

Sesanti Limited

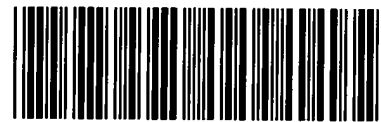
Annual Report and Financial Statements

Year Ended

31 December 2022

Company Number 08666509

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COMPANIES HOUSE

Sesanti Limited

Company Information

Directors

A V Kyle-Henney
P T Kyle-Henney
R C Pitt
S D Rood
L J Sturges

Registered number

08666509

Registered office

Lambda House
Fairground Industrial Estate
Weyhill
Andover
Hampshire
SP11 0ST

Independent auditor

BDO LLP
Arcadia House
Maritime Walk
Ocean Village
Southampton
SO14 3TL

Sesanti Limited

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Sesanti Limited

Strategic Report For the Year Ended 31 December 2022

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2022.

Principal activities

Sesanti Limited specialises in the design, manufacture and supply of optical equipment to the defence and commercial sectors both in the UK and overseas. The products range from ultra-low light level long range units (used for applications such as border surveillance, runway debris detection and asset protection), to hand held deployable units with multiple data transmission options. The company is technology led and invests heavily in Research and Development.

Business review

The Company continued to build on the success of 2021, despite continued shortages in the electronic component supply chain and delays in signing contracts with UK and overseas governments. Most notably, the Company signed a major UK electro-optic research programme, several design and build projects with overseas governments, and a series of product delivery programmes with the UK government. Some of this revenue was delivered in 2022, with the remainder billable in 2023 and 2024 as advanced electronic components become available. