

Hottinger Bruel & Kjaer UK Ltd

Annual Report and Unaudited Financial Statements

Registered number 1589921
31 December 2022



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Strategic Report *(continued)*

Key indicators

	2022	2021
Sales Growth (sales as reported on page 7)		
HBK Hardware Products	21%	17%
HBK Software Products	15%	9%

In 2022 sales of HBK Hardware Products increased by £426,000 (2021: £912,000 increase); a modest increase following from 2021 improving market conditions, sales opportunities fuelled in prior year and the success of new product developments.

Software Products sales in 2022 increased by £1,897,000 (2021: £858,000 increase), driven by direct sales activities.

Hardware sales generated from VTS vibration test equipment during the year 2022 were £17,187,000 (2021: £13,401,000). Hardware sales for 2021 were for period 1st May 2021 to 31st Dec 2021 after asset transfer.

Recurring Revenues

The Company continues to monitor recurring revenues as a means of helping to secure future profit. In 2022 HBK UK secured a recurring sales base of £4,506,000 (2021: £3,900,000) representing 28% of administrative expenses (2021: 27%).

Gross Margin %

The overall gross margin % increased in 2022 slightly to 51% (2021:47%). This is mainly due to gross margin increase for VTS hardware to 27% (2021:14%). HBK Hardware margin increased to 31% (2021:30%).

Net return on Sales %

Reported sales increased by 19%, due to sales generated after the asset transfer of Bruel & Kjaer VTS UK). Administrative expenses increased by 33% mainly due to executives' salaries and Intercompany recharge for Vimana Platform.

As a result, the Company delivered an operational 11% return on sales which is consistent with 2021 results. The directors are confident that the level of return will continue to improve between 2022 and 2023 results.

Principal risks and uncertainties

The process of risk management is addressed through a set of policies, procedures, and internal controls. Framework policies are defined at Group level and are implemented and subject to ongoing review by management and internal audit.

Compliance with regulation, legal and ethical standards is a high priority for the Group and the compliance team take on an important oversight in this regard. The internal audit team and local finance department are responsible for satisfying themselves that a proper internal control framework exists to manage financial risks and that controls operate effectively.

The Group has developed a framework for identifying risks that each business sector, and the Group as a whole, is exposed to and the likely impact. A key risk to the software business is the security of intellectual property. The Company has a robust set of policies for securing software source code and for maintaining adequate disaster recovery plans, both reviewed on a regular basis.

Strategic Report *(continued)*

Future developments

The Company continues with an active programme of investment and development of its products; in particular, the Company will focus on development needs to enable the business to take advantage of opportunities in new business sectors and to maintain its position within existing sectors.

By order of the Board

Paul Beardsworth

P BEARDSWORTH

Director

Advanced Manufacturing Park
Technology Centre
Brunel Way
Catcliffe
Rotherham
South Yorkshire
S60 5WG

19th september 2023

Directors' Report

Results and dividends

The Company made a profit after tax in the year of £2,779,000 (2021: £2,464,000). The company did not pay any interim dividend to its parent company during the year (2021: £nil). The Directors do not recommend a payment of a final dividend.

Directors

The Directors who held office during the year were:

Ben Bryson
Paul Beardsworth
Nina Viola Rosen

Future developments

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2-4.

By order of the Board



P BEARDSWORTH
Director

Advanced Manufacturing Park
Technology Centre
Brunel Way
Catcliffe
Rotherham
South Yorkshire
S60 5WG

19th september 2023

Statement of directors' responsibilities in respect of the Strategic Report and the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Income Statement for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	2	39,800	33,466
Cost of sales		(19,390)	(17,879)
Gross profit		20,410	15,587
Administrative expenses		(16,607)	(12,187)
Restructuring		(975)	(453)
Operating profit	3	2,828	2,945
Finance income	5	362	28
Finance expense	6	(68)	(65)
Profit before income tax		3,122	2,909
Tax on profit	7	(343)	(445)
Profit for the financial year		2,779	2,464

Results for the year ended 31 December 2022 and 31 December 2021 are derived wholly from continuing operations.

There was no other comprehensive income and therefore the total comprehensive income is the same as that presented in the Income Statement.

