API Microwave Limited

Annual Report and Financial Statements

For the year ended 31 December 2021

Registered Number: 06632600

Directors and Advisors

Directors
K L Dunne
I M Skiggs
R D Sorelle

Independent Auditors
Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

Bankers
NatWest
Commercial & Private Banking
Amsterdam Place
Amsterdam Way
Norwich NR6 6JA

Registered Office
Fenner Road
South Denes
Great Yarmouth
Norfolk
NR30 3PX

Registered No. 06632600

Strategic report

Principal activities and review of the business

The company's primary activity is to manufacture radio frequency (RF) and microwave electronics, ranging from components to stand alone equipment for use within OEM (Original Equipment Manufacturer) systems, for the aerospace and defence market. The majority of products are customer specific and draw on well-established technology platforms and processes, which are updated and developed to sustain competitiveness.

The principal activity is not expected to change in the foreseeable future.

Turnover in the year fell by 36% and was driven by the combined effect of phasing in demand for defence related programs and the Covid- 19 related impact on electronics and commercial Aerospace industries. As a result of the lower volume, gross profit decreased by £2,376k – see below. Operating profit for the year was £147k representing 2.0% of sales, this is after increased recharges (2021: £789k representing 10.6% of sales) from APITech Corp related to Sales, Engineering and Administration services. (2020: £627k). While revenue and profitability were behind forecast for the year management believe the results were satisfactory given uncertain trading conditions. At the end of the year net assets were £10,382k (2020: £10,274k).

Key performance indicators

The company uses a range of performance measures to monitor and manage the business effectively. These are both financial and non-financial and the most significant of these are the financial key performance indicators (KPIs). The key financial performance indicators are turnover, gross profit and gross margin percentage.

These KPIs indicate the volume of work the company has undertaken as well as the efficiency and profitability with which this work has been delivered.

The key financial performance indicators for the years are set out below

	Year to 31 December 2021 *£000*	*Year to 31 December 2020* *£000*
Turnover	7,469	11,672
Gross profit	1,725	4,101
Gross margin (%)	23.1%	35.1%

There was a decrease in gross profit margin, due to lower volumes and delayed progress on new product initiatives skewing the mix of business towards legacy business earning lower margins.

Principal risks and uncertainties

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

The key business risk and uncertainty affecting the company is considered to relate to budgetary constraints in the aerospace and defence market particularly within Europe and to some extent the United States. Work continues on expanding existing capabilities to broaden the product offering, research the application of existing product and technical knowledge to new sectors and develop our own Intellectual Property (IP).

The company continues to see core defence related contracts being updated and renewed in line with national defence programmes. However certain relatively small and less significant market segments, including commercial aerospace and petrochemicals have been adversely affected by the Covid-19 pandemic.

Strategic report (continued)

Principal risks and uncertainties (continued)

Apprenticeship and graduate training schemes are expected to mitigate challenges in the recruitment of qualified and experienced staff that may be seen due to the UK exit from the European Union.

Financial risk management objectives and policies

The company makes use of various financial instruments including loans and cash, and items such as trade debtors and trade creditors that arise directly from its operations, as necessary. Management of these financial instruments is directed to providing adequate liquidity for the company's operations.

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below. The main risks arising from the company's financial instruments are price risk, currency risk, credit risk, cash flow, liquidity risk and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous periods.

Price risk

The company is exposed to price risk as a result of its operations. Some significant contracts are agreed on a longer-term basis, and where this is the case, price escalation/indexation clauses are agreed at the outset, so that margins are maintained throughout the duration. However, given the size of the company's operations, the costs of managing exposure to price risk by additional means exceed any potential benefits. The company has no exposure to equity securities price risks as it holds no listed or other equity investments.

Currency risk

The company has some exposure to translation and transaction foreign exchange risk. It is the directors' decision not to formally hedge against currency risk but wherever possible natural hedging is used, however the directors will continue to monitor the company's exposure to currency fluctuations.

Strategic report (continued)

Credit risk

The company's principal credit risk relates to the recovery of amounts owed by trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. Debts are actively chased by the credit control department.

