Qioptiq Photonics Limited

Annual Report and Financial Statements

29 December 2019

Registered Number 2822648

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Company information

Registered office:	Glascoed Road St Asaph Denbighshire LL17 0LL
Directors:	I Alcock -Resigned 31st January 2019 D Nislick J Rao J Sheard - Appointed 4th February 2019
Company Secretary:	A Chapman
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Savannah House 3 Ocean Way Southampton SO14 3TJ

Registered Number 2822648

Strategic report

The directors present their strategic report on the company for the 52 week period ended 29 December 2019. The comparative period was 52 weeks ended 30 December 2018.

For clarity the 52 week period ended 29 December 2019 is referred to as "2019", and the comparative 52 week period ended 30 December 2018 is referred to as "2018" throughout the Annual Report and financial statements.

Review of the business

The results for the 52 week period and the financial position of the company are set out in the Directors' report on Page 5.

A combination of contractions in the Photonics market and the general uncertainties caused by Brexit planning meant that the company's revenue only increased by c1% compared to 2018.

Gross margin as a percentage of revenue fell from 47% to 42% in 2019, this fall was as a result of the headcount increases required to support revenue growth in the coming years.

The reduced gross profit in 2019 has resulted in a 15% reduction in the gross profit per employee.

The company continues to maintain a skilled labour force and retains its technical expertise. The company continues to develop new product lines and expects to realise turnover and profits from these in 2020.

A summary of the key performance indicators are set out below:

Key Performance Indicator	2019	2018	Change
Gross margin	42%	47%	(5%)
Gross profit per employee	£57,329	£67,429	(£10,100)

The risks and uncertainties facing the company include establishing markets for the new products, extending and diversifying its customer base, procuring and retaining skilled labour specific to the company's products and market place and foreign exchange rate fluctuations.

Strategic report (continued)

Review of the business (continued)

In addition, the Covid-19 pandemic has brought an unprecedented amount of uncertainty across all areas of the local, national and international economy. The company has been designated as an "Essential Supplier" in a number of key customers' supply chain and has continued to trade in 2020.

Further information on the risks and uncertainties can be found in the Directors' report on pages 5 to 8.

Context of the Company

The company recognises its obligations to the local and national community.

It has assessed the impact of its activities on the environment and is satisfied that none of its activities has a detrimental impact on the environment. A copy of the company's Environmental Policy is available on request.

The company operates a number of initiatives to support and develop its employees. These include in-house and external training, free employee welfare schemes, Mental Health Awareness training and various social events.

The company encourages its employees to participate in and support local community initiatives. These include local charitable and school events.

The company had adopted the Group policies relating to Discrimination, Human Rights, Equal Employment Opportunity, Disability Accomodations and Standards of Business Conduct.

Business Model

A critical part of the company's business model is the value it derives from its intangible assets such as Customer Relationships and Developed Technologies.

Whilst these are not recognised on the company balance sheet, they are essential in both supporting the continued demand for legacy products and in driving demand for new products.

Strategic report (continued)

Future developments

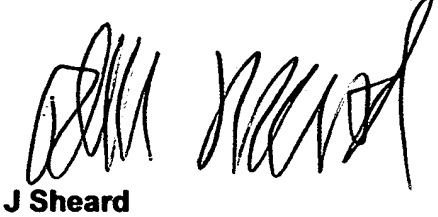
The company will continue to develop new products to meet customer demand and to explore new markets for its existing product portfolio.

The Covid-19 pandemic in 2020 has affected most businesses. At the start of the pandemic the company was contacted by a number of key customers who advised that they considered the company to be a "Critical Supplier" within their supply chain and that the company should continue to build and ship their products.

The company has made a number of changes to its business operations, including enhanced cleaning and hygiene protocols, social distancing measures and increased remote working.

These measures have ensured that the company has traded succesfully during the first half of 2020 and has a strong order book for the rest of the year.

This report was approved by the board of directors on 12th October 2020 and signed by order of the board by:



J Sheard
Director
20th October 2020

Directors' report

The directors present their report and the audited financial statements of the company for the 52 week period ended 29 December 2019. In accordance with the instructions of EXC Holdings I Corp. ("Excelitas Group") and as permitted by the Companies Act section 390 (3), the directors have drawn up the financial to the last Sunday in December being 29 December 2019.

Results and dividends

The company's result for the financial period is a loss of £4,483,000 (2018: profit £2,561,000). Capital and Reserves totalled £2,018,000 at the period end (2018: £6,501,000). No dividends were paid or declared in the financial period (2018: £Nil).

