

Annual Report and Financial Statements

For the year ended 29 December 2019

Qioptiq Limited

Registered number: 00876004



Qioptiq Limited

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Qioptiq Limited

Strategic report for the year ended 29 December 2019

The directors present their Strategic report on the Company for the year ended 29 December 2019.

Principal activities

The principal activities of the Company were the design, development, repair, manufacture and assembly of specialised optical modules, sub-assemblies and components for use in military and commercial markets.

Business review

Turnover increased by 3% in 2019 to £94.7 million. The overall turnover demonstrated modest growth in 2019, with different segments of the business experiencing different market dynamics. Revenue in commercial avionics applications increased strongly as that industry prepared to be compliant with Chinese aviation regulations. Conversely, there was a delay in some of the programmes in the surveillance & target acquisition module business.

There was significant progress on business capture in the second half of the year for the Avionics and Land business units. The new orders arrived too late in the year for 2019 revenue, but will support strong performance in 2020.

The continued increase in revenue in an international, competitive marketplace provides clear evidence that the business strategy is robust and is being effectively implemented by the Management team.

On 23 December 2019 Qioptiq Europe Limited (QEL) and Qioptiq Holdings UK Limited (QUKHL) undertook a series of steps to restructure their legal entities and simplify their entire entity debt structure with the objective of eventually bringing its indirectly owned German business entities under a single structure and start the liquidation process for certain entities in which there is no longer active business activities.

As part of the restructure Qioptiq Limited undertook a share capital reduction of £18,699,864 in order to increase distributable reserves. A dividend was then issued for £21,399,153 to QUKHL.

In addition Qioptiq Limited waived its intercompany receivable due from QUKHL amounting to £23,135,302 and legal cost of £42,000 were also incurred resulting in an exceptional item which has been disclosed separately on the face of the Statement of Comprehensive Income amounting to £23,177,302. This has resulted in total comprehensive expense for the year before tax £2,521,000 (2018 total comprehensive income before tax: £15,265,000).

Key performance indicators (“KPIs”)

Excelitas monitors performance of its subsidiaries at local and divisional levels. KPIs material to understanding these financial statements are below.

	2019 £'m	2018 £'m
Order Intake	104.5	80.0
Turnover	94.7	91.5
EBITDA	17.1	17.5

Order Intake representing the sales value of orders received from customers, is both an absolute measure of performance and indication of future turnover.

Turnover is the value recognised for finished goods shipped and services provided and is indicative of short-term cash generation.

Excelitas measures **EBITDA**, (operating profit before interest, tax, depreciation and amortisation), as a comparable long-term indicator of performance.

Qioptiq Limited

Strategic report for the year ended 29 December 2019 (continued)

Future developments & business strategy

Demand for global defence applications remains strong, and the Company continues to bid for programmes in Europe, US, the Middle East and Australasia. The Company won significant programs in the Avionics and Land (Dismounted Soldier) parts of the business which resulted in an effective book to bill ratio of greater than 1.2 for the whole Company.

In 2019, the Company benefited from prior year investment in its core "new product introduction" process which is reducing time to market for additions to the product range. Investment continues in both capacity and capability of the Company production capabilities to support current and future products

The Company continues to invest in core technology that will provide the building blocks for future product differentiation.

Financial risk management and related policies

The Company's principal financial instruments comprise cash and cash equivalents. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the companies operating activities. The main purpose of these financial instruments is to provide finance for the companies on going activities. It is, and has been throughout the period of review, the Company's policy that no trading in financial instruments should be undertaken

The main risks arising from the Company's financial instruments are credit risk, foreign currency risk, liquidity risks and interest rate risk.

Credit risk: The Company's principal financial assets are trade receivables. The Company monitors customers' credit worthiness and payment performance.

Foreign currency risk: Through its sales and purchase transactions, the Company is exposed to fluctuations in exchange rates of currencies against Sterling, the functional currency. To mitigate this the Company has the option to renegotiate the sales price in contracts if fx rates fluctuate at a greater rate than the percentage stated in the contract.

Cash flow and liquidity risk: As part of group treasury processes, the Company monitors its short term liquidity by means of regular cash forecasts, to enable it to meet financial liabilities as they fall due.

Interest rate risk: The Company has floating rate debt with group undertakings, but the directors consider the risks do not require mitigation.

Qioptiq Limited

Strategic report for the year ended 29 December 2019 (continued)

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties.

- With its focus on the market for defence applications, the company depends on government policy, budgetary pressures and how governments, particularly in UK and US, address global uncertainty. Contract awards are subject to uncertainty, evolving requirements, delay or cancellation.
- In an environment of constrained government spending, the company needs to successfully win contracts by demonstrating technical advantages and value for money.
- To sustain its presence in the defence market, the company must comply with laws and regulations and has embedded systems to manage compliance.
- The timing of turnover, earnings and cash generation depends on converting bids to orders and on structuring agreements to optimise cash requirement over the life of the contract. The company invests resource into technical, regulatory and commercial feasibility of its contracts.
- The commercial business depends on the civil aviation market, which is sensitive to global economic shocks. The timing of demand for commercial space optics is linked to satellite launch activity.