The notes on pages 10 to 23 are an integral part of these unaudited financial statements.

Statement of Changes in Equity

For the year ended 31 December 2022

	Called up Share capital	Capital Redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2022	98	466	30,177	30,741
Share based payments, net of tax	-	-	(251)	(251)
Total comprehensive income for the year	-	-	2,779	2,779
Balance at 31 December 2022	98	466	32,705	33,269

	Called up Share capital	Capital Redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2021	98	466	27,586	28,150
Share based payments, net of tax	-	-	127	127
Total comprehensive income for the year	-	-	2,464	2,464
Balance at 31 December 2021	98	466	30,177	30,741

The notes on pages 10 to 23 are an integral part of these unaudited financial statements.

Statement of financial position

As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Non-current assets			
Intangible assets	8	10,996	11,720
Property, plant, and equipment	9	2,393	2,562
Investment in associate	10	2,900	-
		16,289	14,282
Current assets			
Inventories	11	5,871	4,562
Trade and other receivables	12	49,749	61,896
Cash and cash equivalents		2,722	2,845
		58,342	69,303
Total assets		74,631	83,585
LIABILITIES			
Current liabilities			
Trade and other payables	13	(40,053)	(51,086)
Lease liabilities		(334)	(652)
Provisions	14	(271)	(240)
		(40,658)	(51,978)
Net current assets			31,607
Non-current liabilities			
Lease liabilities		(359)	(517)
Provisions	14	(345)	(349)
		(704)	(866)
Total liabilities		(41,362)	(52,844)
Net assets		33,269	30,741
Equity			
Called up share capital	15	98	98
Capital redemption reserve		466	466
Retained earnings		32,705	30,177
Total equity attributable to owners of the Company		33,269	30,741

The notes on pages 10 to 23 are an integral part of these unaudited financial statements.

For the financial year ending 31 December 2022, the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies.

No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The Directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of the accounts.

The financial statements on pages 7 to 23 were authorized for issue by the Board of Directors on 24 August 2022 and were signed on its behalf by:

Paul Beardsworth

P Beardsworth
Director

Company Registration No. 01589921

Notes to the Accounts

1. Basis of preparation and summary of significant accounting policies

Hottinger Bruel & Kjaer UK Ltd (the "Company") is a private company limited by shares and incorporated and domiciled in the UK.

a) Basis of preparation

The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- Disclosures in respect of the compensation of key management personnel.
- A Cash Flow Statement and related notes.
- Comparative period reconciliations for share capital, tangible fixed assets, and intangible fixed assets.
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs'.

As the consolidated financial statements of Spectris plc include the equivalent disclosure the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement, and the disclosures required by IFRS 7 Financial Instrument Disclosures: and
- IFRS 2 Share Based Payments in respect of group settled share-based payments.
- Disclosures of transactions with other wholly owned subsidiaries

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Going concern

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements

Notes to the Accounts *(continued)*

b) Summary of significant accounting policies

Intangible assets

The Company does not amortise goodwill but reviews it for impairment on an annual basis or whenever there are indicators of impairment. This is not in accordance with the Companies Act 2006 which requires goodwill to be amortised over its useful economic life. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act 2006. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and impairment losses. The cost comprises the purchase price paid and any costs directly attributable to bringing it into working condition for its intended use.

The depreciation charge is revised where useful lives are different from those previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

Leasehold improvements - Remainder of lease term
Fixtures & Fittings - 5 to 10 years
Computer Equipment - 3 years

Notes to the Accounts *(continued)* **Summary of significant accounting policies** *(continued)*

Investment in associate

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale. Under the equity method, an investment in an associate is recognised initially in the Statement of Financial Position at cost and adjusted thereafter to recognise the share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds its interest in that associate, the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Joint Operation

Joint arrangements are contractual arrangements which the Company has entered into with one or more parties to undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity and exists only when decisions relating to the relevant activities require the unanimous consent of the parties sharing the control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As a result, the Company recognises its interest in the joint operation, including its share of any assets, liabilities, revenue and expenses of the joint operation. The Company accounts for the assets, liabilities, revenue and expenses relating to its interest in a joint operation in accordance with the FRS Standards applicable to the particular assets, liabilities, revenue and expenses.

