand or within one year	1,000	1,000	2,500	2,500
Within one to two years	-	-	-	-
Within two to five years	2,219	7,862	3,019	8,026
After five years	-	-	-	-
	<u>3,219</u>	<u>8,862</u>	<u>5,519</u>	<u>10,526</u>
Included in current liabilities	(1,000)	(1,000)	(2,500)	(2,500)
Less: unamortised issue costs	-	-	-	-
	<u>2,219</u>	<u>7,862</u>	<u>3,019</u>	<u>8,026</u>

Amounts included within current liabilities in respect of the above loans are as follows:

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Bank loans	1,000	1,000	2,500	2,500

Interest on bank loans accrues at a variable rate of 2.75 percent above LIBOR. The costs of raising the above debt finance are being amortised over the period of the relevant loan.

Net bank borrowings totaling £2,062,255 (2018: £1,647,867) are secured by fixed and floating charges over assets and group companies.

Within 'Non-current liabilities: other loans' there is a balance amounting to £1,391,000 (2018: £1,391,000) which relates to convertible unsecured loan stock. The equity component of this compound financial instrument has been calculated at £31,000 and is shown within equity. The holder has the option to convert the stock to ordinary shares at the rate of one share for every £2 of stock held at any time from 1 January 2009 to 31 March 2021. The number of ordinary shares that would be issued if all stockholders converted their stock would be 710,736.

KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

13. Deferred taxation - Group	2019 £000	2018 £000
Deferred tax asset to be recovered after more than 12 months	(710)	(710)
Deferred tax asset to be recovered within 12 months	111	135
	<u>(599)</u>	<u>(575)</u>
Deferred tax asset		
Of which amounts are disclosed:		
Under assets	(710)	(710)
Under liabilities	111	135
	<u>(599)</u>	<u>(575)</u>
The gross movement on the deferred tax account is as follows		
	2019 £000	2018 £000
Balance at 30 June 2018	(575)	(635)
Income statement charge		
- depreciation in advance of capital allowances	(24)	60
	<u>(599)</u>	<u>(575)</u>
Balance at 30 June 2019		
<b>Group deferred tax is provided as follows:</b>		
	2019 £000	2018 £000
Depreciation in excess of capital allowances	113	137
Other short term timing differences	(2)	(2)
Trade losses carried forward	(710)	(710)
	<u>(599)</u>	<u>(575)</u>

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2019

**14. Share capital**

<b>Group and Company</b>	<b>2019 £000</b>	<b>2018 £000</b>
<b>Authorised</b>		
20,000,000 Ordinary shares of 1p each	<u>200</u>	<u>200</u>
<b>Allotted, called up and fully paid</b>		
8,412,378 Ordinary shares of 1p each	<u>84</u>	<u>84</u>

**15. Contingent liabilities**

**Company only**

The company is party to a cross guarantee relating to the group's bank borrowings. At 30 June 2019, net bank borrowings relating to the guarantee are £2,062,255 (2018: £1,647,867).

**16. Directors' remuneration**

	<b>Group 2019 £000</b>	<b>Group 2018 £000</b>
Emoluments for qualifying services	241	369
Contributions to money purchase pension schemes	14	25
Benefits in kind	1	20
	<u>256</u>	<u>414</u>
<b>Highest paid director</b>		
	<b>Group 2019 £000</b>	<b>Group 2018 £000</b>
Emoluments for qualifying services	220	212
Contributions to money purchase pension schemes	14	14
Benefits in kind	1	10
	<u>235</u>	<u>236</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 4 (2018: 4).

**KEY TECHNOLOGIES LIMITED AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2019

**17. Staff costs**

The average monthly number of employees (including directors) during the year was:

	2019		2018	
	Group No.	Company No.	Group No.	Company No.
Manufacturing	151	-	163	-
Sales and administration	41	4	49	4
	<u>192</u>	<u>4</u>	<u>212</u>	<u>4</u>

Staff costs during the year (including directors) were as follows:

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Wages and salaries	6,569	302	6,805	296
Social security costs	643	37	678	36
Other pension costs	160	16	105	14
	<u>7,372</u>	<u>355</u>	<u>7,588</u>	<u>346</u>

**18. Financial commitments**

At 30 June 2019 the group had total commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	2018 £000
Falling due within one year	567	622
Falling due between two and five years	1,453	2,018
Falling due after five years	1,149	509
	<u>3,169</u>	<u>3,149</u>

At 30 June 2019 the company had no commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

19. Financial instruments and risks

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of cash and cash equivalents and equity comprising issued share capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

The principal financial instruments of the company comprise cash and bank deposits, bank overdrafts and loans together with trade creditors and trade debtors that arise directly from its operations. The main purpose of these instruments is to raise funds for the Group's operations and to finance its continuing operations.

