

Procius Limited

Annual report and financial statements

Registered number 04730672

31 March 2023



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Company information

Directors

P J G Dickinson

M R Peacock

Secretary

Mitie Company Secretarial Services Limited

Registered office

Level 12

The Shard

32 London Bridge Street

London

SE1 9SG

Directors' report

The directors of the Company (the "Directors") present the annual report and unaudited financial statements of Procius Limited (the "Company") for the year ended 31 March 2023.

The Company is an indirect subsidiary of Mitie Group plc. Mitie Group plc, together with its subsidiaries, comprise the "Group".

Strategic report

The Directors have taken advantage of the exemption provided by Section 414B of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 from preparing a strategic report.

Review of the business

The principal activity of the Company continues to be the supply of pre-employment checking services, particularly in respect of the airline and airport industries. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the income statement on page 5, the Company's revenue was £1,882,000 (2022: £1,756,000) and the profit for the year was £231,000 (2022: £287,000). During the year ended 31 March 2023, the Company's performance was stable although the mix of work has changed from being aviation specific to having a greater focus on Corporate work which is less seasonal.

Going concern

The Company's business activities have been described above and the factors likely to affect its future development and position have been set out below. The financial statements have been prepared on a going concern basis. See Note 1c to the financial statements.

Directors

The Directors who held office during the year and up to the date of signing the financial statements were:

P J G Dickinson
M R Peacock

Directors' indemnity

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors listed above in respect of liabilities incurred as a result of their office to the extent permitted by law.

Dividends

There were no dividends during the year (2022: £nil)

Financial risk management

The Company does not enter into any hedging instruments, or any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company's requirement for additional funding is managed as part of the Group's financing arrangements.

Subsequent events

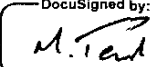
There have been no significant events since the balance sheet date.

Directors' report (continued)

Future developments

The Directors expect the general level of activity to increase in the forthcoming year, although this is dependent on the employment market, structural changes in the aviation sector and the demand for corporate vetting services increasing. The Company has a strong pipeline for the forthcoming year.

Approved by the Board and signed on its behalf by:

DocuSigned by:

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M R Peacock
Director

7th December 2023

Statement of Directors' responsibilities in respect of the Annual report and financial statements

The Directors are responsible for preparing the Annual report and 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 judgements 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 are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Income statement

	<i>Note</i>	2023 £000	2022 £000
Revenue	2	1,882	1,756
Cost of sales		(1,307)	(1,038)
Other income	3	-	1
		<hr/>	<hr/>
Gross profit		575	719
Administrative expenses		(301)	(355)
Other operating income	3	-	4
		<hr/>	<hr/>
Operating profit	3	274	368
Finance costs	6	-	(10)
		<hr/>	<hr/>
Profit before tax		274	358
Tax	7	(43)	(71)
		<hr/>	<hr/>
Profit for the year		231	287
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 8 to 21 form an integral part of the financial statements.

The results for the year are wholly attributable to the continuing operations of the Company.

There were no items of other comprehensive income recognised during the current or prior year. Accordingly, no statement of comprehensive income has been presented.

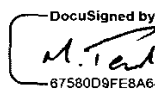
Balance sheet

	<i>Note</i>	2023 £000	2022 £000
Non-current assets			
Deferred tax assets	10	10	10
Total non-current assets		10	10
Current assets			
Trade and other receivables	8	1,439	510
Current tax receivable		-	44
Cash and cash equivalents		496	1,112
Total current assets		1,935	1,666
Current liabilities			
Trade and other payables	9	(505)	(471)
Deferred income		(44)	(91)
Current tax payable		(51)	-
Total current liabilities		(600)	(562)
Net current assets		1,335	1,104
Net assets		1,345	1,114
Equity			
Share capital	12	-	-
Share premium	12	3	3
Retained earnings	12	1,342	1,111
Total equity		1,345	1,114

The notes on pages 8 to 21 form an integral part of the financial statements.

For the year ended 31 March 2023 the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year ended 31 March 2023 in accordance with Section 476 of the Companies Act 2006. The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

The financial statements of Procius Limited, company number 04730672, were approved by the Board of Directors and authorised for issue on 7th December 2023 and were signed on its behalf by:

DocuSigned by:

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M R Peacock
Director

Statement of changes in equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 April 2021	-	3	824	827
Profit for the year	-	-	287	287
Total comprehensive income	-	-	287	287
At 31 March 2022	-	3	1,111	1,114
Profit for the year	-	-	231	231
Total comprehensive income	-	-	231	231
At 31 March 2023	-	3	1,342	1,345

The notes on pages 8 to 21 form an integral part of the financial statements.

Notes to the financial statements

1 Accounting policies, judgements and estimates

a) General information

Procius Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the United Kingdom. Details of the Company's activities are set out in the Directors' report. The Company's financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. All amounts have been rounded to the nearest thousand pounds, unless otherwise indicated.

b) Statement of compliance with FRS 101

These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Accounting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the centralised treasury arrangements and shared banking arrangements of Mitie Group plc, its ultimate parent, and of its fellow subsidiaries (together the "Group"). The directors of Mitie Group plc have confirmed the provision of adequate financial resources to the Company for a period of not less than 12 months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2023 to ensure that the Company can meet its liabilities as they fall due.

The directors of Mitie Group plc have carried out an assessment of the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of these financial statements (the "Going Concern Assessment Period"). This assessment was based on the latest medium-term cash forecasts from the Group's cash flow model (the "Base Case Forecasts"), which is based on the Group's board approved budget. These Base Case Forecasts indicate that the debt facilities currently in place are adequate to support the Group over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 30 September 2023 were a £250m Revolving Credit Facility ("RCF"), which was undrawn as at 30 September 2023, and £150m of US private placement ("USPP") notes. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

The RCF was put in place in October 2021, and matures in October 2027. In September 2023, the Group increased the RCF from £150m to £250m and its maturity date was extended for one year to October 2027, with an option to extend for a further one year period.

Of the USPP notes, £120.0m were issued in December 2022 under a delayed funding agreement to avoid any overlap with the £121.5m (being the repayment amount after taking account of the cross-currency interest rate swaps) of notes that matured in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and were issued with an average coupon of 2.94% that is significantly below the coupon of the maturing notes. The Base Case Forecasts assume that the remaining £30.0m of USPP notes, which are due to mature in December 2024, will not be replaced.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

The Group currently operates within the terms of its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, primarily by the exclusion of lease liabilities) of £23.8m as at 30 September 2023. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

The directors of Mitie Group plc have also completed a reverse stress test using the Group cash flow model to assess the point at which the financial covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering the Group's principal risks and uncertainties.

The primary financial risks related to adverse changes in the economic environment and/or a deterioration in commercial or operational conditions are listed below. These risks have been considered in the context of any further UK budgetary changes, political uncertainty and the continued impact of the Russian invasion of Ukraine as well as an inflationary and potential recessionary economic environment:

- a downturn in revenues—this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed;
- a deterioration of gross margin—this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered;
- an increase in costs—this reflects the risks of a shortfall in planned overhead cost savings, including margin enhancement initiatives not being delivered, or other cost increases such as sustained higher cost inflation; and
- a downturn in cash generation—this reflects the risks of customers delaying payments due to liquidity constraints, the removal of ancillary debt facilities or any substantial one-off settlements related to commercial issues.