In addition to the above risks. In December 2019, a novel strain of coronavirus, now referred to as COVID-19, surfaced in Wuhan, China. COVID-19 has spread globally, including the United Kingdom and has been declared a global pandemic by the World Health Organization. The impact of this pandemic has been and will likely continue to be extensive in many aspects of society, which has resulted in and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world.

Impacts to the Company include temporary closures of some of our customers and our suppliers, disruptions or restrictions on our employees' and customers' ability to travel and delays in product shipments to and from affected countries. In an effort to halt the outbreak of COVID-19, a number of countries, including the United Kingdom, continue to place significant restrictions on travel and many businesses have announced extended closures. Following the United Kingdom issuing stay-at-home orders we have ensured that all people that can work from home have done so without adversely affecting the performance of the business.

These travel restrictions, business closures and operating reductions at the Company, its customers, and suppliers could adversely impact operations, including the ability of the Company or its suppliers to manufacture and sell products. Prolonged material disruption of the Company's employees, distributors, suppliers or customers could adversely impact its global sales, operating results and cash flows that could also lead to asset impairment charges.

The Company is evaluating various tax incentives offered by governments as a result of COVID-19, but does not anticipate that these incentives will have a material impact on the Company.

The business activities of the Company have been defined as "Vital in supporting the critical output for Defence and Aerospace programs" by a significant number of the Company's customers, including, but not limited to the UK MoD. The Company has therefore remained open throughout the COVID 19 pandemic, as of the time of signing the financial statements.

To ensure safe working conditions for its employees, the Company successfully implemented a number of initiatives for safe working (including canteen, increased cleaning, screens, training, social distancing). A significant percentage (approx. 28%) of employees have been given capability to work off site and are working effectively to support the business operations.

Qioptiq Limited

Strategic report for the year ended 29 December 2019 (continued)

Directors duties

The Directors of the Company must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK companies act 2006 which is summarised as follows:

"A director of a Company must act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

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

The following paragraphs detail how the directors fulfil their duties:

Risk management

As we grow as a Company our business and risk environment also becomes more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks that we face, and that we continue to evolve our approach to risk management. For details of our principal risks and uncertainties please see page 2 of the strategic report

Employees

The Company is committed to being a responsible employer. For our business to succeed we need to manage our people's performance and develop and bring through talent whilst ensuring we operate as effectively as possible

We must also ensure our Company goals are visible and communicated to our employees to ensure alignment. For details of our employees please see page 6 of the directors report

Business relationships

In order to grow our business we need to develop strong customer and supplier relationships. Details of this can be found on page 7 of the directors report

Community & environment

As a large employee in our region we have several initiatives that ensure we give back to our local community. These include monetary donations as well as donations of supplies and Company staff time. As a manufacturing Company we comply with all legal requirements to ensure the local environment is protected

On behalf of the Board



P White, Director

17th November 2020

Qioptiq Limited

Directors report for the year ended 29 December 2019

The directors present their report and the audited financial statements of the Company (registered number 00876004) for the year ended 29 December 2019.

The Company's parent undertaking prepares financial statements to the Sunday falling closest to the end of the calendar year. As the year end date may vary in any year between 28 December and 3 January, the Company has aligned its reporting year to that of its parent undertaking, but has not changed its accounting reference date.

Directors

The directors who served during the year and up to the date of this report unless otherwise stated are as follows:

D Nislick
J Rao
P White
K Spolton

No qualifying third party indemnity provision and/or qualifying pension scheme indemnity provision (whether made by the Company or otherwise) is in place for the benefit of one or more of the directors or one or more directors of an associated Company; or, at any time during the year was any such provision in force for the benefit of any persons who were then directors or directors of an associated Company.

Future developments

The future developments of the Company are outlined in the strategic report on page 2 of the financial statements

Going concern

The Company meets its day-to-day working capital requirements through adequate profits and cash generation in addition to available bank facilities. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance. The current economic conditions, due to the COVID-19 pandemic, continue to create uncertainty over the level of potential future demand for the company's products but also satisfying demand due to the ongoing travel restrictions. The impact of these conditions has been built into the forecasts and projections of the company and these show that profits and cash generation are more than sufficient to enable the Company to operate within the level of its working capital requirements and available current facilities. In addition, a letter of support has been obtained from EXC Holdings I Corp (the parent company) who have confirmed they will continue to support the company and provide intercompany financing, if required, for a period of 12 months from the date of approval of the financial statements.

On the basis of their assessment of the Company's financial position the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Qioptiq Limited

Directors' report for the year ended 29 December 2019 (continued)

Dividends

On 23 December an interim dividend of £21,399,153 was declared and paid. The directors do not recommend a payment of a final dividend for the year (2018: £10,000,000).

Political donations

The Company made no political donations during the year (2018: nil)

Research and development

Total expenditure on research and development during the year was £13.0m (2018: £12.2m)

Post balance sheet events

The outbreak of the COVID-19 pandemic is a non-adjusting post balance sheet event. Our detailed review of the impact of Covid 19 is outline in our principle risk and uncertainties note on page 3 of the strategic report. There have been no further events after the end of the reporting period that require disclosure.