Inventories

Inventories and work in progress are carried at the lower of cost and net realisable value. Inventories acquired as part of business combinations is valued at fair value less cost to sell. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the stock to its existing location and condition. In the case of manufacturing inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Inventories is accounted for on a first-in, first-out basis or, in some cases, a weighted average basis is used if deemed more appropriate for the business. Provisions are made to write down slow-moving, excess, and obsolete items to net realisable value, based on an assessment of technological and market developments and on an analysis of historic and projected usage regarding quantities on hand.

Trade and other receivables

Trade and other receivables are carried at original invoice amount (which is considered a reasonable proxy for fair value) and are subsequently held at amortised cost less provision for impairment. The provision for impairment of receivables is based on lifetime expected credit losses. Lifetime expected credit losses are calculated by assessing historic credit loss experience, adjusted for factors specific to the receivable. The movement in the provision is recognised in the Income Statement.

Cash at bank and in hand and short-term deposits

Comprises cash at bank and in hand and short-term deposits held on call or with maturities of less than three months at inception.

Trade and other payables

Trade and other payables are carried at the amounts expected to be paid to counterparties.

Notes to the Accounts *(continued)*

Summary of significant accounting policies *(continued)*

Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to settle the obligation. In respect of warranties, a provision is recognised when the underlying products or services are sold. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the Company's liability. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised but are disclosed where an inflow of economic benefit is probable. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case tax is recognised in the Statement of Comprehensive Income or the Statement of Changes in Equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustments to tax payable in respect of prior years.

Deferred taxation is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases. Deferred tax is measured using the tax rates expected to apply when the asset is realised, or the liability settled based on tax rates enacted or substantively enacted by the statement of financial position date.

However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The functional currency for the Company is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses on settlement of foreign currency transactions are translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates and are charged/credited to the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

Employee benefits

The Company operates defined contribution pension schemes.

Notes to the Accounts *(continued)*
Summary of significant accounting policies *(continued)*
Employee benefits *(continued)*

Defined contribution scheme

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the Income Statement in the periods during which services are rendered by employees.

Share-based payments

Certain employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each statement of financial position reporting date up to the vesting date, at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Revenue from the provision of services, including ongoing support, servicing and maintenance, is recognised in line with the delivery of the service, either at a point in time or, for some ongoing services, over time. Revenue from the sale of goods, where the goods are not required to be installed, is recognised at a point in time when legal title transfers to the customer on delivery.

Occasionally, the initial contract covers both the supply of goods and ongoing support, servicing and maintenance. For such contracts, revenue is allocated across each of the individual components in line with their relative price and value of the performance obligation and each element is accounted for as described above. Payment is normally due at the point that the performance obligation is completed. For some of the segment's business the customer may make partial payment in advance. Such payments are recognised as contract liabilities until the performance obligation has been satisfied.

Interest payable and similar charges and interest receivable and similar income

Interest receivable and similar income comprises interest income on cash and funds invested and is recognised in the Income Statement as it accrues.

Research and development

Self-funded research and development costs are charged to the Income Statement in the year in which they are incurred unless development expenditure meets certain strict criteria for capitalisation. These criteria include demonstration of the technical feasibility, intent of completing a new intangible asset that is separable and that the asset will generate probable future economic benefits. From the point where expenditure meets the criteria, development costs are capitalised and amortised over the useful economic lives of the assets to which they relate.

Financial instruments

Recognition

The Company recognises financial assets and liabilities on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Notes to the Accounts *(continued)*
Summary of significant accounting policies *(continued)*
Financial instruments *(continued)*

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value, being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Loans and receivables comprise loans and advances other than purchased loans. Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and receivables are derecognised on the date they are transferred by the company.

Where the Company enters financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise: fixed lease payments (including in substance fixed payments), less any lease incentives; variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; the amount expected to be payable by the lessee under residual value guarantees; the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Notes to the Accounts *(continued)***Summary of significant accounting policies** *(continued)***Leases** *(continued)*

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have had a material impact on the Company's financial statements.

Accounting estimates and judgements

Management does not consider there to be any significant judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses, in the preparation of the financial statements.

