Qioptiq Photonics Limited

Annual Report and Financial Statements

02 January 2022

Registered Number 02822648

Contents

Company information

Registered office: Glascoed Road
St Asaph
Denbighshire
LL17 0LL

Directors: D Nislick
J Rao
C Madin

Company Secretary: A Chapman

Independent Auditors: PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Strategic report

The directors present their strategic report for the Company for the 52 week period ended 02 January 2022. The comparative period was 53 weeks ended 03 January 2021.

For clarity the 52 week period ended 02 January 2022 is referred to as "2021", and the comparative 53 week period ended 03 January 2021 is referred to as "2020" throughout the Annual Report and Financial Statements.

Review of the business

The results for the 52 week period and the financial position of the Company are set out in the Directors' report on Page 6.

2021 saw a recovery in the bio tech markets that together with continued growth saw an increase in revenues. There were still challenges in supply chain due to continuing COVID lockdowns globally. This had some adverse impact , particularly in electronics supply to our sub-contractors but was well mitigated through our Excelitas global supply network.
Gross margin as a percentage of revenue fell from 38% to 6% in 2021.
This fall was as a result of the significant headcount increases required to support the dramatic revenue growth planned in 2022 and 2023 from new semiconductor contracts. Fundamentally the business is investing ahead of the planned shipment rate. The reduced gross profit in 2021 has resulted in a 29% reduction in the gross profit margin. Gross profit per employee also reflects the increased headcount investment referred to above.

The Company continues to maintain a skilled labour force and retains its technical expertise. The Company continues to invest in order to deliver the significant contracts with existing customers won in 2020 and to develop new products and expects to realise turnover and profits from these in subsequent years.

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

Key Performance Indicators	2021	2020	Change
Gross margin	6%	38%	(32%)
Gross profit per employee	£6,142	£44,909	(£38,767)

Strategic report (continued)

Review of the business (continued)

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

The long term business risk has been reduced significantly due to the new contracts received from its long standing customers.

Further information on the risks and uncertainties can be found in the Directors' report on pages 6 to 9.

Principal activities

The principal activities of the Company were the design, development, repair, manufacture and assembly of specialised optical modules.

Context of the Company

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

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

The Company operates a number of initiatives to support and develop its employees. These include in-house and external training, free employee welfare schemes, Mental Health Awareness training and various social events.
The Company encourages its employees to participate in and support local community initiatives. These include local charitable and school events.

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

Business Model

A critical part of the Company's business model is the value it derives from its intangible assets such as Customer Relationships and Developed Technologies. Whilst these are not recognised on the Company balance sheet, they are essential in both supporting the continued demand for legacy products and in driving demand for new products.

Strategic report (continued)

Future developments

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

The Company continues to make investments in new process technologies particularly in support of the new contracts it has received.

The Company has also further developed its process cleanliness protocols to support the demands of the new contracts.
Following the COVID-19 pandemic the Company has maintained its enhanced cleaning and hygiene protocols, social distancing measures and remote office working through 2021 but has reverted to a site based working model during 2022.
The Company continues to operate with enhanced protocols whilst keeping the situation under review, ready to adapt, should the need arise in 2023.

These measures have ensured that the Company continued to trade effectively during 2021. As stated earlier the Company started a significant new project with existing customers in 2020 and expects to realise significant revenue and profits from this in subsequent years. To support the revenue growth the Company will instigate a third production shift in 2023.

Financial risk management

The Company's operations expose it to different financial risks.
The Company has policies and strategies in place to manage these risks, as outlined below.

Cash flow risk

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

Foreign currency exchange risk

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

Price risk

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

Strategic report (continued)

Financial risk management (continued)

Credit risk

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

Liquidity risk

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

Going concern risk

The going concern risk of the Company is outlined in the directors report on page 7 of the financial statements.

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

The company continues to be an 'Essential Supplier' and see no going concern risk in respect of the Covid-19 pandemic

This report was approved by the board of directors on and signed on behalf of the board by:

J Rao
Director
3rd March 2023

Directors' report

The directors present their report and the audited financial statements of the Company for the 52 week period ended 02 January 2022. In accordance with the instructions of EXC Holdings I Corp. ("Excelitas Group") and as permitted by the Companies Act section 390 (3), the directors have drawn up the financial statements to the first Sunday in January 2022 being 02 January 2022.