Employees

The Company believes that a regular flow of information between management and staff enhances its effectiveness and productivity. The flow is achieved by:

- Quarterly Company briefings, so that all employees are personally advised of the commercial progress of the Company, conditions in its key markets and plans for the future;
- Consulting with employees and trade union representatives on key decisions and matters of concern to them;
- Regular meetings between small groups of employees and senior leaders in order to receive feedback, pass on information, and gauge engagement levels;
- Encouraging all employees, whether individually, by survey or focus groups, to communicate ideas and suggestions for improving efficiency or eliminating day-to-day problems; and
- Disseminating important information, such as statutory notices, operating procedures, staff policies and agreements, electronically, via notice boards, 4 Winds tv screens or in quarterly newsletters

Furthermore, the Company operates a number of reward schemes, which enable employees to a share in the over-achievement of financial objectives, inclusive of the R3 program which enables all employees to recognise and receive awards for excellent service/performance, and the *Exclusive* employee rewards programme – delivering savings on daily living costs.

Engage Learning

2019 saw the launch of the Engage Learning & Development platform - a software application that manages learning and delivers learning materials to all Excelitas employees, with a catalogue of on-line learning events, live training management, certification and learning history reports.

Apprenticeships

The Company places a high significance on its apprenticeship programs to ensure continuity of technical skills. The Company currently has 11 apprentices

Qioptiq Limited

Directors' report for the year ended 29 December 2019 (continued)

The Company has a generous range of benefits, terms and conditions. These provisions served the Company, and its employees well during the onset of COVID 19, whereby vulnerable employees were able to work from home and receive full remuneration.

Promoting an environment free from discrimination, harassment and victimisation is a key policy of the Company. The Company recruits solely on the basis of work criteria, the applicant's abilities and individual merit. In order to ensure no applicant is disadvantaged through disability, the Company may make reasonable adjustments to its recruitment processes. Moreover, all employees have equal access to training, opportunities for promotion and career development. In order to make them accessible to disabled employees, the Company may adjust its promotion and training procedures.

Wherever practical, the Company takes measures to retain disabled employees or employees who become disabled whilst in employment. It achieves this, where appropriate, by providing specialist equipment, additional training, job redesign, flexible hours, remote working or redeployment.

Statement of engagement with suppliers, customers and others in a business relationship with the Company

Customers

We have a strong customer focussed culture throughout the Company with all employees taking great pride in the capability and service that we provide to our customers and the end users. We have a long standing relationship with many of our customers and indeed have worked with a number of global customers for the entire 50 + years of the Company existence. These long standing relationships are based on the capability and integrity that we have demonstrated to our key customers over a period of years – the business world in which we operate is relatively specialised with low turnover of personnel and therefore the values that we demonstrate are both long lasting and recognised as being more than just words.

Optical engineering is in our DNA (a quote from a senior, key customer) and when blended with the passion and drive for which we are justifiably recognised, provides a strong basis for the growth of the business. We believe we provide our customers with a strong technical capability that allows us to solve the difficult optical challenges that our customers present to us in the quest for better, lighter and cheaper products. The optical solutions we provide are a well-balanced compromise between technical performance, cost and reliability – all of which essential for the environments in which our products need to operate.

Whilst we have dedicated key Account Managers and Sales Managers that are the focal point for our Customer contact, some of the best interactions are between the Customer and our design or production engineers, especially during facility tours when Customers visit the site. The passion for supporting the Customer is evident in all of the technical and support functions within the Company and at all levels within the Company.

Qioptiq Limited

Directors' report for the year ended 29 December 2019 (continued)

Suppliers

At Qioptiq Limited, our supply chain is viewed as of key strategic importance, the capability of our suppliers is a source of competitive advantage, and therefore fundamental to our overall business success.

We have a Global network of suppliers, and many of our supply chain relations are collaborative in nature, which include some of the World's largest defence companies and technology market leaders. We pride ourselves on supplying market leading, innovate, technical solutions to our customers, and our key suppliers play a key role in this.

In recognition of the important role our supply chain has on our overall business success, we have a robust, auditable procurement process, which can be broken down into several key areas, which include; Supplier Sourcing - Supplier Identification and Selection, Contract Management, Supplier Performance Management, Regulatory Compliance, Risk Management and Export Control.

Regarding our supply chain relationships, these are categorised based on the type of purchase, these include; Non-Critical, Critical and Key Strategic. The focus of evaluation differs based on the type of Purchase, i.e.

Non-Critical: Product Performance & Product Risk is the main focus of evaluation, relationships for these types of purchase are typically transactional in nature.

Critical: For critical Purchases, the focus of evaluation would be on required capabilities, processes and compatibility – Company Risk, and specific capabilities around manufacturing, investment and R&D Capabilities.