2. Revenue

During the year, assets acquired from Bruel & Kjaer VTS Ltd were transferred to Hottinger Bruel & Kjaer UK Ltd, this also generated revenue from continuing operations.

	2022	2021
	£'000	£'000
An analysis of the Company's revenue is as follows:		
Sale of software packages, recognised at a point in time	4,506	3,941
Sale of goods, recognised at a point in time	25,110	6,341
Sale of goods, recognised at a point in time – VTS products*	-	13,869
Services rendered, recognised over time	10,184	9,315
Revenue from continuing operations	39,800	33,466

*2021 was the year of asset transfer between VTS and HBK UK and first year for HBK UK to include VTS sales of goods in its revenue. For 2022, VTS related sales are included in the 'Sale of goods' number of £25,110k (2021 total: £20,210k).

	£'000	£'000
UK	15,686	15,498
Europe	12,151	6,671
North America	6,751	7,258
Rest of the World	5,212	4,039
	39,800	33,466

3. Operating profit

	2022	2021
	£'000	£'000
Operating profit has been arrived at after charging:		
Net foreign exchange gains	(313)	(38)
Research and development expenditure - including staff costs	2,923	2,061
Depreciation of property, plant, and equipment: owned assets	421	86
Depreciation of right-of-use assets	511	442

Policy on development costs is to capitalise when the criteria are met. No such costs were capitalised in the year.

4. Employee numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2022	2021
	Number	Number
Technical and professional	180	179
General and administration	18	16
	198	195

Notes to the Accounts (continued)**Employee numbers and costs** (continued)

	2022 £'000	2021 £'000
Wages and salaries	12,334	8,681
Social security costs	1,500	1,119
Other pension costs	1,150	888
	14,984	10,688

	2022 £'000	2021 £'000
Directors' remuneration:		
Short term benefits	596	434
Company contributions to money purchase pension schemes	40	33
	636	467

All remaining directors were remunerated by other Group companies, including LTIP awards from Spectris plc

Number of Directors	2022	2021
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2

Retirement benefits accruing to the remaining directors are disclosed in the relevant accounts for which the amount is accrued.

5. Finance income	2022 £'000	2022 £'000
Interest (payable)/receivable from Group undertaking	327	-
Unwinding of discount factor on lease liabilities	35	28
	362	28

6. Finance expense	2022 £'000	2021 £'000
Foreign exchange adjustment	(68)	(65)

7. Tax on profit	2022 £'000	2021 £'000
Tax charged in the Income Statement		
Current tax:		
UK corporation tax	626	516
Adjustments in respect of prior years	17	1
Total current tax charge	643	517
Deferred tax:		
Origination/reversal of temporary differences	(184)	(35)
Change in tax rates	0	(37)
Adjustments in respect of prior years	(116)	-
Total deferred tax credit	(300)	(72)
Total tax charge in the Income Statement	343	445

Tax relating to items charged/(credited) directly to the Statement of Changes in Equity

	2022 £'000	2021 £'000
Deferred tax:		
Share based payments	251	(127)
Total deferred tax charge/(credit)	251	(127)
Total charge/(credit) to the Statement of Changes in Equity	251	(127)

Notes to the Accounts *(continued)***Tax on profit** *(continued)***Reconciliation of the total tax charge**

The tax charge in the Income Statement for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

	2022 £'000	2021 £'000
Profit before taxation	3,122	2,909
Corporation tax at standard rate of 19% (2021: 19%)	593	553
Effects of:		
Non-deductible expenditure	66	8
Other current year items	(217)	(80)
Change in tax rates	-	(37)
Adjustments to prior year current and deferred tax charges	(99)	1
Total tax charge reported in the Income Statement	343	445

Deferred Taxation

The deferred tax included in the statement of financial position is as follows:

	2022 £'000	2021 £'000
Deferred tax asset		
Temporary difference relating to property, plant, and equipment	242	159
Share based payments	258	298
Temporary difference relating to other items	24	18
	524	475
Disclosed in the statement of financial position (note 12)		
Deferred tax asset	524	475

	2022 £'000	2021 £'000
Deferred tax in the Income Statement		
Temporary difference relating to property, plant, and equipment	20	(13)
Temporary difference relating to other items	(204)	(22)
Change in tax rate	0	(37)
Adjustments in respect of prior years	(116)	-
Deferred tax credit to the Income Statement	(300)	(72)

