

OpSec Security Limited

Annual report and financial statements

Registered number 1997954

31 March 2019

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Contents

Strategic report	1
Directors' report	3
Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements	4
Independent auditor's report to the members of OpSec Security Limited	5
Income statement	8
Statement of comprehensive income	8
Statement of changes in equity	8
Balance sheet	9
Statement of cash flows	10
Notes	11

Strategic report

The directors present their strategic report for the year ended 31 March 2019.

Principal activities

The principal activity of OpSec Security Limited (“the Company”) is the design, manufacture and provision of authentication, brand enhancement and anti-counterfeiting products and services.

Business model and strategy

The Company’s objective is to be the leading provider of authentication, brand enhancement and anti-counterfeiting products and services to the sectors and geographical areas we service.

The Company’s principal customers are major brand owners and government organisations throughout Europe, Africa, the Middle East and Far East.

The strategy to achieve our objectives is to:

- Focus on chosen security markets and secure new business;
- Continue to grow our pipeline of opportunities;
- Maintain quality and efficiency in our manufacturing facilities;
- Continue to design and develop new technologies and products;
- Develop our people;
- Maintain high levels of health and safety compliance.

Business review and results

For the year to 31 March 2019, the Company reported a profit before income tax of £3,487,000 (2018: £2,275,000).

In this period, revenue increased by 3% to £21.5m. The increase is principally driven by a continued high demand from a major transaction card customer following a change in brand design in the previous year. The increase in revenue offset reductions in ordering from some High Security Group customers.

Gross margins increased from 40% to 43% year on year. This was due to realising efficiencies in production following continuous improvement projects in addition to a favourable sales mix. Distribution and Administrative expenses reduced by £0.4m compared to the prior year, as a result of favourable exchange rate movements between \$ and £, savings on personnel costs, and lower spend on IT and security projects.

Profit before tax has increased by £1.2m due to the combined impact of the above factors.

During the year the Company generated a net cash inflow of £0.4m compared with a net cash inflow of £1.4m in the prior year. This decrease is a result of increased capital spend and negative working capital movements.

Key performance indicators

The Company uses a number of financial and non-financial Key Performance Indicators (“KPIs”) to measure performance and these are reported both at Board level and to employees in quarterly briefings. The non-financial KPIs include:

- On Time in Full Delivery – to measure customer service levels;
- Customer Claims as a % of sales – to measure quality;
- Material and Production yield – to measure manufacturing efficiency and quality;
- Health & safety, accident and incident reporting.

The Board considers that the Company has a very effective measurement and reporting system, consistent with its size and complexity.

Strategic report *(continued)*

Key performance indicators *(continued)*

As far as financial performance is concerned the key measurements used by the Company are revenue and gross profit percentage, calculated as reported on the face of the income statement and included in the Business review and results section above.

In addition the Company reviews standard accounts receivable, accounts payable and inventory ratios to measure working capital levels.

Principal risks and uncertainties

The main risks facing the Company are;

- that revenue is concentrated with a small number of large customers and the loss of one would significantly reduce revenues and profitability. Conversely, winning a new customer would significantly enhance revenues and profitability. The Company has focused efforts on securing new business and growing the pipeline of opportunities in the year to address this.
- efficiency in its manufacturing and operations in order to fully utilise the capacity available in our facilities to support growth. The Company has focussed on key areas of material yield improvement and manufacturing development as part of the continuous improvement programme, which has seen benefit in the current year.
- that new acquisitions and capital investments are not effectively integrated into OpSec. The company appoints project teams to manage integration efforts and commissioning of new equipment and uses external consultants to assist where this is appropriate to mitigate this risk.


Brexit

The Directors have assessed the potential impact of a “Hard Brexit” and the directors believe that it will not jeopardise the Group’s ability to continue to operate as a going concern. A comprehensive exercise has been undertaken with all key suppliers and customers that may be impacted and contingency plans put in place where appropriate. The financial impact is difficult to assess but the position is being monitored on an ongoing basis.

Future developments

The Company views the future with confidence. Despite a forecast reduction in Transaction Card business, due to high demand in the year just ended, Brand Protection and High Security business is forecast to grow and sales pipeline activity continues to be very robust. In addition, the Company expects to continue to realise efficiencies and economies of scale following investment and development in the year just ended.

By order of the board



MJ Currie
Director

40 Phoenix Road
Crowther
Washington
Tyne and Wear
NE38 0AD

17 July 2019

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2019.