Cash flow and liquidity risk

Interest bearing assets include cash balances which earn interest at a floating rate. In order to ensure stability of cash out flows and hence manage interest rate risk, the company has access to fixed interest rate loans from its ultimate parent undertaking, and regularly forecasts cash flows several months forward to monitor peak and troughs in balances. The company currently holds all funds in bank accounts where monies are immediately available.

Interest rate risk

During the period, internal debt with its ultimate parent company has existed on a fixed rate basis. The company's policy is to actively manage interest rate risk on long-term and short-term borrowings while ensuring that the exposure to fixed rates remains within an acceptable range. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Future developments

Development of the TRM product and related R&D continues to be the focus of attention as the business promises to be a significant source of income for the future. Following another good year, the order book has been reduced further and therefore the pursuit of new markets for the business' products and IP offering are being pursued vigorously.

Research and development

The company is committed to research and development and continues to develop Transmit Receive Modules (TRMs) to provide capability demonstrators which permit teaming with Active Electronically Scanned Array (AESA) radar manufacturers. This will allow the company's product to be included within Active Array Units. Investment in these activities during the year totalled £379,000 (2020 – £918,000).

On behalf of the Board

DocuSigned by:

Ian Skiggs

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I M Skiggs
Director
27 September 2022

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2021.

Results and dividends

The profit for the financial year amounted to £108,000 (2020 – £1,687,000). At 31 December 2021, the company had net assets of £10,382,000 (2020: £10,274,000).

No dividends were proposed during the year (2020: £1,000,000). At the 2022 AGM the Directors are proposing no further dividend be paid.

Directors

The directors who served the company during the year and up to the date of the report were as follows:

K Dunne	(appointed 31 March 2022)
T Hahn	(resigned 29 November 2021)
M J Howchin	(resigned 31 March 2022)
I M Skiggs	
R D Sorelle	

Employees

It is company policy to give full and fair consideration to all applications for employment by the company based on the needs of the role, and irrespective of any personal persuasions of the applicant.

The company seeks to provide an engaging, rewarding and safe workplace and to develop employees through training, career development and promotion - able and disabled alike.

Employees are kept informed of developments in and performance of the business through regular forums and information sessions held several times a year.

Going concern

In determining that the Company's financial statements should be prepared on a going concern basis, the Directors considered all the factors likely to affect the future development, performance and financial position including funding and the risks and uncertainties applicable to its business and manufacturing activities and assessed the company's forecasts and projections, taking account of reasonably possible changes in trading performance.

The company continues to see core defence related contracts being updated and renewed in line with national defence programmes. However certain relatively small and less significant market segments for the group, including commercial aerospace and petrochemicals have been adversely affected by the Covid-19 pandemic. The Directors do not expect the pandemic to have a material impact upon the accounts.

The company has received confirmation from API Holdings II Corp., the company's intermediate parent company, that financial support will be provided for a period of twelve months from the date of approval of these financial statements such as to enable the company to meet its obligations as they fall due.

Having regard to the company's financial position, its forecast and after making enquiries about the parent company's financial position, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for a period of twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

Directors' report (continued)

Financial instruments

Details of the financial risk management objectives and exposure to risk are included within the strategic report.

Indemnity cover

Indemnity cover was provided for the Directors, through an insurance policy taken out by the US parent company. This was in place throughout the year and up until the date of the signing of the financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). 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 for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with Section 10 of FRS 102 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- state whether applicable UK Accounting Standards, including FRS 102, 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 appropriate to presume that the company will not 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 company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Directors' report (continued)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the company's auditors, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

On behalf of the Board

DocuSigned by:

Ian Skiggs

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I M Skiggs
Director
27 September 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API MICROWAVE LIMITED

Opinion

We have audited the financial statements of API Microwave Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API MICROWAVE LIMITED (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API MICROWAVE LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, the Financial Reporting Standard 102, the United Kingdom direct and indirect tax regulations. In addition, the company must comply with operational and employment laws and regulations including health and safety regulations, environmental regulations and GDPR.

- We understood how the company is complying with those frameworks by making enquiries of management and senior finance personnel and gaining an understanding of the entity level controls of the company in respect of these areas and the controls in place to reduce opportunity for fraudulent transactions.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management and finance personnel. We considered the procedures and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and gained an understanding as to how those procedures and controls are implemented and monitored. We audited the risk of management override of controls, including through testing certain non-standard manual journal entries and other adjustments for appropriateness. We also audited the risk of improper revenue recognition through performing audit procedures on revenue cut off.

- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included obtaining and reading management meeting minutes and relevant approval documents, enquiries of senior finance personnel and management and agreement of samples of transactions throughout the audit to supporting source documentation. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with all applicable reporting requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF API MICROWAVE LIMITED (continued)

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

Use of our report

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.

DocuSigned by:

Ernst & Young LLP

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Farzin Radfar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

Date: 28 September 2022

Statement of comprehensive income

for the year ended 31 December 2021

	Notes	*Year ended 31 December 2021 £000*	*Year ended 31 December 2020 £000*
Turnover	5	7,469	11,672
Cost of sales		(5,744)	(7,571)
Gross profit		1,725	4,101
Other income		179	-
Distribution costs		(98)	(507)
Administrative expenses		(1,659)	(1,511)
Operating profit	6	147	2,083
Interest receivable and similar income	8	-	4
Interest payable and similar expenses	9	-	(2)
Profit before taxation		147	2,085
Tax on profit	10	(39)	(398)
Profit for the financial year		108	1,687
Other comprehensive income		-	-
Total comprehensive income for the financial year		108	1,687

All amounts were derived from continuing operations.

Statement of changes in equity

for the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Profit & loss account £'000	Total shareholders funds £'000
At 31 December 2019	1	9,148	438	9,587
Profit for the financial year	-	-	1,687	1,687
Dividends	-	-	(1,000)	(1,000)
At 31 December 2020	1	9,148	1,125	10,274
Profit for the financial year	-	-	108	108
Dividends	-	-	-	-
At 31 December 2021	1	9,148	1,233	10,382

Balance sheet

at 31 December 2021

	Notes	2021 £000	2020 £000
Fixed assets			
Intangible assets	11	89	270
Tangible assets	12	986	996
		1,075	1,266
Current assets			
Stock	13	1,542	1,915
Debtors	14	11,897	10,934
Cash at bank and in hand		278	825
		13,717	13,674
Creditors: amounts falling due within one year	15	(3,333)	(3,565)
Net current assets		10,384	10,109
Total assets less current liabilities		11,459	11,375
Provision for liabilities	16	(1,077)	(1,101)
Net assets		10,382	10,274
Capital and reserves			
Called up share capital	17	1	1
Share premium account	20	9,148	9,148
Profit and loss account	20	1,233	1,125
Total shareholders' funds		10,382	10,274

The financial statements were approved by the board of directors, signed and authorised for issue on 27 September 2022.

On behalf of the Board of API Microwave Limited:

Registered No. 06632600

DocuSigned by:

Ian Skiggs

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I M Skiggs

Director

Notes to the financial statements

for the year ended 31 December 2021

1. General information

API Microwave Limited, based in Milton Keynes, produces radio frequency (RF) and microelectronic products and engineering design consultancy.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is shown on page 1.

2. Statement of compliance

The individual financial statements of API Microwave Limited, have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102") and the Companies Act 2006.

3. Accounting policies

Basis of preparation

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

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

Going concern

In determining that the Company's financial statements should be prepared on a going concern basis, the Directors considered all the factors likely to affect the future development, performance and financial position including funding and the risks and uncertainties applicable to its business and manufacturing activities and assessed the company's forecasts and projections, taking account of reasonably possible changes in trading performance.

The company continues to see core defence related contracts being updated and renewed in line with national defence programmes. However certain relatively small and less significant market segments for the group, including commercial aerospace and petrochemicals have been adversely affected by the Covid-19 pandemic. The Directors do not expect the pandemic to have a material impact upon the accounts.

The company has received confirmation from API Holdings II Corp., the company's intermediate parent company, that financial support will be provided for a period of twelve months from the date of approval of these financial statements such as to enable the company to meet its obligations as they fall due.

Having regard to the company's financial position, its forecast and after making enquiries about the parent company's financial position, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for a period of twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

Notes to the financial statements

for the year ended 31 December 2021

3. Accounting policies (continued)

Exemptions for qualifying entities under FRS 102

The company has taken advantage of certain disclosure exemptions under FRS 102, as it believes the conditions for the exemptions have been complied with. As such the company has taken advantage of the following exemptions:

i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its intermediate parent company, API Technologies (UK) Limited, includes the company's cash flows in its consolidated financial statements.

ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements.

iii) from disclosing transactions with other wholly-owned members of the Group under Section 33.7 of FRS 102.

iv) from disclosing the company key management personnel compensation, as required by FRS 102 paragraph 33.7.

Foreign currency

The company's functional and presentational currency is Pounds Sterling (GB£).

Foreign currency transactions are translated into the functional currency using the spot exchange rate on the date of the transaction.

At each period end foreign currency monetary items are translated using a closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gain and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Turnover

The turnover shown in the profit and loss account represents amounts receivable for conducting the company's principal activities during the year, exclusive of Value Added Tax.

Turnover generated from the sale of products is recognised on acceptance by the customer of that product. Where the sale involves design and development of a new product or consultancy, agreement may be made with the customer over staged or phased payments. Revenue is then recognised in accordance with the stage of the project reached.

Turnover generated from maintenance contracts is deferred over the period to which the contracts relate.

Employee benefits

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

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

ii) Defined contribution pension plan
The company operates a defined contribution pension plan for its employees. The company pays fixed contributions based on pay level to a separate entity, and thereafter has no further payment obligations. The contributions are recognised as an expense when they are due. The assets in the scheme are held separately from those of the company in an independently administered fund.

Notes to the financial statements

for the year ended 31 December 2021

3. Accounting policies (continued)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

ii) Deferred tax
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:
   - Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

i) Goodwill - 14 years

Amortisation is charged to administrative expenses in the profit and loss account.

Assets are reviewed for impairment if any factors indicate the carrying amount may be impaired.

Tangible assets

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

i) Land & buildings
These include leasehold buildings and offices. Land and buildings are stated at cost less accumulated depreciation and impairment losses if applicable.

ii) Plant and machinery and fixtures, fittings, tools and equipment
Plant and machinery and fixtures, fittings, tools and equipment are stated at cost less accumulated depreciation and impairment losses if applicable.

iii) Depreciation and residual values
Depreciation is provided on all tangible fixed assets at rates calculated to write down each asset to its estimated residual value by equal annual instalments over their expected useful lives. The periods generally applicable are:

Leasehold buildings	over the life of the lease
Plant and machinery (including vehicles)	5 to 10 years
Fixtures and fittings, tools and equipment	10 years

Notes to the financial statements

for the year ended 31 December 2021

3. Accounting policies (continued)

Tangible assets (continued)

No depreciation is provided on plant under construction.

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stock

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

In determining the cost of raw materials, finished goods and goods for resale, the FIFO (first-in, first-out) method is used. Cost includes the purchase price, including taxes and duties and handling directly attributable to bringing the stock to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity) where applicable.

At the end of each reporting period stock is assessed for impairment. Provision is made for obsolete and slow moving items and this is charged to the profit and loss account.

Research and development expenditure

Research and development expenditure includes resource cost (measured by time spent and including an apportionment of overheads) and relevant project materials, where incurred in relation to approved programmes. Currently all these costs are charged to Profit and loss in the period incurred.

Leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rental charges applicable to operating leases are taken to the profit and loss account on a straight-line basis over the period of the lease.

Provisions and contingencies

i) Provisions
Provisions are recognised when the company has a present, legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the likely cost can be estimated reliably.

ii) Contingencies
Contingent liabilities are not recognised. These arise as a result of past events when 1) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or 2) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.
Contingent assets are not recognised, but are disclosed in the financial statements when an inflow of economic benefits is probable.

Impairment of non-financial assets

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

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

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit and loss.