Results and dividends

The Company's result for the financial period is a loss of £1,400,000 (2020: profit £1,246,000). Capital and Reserves totalled £114,000 at the period end (2020: £1,514,000). No Dividend was declared in the financial period (2020: £1,750,000), as noted within note 16.

Financial risk management

The policies relating to financial risk management and related policies have been disclosed within the Strategic Report on pages 4 to 5.

Cash flow risk

The cash flow risk of the Company is outlined in the strategic report on page 4 of the financial statements.

Foreign currency exchange risk

The foreign currency exchange risk of the Company is outlined in the strategic report on page 4 of the financial statements.

Price risk

The price risk of the Company is outlined in the strategic report on page 4 of the financial statements.

Credit risk

The credit risk of the Company is outlined in the strategic report on page 5 of the financial statements.

Liquidity risk

The liquidity risk of the Company is outlined in the strategic report on page 5 of the financial statements.

Directors' report (continued)

Going concern risk

The Company meets its day-to-day working capital requirements through adequate profits and cash generation in addition to available bank facilities and liquidity from Excelitas Group where required for upfront investments. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance.

Long term the Company expects significant revenue growth from contracts already received and commitments made by its customers as described in the Strategic Report.

Subsequent to year end, the
Company has made significant investment in expanding its production facilities which has relied on funding from elsewhere in the Group. Accordingly, 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.

The company's forecasts and projections are updated regularly to reflect changes in trading performance and these forecasts and projections 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.

Directors

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

D Nislick
J Rao
J Sheard - resigned 18 March 2022
C Madin - appointed 21 March 2022

Future developments

The Company's future developments are included in the Strategic Report, on page 4.

Directors' report (continued)

Research and development

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

Statement of directors' responsibilities 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, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 also 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' indemnities

The Company has qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force as at the date of this report.

Directors' report (continued)

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

Independent auditors

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

This report was approved by the board of directors on 3rd March 2023 and signed by order of the board by:

J Rao
Director
3rd March 2023

Glascoed Road
St Asaph
Denbighshire
LL17 0LL

Independent auditors' report to the members of Qioptiq Photonics Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 2 January 2022 and of its loss and cash flows for the 52 week period 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 2 January 2022; the Statement of comprehensive income, the Statement of changes in equity, the Statement of cash flows for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Report on the audit of the financial statements (continued)

Conclusions relating to going concern (continued)

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires 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 period ended 2 January 2022 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.

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

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law and relevant tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management throughout the year, as well as at year end. These discussions have included consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgments made by management in their significant accounting estimates;
- Identifying and testing journal entries which met our specified risk criteria;
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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

Responsibilities for the financial statements and the audit (continued)

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Christopher Solomides (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
~~2nd March [illegible]~~
6th March 2023

Statement of comprehensive income

	Note	52 weeks ended 02 January 2022 £'000	53 weeks ended 03 January 2021 £'000
Turnover	5	10,595	9,103
Cost of sales		(9,944)	(5,645)
Gross profit		**651**	**3,458**
Administrative expenses		(2,332)	(1,918)
Operating (Loss)/profit	**6**	**(1,681)**	**1,540**
Interest receivable and similar income	**8**	**-**	**1**
Interest payable and similar charges	**8**	(15)	0
(Loss)/Profit before taxation		**(1,696)**	**1,541**
Tax on (loss)/profit	**9**	296	(295)
(Loss)/Profit for the financial period and total comprehensive (loss)/income for the period		**(1,400)**	**1,246**

The notes on pages 18 to 34 are an integral part of these financial statements. All of the above results derive from continuing operations.

Balance sheet

	Note	As at 02 January 2022 £'000	As at 03 January 2021 £'000
Fixed assets			
Tangible assets	10	**5,980**	**768**
Current assets			
Inventories	11	2,939	1,584
Debtors	12	2,834	2,710
Cash at bank and in hand		1,132	440
		6,905	**4,734**
Creditors: amounts falling due within one year	13	(12,227)	(3,944)
Net current (liabilities)/assets		**(5,322)**	**790**
Total assets less current liabilities		**658**	**1,558**
Provision for liabilities	14	(544)	(44)
Net assets		**114**	**1,514**
Capital and reserves			
Called up share capital	16	88	88
Share premium account	17	147	147
Retained earnings		(121)	1,279
Total equity		**114**	**1,514**

The notes on pages 18 to 34 are an integral part of these financial statements.

The financial statements on pages 14 to 34 were authorised for issue by the board of directors on 3rd March 2023 and were signed on its behalf by.

J Rao
Director
3rd March 2023

Statement of changes in equity

	Note	Called up share capital £'000	Share premium account £'000	Retained Earnings £'000	Total Equity £'000
Balance as at 29 December 2019		**88**	**147**	**1,783**	**2,018**
Profit for the financial period and total comprehensive income		-	-	1,246	**1,246**
Dividends paid	**16**	-	-	(1,750)	**(1,750)**
Balance as at 03 January 2021		**88**	**147**	**1,279**	**1,514**
Loss for the financial period and total comprehensive loss		-	-	(1,400)	**(1,400)**
Dividends paid	**16**	-	-	-	-
Balance as at 02 January 2022		**88**	**147**	**(121)**	**114**

Statement of cash flows

	Note	52 weeks ended 02 January 2022 £'000	53 weeks ended 03 January 2021 £'000
Cash flow from operating activities	**18**	4,959	2,481
Taxation Received/(Paid)		296	(467)
Net cash generated from / (used in) operating activities		**5,255**	**2,014**
Cash flow from investing activities			
Purchase of tangible assets		(4,563)	(462)
Interest received		-	1
Net cash used in investing activities		**(4,563)**	**(461)**
Cash flow from financing activities			
Dividends paid		-	(1,750)
Net cash used in financing activities		**0**	**(1,750)**
Net increase/(decrease) in cash and cash equivalents		**692**	**(197)**
Cash at bank and in hand at the beginning of the period		**440**	**637**
Cash at bank and in hand at the end of the period		**1,132**	**440**

Notes to the financial statements

1. General information

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

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

2. Statement of compliance

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

3. Summary of significant accounting policies

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

For clarity the 52 week period ended 02 January 2022 is referred to as "2021", and the comparative 53 week period ended 03 January 2021 is referred to as "2020" throughout the Annual Report and financial statements.

a. Basis of preparation

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

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

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 and liquidity from Excelitas Group where required for upfront investments. In order to manage these requirements, the Company's forecasts and projections are updated regularly to reflect changes in trading performance.

Long term the Company expects significant revenue growth from contracts already received and commitments made by its customers as described in the Strategic Report.

During the year and subsequent to year end, the Company has made a significant investment in expanding its production facilities which has relied on funding from elsewhere in the Group. This has resulted in a net current liabilities balance sheet position. Accordingly, 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.

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

c. Consolidated financial statements

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

d. Foreign currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

e. Turnover recognition

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

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

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

Turnover is deferred on the basis that certain engineering projects are invoiced in advance of the completion of the service and recognised at the point of completion.

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

f. Employee benefits

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

(i) Short term benefits

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

(ii) Defined contribution pension plans

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

f. Employee benefits (continued)

(iii) Annual bonus plan

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

g. 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. Current and deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the 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 profits as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

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

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

h. Tangible assets

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

Leasehold Improvements	20%/Remaining Lease Term
Plant and Machinery	25%
Fixtures and Fittings	20% - 100%

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

i. Leased assets

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

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

j. Inventories

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

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

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

3. Summary of significant accounting policies (continued)

k. Cash and cash equivalents

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

l. Provisions

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
The company recognises the anticipated cost of significant reinstatement of certain assets at the end of their life. This anticipated cost is recognised on a present value basis and the unwinding of the discount is charged to the Statement of comprehensive income over the period of the lease. The associated asset is capitalised within tangible fixed assets and depreciated in accordance with the accounting policy for the related asset.

m. 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. At the end of each reporting period the financial assets are reviewed for impairment and any impairment loss is recognised in the Statement of comprehensive income.

(ii) Financial liabilities

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

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

m. Financial instruments (continued)

(ii) Financial liabilities (continued)

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

n. Share capital

Ordinary shares are classified as equity.

o. Distributions to equity holders

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

p. Related party transactions

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

q. Exemptions

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

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

3. Summary of significant accounting policies (continued)

q. Exemptions (continued)

This information is included in the consolidated financial statements of EXC Holdings I Corp. for the year ended 02 January 2022 and these financial statements may be obtained from 1209 Orange Street, Wilmington, Delaware 19801 United States of America.

r. Exceptional Items

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

4. Critical accounting judgements and estimation uncertainty

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

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

(i) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying value of the tangible assets and note 3 (h) for the useful economic lives for each class of assets.