The loss of £4,483,000 is after the waiver of £6,650,000 of parent company loan. This loan waiver was as a result of the group re-structuring its European companies. See Note 9.

Financial risk management

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review.

The company's operations expose it to a variety of financial risks which include price risk, credit risk, liquidity risk, cash flow risk and foreign currency exchange risk. The company has in place a risk management programme which seeks to limit adverse effects on the financial performance of the company.

Given the relative size of the company, the directors have not delegated the responsibility of monitoring financial risk to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

The Covid-19 pandemic has brought a number of challenges in terms of financial risk management. These include ensuring continuity of supply, both from suppliers and to customers, Site security costs and the impact of customers changing demand at short notice. To manage these risks, the Company has formed an internal Steering Committee and has access to the Group Covid-19 Task Force.

Directors' report (continued)

Financial risk management (continued)

The business activities of the Company have been defined as "essential" by a significant number of the Company's customers. The Company has therefore remained open throughout the Covid-19 pandemic up to the date of this report.

To ensure safe working conditions for its employees, the Company successfully implemented a number of initiatives for safe working, including increased cleaning, temperature screening, training and social distancing measures. A significant number of the Company's employees have been able to work remotely and are working effectively to support the business.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the relative size of the company's operations, the costs of managing exposure to commodity price risk exceed the potential benefits. The company's supply chain department regularly reviews prices of key components and strive to ensure that contracts are in place with key suppliers to limit the potential for excessive price increases.

Credit risk

The company has in place policies that require appropriate credit checks on potential customers before sales are made. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The company prepares regular cash flow forecasts and reviews supplier payments terms regularly to ensure that only authorised payments are made. Additionally, the company has access to Excelitas Group liquidity facilities.

Cash flow risk

The company regularly reviews cash flow forecasts to assess the level of expected receipts and follows up on overdue accounts receivable to ensure sufficient cash is available to meet liabilities as they fall due.

Directors' report (continued)

Financial risk management (continued)

Foreign currency exchange risk

The company has a policy to minimise foreign currency exchange rate risk through the regular monitoring of foreign currency cash flows and, where possible, the matching of foreign currency receipts with payments. A key focus area is generating more balanced turnover streams between various foreign currencies, for example US dollar, Sterling and Euro. The company does not use derivative financial instruments to manage currency risk and as such no hedge accounting is applied.

Directors

The directors who held office during the year and up to the date of signing the financial statements are as follows:

I Alcock - Resigned 31st January 2019
D Nislick
J Rao
J Sheard - Appointed 4th February 2019
A Chapman - Company Secretary

Future developments

The company's future developments are included in the Strategic Report

Research and development

The company is actively involved in research and development activities to ensure that its products keep pace with market changes and customer demands. See note 6 for the amounts of research and development expenditure charged to the statement of comprehensive income in the period.

Statement of directors' responsibilities

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

Directors' report (continued)

Statement of directors' responsibilities (continued)

Company law requires the directors to prepare financial statements for each 52 week period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" 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 profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, are deemed to be re-appointed under Section 487 (2) of the Companies Act 2006.

This report was approved by the board of directors on 12th October 2020 and signed on its behalf by:

A Chapman
Company Secretary
20th October 2020

Glascoed Road
St Asaph
Denbighshire
LL17 0LL

Independent auditors' report to the members of Qioptiq Photonics Limited

Report on the audit of the financial statements

Opinion

In our opinion, Qioptiq Photonics Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2019 and of its loss and cash flows for the 52 week period (the "period") then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and

- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 29 December 2019; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the director's use of the going concern basis of accounting in the preperation of the financial statements is not appropriate; or

Independent auditors' report to the members of Qioptiq Photonics Limited (continued)

Report on the audit of the financial statements (continued)

Conclusions relating to going concern (continued)

- 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 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Qioptiq Photonics Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

Strategic Report and Directors' Report

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 period ended 29 December 2019 is consistent with the financial statements and has been prepared in accordance with the 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 did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 7 - 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 and auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 auditors' report

Independent auditors' report to the members of Qioptiq Photonics Limited (continued)

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Christopher Solomides (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
20th October 2020

Statement of comprehensive income

	Note	52 weeks ended 29 December 2019 £'000	52 weeks ended 30 December 2018 £'000
Turnover	5	10,021	9,937
Cost of sales		(5,836)	(5,217)
Gross profit		**4,185**	**4,720**
Administrative expenses		(1,849)	(1,715)
Operating profit	6	**2,336**	**3,005**
Interest receivable and similar income	8	257	181
Exceptional item - loan waiver	9	(6,650)	-
(Loss)/Profit before taxation		**(4,057)**	**3,186**
Tax on (loss)/profit	10	(426)	(625)
(Loss)/Profit for the financial period and total comprehensive (loss)/income for the period		**(4,483)**	**2,561**

