

Hottinger Bruel & Kjaer UK Ltd

Annual Report and Unaudited Financial Statements

Registered number 1589921
31 December 2023



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Strategic Report

The Directors present their strategic report for the year ended 31 December 2023.

Principal activities

The principal activity of the Company during the period continued to be the development and sale of engineering related computer software packages together with the sale of high precision test and measurement products. The core products are used by engineers, working in the vehicle, aerospace, offshore, power generation and defence industries.

Business review

The business continues to supply standard products and related services primarily to 'blue chip' global customers, working in test, design, and development teams in a broad range of industries. Our products and experience help customers worldwide eliminate unexpected product failures by measuring and converting durability, performance, and operational data into information from which decisions can be made that add value through improved reliability and reduced costs. Reliability products are dedicated to meeting the reliability engineering, quality and maintenance planning needs of product manufacturers and equipment operators worldwide, through all stages of product development, deployment, and operation.

Strategy

The Directors believe it is important to retain a diversified portfolio of clients and to grow the business organically by providing world class products and high touch technical support. Customer service remains a top priority.

The Company will continue to improve new business levels through both the expansion of distribution networks, working closely with business partners to deliver effective distribution channels, and through continuous mentoring of staff. The Directors remain committed to increasing the levels of recurring revenues and maintaining customer retention.

The Company will continue to consolidate its position and concentrate its efforts on achieving maximum growth in its existing market segments. The Directors will maintain the current levels of efficiency in all areas of the operation and will continue a programme of staff training, retaining talented staff who are committed to achieving the business goals.

Strategic Report *(continued)*

Key indicators

	2023	2022
Sales Growth		
HBK Hardware Products	30%	21%
HBK Software Products including Services	9%	15%

In 2023 sales of HBK Hardware Products increased by £7,599,000 (2022: £912,000 increase); a healthy increase following from 2022 improving market conditions, sales opportunities fuelled in prior year and the success of new product developments.

Software Products sales (including services) in 2023 increased by £1,283,000 (2022: £1,897,000 increase), driven by direct sales activities.

Recurring Revenues

The Company continues to monitor recurring revenues as a means of helping to secure future profit. In 2023 HBK UK secured a recurring sales base of £4,720,000 (2022: £4,506,000) representing 28% of administrative expenses (2022: 28%).

Gross Margin %

The overall gross margin % decreased in 2023 slightly to 48% (2022:51%). This is mainly due to gross margin decrease for BKS hardware to 24% (2022: 27%). HBK Hardware margin increased to 34% (2022: 31%).

Net return on Sales %

Reported sales increased by 22% mainly driven by increase in sale of hardware. Administrative expenses increased by 6% only representing a very good result from cost control perspective.

As a result, the Company delivered an operational 14% return on sales (2022: 11%) which was enabled by improved profit before tax. The directors are determined to achieve comparable level of return between 2024 and 2025.

Principal risks and uncertainties

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

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


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

Strategic Report *(continued)*

Future developments

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

By order of the Board



Steen Pinnerup (015, 211 712 211) 11/2

Steen Pinnerup
Director

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

Directors' Report

Results and dividends

The Company made a profit after tax in the year of £4,667,000 (2022: £2,779,000). The Company paid an interim non-cash dividend of £25,000,000 to Spectris Plc, its immediate parent company (2023: nil). The company does not recommend paying the final dividend (2022: nil).

Directors


The Directors who held office during the year were:

Ben Bryson
Steen Pinnerup (appointed on 29th January 2024)
Nina Viola Rosen
Paul Beardsworth (resigned on 31st January 2024)

Future developments

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

By order of the Board



Steen Pinnerup (appointed on 29th January 2024)

Steen Pinnerup
Director

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

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

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

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

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

Income Statement
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Revenue	2	48,682	39,800
Cost of sales		(25,276)	(19,390)
Gross profit		23,406	20,410
Administrative expenses		(17,434)	(16,607)
Restructuring		(1,054)	(975)
Operating profit	3	4,918	2,828
Share of post-tax results in Associate	10	165	-
Finance income	5	1,194	362
Finance expense	6	(225)	(68)
Profit before income tax		6,052	3,122
Tax on profit	7	(1,385)	(343)
Profit for the financial year		4,667	2,779

Results for the year ended 31 December 2023 and 31 December 2022 are derived wholly from continuing operations.