Notes to the financial statements (continued)

4. Critical accounting judgements and estimation uncertainty (continued)

(ii) Inventory provisioning

The Company designs, produces and sells photonic products and is subject to changing customer demands and technology advances. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated demand for the raw materials. The provision is calculated with reference to the quantity on hand, the historic usage and projected future demand. See note 11 for the net carrying amount of the inventory and associated provision.

(iii) Revenue Determination Principal/Agent

The Company has entered into certain contractual arrangements whereby it is acting as an agent. In these circumstances the Company incudes in revenue only the amount of its commission. The amounts collected on behalf of the principal are not recognised as revenue of the Company.

5. Turnover	**2021 £'000**	**2020 £'000**
Analysis of turnover by geography:		
North America	3,699	3,337
United Kingdom	209	236
Rest of Europe	3,638	3,688
Rest of the World	3,049	1,842
	10,595	9,103

All of the Company's turnover is attributable to the same category: optics and laser technology.

6. Operating (loss)/profit	**2021 £'000**	**2020 (Restated) £'000**
Operating (loss)/profit is stated after charging:		
Depreciation	475	257
Inventory recognised as an expense	2,724	1,942
Impairment of inventory	89	93
Operating lease charges	175	151
Audit fees payable to the Company's auditors	49	51
Research and development	879	443 *
Foreign exchange losses	159	183

* - 2020 Research and development costs have been restated using an alternative method adopted for 2021 which better reflects this cost, previously stated as £1,339,000.
Current year methodology reflects an assessment of qualifying R&D expenditure by external experts, which is considered to be a more accurate representation of the amount compared to the previous calculation based upon a management allocation of salary and material costs.

Notes to the financial statements (continued)

6. Operating (loss)/profit (continued)

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditors for "Other services" as this information is included in the consolidated financial statements of EXC Holdings I Corp. In 2020 these were included in the consolidated financial statements of Excelitas Technologies Holding Corp.

7. Employees and directors

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

	2021	2020
By activity	**No.**	**No.**
Administration	39	31
Production	67	46
	106	77

	2021	2020
	£'000	£'000
Wages and salaries	4,193	3,124
Social security costs	365	262
Other pension costs	156	128
Staff costs	4,714	3,514

Directors

	2021	2020
The directors' emoluments were as follows:	£'000	£'000
Aggregate emoluments	87	86
Company contributions to defined contribution scheme	5	5
	92	91

One director (2020: one director) is a member of a defined contribution scheme.

The emoluments of the highest paid director (2020: one director) were as follows:

	2021	2020
	£'000	£'000
Aggregate emoluments	87	86
Company contributions to defined contribution scheme	5	5
	92	91

Notes to the financial statements (continued)

7. Employees and directors (continued)

Directors (continued)

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

8. Net Interest (expense)/income	**2021 £'000**	**2020 £'000**
a) Interest receivable and similar income		
Other interest receivable	-	1
	-	1
b) Interest payable and similar charges		
Other interest payable	(15)	-
	(15)	-
Net Interest (expense)/income	(15)	1

9. Tax on (loss) /(loss)

(a) Tax (credit)/charge included in profit or loss	**2021 £'000**	**2020 £'000**
Current tax:		
UK corporation tax on (loss)/profit for the period	(322)	268
Adjustment in respect of prior periods	26	27
	(296)	295

Notes to the financial statements (continued)

9. Tax on (loss)/profit (continued)

(b) Reconciliation of tax (credit)/charge

The tax assessed for the period is lower (2020: higher) than the standard rate of corporation tax in the UK for the period ended 02 January 2022 of 19% (2020: 19%). The differences are explained below:

	2021 £'000	2020 £'000
(loss)/profit before taxation	**(1,696)**	**1,541**
(loss)/profit before taxation multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	(322)	293
Effects of:		
Impact of unrecognised tangible asset timing differences		10
Adjustment in respect of prior periods	26	27
Impact of other unrecognised timing differences		(35)
Tax (credit)/charge for period	**(296)**	**295**

(c) Tax rate changes

There are a number of changes to the tax rate in the year and post year end. The Finance Act 2020 removed the reduction of the main rate of UK corporation tax to 17% from 1 April 2020, such that the tax rate remains at 19% and was substantively enacted on 22 July 2020. The Finance Act 2021 increases the main rate of UK corporation tax from 19% to 25% from 1 April 2023, which was enacted on 24 May 2021.