Key Strategic: For Key Strategic Purchases, these relationships are typically collaborative with the focus of evaluation on the Level of commitment, dependence and overall Strategic fit / Risk – Short & Long-term. It is important that for these suppliers, we have strategic alignment, the relationship is transparent, and we have visibility of the supplier's product / technology roadmap to support our product development.

For all purchases and suppliers, we evaluate Product / Service – Cost Quality Delivery – (CQD), ensure Third Party Accreditation exists where applicable, Obsolescence Management, Counterfeit Parts Prevention, Financial Health and Regulatory Compliance.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. 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

Qioptiq Limited

Directors' report for the year ended 29 December 2019 (continued)

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.

By order of the board



A Chapman
Secretary

17th November 2020

Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

Report on the audit of the financial statements

Opinion

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

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 that 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.

Qioptiq Limited

Independent auditors' report to the members of Qioptiq Limited

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.

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 year ended 29 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

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.

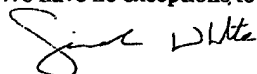
Other required reporting

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.



Simon White (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

17 November 2020

Qioptiq Limited
Statement of comprehensive income
For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

	Note	Year ended	
		29 December 2019	30 December 2018
Turnover	5	94,661	91,516
Cost of sales		(72,940)	(74,930)
Gross profit		21,721	16,586
Distribution costs		(337)	(262)
Administrative expenses		(24,938)	(1,893)
Other operating income		245	213
Operating profit before exceptional item	6	19,868	14,644
Exceptional item	23	(23,177)	-
Operating (loss)/profit		(3,309)	14,644
(Loss)/profit on ordinary activities before interest & taxation		(3,309)	14,644
Interest receivable and similar income	8	999	829
Interest payable and similar expenses	8	(211)	(208)
(Loss)/profit before taxation		(2,521)	15,265
Tax on (loss)/profit	9	(3,833)	(3,502)
(Loss)/Profit for the year		(6,354)	11,763
Other comprehensive income		-	-
Total comprehensive (expense)/income		(6,354)	11,763

The above results were derived from continuing operations

The notes on pages 16 to 38 are an integral part of these financial statements.

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Balance sheet

As at 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

	Note	As at 29 December 2019	As at 30 December 2018
Fixed assets			
Intangible assets	10	-	9
Tangible assets	11	14,570	12,661
		14,570	12,670
Current assets			
Inventories	12	21,660	16,283
Debtors	13	26,078	33,940
Cash at bank and in hand		3,510	6,071
		51,248	56,294
Creditors: amounts falling due within one year	14	(52,061)	(26,848)
Net current: (liabilities)/assets		(813)	29,446
Total assets less current liabilities		13,757	42,116
Creditors: amounts falling due after more than one year	15	(60)	(27)
Provisions for liabilities	17	(193)	(832)
Net assets		13,504	41,257
Capital and reserves			
Called up share capital	19	3,821	22,521
Retained earnings		9,683	18,736
Total equity		13,504	41,257

The notes on pages 16 to 38 are an integral part of these financial statements.

The financial statements on pages 12 to 38 were authorised for issue by the board of directors on 17th November 2020 and were signed on its behalf.



P White
Director

Qioptiq Limited: Registered number 00876004

Qioptiq Limited

Statement of changes in equity

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

	Note	Called up share capital	Retained earnings	Total equity
Balance at 1 January 2018		22,521	16,973	39,494
Profit for the financial year		-	11,763	11,763
Other comprehensive income for the financial year		-	-	-
Dividends	19	-	(10,000)	(10,000)
Balance as at 30 December 2018		22,521	18,736	41,257
Balance at 31 December 2018		22,521	18,736	41,257
Loss for the financial year		-	(6,354)	(6,354)
Other comprehensive income for the financial year		-	-	-
Capital reduction	23	(18,700)	18,700	-
Dividends	19	-	(21,399)	(21,399)
Balance as at 29 December 2019		3,821	9,683	13,504

The notes on pages 16 to 38 are an integral part of these financial statements

Qioptiq Limited

Statement of cash flows

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

		Year ended	
		29	30
		December	December
	Note	2019	2018
Net cash from operating activities	20	3,262	18,044
Taxation paid		(1,642)	(1,319)
Net cash generated from operating activities		1,620	16,725
Cash flow from investing activities			
Purchase of tangible assets		(4,936)	(5,030)
Interest received		999	829
Net cash used in investing activities		(3,937)	(4,201)
Cash flow from financing activities			
Proceeds/(repayments) of loans from parent undertaking		-	(324)
Dividends paid		-	(10,000)
Repayments of finance leases		(33)	(6)
Interest paid		(211)	(208)
Net cash used in financing activities		(244)	(10,538)
Net (decrease)/increase in cash and cash equivalents		(2,561)	1,986
Cash and cash equivalents at the beginning of the year		6,071	4,085
Cash and cash equivalents at the end of the year		3,510	6,071
Cash and cash equivalents consists of:			
Cash at bank and in hand		3,510	6,071

The notes on pages 16 to 38 are an integral part of these financial statements

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

1 General information

Qioptiq Limited designs, develops, manufactures and assembles specialised optical modules, sub-assemblies and components for use in military and commercial markets. It has manufacturing plants in the UK and primarily sells to customers in UK, USA and the European Union.