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

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

Statement of Changes in Equity
For the year ended 31 December 2023

	Called up Share capital	Capital Redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2023	98	466	32,705	33,269
Share based payments, net of tax	-	-	210	210
Share-based payments charge	-	-	634	634
Total comprehensive income for the year	-	-	4,667	4,667
Total comprehensive income for the year	98	466	38,236	38,780
Transactions with owners in their capacity as owners:				
Dividends	-	-	(25,000)	(25,000)
Total transactions with owners, recognized directly in equity	-	-	(25,000)	(25,000)
Balance as at 31 December 2023	98	466	13,216	13,780

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

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

Statement of financial position
As at 31 December 2023

	Note	2023 £'000	2022 £'000
ASSETS			
Non-current assets			
Intangible assets	8	10,268	10,996
Property, plant, and equipment	9	6,546	2,393
Investment in associate	10	3,065	2,900
		<u>19,929</u>	<u>16,289</u>
Current assets			
Inventories	11	5,830	5,871
Trade and other receivables	12	29,449	49,749
Cash and cash equivalents		2,333	2,722
		<u>37,612</u>	<u>58,342</u>
Total Assets		<u>57,491</u>	<u>74,631</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(38,563)	(40,053)
Lease liabilities		(232)	(334)
Provisions	14	(157)	(271)
Total Current Liabilities		<u>(38,952)</u>	<u>(40,658)</u>
Net Current (Liabilities)/Assets		<u>(1,340)</u>	<u>17,684</u>
Non-current liabilities			
Lease liabilities		(4,414)	(359)
Provisions	14	(345)	(345)
Total non-current liabilities		<u>(4,759)</u>	<u>(704)</u>
Total Liabilities		<u>(43,711)</u>	<u>(41,362)</u>
Net Assets		<u>13,780</u>	<u>33,269</u>
EQUITY			
Called up share capital	15	98	98
Capital redemption reserve		466	466
Retained earnings		13,216	32,705
Total equity attributable to owners of the Company		<u>13,780</u>	<u>33,269</u>


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

For the financial year ending 31 December 2023, the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies.

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

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

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



Steen Pinnerup

Director

Company Registration No. 01589921

Notes to the Accounts

1. Basis of preparation and summary of material accounting policies

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

a) Basis of preparation

The financial statements of Hottinger Bruel & Kjaer UK Ltd have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 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 following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements': 10(d) (statement of cash flows); 16 (statement of compliance with all IFRS); 38A (requirement for minimum of two primary statements, including cash flow statements); 38B-D (additional comparative information); 111 (statement of cash flows information); and 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create uncertainty, particularly over the level of demand for the company's products. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. 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.

Notes to the Accounts *(continued)*

b) Summary of material accounting policies

Intangible assets

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

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

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

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

Property, plant, and equipment

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

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

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

Notes to the Accounts *(continued)*

Summary of material accounting policies *(continued)*

Investment in associate

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

Joint Operation

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

Inventories

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

Trade and other receivables

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

Cash at bank and in hand and short-term deposits

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

Trade and other payables

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

Notes to the Accounts *(continued)*

Summary of material accounting policies *(continued)*

Provisions

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

Taxation

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

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Foreign currency translation

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

Employee benefits

The Company operates defined contribution pension schemes.

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

Defined contribution scheme

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

Share-based payments

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

Revenue

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

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

Interest payable and similar charges and interest receivable and similar income

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

Research and development

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

Financial instruments

Recognition

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

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

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

Measurement

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

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

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

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

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

Leases

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

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

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

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

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2023 that have had a material impact on the Company's financial statements.

Accounting estimates and judgements

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

2. Revenue

	2023	2022
	£'000	£'000
An analysis of the Company's revenue is as follows:		
Sale of software packages, recognised at a point in time	4,720	4,506
Sale of goods, recognised at a point in time	32,708	25,110
Services rendered, recognised over time	11,254	10,184
Revenue from continuing operations	48,682	39,800

	£'000	£'000
UK	16,686	15,686
Europe	11,806	12,151
North America	14,249	6,751
Rest of the World	5,941	5,212
	48,682	39,800

3. Operating profit

	2023	2022
	£'000	£'000
Operating profit has been arrived at after charging:		
Net foreign exchange loss/(gain)	245	(313)
Research and development expenditure - including staff costs	2,236	2,923
Depreciation of property, plant, and equipment: owned assets	359	421
Depreciation of right-of-use assets	516	511