Balance sheet

	Note	As at 29 December 2019 £'000	As at 30 December 2018 £'000
Fixed assets			
Tangible assets	11	**563**	**353**
Current assets			
Inventories	12	1,036	874
Debtors	13	2,466	6,671
Cash at bank and in hand		637	877
		4,139	**8,422**
Creditors - amounts falling due within one year	14	(2,621)	(2,208)
Net current assets		**1,518**	**6,214**
Total assets less current liabilities		**2,081**	**6,567**
Provision for other liabilities	15	(63)	(66)
Net assets		**2,018**	**6,501**
Capital and reserves			
Called up share capital	17	88	88
Share premium account	18	147	147
Retained earnings		1,783	6,266
Total equity		**2,018**	**6,501**

The notes on pages 17 to 33 are an integral part of these financial statements.

The financial statements on pages 13 to 33 were authorised for issue by the board of directors on 12th October 2020 and were signed on its behalf.

J Sheard
Director
20th October 2020

Statement of changes in equity

	Note	Called-up share capital £'000	Share premium account £'000	Retained Earnings £'000	Total £'000
Balance as at 31 December 2017		**88**	**147**	**3,705**	**3,940**
Profit for the financial period and total comprehensive income		-	-	2,561	**2,561**
Balance as at 30 December 2018		**88**	**147**	**6,266**	**6,501**
Loss for the financial period and total comprehensive loss		-	-	(4,483)	**(4,483)**
Balance as at 29 December 2019		**88**	**147**	**1,783**	**2,018**

Statement of cash flows

	Note	52 weeks ended 29 December 2019 £'000	52 weeks ended 30 December 2018 £'000
Net cash from operating activities	19	467	958
Taxation paid		(601)	(476)
Net cash (used in)/generated from operating activities		(134)	482
Cash flow from investing activities			
Purchase of tangible assets		(363)	(282)
Interest received		257	181
Net cash used in investing activities		(106)	(101)
Net (reduction) increase in cash and cash equivalents		**(240)**	**381**
Cash at bank and in hand at the beginning of the period		**877**	**496**
Cash at bank and in hand at the end of the period		**637**	**877**

Notes to the financial statements

1. General information

Qioptiq Photonics Limited ("the company") designs, produces and sells photonic equipment from its production base in the UK. The company sells its products across the world, but primarily to North America, Europe and the Far East.

The company is a private company limited by shares and is incorporated and domiciled in England. The registered office is situated at Glascoed Road, St Asaph, Denbighshire, LL17 0LL.

2. Statement of compliance

The financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b. Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty over (a) the level of demand for the company's products; and (b) the availability of bank finance for the foreseeable future. The company's forecasts and projections, taking account of possible changes in trading performance, show that the company should be able to operate within the levels of its current facilities.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

b. Going concern (continued)

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

c. Consolidated financial statements

The company is a wholly-owned subsidiary of EXC Holdings I Corp. and is included in the consolidated financial statements of EXC Holdings I Corp. which are available on request from Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, United States of America.

d. Foreign currency

(i) Functional and presentation currency

The company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

e. Turnover recognition

Turnover is recognised when (a) the significant risks and rewards of ownership have been transferred to the buyer in accordance with the buyers shipment terms; (b) the company retains no continuing involvement or control over the goods; (c) the amount of turnover can be measured reliably; (d) it is probable that future economic benefits will flow to the entity.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

e. Turnover recognition (continued)

Turnover for goods supplied is recognised either when the goods are shipped (on Ex-Works shipping terms), or when the goods are received by the customer (on DDP shipping terms).

Turnover for services provided is recognised when the services are complete.