The Company's operations expose it to a variety of financial risks including the effects of currency risk, credit risk, liquidity risk and interest rate risk:

*Currency Risk* - the Group has foreign currency dealings with customers and suppliers based outside the UK which are consequently subject to exchange rate fluctuations. The Group actively manages these exposures with foreign currency instruments unless there is a natural hedge between sales and purchases. The principal currencies involved are US Dollars and Euros.

*Liquidity Risk* - the Group manages this risk by the use of bank balances and overdraft facilities along with efficient monitoring and forecasting of cashflow and bank covenants to ensure there are sufficient funds to meet liabilities.

*Credit Risk* - trade debtors are managed in respect of credit and cashflow risk by policies monitoring the credit offered to customers and regular monitoring of amounts outstanding for both time and total exposure.

The ageing profile of trade receivables is as follows:

	2019 £000	2018 £000
<b>Ageing profile</b>		
Up to 3 months	6,421	3,551
3 to 6 months	365	177
6 to 12 months	63	-
Over 12 months	-	-
	<hr/>	<hr/>
Gross trade receivables	6,849	3,728
Less impairment	-	-
	<hr/>	<hr/>
Total	<u>6,849</u>	<u>3,728</u>

Balances over 3 months old have either been provided for or are considered to be recoverable.

The movement on the provision for impairment of group trade receivables is as follows:

	£000
As at 1 July 2018	-
Released during the year	-
	<hr/>
As at 30 June 2019	<u>-</u>

Trade receivables amounting to £671,000 (2018: £388,000) are past due but have not been provided for as the amounts are considered to be receivable in full.

*Interest Rate Risk* - the group has exposure to increases in interest rates on its bank loans and overdraft facility. The risk is limited by an interest rate cap instrument.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

**20. Retirement benefit plans****Defined contribution**

The group operates a defined contribution scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to the funds.

	<b>2019</b>	2018
	<b>£000</b>	£000
Contributions payable by the group for the year	<u>160</u>	<u>105</u>
Contributions accrued and payable at the year-end	<u>46</u>	<u>31</u>

**Defined benefit**

The group provided pension arrangements through a funded defined benefit scheme, the STS Field Grant Limited Pension Scheme. The scheme is closed to new members.

STS Field Grant Limited Pension Scheme

The pension costs relating to this scheme are assessed every three years in accordance with the advice of a qualified actuary using the project unit method. The most recent valuation at 1 January 2018 indicates that, on the basis of service to date and current salaries, the schemes' assets were sufficient to meet liabilities.

At 30 June 2019 the scheme, which is contracted out of the state scheme, had assets of approximately £9,994,000 (2018: £9,902,000) at market value.

Contributions to both schemes by employees and the group have been maintained in accordance with the recommendations of the actuary in their previous valuations.

**International Accounting Standard 19 'Retirement Benefits' disclosures**

The group operates a defined benefits scheme, the STS Field Grant Limited Pension Scheme. A full valuation was undertaken as at 1 January 2018 and updated to 30 June 2019 by a qualified independent actuary. The assumptions used by the actuary in their valuation of the scheme at 30 June 2019 are given below, as well as a breakdown of the schemes assets and liabilities at that date.