Research and development

The main research and development activity undertaken by the company covers product development – application and materials; and optical development – new security and optical features to enhance our product offering. This activity supports products and features in each market sector and is focussed on supporting growth and securing new business.

Financial instruments

A description of the company's financial risk management objectives and policies, and the exposure of the company to credit risk, liquidity risk, interest rate risk and foreign currency risk is set out in note 19.

Dividend

An interim dividend of £1,567,000 was declared and paid on 17 December 2018 in respect of year ended 31 March 2019.

Directors

The directors who held office during the year were as follows:

MJ Currie
D Bowden

All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Employees

The employment policies of the Company embody the principles of equal opportunity. The sole criteria for selection, training, development and promotion is the individual's suitability for the position of employment offered and his or her aptitudes and abilities. The Company takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees by reason of their disability.

The Company maintains its commitment to providing employees with information on matters of concern to them as employees. Consultation with employees allows the company to take the view of employees into account in making decisions that are likely to affect their interests.

Political contributions

The Company made no political contributions during the year (2018: £nil).

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


MJ Currie
Director

40 Phoenix Road
Crowther
Washington
Tyne and Wear
NE38 0AD
17 July 2019

12 September 2019

Statement of directors' responsibilities in respect of the Strategic Report, 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are 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, and 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.



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of OpSec Security Limited

Opinion

We have audited the financial statements of OpSec Security Limited ("the company") for the year ended 31 March 2019 which comprise the Income statement and the Statement of comprehensive income, Statement of changes in equity, Balance sheet, Statement of cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of OpSec Security Limited *(continued)*

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of OpSec Security Limited (continued)

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

9 August 2019

Income statement

for year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	1,2	21,472	20,843
Cost of sales		(12,269)	(12,480)
Gross profit		9,203	8,363
Distribution expenses	3	(2,403)	(2,170)
Administrative expenses	3	(3,134)	(3,769)
Operating profit	3-6	3,666	2,424
Finance income	7	148	176
Finance expense	8	(327)	(325)
Profit before income tax		3,487	2,275
Taxation	9	(25)	(33)
Profit for the year		3,462	2,242

All results derive from continuing operations.

Statement of comprehensive income

for year ended 31 March 2019

	2019 £000	2018 £000
Profit for the year	3,462	2,242
Total comprehensive income for the year	3,462	2,242

Statement of changes in equity

for year ended 31 March 2019

	Share capital £000	Retained earnings £000	Total £000
Balance at 1 April 2017	571	9,726	10,297
Total comprehensive income for the year	-	2,242	2,242
Balance at 31 March 2018	571	11,968	12,539
Balance at 1 April 2018	571	11,968	12,539
Total comprehensive income for the year	-	3,462	3,462
Transactions with owners, recorded directly in equity			
Dividends	-	(1,567)	(1,567)
Total transactions with owners	-	(1,567)	(1,567)
Balance at 31 March 2019	571	13,863	14,434

Balance sheet
at 31 March 2019

	<i>Note</i>	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	<i>10</i>	3,518	3,963
Intangible assets	<i>11</i>	5,979	6,415
Deferred tax assets	<i>12</i>	504	504
		<hr/>	<hr/>
		10,001	10,882
		<hr/>	<hr/>
Current assets			
Inventory	<i>13</i>	950	1,001
Trade and other receivables	<i>14</i>	5,453	5,304
Cash and cash equivalents	<i>15</i>	2,540	2,109
		<hr/>	<hr/>
Total current assets		8,943	8,414
		<hr/>	<hr/>
Total assets		18,944	19,296
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>16</i>	(3,836)	(6,083)
		<hr/>	<hr/>
		(3,836)	(6,083)
		<hr/>	<hr/>
Non-current liabilities			
Provisions	<i>17</i>	(674)	(674)
		<hr/>	<hr/>
		(674)	(674)
		<hr/>	<hr/>
Total liabilities		(4,510)	(6,757)
		<hr/>	<hr/>
Net assets		14,434	12,539
		<hr/>	<hr/>
Equity			
Capital and reserves			
Share capital	<i>18</i>	571	571
Retained earnings		13,863	11,968
		<hr/>	<hr/>
Total equity		14,434	12,539
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 17 July 2019 and were signed on its behalf by:



MJ Currie
Director

Registered number: 1997954

Statement of cash flows
for year ended 31 March 2019

	<i>Note</i>	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		3,462	2,242
<i>Adjustments for:</i>			
Depreciation		1,495	1,705
Amortisation		436	436
Deferred government grant		(40)	(66)
Finance income and expenses		179	149
Income tax		25	33
		<hr/>	<hr/>
Operating profit before changes in working capital		5,557	4,499
Increase in trade and other receivables		(149)	(504)
Decrease/(increase) in inventories		51	(74)
Decrease in trade and other payables		(2,233)	(1,826)
		<hr/>	<hr/>
Net cash inflow from operating activities		3,226	2,095
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,049)	(504)
Interest received		148	177
		<hr/>	<hr/>
Net cash outflow from investing activities		(901)	(327)
		<hr/>	<hr/>
Cash flow from financing activities			
Interest paid		(327)	(325)
Intercompany dividends paid		(1,567)	-
		<hr/>	<hr/>
Net cash flow from financing activities		(1,894)	(325)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		431	1,443
Cash and cash equivalents at the start of the year		2,109	666
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<i>15</i>	2,540	2,109
		<hr/>	<hr/>

Notes

1 Accounting policies

Significant accounting policies

OpSec Security Limited (the “Company”) is a company incorporated and domiciled in England.

a) Statement of compliance

The financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (‘IFRSs’).

b) Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand and are prepared on the historical cost basis.

The company’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, note 19 to the financial statements includes the company’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Going concern

The company manages its day to day working capital and funding requirements through cash generated from the company’s operations. The company’s financial forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to have a sufficient level of resources available for the foreseeable future to meet its liabilities as they fall due. As such, the directors believe the company is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Adopted IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are described in note 25.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

c) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Notes (continued)

1 Accounting policies (continued)

d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy i).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy i).

(iii) Subsequent costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Short leasehold improvements	-	term of lease
Plant and equipment	-	4 – 10 years
Fixtures and fittings	-	4 – 5 years
Motor vehicles	-	4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

e) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method.

Acquisitions prior to 1 April 2005

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after 1 April 2005. In respect of acquisitions prior to 1 April 2005, goodwill represents the amount recognised under the Company's previous accounting framework (UK GAAP).

Acquisitions on or after 1 April 2005

For acquisitions on or after 1 April 2005, goodwill represents the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent measurement

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generated units and is tested annually for impairment (see accounting policy i).

Notes (continued)

1 Accounting policies (continued)

f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost as reduced by an appropriate allowance for irrecoverable amounts.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

i) Impairment

The carrying amounts of the company's assets, other than inventories (see accounting policy g) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Share capital

Dividends unpaid at the balance sheet are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes (continued)

1 Accounting policies (continued)

k) Classification of financial instruments issued by the company

Financial instruments issued by the company form part of shareholders' funds only to the extent that they meet the following conditions:

- (i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (ii) where the instruments will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments that are associated with financial instruments that are classified as equity are dividends and recorded directly in equity. Dividends are recognised as a liability in the period in which they are declared.

Where the Company enters into financial guarantee contracts which guarantee the indebtedness of other companies within the 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 as it becomes probable that the Company will be required to make a payment.

l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions in to 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 as an expense in the income statement when they are due.

m) Provisions

A provision is recognised in the balance sheet 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 economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

n) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently at amortised cost.

o) Revenue

Revenue from the sale of goods is recognised in the income statement when the associated performance obligations from its contracts with customers have been satisfied. The group typically satisfies its performance obligations when control of the goods has been transferred to the customer or as the services are rendered. Control is deemed to transfer when the goods are shipped to the customer, resulting in legal transfer of title. Revenue from services rendered, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract. No contracts have a significant financing component.

p) Government grants

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the company will comply with the conditions attaching to it. Grants that compensate the company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

Notes (continued)

1 Accounting policies (continued)

q) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance income and expense

Finance income comprises interest receivable on funds invested and foreign exchange gains and losses arising on foreign currency deposits. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses arising on foreign currency borrowings. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

Additional income taxes that arise from distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

s) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

Notes (continued)

1 Accounting policies (continued)

t) IFRSs applied for the first time

The Company has adopted the following IFRSs in these financial statements for the first time. The adoption of these pronouncements has not had a material impact to the Company's accounting policies, financial position or performance:

- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2: Classification and measurement of Share-Based Payment Transaction Contracts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

u) IFRS available for early adoption not yet applied

At the balance sheet date the following standards, amendments and interpretations were in issue but not yet effective. The company has not early adopted any of these standards, amendments and interpretations and is currently assessing their impact.