The Company is a private Company limited by shares and is incorporated in the United Kingdom and domiciled in Wales. The address of the registered office is Glascoed Road, St Asaph, Denbighshire, LL17 0LL.

2 Statement of compliance

The individual financial statements of Qioptiq Limited 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. The Company has adopted FRS102 in these financial statements.

a) Basis of preparation

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

b) Going concern

The Company meets its day-to-day working capital requirements through adequate profits and cash generation in addition to available bank facilities. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance. The current economic conditions, due to the COVID-19 pandemic, continue to create uncertainty over the level of potential future demand for the company's products but also satisfying demand due to the ongoing travel restrictions. The impact of these conditions has been built into the forecasts and projections of the company and these show that profits and cash generation are more than sufficient to enable the Company to operate within the level of its working capital requirements and available current facilities. In addition, a letter of support has been obtained from EXC Holdings I Corp (the parent company) who have confirmed they will continue to support the company and provide intercompany financing, if required, for a period of 12 months from the date of approval of the financial statements.

On the basis of their assessment of the Company's financial position the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of exemptions for qualifying entities from the requirement to disclose key management personnel compensation in total (FRS 102 para 33.7).

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 spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses are presented in the Statement of Comprehensive Income.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

The Company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to each of the Company's principal sales methods have been met, as described below:

(i) *Sale of goods*

The Company manufactures and assembles specialised optical modules, sub-assemblies and components. Sales of goods are recognised on delivery to the customer.

Sales are normally made with credit terms of 30 days net. Some sale contracts may extend credit terms up to 90 days. The element of financing is deemed immaterial and is disregarded in the measurement of revenue.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

(ii) Customer funded research and development and non-recurring engineering ("NRE")

Sales on long term NRE contracts represents the estimated contract revenues based on work performed during the period. Contract revenues and profits are calculated on the percentage of completion method; and profits are determined after making reserves for all anticipated costs including possible warranty claims.

Sales and profits on short term NRE contracts are recognised on completion of the contract.

Where NRE contracts include the financing of test or manufacturing equipment manufactured by the Company, and where the Company retains the significant risks and rewards of ownership, revenue is recognised over the estimated manufacturing contract period of each asset.

(iii) Sale of services

The Company sells support and upgrade services to maximise the economic value of its products to its customers. Revenue is recognised in the accounting periods in which the services are rendered.

f) 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.

g) Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday 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 defined contribution pension plans 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 in accruals in the balance sheet. The assets of the plans are held separately from the Company in independently administered funds.

(iii) Annual bonus plans

The Company operates annual bonus plans for its employees in line with the schemes Excelitas operates globally. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and when it can estimate the obligation reliably.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

h) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised respectively in other comprehensive income or directly in equity.

Current or deferred taxation asset 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 year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period 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 total comprehensive income 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 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.

i) Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised on a straight line basis over its estimated useful life of between three and five years.

Where factors, such as technological advances or changes in marked price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

j) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration and borrowing costs capitalised.

(i) Land and buildings

Land and buildings include freehold and short leasehold factories and offices. Land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Plant and machinery

Plant and machinery, which includes fixtures, fittings, tools and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation and residual values

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values of each asset over their estimated useful lives, as follows:

- Freehold buildings over periods up to 50 years
- Leasehold property over the period of the lease
- Plant and machinery 3-20 years

At the end of each reporting period, the Company reviews and adjusts the assets' residual values and useful lives, if appropriate. The effect of any change is accounted for prospectively.

(iv) Subsequent additions and major components

Subsequent costs, including major inspections refurbishments or extensions, are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(v) Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

(vi) De-recognition

Tangible assets are de-recognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit and loss and included in "other operating (losses)/gains".

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

k) Leased assets

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

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined, the Company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment on each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to provide a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating leased assets

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 profit and loss account on a straight-line basis over the period of the lease.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the assets and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense on a straight-line basis over the period of the lease.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

l) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

m) 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 standard cost 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. The cost of manufactured finished goods and work in progress includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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 profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the Statement of Comprehensive Income.

n) Cash and cash equivalents

"Cash and cash equivalents" includes cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in current liabilities.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

o) 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 recognised 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 the respect of any one item include in the same class of obligations may be small.

In particular:

- Restructuring provisions are recognised when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either by starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring; and
- No provision is made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

p) Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price and subsequently carried at amortised cost using the effective interest method.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets are initially measured at fair value, which is normally the transaction price. Subsequently changes to the fair value of these assets are recognised in profit or loss.

Financial assets are de-recognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow 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 the market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are de-recognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements 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 to realise the asset and settle the liability simultaneously.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

3 Summary of significant accounting policies (continued)

q) Share capital

Ordinary shares are classified as equity.

r) Distributions to equity holders

Dividends and other distributions to the 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. These amounts are recognised in the statement of changes in equity.

s) Related party transactions

The Company discloses transactions with related parties which are not wholly owned by Excelitas. It does not disclose transactions with members of Excelitas.