As a result of completing this assessment, the directors of Mitie Group plc concluded that the likelihood of the reverse stress scenarios arising was remote. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- all stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 40% by 30 September 2024 (half year FY25), compared to the Base Case Forecasts, which is considered to be very severe given the high proportion of the Group's revenue that is fixed in nature and the fact that even in a COVID-hit year ended 31 March 2021, the Group's revenue excluding Interserve declined by only 1.6%; and
- in the event that results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions have been identified that would be implemented, which are not factored into the stress test scenarios. These include the short-term scaling down of capital expenditure, overhead efficiency/reduction measures including cancellation of discretionary bonuses and reduced discretionary spend, asset disposals and reductions in cash distributions and share buybacks.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these financial statements. In addition, the directors of Mitie Group plc have concluded that the likelihood of the reverse stress scenarios arising is remote and therefore no material uncertainty exists.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's financial statements for the year ended 31 March 2023. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

FRS 101 exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital;
- the statement of compliance with UK-adopted International Accounting Standards;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective UK-adopted International Accounting Standards;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosures in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

Accounting standards that are newly effective in the current year

The following amendments became effective during the year ended 31 March 2023.

Amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The Company adopted the amendment to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* on 1 April 2022. The amendment clarifies that costs to fulfil a contract comprises both incremental costs of fulfilling a contract (for example, direct labour and materials) and an allocation of other direct costs that relate to fulfilling contracts. Although this has resulted in a change in accounting policy for performing an onerous contracts assessment, the amendment has not had an impact on the financial statements.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use

In May 2020 the IASB published amendments to IAS 16 *Property, Plant and Equipment* which requires amounts received from selling items produced while the company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset as was previously the case. The Company has not recognised any such amounts within property, plant and equipment and thus the amendment has not had an impact on the financial statements.

Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. This amendment has not had an impact on the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies

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

Revenue recognition

The Company operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the year based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

Step 1 - Identify the contract(s) with a customer

For all contracts with customers, the Company determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements ("MSAs") not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Company frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that such clauses have in determining the relevant contract term. The term of the contract affects the period over which amortisation of contract assets and revenue from performance obligations is recognised. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

Where the Company's contracts are amended for changes to customer requirements, such as change orders and variations, a contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, change to the total transaction price is estimated.

Contract modifications, including contract renewals, are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. If the price of additional distinct goods or services is not commensurate with the stand-alone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Step 2 - Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers, judgement is applied to consider whether those promised goods or services are:

- distinct and accounted for as separate performance obligations;
- combined with other promised goods or services until a bundle is identified that is distinct; or
- part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Company treats the series as a single performance obligation.

Step 3 - Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which management expects the Company to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration. Variability in revenue can arise from a number of factors, including discounts, rebates or service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Certain contracts incorporate indexation related adjustments to consideration, whereby pricing is adjusted based on an external metric (such as CPI or RPI). Variable consideration related to indexation adjustments are only recognised once these are confirmed.

Step 4 - Allocate the transaction price to the performance obligations in the contract

The Company allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement. It is necessary to estimate the stand-alone selling price when the Company does not sell equivalent goods or services in similar circumstances on a stand-alone basis. When estimating the stand-alone selling price, the Company maximises the use of external inputs by observing the stand-alone selling prices for similar goods and services using an industry recognised price list or cost indices in applying a cost-plus reasonable margin approach.

Step 5 - Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Company applies the relevant output or input revenue recognition method for measuring progress that depicts the Company's performance in transferring control of the goods or services to the customer.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Repeat service-based contracts (single and bundled contracts)

The Company operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same. They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Company therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Company delivers a range of other short-term service based performance obligations and professional services work for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all conditions attaching to the grant will be complied with. Government grants that compensate the Company for expenses incurred are recognised in the income statement over the periods necessary to match the grant with the related costs. Where the expenses incurred are recognised in cost of sales, the associated Government grants are recognised as Other income. Where the expenses incurred are recognised in administrative expenses, the Government grants are recognised as Other operating income. Any repayment of grants is charged to the income statement to reverse the associated amounts recognised, at the point when management has taken the decision to repay the amount to the Government and the intention to repay has been communicated to the Government.