Turnover represents the amount receivable for goods supplied, net of returns, discounts and value added taxes.

f. Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

(iii) Annual bonus plan

The company participates in an Excelitas Group annual bonus plan for employees. An expense is recognised in the statement of comprehensive income when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

g. Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income. Current and deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and profits as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all material timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

h. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives with rates as follows:

Leasehold improvements	20%
Plant and machinery	25%
Fixtures and fittings	20% - 100%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

i. Leased assets

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

j. Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

k. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts are shown within borrowings in current liabilities.

l. Provisions and contingencies

(i) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

m. Financial instruments

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price. At the end of each reporting period the financial assets are reviewed for impairment and any impairment loss is recognised in the statement of comprehensive income.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from other group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

(ii) Financial liabilities (continued)

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

n. Share capital

Ordinary shares are classified as equity.

o. Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders.

p. Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

q. Exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- The requirements of Section 11 Financial Instruments paragraph 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- The requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- The requirements of Section 33 Related Party Disclosures paragraph 33.7.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

q. Exemptions (continued)

This information is included in the consolidated financial statements of EXC Holdings I Corp. as at 29 December 2019 and these financial statements may be obtained may be obtained from 1209 Orange Street, Wilmington, Delaware 19801 United States of America.

r. Exceptional Items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as "exceptional items". These are disclosed separately to provide further understanding of the financial performance of the company.

4. Critical accounting judgements and estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

(i) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying value of the tangible assets and note 3 (h) for the useful economic lives for each class of assets.

Notes to the financial statements (continued)

4. Critical accounting judgements and estimation uncertainty (continued)

(ii) Inventory provisioning

The company designs, produces and sells photonic products and is subject to changing customer demands and technology advances. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated demand for the raw materials. See note 12 for the net carrying amount of the inventory and associated provision.

5. Turnover

	2019 £'000	2018 £'000
Analysis of turnover by geography:		
North America	3,702	3,700
United Kingdom	508	488
Rest of Europe	3,105	3,619
Rest of the World	2,706	2,130
	10,021	**9,937**

All of the company's turnover is attributable to the same category.

6. Operating profit

	2019 £'000	2018 £'000
Operating profit is stated after charging/(crediting):		
Depreciation	153	158
Inventory recognised as an expense	2,638	2,394
Impairment of inventory/(Reversal of impairment)	13	18
Operating lease charges	151	151
Audit fees payable to the company's auditors	42	43
Research and development	879	786
Foreign exchange losses/(gains)	99	(49)

Notes to the financial statements (continued)

6. Operating profit (continued)

In accordance with SI 2008/489 the company has not disclosed the fees payable to the company's auditors for "Other services" as this information is included in the consolidated financial statements of EXC Holdings I Corp. In 2019 these were included in the consolidated financial statements of Excelitas Technologies Holding Corp.

7. Employees and directors

The average monthly number of persons (including executive directors) employed by the company during the period was:

By activity	2019 No.	2018 No.
Administration	28	28
Production	45	42
	73	**70**

	2019 £'000	2018 £'000
Wages and salaries	2,522	2,612
Social security costs	253	228
Other pension costs	119	106
Staff costs	**2,894**	**2,946**

Directors

The directors' emoluments were as follows:	2019 £'000	2018 £'000
Aggregate emoluments	213	307
Company contributions to defined contribution scheme	5	-
	218	**307**

Two directors (2018: one director) are members of a defined contribution scheme.

	2019 £'000	2018 £'000
The emoluments of the highest paid director were as follows:		
Aggregate emoluments	**133**	**307**

Notes to the financial statements (continued)

7. Employees and directors (continued)

Directors (continued)

Two of the remaining directors received no emoluments from the company in the period (2018: nil).

Two of the Directors of the company are subject to service agreements with and remunerated by other group companies. It is not possible to make an accurate apportionment of their emoluments relating to the services provided to the company.

8. Interest receivable and similar income	2019 £'000	2018 £'000
Interest receivable from Excelitas Group undertakings	257	181

9. Exceptional item - loan waiver	2019 £'000	2018 £'000
Parent loan waived	6,650	-

During the period the Group embarked on a re-structuring programme for its European companies. As a result of this the company waived the full amount of the loan receivable from its immediate parent undertaking, Qioptiq UK Holdings Limited.

10. Tax on profit

(a) Tax expense included in profit or loss	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on profit for the period	440	614
Adjustment in respect of prior periods	(14)	11
	426	625

Notes to the financial statements (continued)

10. Tax on profit (continued)

(b) Reconciliation of tax charge

The tax assessed for the period is higher (2018: higher) than the standard rate of corporation tax in the UK for the period ended 29 December 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
(Loss)/Profit on ordinary activities before taxation	**(4,057)**	**3,186**
(Loss)/Profit on ordinary activities multiplied by the standard rate of tax in the UK of 19% (2018: 19%)	(771)	605
Effects of:		
Parent company loan waiver	1,264	-
Impact of unrecognised tangible asset timing differences	(51)	4
Research and development relief	(10)	(9)
Adjustment in respect of prior periods	(14)	11
Impact of other unrecognised timing differences	8	14
Tax charge for year	**426**	**625**

(c) Tax rate changes

The UK corporation tax rate was expected to reduce from 19% to 17% on 1 April 2020. These rates had been substantively enacted at the statement of financial position date and have therefore been included in the deferred tax calculations. The March 2020 budget announced that the reduction in tax rate would be cancelled and the 19% rate retained after 1 April 2020.