Notes to the financial statements (continued)

9. Tax on (loss)/profit (continued)

The deferred tax asset and liability are measured at the tax rates which are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%.As the increase of the rate to 25% had been substantively enacted at the Balance Sheet date, its effects are included in these Financial Statements.

10. Tangible assets

Cost	**Plant and Machinery £'000**	**Fixtures and Fittings £'000**	**Leasehold Improvements £'000**	**Construction in progress £'000**	**Total £'000**
At 04 January 2021	3,262	619	1,220	-	**5,101**
Additions	631	167	323	4,566	**5,687**
Disposals	-	-	-		-
At 02 January 2022	**3,893**	**786**	**1,543**	**4,566**	**10,788**
Accumulated depreciation					
At 04 January 2021	2,633	557	1,143	-	**4,333**
Depreciation	303	94	78	-	**475**
Disposals	-	-	-	-	-
At 02 January 2022	**2,936**	**651**	**1,221**	-	**4,808**
Net book amount					
At 02 January 2022	957	135	322	4,566	5,980
At 04 January 2021	629	62	77	-	768

The construction in progress is in respect of the contruction of a cleanroom facility within the leashold property and the associated asset retirement obligation.

11. Inventories	**2021 £'000**	**2020 £'000**
Raw materials and consumables	2,718	1,755
Work in progress	1,055	503
Finished goods and goods for resale	18	89
	3,791	**2,347**
Provision for impairment	(852)	(763)
	2,939	**1,584**

Notes to the financial statements (continued)

12. Debtors	2021 £'000	2020 £'000
Trade debtors	1,415	1,761
Amounts owed by group undertakings	555	608
Other debtors	743	84
Prepayments and accrued income	121	257
	2,834	2,710

All the amounts disclosed above are due within one year.

Amounts owed by group undertakings are unsecured, interest free, have no fixed repayment date and are repayable on demand.

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

	Unrecognised		Recognised	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Excess of capital allowances over depreciation	-	35	-	-

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

13. Creditors: amounts falling due within one year	2021 £'000	2020 £'000
Trade creditors	1,083	805
Other Creditor	275	-
Amounts owed to group undertakings	8,297	1,948
Taxation and social security	158	115
Deferred income	462	517
Accruals	1,952	559
	12,227	3,944

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

Notes to the financial statements (continued)

14. Provision for liabilities

	2021 £'000	2020 £'000
Warranty provision	51	44
Asset Retirement Obligation	493	-
	544	44

The warranty provision is expected to be utilised over the Company's maximum warranty period of 24 months.
The Asset retirement obligation provision is made over the life of the lease for the estimated cost of decommissioning leasehold improvements. This provision is expected to be utilised in more than one year after the balance sheet date.

15. Post employment benefits

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

	2021 £'000	2020 £'000
Current period contributions	156	128

16. Called up share capital

	2021 £'000	2020 £'000
Ordinary shares of £1.00 each		
Allotted and fully paid (88,000 shares, 2020: 88,000)	88	88

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

Dividends	2021 £'000	2020 £'000
Final Nil (2020: £19.89 per share)	-	1,750

17. Share premium account

	2021 £'000	2020 £'000
Share premium	147	147

Notes to the financial statements (continued)

18. Cash flow from operating activities	2021 £'000	2020 £'000
(Loss)/Profit for the financial period	**(1,400)**	**1,246**
Tax on (loss)/profit	(296)	295
Interest charged/(receivable)	15	(1)
Operating (loss)/profit	**(1,681)**	**1,540**
Depreciation	475	257
Working capital movements:		
Inventory	(1,355)	(548)
Debtors	(124)	(244)
Creditors	7,637	1,495
Provisions	7	(19)
Cash flow from operating activities	**4,959**	**2,481**

19. Capital and other commitments

The Company had the following capital commitments:

	2021 £'000	2020 £'000
Contracts for future capital expenditure not provided in the financial statements:		
Leasehold improvements	2,226	-
Plant & machinery	178	137
	2,404	**137**

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

	2021 £'000	2020 £'000
Not later than one year	172	25
Later than one year and not later than five years	688	-
Later than five years	710	-
	1,570	**25**

20. Controlling parties

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

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

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