Accrued income and deferred income

The Company's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the year end date is less than amounts invoiced, the Company recognises deferred income for the difference. Where revenue recognised at the year end date is less than amounts invoiced, the Company recognises deferred income for the difference.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Company allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the year in which they are incurred, using the effective interest method.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Taxation

Tax in the income statement represents the sum of current tax and deferred tax.

Current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from the accounting profit or loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Classification and measurement

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise cash and cash equivalents, and trade and other receivables. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash where access is constrained is classified as restricted cash. Bank transactions are recorded on their settlement date. All of the Company's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost.

Financial liabilities comprise trade and other payables. These are measured at initial recognition at fair value and subsequently at amortised cost.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using the simplified approach. Under this approach, the Company recognises a loss allowance based on lifetime ECLs at each reporting date. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Leases

At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee, except low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable.

The lease liability is initially measured at amortised cost using the effective interest method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on the rate implicit in the lease or, where not available, estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount. Lease payments comprise fixed lease rental payments only, with the exception of property leases for which the associated fixed service charge is also included. Lease liabilities are classified between current and non-current on the balance sheet.

The lease term comprises the non-cancellable period in addition to the determination of the enforceable period which is covered by an option to extend the lease, where it is reasonably certain that the option will be exercised, and the period covered by the option to terminate the lease to a point in time where no more than an 'insignificant penalty' is incurred. The Company assesses an insignificant penalty with reference to the wider economics of the lease including any investment in non-transferable leasehold improvements which may result in an impairment charge should the lease be terminated.

A modification to a lease which changes the lease payment amount (e.g. due to a renegotiation or market rent review) or amends the term of the lease, results in a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Retirement benefit costs

The Company operates defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as the related service is provided.

e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, made by management in the process of applying the Company's accounting policies, that have the most significant effect on the amounts recognised in the Company's financial statements.

Revenue recognition

The Company's revenue recognition policies, which are set out under Revenue recognition in Note 1d are central to how the Company measures the work it has performed in each financial year.

Due to the size and complexity of the Company's contracts, management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

Some of the Company's contracts include variable consideration where management assesses the extent to which revenue is recognised. For certain contracts, key judgements were made on whether it is considered highly probable that a significant reversal of revenue will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Recoverability of trade receivables

The Company has material amounts of billed work outstanding at 31 March 2023. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes information about past events, current conditions and forecasts of the future economic condition of customers.

Key sources of estimation uncertainty

There were no key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Notes to the financial statements (continued)**2 Revenue**

The Company derives all of its revenue from the provision of services to customers based in the United Kingdom.

3 Operating profit

Operating profit is stated after charging/(crediting):

	2023	2022
	£000	£000
Depreciation of property, plant and equipment	-	57
Other income	-	(1)
Other operating income	-	(4)

For the year ended 31 March 2023, a net amount of £nil (2022: £5,000) was received, which represents UK Government grants received under the Coronavirus Job Retention Scheme relating to furloughed employees working directly for the Company.

4 Staff numbers and costs

There were no persons employed by the Company (including Directors) during the year ended 31 March 2023 and 31 March 2022. However, 34 employees worked for the Company but were employed by another Group company and the associated costs were allocated to the Company for cost recharging purposes (2022: 20). The aggregate payroll costs incurred by the Company for allocated employees were as follows.

	2023	2022
	£000	£000
Wages and salaries	637	377
Social security costs	44	31
Pension costs	12	10
	693	418

5 Directors' remuneration

The following Directors were also directors or employees of another Group company. They were remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this company and as directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
M R Peacock	Mitie Limited	Mitie Limited

Notes to the financial statements (continued)**6 Finance costs**

	2023 £000	2022 £000
Interest on lease liabilities (Note 11)	-	9
Unwinding of discounts on provisions	-	1
	<u>-</u>	<u>10</u>