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting 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 year 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 and amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Estimates of the useful economic lives of each class of asset are disclosed in note 3j and carrying value of plant and machinery in note 11.

(ii) Inventory provisioning

The Company's manufacturing processes are subject to regulation by its customers and the governments of its major markets. These inventories may not be transferrable between contracts. When calculating the inventory provision, management considers the future usage of raw materials that are not required to fulfil customer contracts. The net carrying amount of inventory and associated provisions are shown in note 12.

(iii) Impairment of debtors

The Company assesses the recoverable value of trade and other debtors. When assessing impairment of debtors, management considers factors, including the current credit rating of the debtor, the ageing profile of the debt and payment performance of the debtor. Note 13 discloses the net carrying amount of the debtors and associated impairment provision.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

5 Turnover

	Year ended 29 December 2019	Year ended 30 December 2018
Analysis of turnover by geography:		
United Kingdom	41,557	42,457
Americas	23,847	24,034
Europe	22,913	17,513
APAC	3,432	5,335
Rest of world	2,912	2,177
	94,661	91,516
Analysis of turnover by category:		
Sales of goods	72,096	73,165
Services	17,171	13,782
Funded research and development	5,394	4,569
	94,661	91,516

6 Operating profit

	Year ended 29 December Notes 2019	Year ended 30 December 2018
Operating profit is stated after charging/(crediting):		
Wages and Salaries	25,617	23,447
Social security costs	2,686	2,503
Other pension costs	2,278	2,063
Staff costs (see Note 7 for further information)	30,581	28,013
Exceptional item (included within admin expenses) 23	23,177	-
Impairment of inventory (included in cost of sales)	(436)	(1,113)
Impairment of trade debtors (included in distribution costs)	(20)	38
Inventory recognised as an expense	54,885	54,461
Research and development	12,958	12,235
Amortisation of deferred government grants	(14)	(29)
Operating lease charges	584	511
Foreign exchange gains	(245)	(213)
Fees payable to the Company's auditors for audit services	79	75
Fees payable to the Company's auditors - tax	79	75
Fees payable to the Company's auditors	158	150

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

7 Employees and directors

	Year ended 29 December 2019	Year ended 30 December 2018
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Employees

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

	No.	No.
Production, selling and distribution	652	586
Administration	37	29
	689	615

Directors

The directors' emoluments were as follows:

Aggregate emoluments	437	417
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Two (2018: Two) directors were members of defined pension contributions. Aggregate emoluments above include pension contributions of £28,000 (2018: £27,000). Two directors are accruing benefits under long term incentive schemes.

Highest paid director

The highest paid director's emoluments were as follows:

Total emoluments	208	195
Pension contributions	9	19
	217	214

Post-employment benefits

The Company provides a number of defined contribution schemes for its employees.

Current year contributions	2,278	2,063
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There were no unpaid contributions at the balance sheet date (2018: £nil).

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

8 Interest

	Year ended 29 December 2019	Year ended 30 December 2018
a) Interest receivable and similar income		
Receivable from group undertakings	999	829
Total interest receivable and similar income	999	829
b) Interest payable and similar expenses		
Interest payable on bank guarantees	(97)	(95)
Interest payable on loans to group undertakings	(112)	(107)
Finance lease interest	(2)	(6)
Total interest payable and similar expenses	(211)	(208)

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

9 Tax on (loss)/profit

	Year ended 29 December 2019	Year ended 30 December 2018
a) Tax charge included in the profit or loss		
Current tax:		
UK Corporation tax on profit for the year	3,611	3,009
Adjustment in respect of prior periods	(98)	403
Total current tax	3,513	3,412
Deferred tax:		
Origination and reversal of timing differences	272	(45)
Adjustment in respect of prior periods	91	138
Impact of change in tax rate	(43)	(3)
Total deferred tax	320	90
Tax on profit	3,833	3,502

No tax was included in other comprehensive income in both years.

b) Reconciliation of tax charge

Tax assessed for the year is higher (2018: higher) than the standard rate of Corporation tax in the UK for the year ended 29 December 2019 of 19.0% (2018: 19.0%). The differences are explained below.

(Loss)/profit before taxation	(2,521)	15,265
Profit multiplied by the standard rate of tax in the UK of 19.0% (2018: 19.0%)		
	(479)	2,900
Effects of:		
Expenses not deductible for tax purposes	4,277	58
Adjustments to tax charge in respect of prior years	63	541
Re-measurement of deferred tax – change in tax rate	(28)	3
Tax charge for the year	3,833	3,502

c) Tax rate changes

The standard rate of corporation tax in the UK changed from 20.00% to 19.00% with effect from 1 April 2017. Accordingly, the Company's profit chargeable to corporation tax for the prior accounting year was taxed at 19.00% in the current accounting year.

From 1 April 2020 the corporation tax rate is set at 19%. The change to corporation tax and the main rate will also be set at 19% for the financial year beginning 1 April 2021.