Notes to the financial statements

for the year ended 31 December 2021

3. Accounting policies (continued)

Impairment of non-financial assets (continued)

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

Financial instruments

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

Basic financial assets, including trade and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

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

Basic financial liabilities, including trade and other payables and loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost using the effective interest method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or earlier. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary share or options are shown in equity as a deduction, net of tax, from the proceeds.

Distributions to equity holders

Dividends and other distributions to shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expenses.

Notes to the financial statements

for the year ended 31 December 2021

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and reviewed based on historical experience and other factors, including expectations of future events that are believed to be reasonably foreseen from current circumstances.

Estimates and assumptions

The company makes estimates and assumptions concerning future events. The resulting accounting estimates can, by definition, only be our best assessment of likely out-turns and will seldom equal the corresponding results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Bad debt provision
The annual bad debt provision assessment is sensitive to changes in the situation with the customer. The likelihood of repayment in full of the debtors should be re-assessed annually. A provision is made or amended to reflect the most up to date position with recoverability of debt.

b) Impairment of intangible assets and goodwill
The company considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

c) Stocks provisioning
The company designs and manufactures product on some long-lived projects where consistency of output and performance characteristics are crucial to supplier needs. This, in some instances, involves significant amounts of inventory value and foresight around likely long-term demand. As a result it is necessary to consider recoverability of the cost of inventory, and the associated provisioning required. When assessing the adequacy of the inventory provision, management considers the nature, condition and recent usage of the inventory, as well as applying assumptions around saleability of finished goods, and future requirements for raw materials.

5. Turnover

The company's turnover and profit on ordinary activities before taxation were all derived from its principal activity. Sales were made in the following geographical markets

	Year ended 31 December 2021	*Year ended 31 December 2020*
	£000	*£000*
United Kingdom	3,328	2,846
Other EU countries	1,121	4,267
North America	2,503	4,476
Rest of world	517	83
	7,469	11,672

Notes to the financial statements

for the year ended 31 December 2021

6. Operating profit

This is stated after charging/(crediting):

		Notes	*Year ended 31 December 2021 £000*	*Year ended 31 December 2020 £000*
Depreciation of tangible assets			185	199
Amortisation of intangible assets			181	181
Operating lease rentals	– land and buildings		213	201
	– plant and equipment		23	46
Impairment of trade receivables			(10)	(6)
Net exchange loss/(gain)			(176)	61
Research and development			379	918
Auditors' remuneration	– audit fees		41	35

7. Employees and Directors

	Notes	*Year ended 31 December 2021 £000*	*Year ended 31 December 2020 £000*
Wages and salaries		2,501	2,657
Social security costs		271	277
Other pension costs	19	290	308
Staff costs		3,062	3,242

The average monthly number of employees (including executive directors) during the year were:

	Year ended 31 December 2021 No.	*Year ended 31 December 2020 No.*
Administration	10	9
Manufacturing	61	68
	71	77

All directors in office at the year-end are employed, and are remunerated, by other group undertakings.

IM Skiggs is an employee and is remunerated through other companies within the UK Group. He received remuneration of £72k for his qualifying services to the company, of this amount £4k related to contributions to pension scheme. This was paid by API Microelectronics Limited, but apportioned to this company via a management recharge (2020: £67k).

Notes to the financial statements

for the year ended 31 December 2021

7. Employees and Directors (continued)

MJ Howchin and RD Sorelle are employees and remunerated by other group undertakings. It is considered that the level of their qualifying services to the company is negligible compared to their main roles. There are no management charges from these group undertakings for their services. Consequently they determine that given the level of the services required, that their remuneration for qualifying services is £nil (2020: £nil).