7 Tax

	2023 £000	2022 £000
<i>Analysis of charge/(credit) in the year</i>		
<i>UK corporation tax at 19% (2022: 19%)</i>		
Current tax on profit for the year	51	71
Adjustments in respect of prior periods	(8)	2
Total current tax charge	<u>43</u>	<u>73</u>
<i>Deferred tax (see Note 10)</i>		
Change in statutory tax rate	-	(2)
Total deferred tax credit	<u>-</u>	<u>(2)</u>
Total charge for the year	<u>43</u>	<u>71</u>
<i>Tax reconciliation</i>		
Profit before tax	274	358
Tax using the UK corporation tax rate of 19% (2022: 19%)	52	68
Items not (taxable)/deductible for tax purposes	(1)	3
Change in statutory tax rate	-	(2)
Adjustments in respect of prior periods	(8)	2
Total tax charge	<u>43</u>	<u>71</u>

The UK corporation tax rate has increased from 19% to 25% from 1 April 2023. This change has been substantively enacted at the balance sheet date and has therefore been incorporated into the deferred tax balances contained in these financial statements.

Notes to the financial statements (continued)**8 Trade and other receivables**

	2023	2022
	£000	£000
Trade receivables	222	472
Amounts owed by Group undertakings	1,133	60
Prepayments	82	25
Accrued income	2	3
	1,439	510

Management considers that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are interest-free except as noted below.

Amounts owed by Group undertakings are repayable on demand. Included within these amounts are £1,000,000 (2022: £nil) relating to interest-bearing loans at 5% per annum.

9 Trade and other payables

	2023	2022
	£000	£000
Trade payables	50	31
Amounts owed to Group undertakings	79	58
Other taxes and social security	77	105
Accruals	297	269
Other payables	2	8
	505	471

Trade and other payables are interest-free.

Amounts owed to Group undertakings are repayable on demand.

10 Deferred tax assets

	Accelerated capital allowances £000
At 1 April 2021	8
Recognised in income statement	2
At 31 March 2022	10
At 31 March 2023	10

Deferred tax has been calculated using tax rates that were substantively enacted at the balance sheet date (see Note 7).

Notes to the financial statements (continued)**11 Leases****Right-of-use assets****Properties
£000**

At 1 April 2021
Modifications to lease terms
Depreciation

533
(482)
(51)

At 31 March 2022

-

At 31 March 2023

-

Lease liabilities**£000****£000**

At 1 April 2022/2021
Modifications to lease terms
Interest on lease liabilities
Repayment of lease liabilities (including interest)

- 537
- (516)
- 9
- (30)

At 31 March 2023/2022

- -

**2023
£000****2022
£000****Amounts recognised in the income statement**

Depreciation
Loss on modification

- (51)
- (34)

Operating profit impact
Interest on lease liabilities

- (85)
- (9)

Profit before tax impact

- (94)

Notes to the financial statements (continued)**12 Equity**

Share capital	2023 Number	2022 Number	2023 £000	2022 £000
Ordinary-A shares of £1 each	25	25	-	-
Ordinary-B shares of £1 each	25	25	-	-
Ordinary-C shares of £1 each	25	25	-	-
Ordinary-D shares of £1 each	25	25	-	-
Ordinary-E shares of £0.01 each	1,000	1,000	-	-
			<hr/>	<hr/>
			-	-
			<hr/>	<hr/>

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 shares rank pari passu in all respects.

Share premium

Share premium represents the premium arising on the issue of equity shares.

Retained earnings

This comprises the retained profits and losses of the Company, less amounts distributed to the Company's shareholder.

13 Related parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries within the Group.

14 Subsequent events

There were no material post balance sheet events that require adjustment or disclosure.

15 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Security Limited which is the immediate parent company incorporated in the United Kingdom. The ultimate controlling party is Mitie Group plc, a company incorporated in the United Kingdom with its registered office at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. Mitie Group plc is the parent company of the largest and smallest groups into which the accounts of the Company are consolidated. The consolidated financial statements of Mitie Group plc are available to the public and may be obtained from the Company Secretary at Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG or from www.mitie.com.