- IFRS 16 Leases (effective date 1 January 2019). This standard replaces the existing standard, IAS 17 'Leases', where lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right to use asset' for virtually all lease contracts. This is effective for the period beginning on 1 April 2019, and the Group will therefore adopt this standard in the next financial statements. The impact of adoption as at 31 March 2019 would have been an increase in non-current assets of £2,728,000, lease liabilities of £3,074,000 and increase in profit before tax of £96,000.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date to be confirmed).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date to be confirmed).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).

v) *Financial instruments (policy applicable from 1 April 2018)*

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes (continued)

1 Accounting policies (continued)

v) Financial instruments (policy applicable from 1 April 2018) (continued)

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1 Accounting policies (continued)

v) Financial instruments (policy applicable from 1 April 2018) (continued)

Financial liabilities and equity (continued)

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into 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 as it becomes probable that the company will be required to make a payment under the guarantee.

(iii) Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Notes (continued)

1 Accounting policies (continued)

v) Financial instruments (policy applicable from 1 April 2018) (continued)

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

2 Analysis of revenue

Revenue arises from the supply of anti-counterfeiting technologies and services and all sales are made from facilities in the UK.

Revenue by geographical market:	2019 £000	2018 £000
UK	3,268	3,626
Europe	5,187	5,327
The rest of the world	13,017	11,890
	<hr/>	<hr/>
	21,472	20,843
	<hr/>	<hr/>

3 Operating expenses

	2019 £000	2018 £000
Distribution expenses		
Selling and marketing costs	2,403	2,170
	<hr/>	<hr/>
Administrative expenses		
Technical support	210	280
Research and development costs	1,852	1,682
Administration costs	1,072	1,807
	<hr/>	<hr/>
	3,134	3,769
	<hr/>	<hr/>
Total operating expenses	5,537	5,939
	<hr/>	<hr/>

Notes (continued)

4 Operating profit

	2019 £000	2018 £000
<i>Operating profit is stated after charging/(crediting):</i>		
Depreciation of owned property, plant and equipment	1,495	1,705
Amortisation of intangibles	436	436
Provision for bad and doubtful debts	9	119
Release of government grants	(40)	(66)
	<hr/>	<hr/>
Auditor's remuneration:		
Audit of these financial statements	35	35
	<hr/>	<hr/>

Amounts receivable by the company's auditor and its associates in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's ultimate parent, Orca Bidco Limited.

5 Staff numbers and costs

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

	Number of employees	
	2019	2018
Production	117	112
Selling and marketing	21	20
Technical	10	9
Research and development	12	11
Administration	11	11
	<hr/>	<hr/>
	171	163
	<hr/>	<hr/>

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	6,137	6,281
Social security costs	613	581
Other pension costs (note 21)	212	168
	<u>6,962</u>	<u>7,030</u>

6 Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	247	230
Company contributions to money purchase pension plans	19	19
	<u>266</u>	<u>249</u>

The aggregate of emoluments of the highest paid director was £124,000 (2018: £120,000), and company pension contributions of £10,000 (2018: £10,000) were made to the scheme on his behalf.

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2

	Number of directors	
	2019	2018
The number of directors in respect of whose services shares in Orca Bidco Limited were received or receivable under long term incentive schemes	2	2

All directors benefited from qualifying third party indemnity provisions.

7 Finance income

	2019 £000	2018 £000
Net foreign exchange gains	37	75
Interest received on intercompany balances	94	101
Bank interest received	17	-
	<u>148</u>	<u>176</u>

Notes (continued)

8 Finance expense

	2019 £000	2018 £000
Interest payable on intercompany loans	(327)	(325)

9 Taxation

	2019 £000	2018 £000
<i>Current tax</i>	25	33
<i>Deferred tax (note 12)</i>	-	-
Total tax charge in income statement	25	33

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	3,462	2,242
Total tax charge	25	33
Profit excluding taxation	3,487	2,275
Income tax using domestic corporation tax rate of 19% (2018: 19%)	663	432
Non-deductible expenses	1	1
Other timing differences	107	106
Deferred tax not recognised	(643)	(475)
Other tax adjustments	(103)	(31)
Total tax charge in income statement	25	33

The standard rate of corporation tax in the UK, which applied throughout the year, is 19% (2018: 19%).