During the year retirement benefits were accruing for 2 directors (2020: 3 directors) in respect of the money purchase pension scheme. No director was a member of a defined benefit pension scheme to which the company contributes in either the current or preceding year. No director received shares for their qualifying services to the company or exercised share options, in either the current or the preceding year. No director exercised share options awarded from other group companies in either the current or the preceding year

8. Interest receivable and similar income

	Year ended 31 December 2021 £000	*Year ended 31 December 2020 £000*
Bank and other interest	-	4
	-	4

9. Interest payable and similar expenses

	Year ended 31 December 2021 £000	*Year ended 31 December 2020 £000*
Other interest	-	2
	-	2

Notes to the financial statements

for the year ended 31 December 2021

10. Tax on profit

(a) Tax on profit for the year

The tax charge is made up as follows:

	Year ended 31 December 2021 £000	*Year ended 31 December 2020 £000*
Current tax:		
UK corporation tax charge on result for the year	(31)	368
Adjustment in respect of prior years	39	-
Total current tax for the year	8	368
Deferred tax (note 10(c))		
Origination and reversal of timing differences	48	28
Adjustment in respect of previous periods	(38)	-
Effect of rate change	21	2
Total deferred tax	31	30
Tax on profit for the year (note 10(b))	**39**	**398**

(b) Factors affecting the tax charge/(credit) for the year

The tax assessed for the year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19.00% (2020 – 19.00%). The differences are explained below:

	Year ended 31 December 2021 £000	*Year ended 31 December 2020 £000*
Profit on ordinary activities before taxation	147	2,085
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2020 – 19.00%)	28	396
Effects of:		
Expenses/income not deductible for tax purposes/not taxable	(1)	1
Effect of deferred tax rate change	21	1
Tax incentives	(10)	-
Adjustment in respect of prior years	1	-
Tax charge for the year (note 10(a))	**39**	**398**

Notes to the financial statements

for the year ended 31 December 2021

10. Tax on profit (continued)

(c) Deferred taxation

The movement in the deferred tax account during the year was as follows

	Year ended 31 December 2021 £000
At 31 December 2020 – liability/(asset)	46
Adjustment in respect of prior periods	(38)
Charged to statement of income and retained earnings during the year (note 10 (a))	69
At 31 December 2021	**77**

The amounts provided for deferred taxation are set out below

	2021 £000	*2020 £000*
Depreciation in excess of capital allowances	87	48
Other temporary differences	-	(2)
RDEC step 2 carried forward	(10)	
Deferred tax liability/(asset)	77	46

There are no amounts of unprovided deferred tax.

(d) Factors that may affect future tax charges

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end. Deferred taxes on the balance sheet have been measured at 25% (2020 – 19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

Notes to the financial statements

for the year ended 31 December 2021

11. Intangible assets

	Goodwill
	£000
Cost	
At 31 December 2020 and 31 December 2021	**6,735**
Impairment	
At 31 December 2020 and 31 December 2021	**2,782**
Accumulated amortisation	
At 31 December 2020	3,683
Charge for the year	181
At 31 December 2021	**3,864**
Net book value	
At 31 December 2021	**89**
At 31 December 2020	270

Goodwill arose on the acquisition of the M/A COM UK business from Tyco Electronics UK Limited in September 2008. The goodwill is being amortised on a straight-line basis over 14 years. This is the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

Impairment assessment

The business that remains from the 2008 acquisition is the developed DTRM (dual transmit-receive module) technology and GMIC (glass microwave integrated circuit) capability. The returns from this business have not met expectations in the recent past, and an assessment of the ongoing valuation of the assets is made at the end of each period.

The impairment assessment is performed at each year-end, by projecting, and discounting, likely margins on the related business over current contracts to their expiry. No independent valuer was used. There is no impairment in the current year (2020: £Nil). No reasonably possible change in assumptions would result in an impairment.

Notes to the financial statements

for the year ended 31 December 2021

12. Tangible assets

	Leasehold land and buildings (long lease)	*Plant and machinery (including vehicles)*	*Fixtures and fittings, tools and equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 31 December 2020	641	2,234	515	3,390
Additions	8	167	-	175
Reclassifications	-	-	-	-
Disposals	-	-	-	-
At 31 December 2021	**649**	**2,401**	**515**	**3,565**
Accumulated depreciation				
At 31 December 2020	246	1,771	377	2,394
Charge in the year	46	136	3	185
Disposals	-	-	-	-
At 31 December 2021	**292**	**1,907**	**380**	**2,579**
Net book amount				
At 31 December 2021	**357**	**494**	**135**	**986**
At 31 December 2020	395	463	138	996

13. Stocks

	2021	*2020*
	£000	*£000*
Raw materials	984	1,220
Work in progress	502	657
Finished goods and goods for resale	56	38
	1,542	1,915

There is no significant difference between the replacement cost of the inventory and its carrying amount. Stocks are stated after provisions for impairment of £1,776k (2020: £1,210k).