Notes to the financial statements (continued)

11. Tangible assets

Cost	Plant and Machinery £'000	Fixtures and Fittings £'000	Leasehold Improvements £'000	Total £'000
At 30 December 2018	2,641	543	1,186	**4,370**
Additions	345	8	10	**363**
At 29 December 2019	**2,986**	**551**	**1,196**	**4,733**
Accumulated depreciation				
At 30 December 2018	2,396	542	1,079	**4,017**
Depreciation	119	2	32	**153**
At 29 December 2019	**2,515**	**544**	**1,111**	**4,170**
Net book amount				
At 29 December 2019	**471**	**7**	**85**	**563**
At 30 December 2018	245	1	107	353

12. Inventories	2019 £'000	2018 £'000
Raw materials and consumables	1,491	1,294
Work in progress	191	195
Finished goods and goods for resale	25	42
	1,707	**1,531**
Provision for impairment	(671)	(657)
	1,036	**874**

Notes to the financial statements (continued)

13. Debtors	2019 £'000	2018 £'000
Trade debtors	1,251	1,255
Amounts owed by group undertakings	1,035	5,271
Other debtors	101	61
Prepayments and accrued income	79	84
	2,466	**6,671**

All the amounts disclosed above are due within one year.

With the exception of an unsecured loan of £0 (2018: £4,810,000) due from the from the immediate parent undertaking which carries interest at a 3 month LIBOR rate plus a margin of 3.78% and has no fixed repayment date, amounts owed by group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

The deferred taxation asset in the financial statements is as follows:

	Unrecognised		Recognised	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Excess of capital allowances over depreciation	**25**	**78**	**-**	**-**

The deferred tax asset is treated as unrecognised on the grounds that it is immaterial in context of the company's results. A deferred tax asset would be recognised if it were material.

14. Creditors: amounts falling due within one year	2019 £'000	2018 £'000
Trade creditors	636	783
Amounts owed to group undertakings	1,518	867
Taxation and social security	92	94
Accruals and deferred income	375	464
	2,621	**2,208**

The amounts owed to group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

Notes to the financial statements (continued)

15. Provision for other liabilities	2019 £'000	2018 £'000
Warranty provision	63	66

This comprises the warranty provision which is expected to be utilised over the company's maximum warranty period of 24 months.

16. Post employment benefits

The company operates a defined contribution pension scheme. The amount recognised as an expense for the defined contribution scheme was:

	2019 £'000	2018 £'000
Current period contributions	119	106

17. Called up share capital	2019 £'000	2018 £'000
Ordinary shares of £1.00 each		
Allotted and fully paid (88,000 shares, 2018: 88,000)	**88**	88

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

18. Share premium account	2019 £'000	2018 £'000
Share premium	**147**	**147**

Notes to the financial statements (continued)

19. Net cash from operating activities	2019 £'000	2018 £'000
(Loss)/Profit for the financial period	**(4,483)**	**2,561**
Tax on (loss)/profit	426	625
Interest receivable	(257)	(181)
Parent company loan waiver	6,650	-
Operating profit	**2,336**	**3,005**
Depreciation	153	158
Working capital movements:		
Inventory	(162)	(215)
Debtors	(2,445)	(1,910)
Creditors	585	(80)
Cash flow from operating activities	**467**	**958**

20. Capital and other commitments

The company had no capital commitments at 2019 (2018:£nil)

The company had the following future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:

	2019 £'000	2018 £'000
Not later than one year	151	151
Later than one year and not later than five years	25	176
	176	**327**

No future minimum lease payments under non-cancellable operating leases are due later than five years.

Notes to the financial statements (continued)

21. Controlling parties

The immediate parent undertaking of the company is Qioptiq UK Holdings Limited, a company registered in England and Wales.

The largest and smallest group which includes the company and for which consolidated financial statements are prepared is EXC Holdings I Corp. A copy of the consolidated financial statements of EXC Holdings I Corp. can be obtained from its registered office, given below.

The ultimate controlling party of the Group is EXC Holdings LP, a partnership incorporated in the United States of America and whose registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801 United States of America.
The capital of EXC Holdings LP is beneficially owned by certain funds managed by AEA Investors LP.