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

4. Employee numbers and costs

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

	2023	2022
	Number	Number
Technical and professional	178	180
General and administration	16	18
	194	198

Notes to the Accounts *(continued)*

4. Employee numbers and costs *(continued)*

	2023 £'000	2022 £'000
Wages and salaries	12,814	12,334
Social security costs	1,478	1,500
Other pension costs	1,500	1,150
	15,792	14,984

	2023 £'000	2022 £'000
Directors' remuneration:		
Short term benefits	564	596
Company contributions to money purchase pension schemes	42	40
	606	636

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

	2023	2022
Number of Directors		
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2

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

5. Finance income	2023 £'000	2022 £'000
Interest receivable from Group undertaking	1,160	327
Unwinding of discount factor on lease liabilities	-	35
Foreign exchange adjustment	34	
	1,194	362

6. Finance expense	2023 £'000	2022 £'000
Foreign exchange adjustment	-	(68)
Unwinding of discount factor on lease liabilities	(225)	-

7. Tax on profit	2023 £'000	2022 £'000
Tax charged in the Income Statement		
Current tax:		
UK corporation tax	1,329	626
Adjustments in respect of prior years	37	17
Total current tax charge	1,366	643
Deferred tax:		
Origination/reversal of temporary differences	36	(184)
Adjustments in respect of prior years	(17)	(116)
Total deferred tax charge/(credit)	19	(300)
Total tax charge in the Income Statement	1,385	343

Notes to the Accounts (continued)

Tax on profit (continued)

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

	2023 £'000	2022 £'000
Current Tax:		
Share based payment	(48)	-
Deferred tax:		
Share based payments	(162)	251
Total deferred tax (credit)/charge	(162)	251
Total tax (credit)/charge to the Statement of Changes in Equity	(210)	251

Reconciliation of the total tax charge

The tax charge in the income statement for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 23.5% (2022: 19%). The differences are reconciled below:

	2023 £'000	2022 £'000
Profit before taxation	6,052	3,122
Corporation tax at standard rate of 23.5% (2022: 19%)	1,422	593
Effects of:		
Non-taxable income and gains	(61)	-
Non-deductible expenditure	-	66
Other current year items	4	(217)
Adjustments to prior year current and deferred tax charges	20	(99)
Total tax charge reported in the Income Statement	1,385	343

The Finance Bill 2021 enacted a corporation tax rate increase from 19% to 25%, which took effect from 1 April 2023.

New requirements - OECD 'Pillar Two' tax legislation

The Company is within the scope of the OECD BEPS 'Pillar Two' minimum tax rules. The UK legislation to implement the OECD BEPS 'Pillar Two' minimum tax rules was substantively enacted in June 2023 and will be effective for accounting periods beginning on or after 1 January 2024. The Company can apply the exemption under FRS 101 from the disclosure requirements of Pillar Two, within 'IAS 12 Income taxes', as the equivalent disclosures will be included in the consolidated financial statements of Spectris Plc, the group in which the Company is consolidated.

Deferred Taxation

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

	2023 £'000	2022 £'000
Deferred tax asset		
Temporary difference relating to property, plant, and equipment	93	242
Share based payments	548	258
Temporary difference relating to other items	26	24
	667	524
Disclosed in the statement of financial position (note 12)		
Deferred tax asset	667	524

Notes to the Accounts (continued)

Tax Note (continued)

	2023 £'000	2022 £'000
Deferred tax in the Income Statement		
Temporary difference relating to property, plant, and equipment	153	20
Temporary difference relating to other items	(117)	(204)
Adjustments in respect of prior years	(17)	(116)
Deferred tax charge/(credit) to the Income Statement	19	(300)

8. Intangible assets

	Goodwill £'000	Technology Related £'000	Software Related £'000	Customer Relationship £'000	Total £'000
Cost					
At 1 January 2023	5,352	7,204	795	52	13,403
Additions	-	-	-	-	-
At 31 December 2023	5,352	7,204	795	52	13,403
Accumulated amortisation and impairment					
At 1 January 2023	565	1,020	777	45	2,407
Charge for the year	-	720	-	7	727
At 31 December 2023	565	1,740	777	52	3,134
Carrying amount					
At 31 December 2023	4,787	5,464	18	-	10,268
At 31 December 2022	4,787	6,183	18	7	10,996

Goodwill

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

	2023 £'000	2022 £'000
Carrying amount of goodwill allocated to cash generating units		
Hardware Products Division	1,787	1,787
Software Products Division	3,000	3,000
Total Goodwill	4,787	4,787

The Company has no internally generated intangible assets from development expenditure as the criteria for the recognition as an asset under IAS 38 'Intangible Assets' have not been met (2022: nil).