Notes to the Accounts *(continued)*

8. Intangible assets

	Goodwill £'000	Technology Related £'000	Software Related £'000	Customer Relationship £'000	Total £'000
Cost					
At 1 January 2022	5,352	7,204	795	52	13,403
Additions	-	-	-	-	-
At 31 December 2022	5,352	7,204	795	52	13,403
Accumulated amortisation and impairment					
At 1 January 2022	565	300	777	41	1,683
Charge for the year	-	720	-	4	724
At 31 December 2022	565	1,020	777	45	2,407
Carrying amount					
At 31 December 2022	4,787	6,183	18	7	10,996
At 31 December 2021	4,787	6,904	18	11	11,720

Goodwill

Goodwill is allocated to two cash generating units that are anticipated to benefit from the acquisition.

	2022 £'000	2021 £'000
Carrying amount of goodwill allocated to cash generating units		
Hardware Products Division	1,787	1,787
Software Products Division	3,000	3,000
Total Goodwill	4,787	4,787

The Company has no internally generated intangible assets from development expenditure as the criteria for the recognition as an asset under IAS 38 'Intangible Assets' have not been met (2021: nil).

For the current year, the recoverable amount of the assets was taken to be their value in use and was calculated by reference to the forecast cash flows.

The present value of the future cash flows has been calculated with the following key assumptions:

- Operating profits assume annual growth in line with historical performance with expected cash conversion of 75%.
- Cash flows into perpetuity have not been incorporated into the calculations.
- A post tax discount rate of 10.6% (2021: 7.2%) has been used in the forecast.

Notes to the Accounts *(continued)***9. Property, plant, and equipment: owned assets**

Cost	Leasehold Improvements £'000	Plant and Equipment £'000	Total £'000
At 1 January 2022	2,312	4,357	6,669
Additions	53	543	596
Disposals	-	(417)	(417)
At 31 December 2022	2,365	4,483	6,848
Accumulated depreciation			
At 1 January 2022	1,770	3,315	5,085
Charge for the year	163	259	422
Disposals	-	(417)	(417)
At 31 December 2022	1,933	3,157	5,090
Carrying amount			
At 31 December 2022	432	1,326	1,758
At 31 December 2021	542	1,042	1,584

Property, plant, and equipment: right-of-use

Cost	Property £'000	Plant and equipment £'000	Total £'000
At 1 January 2022	6,601	179	6,780
Additions	251	117	368
Disposal	(315)	(32)	(347)
At 31 December 2022	6,537	264	6,801
Accumulated depreciation			
At 1 January 2022	5,693	109	5,802
Charge for the year	245	151	396
Disposals	-	(32)	(32)
At 31 December 2022	5,938	228	6,166
Carrying amount			
At 31 December 2022	600	35	635
At 31 December 2021	908	70	978

Total property, plant, and equipment:

	2022 £'000	2021 £'000
Property, plant, and equipment: owned	1,758	1,584
Property, plant, and equipment: right-of-use	635	978
At 31 December	2,393	2,562

Notes to the Accounts *(continued)*

10. Investment in associate and joint operation

Investment in associate

On 8 April 2022, the company acquired 19.4% (17.2% fully diluted) of the shares of CM Labs Simulations Inc. ('CM Labs') for total consideration of CAD4.3m (£2.6m), settled in cash. CM Labs is a manufacturer of turnkey solutions for operator training simulators in the heavy equipment industries. These simulators are developed using CM Labs' proprietary Vortex software, which is also commercially available as a machinery virtual prototyping software platform for tasks ranging from product development to creation of custom simulators. Its principal place of business is Montreal, Quebec, Canada. As a result of the rights and powers attached to this shareholding, the company has concluded that it has significant influence and, as result, will equity account for its share of CM Labs' results, as an investment in associate.

The investment carrying value at 31 December 2022 is £2.9m, consisting of the initial purchase consideration of £2.6m and transaction costs of £0.3m. The share of profit after taxation was nil. The company did not receive dividends from its associate in the year (2021: nil).