The major assumptions used were as follows:

	<b>At 30 June</b>	At 30 June
	<b>2019</b>	2018
Discount rate	3.00%	3.40%
Consumer price inflation	2.00%	2.00%
Salary increase rate	-	-
Pensions increases (at Limited Price Indexation)	2.91%	2.91%
Deferred pension revaluation	2.00%	2.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

20. Retirement benefit plans (continued)

The mortality assumptions adopted at 30 June 2019 are 115% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI\_2018 converging to 1.00% p.a. (Sk =7.5). These imply the following life expectancies:

	<b>CMI 2018</b> <b>30 June 2019</b>	CMI 2017 30 June 2018
Male retiring in 2019	20.6	21.8
Female retiring in 2019	22.4	23.7
Male retiring in 2039	21.6	22.8
Female retiring in 2039	23.7	24.9

The market value of the assets held, and the expected rates of return assumed are as follows:

**STS Field Grant Limited Pension Scheme**

	<b>Value at</b> <b>30 June 2019</b> <b>£000</b>	Value at 30 June 2018 £000
Equities	2,846	3,802
Bonds	6,435	5,761
Cash	713	339
	<u>9,994</u>	<u>9,902</u>

	<b>Total</b> <b>2019</b> <b>£000</b>	Total 2018 £000	Total 2017 £000
Total market value of assets	9,994	9,902	10,077
Value of scheme liabilities	<u>(6,742)</u>	<u>(6,443)</u>	<u>(6,444)</u>
Surplus in the scheme	3,252	3,459	3,633
Unrecognised asset due to surplus restriction	<u>(3,252)</u>	<u>(3,459)</u>	<u>(3,633)</u>
	<u>-</u>	<u>-</u>	<u>-</u>

The relevant retirement benefit assets have been restricted to the present value of the scheme's future pension costs, less the present value of the contributions for future service committed to in the relevant schedule of contributions in line with IFRIC 14.

The group expects to contribute £Nil (2018: £Nil) to this defined benefit pension plans in the year to 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

20. Retirement benefit plans (continued)

The amounts recognised in the income statement are as follows:

	2019 £000	2018 £000
Current service cost	-	-
Past service cost and loss from settlements	321	-
Interest on obligation	220	247
Interest income	(332)	(392)
Contributions	-	-
Restriction on above	(209)	145
	<u>-</u>	<u>-</u>
Total operating expense	<u>-</u>	<u>-</u>
Actual return on assets	<u>40</u>	<u>11</u>

Changes in the value of the defined benefit obligation are as follows:

	2019 £000	2018 £000
Present value of obligation at beginning of year	6,443	6,444
Current service cost	-	-
Past service costs re: GMP	321	-
Interest on obligation	220	247
Actuarial (gains)/losses on obligation	13	311
Expenses	25	19
Benefits paid	(280)	(578)
	<u>6,742</u>	<u>6,443</u>
Present value of obligation at end of year	<u>6,742</u>	<u>6,443</u>

Changes in the market value of the plan assets are as follows:

	2019 £000	2018 £000
Value of scheme assets at beginning of year	9,902	10,077
Interest income	332	392
Actuarial gains	40	11
Benefits paid and expenses	(280)	(578)
	<u>9,994</u>	<u>9,902</u>
Value of assets at end of year	<u>9,994</u>	<u>9,902</u>

Amounts recognised in the statement of total comprehensive income:

	2019 £000	2018 £000
Actual return less expected return on assets	40	11
Experience gains arising on defined benefit obligations	3	115
Effects of restricted surplus	(43)	(126)
	<u>-</u>	<u>-</u>
Actuarial (loss)/gain recognised in statement of comprehensive income	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 June 2019**

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**21. Related party transactions**

During the period the following transactions were made between Key Technologies Limited and its subsidiaries:

The company received a dividend of £1,300,000 (2018: £1,000,000) from STS Defence Limited.

Amounts owed to and by subsidiaries are interest free and have no fixed terms of repayment. GIL Investments Limited is a related party through common directors and shareholders. GIL Investments Limited charges during the period in respect of finance arrangement and management fees were £60,000 (2018: £60,000).

Remuneration to key management personnel during the financial year amounted to £506,020 (2018: £414,120).

**22. Capital management**

The Board maintains a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Board monitors shareholder return on capital, which the Group defines as total shareholders' equity and the level of dividends to ordinary shareholders.

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

There are bank covenants associated with the Group's facilities.

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

**23. Control**

There is no ultimate controlling party as no shareholder individually holds more than 50% of the issued share capital.