The deferred tax asset disclosed in notes 13 and 17b is measured at 17% (2018: at 17%) which is the rate substantively enacted at the Statement of Financial Position date.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

10 Intangible assets

	Software
Cost	
At 31 December 2018	3,238
Additions	-
At 29 December 2019	3,238
Accumulated amortisation	
At 31 December 2018	(3,229)
Charge for the year	(9)
At 29 December 2019	(3,238)
Net book amount at 29 December 2019	-
Net book amount at 30 December 2018	9

11 Tangible assets

	Freehold Land and buildings	Plant and machinery	Leased machinery	Tangible assets: total
Cost				
At 31 December 2018	5,023	67,466	142	72,631
Additions	444	4,154	-	4,598
Reclassify	2	(576)	1	(573)
Disposals	-	(166)	-	(166)
At 29 December 2019	5,469	70,878	143	76,490
Accumulated depreciation				
At 31 December 2018	(3,047)	(56,810)	(113)	(59,970)
Reclassify	(2)	576	(1)	573
Disposals	-	166	-	166
Depreciation	(277)	(2,391)	(21)	(2,689)
At 29 December 2019	(3,326)	(58,459)	(135)	(61,920)
Net book amount at 29 December 2019	2,143	12,419	8	14,570
Net book account at 30 December 2018	1,976	10,656	29	12,661

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

12 Inventories

	As at 29 December 2019	As at 30 December 2018
Raw materials and consumables	15,047	11,953
Work in progress	4,199	3,789
Finished goods	2,414	541
	21,660	16,283

There is no material difference between the balance sheet value of stocks and their replacement cost. Inventories are stated after provisions for impairment of £6,734,000 (2018 £7,193,000).

13 Debtors

	As at 29 December 2019	As at 30 December 2018
Trade debtors	21,163	12,356
Amounts recoverable on contracts	680	94
Amounts owed by group undertakings	1,027	20,238
Corporation taxation	-	125
Deferred taxation (note 17)	336	630
Other debtors	23	15
Prepayments and accrued income	2,849	482
	26,078	33,940

At 29 December 2019, amounts owed by group undertakings of £1,027,000 (2018 - £679,000) do not bear interest and are repayable on demand. Amounts due from group undertakings are unsecured. At 29 December 2019, amounts owed by group undertakings included a loan of £nil due to the restructure during the year (2018: £19,559,000) as detailed in note 23 of the financial statements. Interest was received during 2019 on the loan balance due at rates between 4.5% and 4.6% (2018: 4.3% and 4.6%) The rates of interest applied were based on 3-month LIBOR.

Prepayments and accrued income include £1,774,000 receivable after more than one year (2018 £nil).

Other debtors include £nil (2018 £8,000) receivable after more than one year.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

14 Creditors: amounts falling due within one year

	As at 29 December 2019	As at 30 December 2018
Finance leases	31	36
Payments received on account	2,321	2,470
Trade creditors	5,862	11,110
Amounts owed to group undertakings	32,259	4,154
Corporation tax	735	1,459
Other taxation and social security	1,369	1,450
<u>Accruals and deferred income</u>	<u>9,484</u>	<u>6,169</u>
	52,061	26,848

At 29 December 2019, amounts owed to group undertakings included a loan of £2,481,000 (2018: £2,367,000). Interest was paid during the year between 4.6% and 4.7% (2018: 4.4% and 4.7%). The loan has no fixed date of repayment and is repayable on demand.

Other amounts owed to group undertakings of £8,379,000 (2018: £1,788,000) do not bear interest and are repayable on demand.

Accruals and deferred income includes £14,000 (2018: £43,000) in respect of government grants received.

15 Creditors: amounts falling due after more than one year

	As at 29 December 2019	As at 30 December 2018
Deferred rent	60	-
<u>Finance leases</u>	<u>-</u>	<u>27</u>
	60	27

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

16 Loans and other borrowings

	As at 29 December 2019	As at 30 December 2018
Amounts owed to group undertakings (Included in creditors: amounts falling due within one year)	2,481	2,367
<u>Finance leases</u>	<u>31</u>	<u>63</u>
	<u>31</u>	<u>2,430</u>

Finance leases

The future minimum finance lease payments are as follows:

	As at 29 December 2019	As at 30 December 2018
Not later than one year	31	36
<u>Later than one year and not later than five years</u>	<u>-</u>	<u>27</u>
Total gross payments	31	63
<u>Less: finance charges</u>	<u>-</u>	<u>-</u>
Carrying amount of liability	<u>31</u>	<u>63</u>

The finance leases relate to office equipment with remaining lease terms of 1 and 2 years. At the end of the lease terms the Company has the option to purchase the assets at scrap value. The finance leases are secured on the assets themselves

17 Provisions for liabilities

**For the year ended
29 December
2019**

The Company had the following provisions during the year:

a) Post-sale rectification and support costs

At 31 December 2018	832
Release dealt with in profit or loss	(559)
<u>Amounts utilised</u>	<u>(80)</u>
At 29 December 2019	<u>193</u>

The provision for post-sale rectification and support costs relates to anticipated costs of rectifying products already delivered to customers.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

b) Deferred taxation

The deferred tax asset consists of the following components:

	As at 29 December 2019	As at 30 December 2018
Depreciation in advance of capital allowances	266	465
Other timing differences	70	165
	336	630

There are no unused tax losses, unused tax credits or unrecognised deferred tax assets. The net deferred tax asset is not expected to change significantly in the next year.