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

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

- Operating profits assume annual growth in line with historical performance with expected cash conversion of 75%.
- Cash flows into perpetuity have not been incorporated into the calculations.
- A post tax discount rate of 11.8% (2022: 10.6%) has been used in the forecast.

Notes to the Accounts *(continued)*

9. Property, plant, and equipment: owned assets

	Leasehold Improvements	Plant and Equipment	Total
Cost	£'000	£'000	£'000
At 1 January 2023	2,365	4,483	6,848
Additions	63	574	637
Disposals	-	-	-
At 31 December 2023	2,428	5,057	7,485

Accumulated depreciation			
At 1 January 2023	1,933	3,157	5,090
Charge for the year	81	278	359
Disposals	-	-	-
At 31 December 2023	2,014	3,435	5,449

Carrying amount			
At 31 December 2023	414	1,622	2,036
At 31 December 2022	432	1,326	1,758

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

	Property	Plant and equipment	Total
Cost	£'000	£'000	£'000
At 1 January 2023	6,537	264	6,801
Additions	4,473	-	4,473
Disposal	(5,263)	(54)	(5,317)
At 31 December 2023	5,747	210	5,957

Accumulated depreciation			
At 1 January 2023	5,938	228	6,166
Charge for the year	491	25	516
Disposals	(5,181)	(54)	(5,235)
At 31 December 2023	1,248	199	1,447

Carrying amount			
At 31 December 2023	4,499	11	4,510
At 31 December 2022	600	35	635

Total property, plant, and equipment:

	2023	2022
	£'000	£'000
Property, plant, and equipment: owned	2,036	1,758
Property, plant, and equipment: right-of-use	4,510	635
At 31 December	6,546	2,393

Notes to the Accounts *(continued)*

10. Investment in associate and joint operation

Investment in associates

	2023 £'000	2022 £'000
At 1 January	2,900	
Arising on acquisition of associates	-	2,900
Share of profit of associates	243	
Foreign exchange gain/(loss)	(78)	
At 31 December	3,065	2,900

2022

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

Joint Operation

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

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

11. Inventories

	2023 £'000	2022 £'000
Raw materials	2,658	3,014
Finished goods	3,172	2,857
At December 2023	5,830	5,871

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sale in the year amounted to £9,473k (2022: £7,649k). The write-down of inventories to net realisable value amounted to a charge of £351k (2022: £172k). The release is included in cost of sale.

Notes to the Accounts *(continued)*

12. Trade and other receivables

	2023	2022
	£'000	£'000
Trade receivables	4,834	5,419
Amounts owed by group undertakings	22,739	42,474
Other receivables	612	1,123
Prepayments and accrued income	597	209
Deferred tax (note 7)	667	524
At December 2023	29,449	49,749

13. Trade and other payables

	2023	2022
	£'000	£'000
Amounts falling due within one year:		
Trade payables	1,246	2,104
Amounts owed to group companies	1,184	1,387
Current tax liability	998	626
Taxation and social security	357	357
Accruals	29,357	29,634
Deferred income	5,421	5,945
At December 2023	38,563	40,053

14. Provisions

	Product Warranty	Dilapidation	Total
	£'000	£'000	£'000
At January 2023	480	136	616
Release in year	(35)	(79)	(114)
At December 2023	445	57	502

Product warranty

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

Dilapidation

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

15. Share capital

	2023	2022
	£'000	£'000
Allotted, called up and fully paid		
98,055 Ordinary shares of £1 each	98	98

16. Contingent liabilities

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

Notes to the Accounts (continued)

Contingent liabilities (continued)

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

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

	2023 £'000	2022 £'000
Royal Bank of Scotland	3,009	2,215

17. Lease liabilities

2023 – Undiscounted lease liability maturity analysis

	Property £'000	Plant and equipment £'000	Total £'000
Within one year	543	11	554
More than one year but less than five years	2,171	-	2,171
Greater than five years	2,000	-	2,000
	4,714	11	4,725

2022 – Undiscounted lease liability maturity analysis

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

18. Ultimate parent company

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