Reductions in UK corporation tax to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 March 2019 have been calculated based on these rates.

Notes (continued)

10 Property, plant and equipment

	Short leasehold improvements £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost				
Balance at 1 April 2017	2,015	16,690	349	19,054
Additions	-	445	59	504
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2018	2,015	17,135	408	19,558
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 April 2018	2,015	17,135	408	19,558
Additions	164	770	116	1,050
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	2,179	17,905	524	20,608
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment losses				
Balance at 1 April 2017	1,110	12,452	328	13,890
Depreciation charge for the year	115	1,565	25	1,705
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2018	1,225	14,017	353	15,595
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 April 2018	1,225	14,017	353	15,595
Depreciation charge for the year	131	1,347	17	1,495
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2019	1,356	15,364	370	17,090
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 1 April 2017	905	4,238	21	5,164
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018 and 1 April 2018	790	3,118	55	3,963
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2019	823	2,541	154	3,518
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

11 Intangible assets

	Customer relationships £000	Goodwill £000	Total £000
Cost			
Balance at 1 April 2017, 1 April 2018 and 31 March 2019	2,180	5,607	7,787
Impairment and amortisation			
Balance at 31 March 2017	436	500	936
Amortisation	436	-	436
Balance at 31 March 2018	872	500	1,372
Balance at 1 April 2018	872	500	1,372
Amortisation	436	-	436
Balance at 31 March 2019	1,308	500	1,808
Net book value			
At 31 March 2019	872	5,107	5,979
At 31 March 2018	1,308	5,107	6,415
At 31 March 2017	1,744	5,057	6,851

Impairment test for cash-generating units containing goodwill

The carrying value of goodwill at 31 March 2019 relates to one cash generating unit.

The impairment test is based on value in use calculations. Those calculations are based upon a three year business plan starting from the 2019/2020 budget approved by the Directors, together with a perpetuity calculation reflecting the expected maintenance of the market position at the end of the third year. The key assumptions for the calculations are those regarding discount rates and growth rates. The pre-tax discount rates and the growth rates used in the calculations are shown below.

	2019	2018
Discount rate	10%	10%
Inflationary growth	1%	1%
Real growth	3%	3%

The growth assumptions do not exceed the long term average growth rates for the industry. The discount rate represents management's best estimate of the weighted average cost of capital, risk adjusted to reflect the specific circumstances of the cash generating unit to which the goodwill is assigned. The recoverable amount of the cash generating unit exceeds its carrying amount and remains so after adjustment for reasonably possible sensitivities.

Notes (continued)

12 Deferred tax assets

Deferred tax assets provided in the accounts comprise:

	2019 £000	2018 £000
Short term timing differences at 17% (2018: 17%)	176	127
Tax losses at 17% (2018: 17%)	328	377
	<u>504</u>	<u>504</u>

Deferred tax assets not provided in the accounts comprise:

	2019 £000	2018 £000
Tax losses carried forward at 17% (2018: 17%)	9	678

The deductible temporary short term differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the company can utilise the benefits therefrom.

Future tax charges may be reduced to the extent that the reversal of the timing differences and tax losses in the company, which give rise to unprovided deferred tax assets, can be deducted from suitable taxable profits arising after 31 March 2019.

13 Inventory

	2019 £000	2018 £000
Raw materials and consumables	368	434
Work in progress	208	216
Finished goods	374	351
	<u>950</u>	<u>1,001</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £4,752,308 (2018: £4,505,938).

14 Trade and other receivables

	2019 £000	2018 £000
Trade receivables	3,961	4,691
Other receivables and prepayments	503	613
Amounts due from group undertakings	989	
	<u>5,453</u>	<u>5,304</u>

Notes (continued)

15 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents per balance sheet	2,540	2,109
Cash and cash equivalents in Statement of cash flows	2,540	2,109

16 Trade and other payables

	2019 £000	2018 £000
Amounts owed to group undertakings	-	1,292
Trade payables	1,773	2,109
Other payables and accrued expenses	2,030	2,609
Government grants	33	73
	3,836	6,083

Amounts owed to group undertakings are not secured, carry interest at 3% and have no fixed repayment date.