18 Financial instruments

	As at 29 December 2019	As at 30 December 2018
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The Company has the following financial instruments:

Financial assets that are debt instruments measured at amortised cost:

Trade debtors	13	19,531	12,356
Amounts owed by group undertakings	13	1,027	20,238
Other debtors	13	23	15
		20,581	32,609

Financial liabilities that are debt instruments measured at amortised cost:

Trade creditors	14	5,862	11,110
Amounts owed to group undertakings	14	32,259	4,154
Accruals and deferred income	14	7,852	6,169
Finance leases	14, 15, 16	31	63
		46,004	21,496

The Company has no equity instruments to be measured at cost less impairment (2018: none).

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

19 Called up share capital

	Notes	No of shares	As at 29 December 2019 £	No of shares	As at 30 December 2018 £
<u>Ordinary shares of £1 each issued</u>					
<u>and fully paid:</u>					
At 31 December 2018		22,521,142	22,521,142	22,521,142	22,521,142
Capital reduction	23	(18,699,865)	(18,699,865)	-	-
At 29 December 2019		3,821,277	3,821,277	-	22,521,142

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

Dividends

Equity dividends paid: pence per ordinary share		5.60	0.44
Dividend paid		21,399,000	10,000,000

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

20 Notes to the statement of cash flows

	Year ended 29 December 2019	Year ended 30 December 2018
(Loss)/profit for the financial year	(6,354)	11,763
Tax on (loss)/profit	3,833	3,502
<u>Net interest expense</u>	<u>(787)</u>	<u>(621)</u>
Operating (loss)/profit	(3,308)	14,644
Amortisation of intangible assets	9	33
Disposals of fixed assets	-	118
<u>Depreciation of tangible assets</u>	<u>2,689</u>	<u>2,778</u>
<u>Earnings before interest and taxation</u>	<u>(610)</u>	<u>17,573</u>
Other provisions less payments	(639)	(152)
Working capital movements:		
Increase in inventories	(5,377)	(541)
Decrease/ (Increase) in debtors	7,443	(5,050)
<u>Increase in payables</u>	<u>2,445</u>	<u>6,214</u>
<u>Cash flow from operating activities</u>	<u>3,262</u>	<u>18,044</u>

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

21 Contingent liabilities

The Company has given guarantees totalling £163,664 (2018: £163,664) in respect of performance bonds and advance payment guarantees.

22 Capital and other commitments

	As at 29 December 2019	As at 30 December 2018
The Company had the following capital commitments:		
Contracts for future capital expenditure not provided		
<u>for in the financial statements – Property, plant and equipment</u>	<u>77</u>	<u>2,187</u>

The Company had the following future minimum lease commitments under non-cancellable operating leases for each of the following periods:

<u>Payments due</u>		
Not later than one year	579	547
Later than one year and not later than five years	1,709	1,738
<u>Later than five years</u>	<u>2,447</u>	<u>2,703</u>
	<u>4,735</u>	<u>4,988</u>

The Company had no other off-balance sheet arrangements.

23 Exceptional items

On 23 December 2019 Qioptiq Europe Limited (QEL) and Qioptiq Holdings UK Limited (QUKHL) undertook a series of steps to restructure their legal entities and simplify their entire entity debt structure with the objective of eventually bringing its indirectly owned German business entities under a single structure and start the liquidation process for certain entities in which there is no longer active business activities.

As part of the restructure Qioptiq Limited undertook a share capital reduction of £18,699,864 in order to increase distributable reserves. A dividend was then issued for £21,399,153 to QUKHL.

In addition Qioptiq Limited waived its intercompany receivable due from QUKHL amounting to £23,135,302 and legal cost of £42,000 were also incurred resulting in an exceptional item disclosed separately on the face of the Statement of Comprehensive Income amounting to £23,177,302.

Qioptiq Limited

Notes to the financial statements

For the year ended 29 December 2019

(All amounts are in £ thousands unless otherwise stated)

24 Related party transactions

The Company is exempt from disclosing related party transactions as they are all with other companies that are wholly owned within the Group.

25 Controlling parties

The immediate parent undertaking of the Company is Qioptiq UK Holdings Limited.

The smallest and largest 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. is available on request from its registered office at 1209 Orange Street, Wilmington, Delaware 19801, United States of America.

The ultimate controlling party of the Group is EXC Holdings LP, a partnership incorporated in the State of Delaware, United States of America. The capital of EXC Holdings LP is beneficially owned by certain funds managed by AEA Investors LP and NB Excelitas LP.

26 Events after the end of the reporting period

The outbreak of the COVID-19 pandemic is a non-adjusting post balance sheet event. Our detailed review of the impact of Covid 19 is outline in our principle risk and uncertainties note on page 3 of the strategic report. There have been no further events after the end of the reporting period that require disclosure.