Summarised financial information in respect of the company's individually immaterial associate is set out below. The summarised information has been presented in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101" after adjustments by the Company for equity accounting purposes and to comply with the Company's accounting policies).

Joint Operation

The company's joint operation has share capital consisting solely of ordinary shares and is indirectly held, and principally operates in Slovenia. The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for all but an insignificant amount of the output to be consumed by the shareholders.

Blueberry d.o.o. is a joint arrangement that is primarily designed for the provision of output to the parties sharing joint control (50%/50%); this indicates that the parties have rights to substantially all the economic benefits of the assets. Principal place of business in Slovenia. The liabilities of the arrangements are in essence satisfied by cash flows received from both parties; this dependence indicates that the parties in effect have obligations for the liabilities. It is these facts and circumstances that give rise to the classification of this entity as a joint operation.

Investment in associate and joint operation *(continued)*

	2022	2021
	£'000	£'000
Investment in associate – carrying amount of interest accounted for using the equity method	2,900	-
Share of associate's profit from continuing operations	-	-
Share of associate's other comprehensive income	-	-
Share of associate's total comprehensive income	-	-
At December 2022	2,900	-

11. Inventories

	2022	2021
	£'000	£'000
Raw materials	3,014	2,102
Finished goods	2,857	2,460
At December 2022	5,871	4,562

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sale in the year amounted to £7,649k (2021: £6,094k). The write-down of inventories to net realisable value amounted to a release of £172k (2021: £236k). The release is included in cost of sale.

Notes to the Accounts *(continued)***12. Trade and other receivables**

	2022	2021
	£'000	£'000
Trade receivables	5,419	10,767
Amounts owed by group undertakings	42,474	43,123
Other receivables	1,123	4,240
Prepayments and accrued income	209	3,292
Deferred tax (note 7)	524	475
At December 2022	49,749	61,896

13. Trade and other payables

	2022	2021
	£'000	£'000
Amounts falling due within one year:		
Trade payables	2,104	4,490
Amounts owed to group companies	1,387	5,873
Current tax liability	626	626
Taxation and social security	357	906
Accruals	29,634	34,129
Deferred income	5,945	5,062
At December 2022	40,053	51,086

14. Provisions

	Product Warranty	Dilapidation	Total
	£'000	£'000	£'000
At January 2022	480	109	589
Charge for the year	-	27	27
At December 2022	480	136	616

Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the Group's standard terms and conditions. Warranty commitments typically apply for a 24-month period. These extended warranties are not significant

Dilapidation

The Company has 3 leased offices, under the terms of the lease the Company is to return the properties to the condition as at the start of the lease. The dilapidation provision represents the cost to return the leased properties in their original condition at the end of the lease term.

15. Share capital

	2022	2021
	£'000	£'000
Allotted, called up and fully paid		
98,055 Ordinary shares of £1 each	98	98

16. Contingent liabilities

Where the Company enters into financial guarantee contract to guarantee the indebtedness of other companies within its Group the Company considers these to be insurance arrangements in accordance with the requirements of IFRS 4 and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Accounts *(continued)*

Contingent liabilities *(continued)*

HBK UK Limited and other UK subsidiaries of the Spectris Group are party to a cross-guarantee arrangement to support trade finance facilities entered in the normal course of business. They are also party to a cross-guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit of the Spectris Group.

As with other members of the Spectris Group, the Company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding:

	2022 £'000	2021 £'000
Royal Bank of Scotland	2,215	2,200

17. Lease liabilities

2022 – Undiscounted lease liability maturity analysis

	Property £'000	Plant and equipment £'000	Total £'000
Within one year	328	26	354
More than one year but less than five years	194	11	205
Greater than five years	171	-	171
	693	37	730

2021 – Undiscounted lease liability maturity analysis

	Property £'000	Plant and equipment £'000	Total £'000
Within one year	625	51	676
More than one year but less than five years	233	26	259
Greater than five years	276	11	287
	1,134	88	1,222

18. Ultimate parent company

The Directors regard Spectris plc, a company incorporated in the United Kingdom, to be the ultimate parent undertaking. The consolidated accounts of this Company are available to the public and may be obtained from: Melbourne House, 44-46 Aldwych, London, WC2B4LL, United Kingdom.