Notes to the financial statements

for the year ended 31 December 2021

14. Debtors

	2021	*2020*
	£000	*£000*
Trade debtors	1,272	2,389
Amounts owed by group undertakings:		
– Parent undertakings	-	65
– Fellow group undertakings	10,054	7,859
Other debtors	28	136
Corporation tax	403	-
Other tax and social security	1	355
Prepayments and accrued income	139	130
	11,897	10,934

Amounts owed by parent and fellow group undertakings are unsecured, and have no fixed date of repayment and are repayable on demand.

Trade debtors are stated after provisions for impairment of £Nil (2020: £12,000).

The corporation tax balance includes £43k due to group undertakings in respect of corporation tax group relief.

15. Creditors: amounts falling due within one year

	2021	*2020*
	£000	*£000*
Trade creditors	270	49
Goods Received Not Invoiced	182	47
Amounts owed to group undertakings:		
– Parent undertakings	1,478	1,694
– Fellow group undertakings	-	333
Corporation tax	-	285
Other taxation and social security	71	77
Accruals and deferred income	1,332	1,080
	3,333	3,565

Amounts owed to group undertakings are unsecured, and have no fixed date of repayment and are repayable on demand.

Notes to the financial statements

for the year ended 31 December 2021

16. Provision for liabilities

	Deferred taxation	*Dilapidation provision*	*Warranty provisions*	*Total*
	£000	*£000*	*£000*	*£000*
At 31 December 2020	46	935	120	1,101
Charged to statement of income and retained earnings during the year	31	-	(55)	(24)
At 31 December 2021	**77**	**935**	**65**	**1,077**

The dilapidation provision is expected to remain in place until the termination of the property lease. The current lease terminates in 2026.
Warranty provisions are based on specific product warranties given, and past experience of the frequency and costs of consequent repairs to returned product.
Details of deferred tax liabilities are shown in Note 10.

17. Called up share capital

		2021		*2020*
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.
As noted in the Statement of income and retained earnings no dividend was declared or paid in the year (2020: £1,000,000).

18. Capital and other commitments

At 31 December, the company had the following capital commitments:

	2021	*2020*
	£000	*£000*
Contracts for future capital expenditure not provided in the financial statements – Property, plant and equipment	15	-

The company had the following future minimum lease payments under non-cancellable operating leases as set out below:

	2021	*2020*
Operating leases which expire:	*£000*	*£000*
Not later than one year	257	203
Later than one year and not later than five years	1,026	-
	1,283	203

The company had no other off-balance sheet arrangements.

Notes to the financial statements

for the year ended 31 December 2021

19. Pensions

The company operates a group personal pension plan for employees. This is a defined contribution pension scheme whose assets are held in an independently administered fund. The pension cost charge represents contributions payable by the company to the plan and amounted to £290,000 (2020 – £308,000).

At 31 December 2021 there were no outstanding pension contributions in relation to the year (2020 – £Nil).

20. Reserves

Share premium account
This reserve records the amount above the nominal value received for shares sold, less transaction costs.
Profit and loss account
The profit and loss account holds the retained earnings of the company, after the deduction of any dividends paid in the period.

21. Ultimate parent undertaking and controlling party

At 31 December 2021 the immediate parent undertaking of the company is RF2M Ltd which owns 100% of the issued ordinary share capital of API Microwave Limited.

The ultimate parent undertaking and controlling party is considered to be API Holdings I Corp, a company incorporated in Delaware, USA. This is the largest group into which the results of RF2M Ltd are consolidated.

API Microwave Limited results are incorporated into the consolidated financial statements of API Technologies (UK) Limited, the ultimate UK-domiciled entity; this is the smallest group to consolidate these financial statements. Copies of these are available from the registered address on page 1.