17 Provisions

	Dilapidation provision £000
Balance at 1 April 2017	720
Release in year	(46)
Balance at 31 March 2018	674
Balance at 1 April 2018	674
Release in the current year	-
Balance at 31 March 2019	674
Current liabilities	-
Non-current liabilities	674
	674

Dilapidation provision

The dilapidation provision relates to the estimated costs of restoring the leased premises of the Company to their original condition on termination of the lease agreements. The actual amount of dilapidation costs will be determined following lease termination and settlement with the landlord, and as such the timing and value of the transfer of economic benefits required to settle the obligation are uncertain at the balance sheet date.

Notes (continued)

18 Share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
570,549 Ordinary shares of £1 each	571	571

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

All of the shares in issue in the current and preceding year are classified in shareholders' funds.

19 Financial instruments

Exposure to credit, interest and currency risks arise in the normal course of the company's business.

The entire company's surplus cash is invested as cash placed on deposit.

The company's treasury policy has as its principal objective the achievement of the maximum interest rate on cash balances whilst maintaining an acceptable level of risk. Other than mentioned below there are no financial instruments, derivatives or commodity contracts used. No financial instruments are measured at fair value.

Financial assets and liabilities

The company's main financial asset comprises cash and cash equivalents. Other financial assets include trade receivables arising from the company's activities.

As at 31 March 2019 the company had debit balances with group undertakings of £989,000 (2018: credit balances £1,292,000). These balances are unsecured.

The maturity profile of the total contracted payments in respect of financial liabilities is as follows:

	Carrying amount £000	Contractual cash flows £000	Within 1 year or on demand £000	1 to <2years £000	2 to <5years £000	5years and over £000
Trade and other payables	1,773	1,773	1,773	-	-	-
At 31 March 2019	1,773	1,773	1,773	-	-	-

	Carrying amount £000	Contractual cash flows £000	Within 1 year or on demand £000	1 to <2years £000	2 to <5years £000	5years and over £000
Trade and other payables	3,401	3,401	3,401	-	-	-
At 31 March 2018	3,401	3,401	3,401	-	-	-

Other than the balances with group undertakings listed above, trade and other payables and finance lease liabilities, the company had no financial liabilities within the scope of IFRS 9 as at 31 March 2019 (2018: *Nil*).

Notes (continued)

19 Financial instruments (continued)

Fair values

The fair value of the company's financial assets and liabilities is not materially different from their carrying values.

Credit risk

The company's credit risk policy is to manage its trade receivables by taking credit references, requesting payment in advance should this be considered necessary and obtaining a letter of credit where deemed appropriate.

The ageing of trade receivables at the balance sheet date was:

	2019		2018	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	3,730	(113)	3,711	(30)
Past due (0-30 days)	578	(75)	931	(154)
Past due (31-120 days)	40	(52)	24	(19)
More than 120 days	(13)	(134)	391	(162)
	<u>4,335</u>	<u>(374)</u>	<u>5,057</u>	<u>(365)</u>

Management assesses the necessity for impairment on a specific item by item basis. Management incorporate, amongst other criteria, their knowledge and understanding of the business along with the age of the item.

No other receivables are past due in the current or prior year.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2019 £000	2018 £000
Balance as at 1 April	365	246
Impairment loss recognised	9	119
	<u>374</u>	<u>365</u>
Balance as at 31 March		

The impairment provision in respect of trade receivables is used to record impairment losses unless the company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Notes (continued)

19 Financial instruments (continued)

Market risk – Foreign currency risk

The company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

	Sterling £000	Euro £000	US Dollar £000	HK Dollar £000	Total £000
As at 31 March 2019					
Cash and cash equivalents	294	579	1,667	-	2,540
Trade and other receivables	523	1,555	2,435	437	4,950
Trade and other payables	(1,219)	(252)	(285)	(17)	(1,773)
	<u>(402)</u>	<u>1,882</u>	<u>3,817</u>	<u>421</u>	<u>5,717</u>
As at 31 March 2018					
Cash and cash equivalents	372	459	1,278	-	2,109
Trade and other receivables	1,586	1,006	2,099	-	4,691
Trade and other payable	(3,064)	225	3,288	(3,850)	(3,401)
	<u>(1,106)</u>	<u>1,690</u>	<u>6,665</u>	<u>(3,850)</u>	<u>3,399</u>

The significant exchange rates applied during the year were:

	Average 2019	2018	Closing 2019	2018
US\$:£	1.31	1.34	1.30	1.40
€:£	1.13	1.13	1.16	1.14
HK\$:£	10.27	10.45	10.24	11.00

Sensitivity analysis

The difference between the average and closing exchange rates is such that if the results for the year ended 31 March 2019 were translated at the closing rates rather than the average rates, revenue would be decreased by £48,000 (2018: increased by £476,000) and operating profit decreased by £90,000 (2018: decreased by £524,000).

The difference in exchange rates, closing and average, is 0.1% (2018: 5%).

Market risk – Interest rate risk

Effective interest rates

In respect of income-earning financial assets and liabilities the following table indicates their effective rates at the balance sheet date.

	2019 Effective interest rate	2018 Effective interest rate
	£000	£000
Bank balances	0.00073% <u>2,540</u>	0.0000% <u>2,109</u>

Sensitivity analysis

A 1% increase in the interest rate of the bank balances would result in an increase in profit of £23,000 (2018: £14,000).

Notes (continued)

19 Financial instruments (continued)

Liquidity risk

The company's policy on liquidity risk has been to maintain sufficient cash balances and undrawn facilities to provide flexibility in the management of the company's liquidity. Further information on liquidity risk faced by the company is given in note 1(b).

Capital management

The company's capital base comprises share capital and reserves, and its objectives are to grow retained earnings to fund future investment. The funding position is therefore closely linked to capital management. The company has access to funding from its ultimate parent undertaking as set out in note 1(b).

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	356	366
Between one and five years	542	766
More than five years	490	624
	<u>1,388</u>	<u>1,756</u>

During the year £383,000 (2018: £401,000) was recognised as an expense in the income statement in respect of operating leases.

21 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £212,000 (2018: £168,000).

22 Commitments

At the end of the year capital commitments were:

	2019 £000	2018 £000
Contracted but not provided in the accounts	<u>130</u>	<u>104</u>

23 Contingencies

The company's bankers have in place a debenture over the company's assets in support of borrowings within the group which at 31 March 2019 amounted to £nil (2018: £nil).

As at 31 March 2019 the company had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business entered into. It is not expected that any material liability will arise in respect thereof.

Notes (continued)

24 Related parties

Identity of related parties

The company has a related party relationship with its holding Company, its ultimate holding company, its fellow subsidiaries and its Directors.

Transactions with group companies:

	Year ended 31 March 2019					
	Sales to	Purchases	Management charges	Intra-group	Intercompany	Balance due
	£000	from	(from)/to	financing	loans	(to)/from
		£000	£000	£000	£000	£000
OpSec Security Group Limited	-	-	(77)	(4,966)	6,500	41
OpSec Security Group Inc	-	-	-	-	(3,404)	-
OpSec Security GmbH	-	-	286	(296)	-	558
OpSec Delta (HK) Limited	26	(63)	378	(421)	4,318	391
Total	26	(63)	587	(5,683)	7,414	990

	Year ended 31 March 2018					
	Sales to	Purchases	Management charges	Intra-group	Intercompany	Balance due
	£000	from	(from)/to	financing	loans	(to)/from
		£000	£000	£000	£000	£000
OpSec Security Group Limited	-	-	(110)	1,320	-	(1,416)
OpSec Security Group Inc	-	-	-	(308)	-	3,404
OpSec Security GmbH	-	-	33	37	-	568
OpSec Delta (HK) Limited	54	(56)	371	1,041	-	(3,847)
Total	54	(56)	294	2,090	-	(1,291)

Trade receivables (note 14) includes a receivable from OpSec Security Inc of £1,922,000 (2018: £1,847,000) in addition to the balances reported above. Trade payables (note 16) includes a payable to OpSec Security Inc of £79,000 (2018: £nil) in addition to the balances reported above.

Transactions with key management personnel

The Directors are the key management personnel of the Company. None of the Directors own shares in the company.

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in note 6.

Notes (continued)

25 Accounting estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Recognition of deferred tax assets

The company has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's assessment of the company's financial performance and forecast financial information.

Measurements of the recoverable amounts of cash generating units containing goodwill

This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the investments in these cash generating units and any related goodwill.

26 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of OpSec Security Group Holdings (Europe) Limited incorporated in England.

The largest and smallest group in which the results of the company are consolidated is that headed by Orca Bidco Limited incorporated in England. The consolidated accounts of this company are available to the public and may be obtained from The Company Secretary, OpSec Security Group Limited, 40 Phoenix Road, Crowther, Washington, Tyne & Wear NE38 0AD. No other group accounts include the results of the company.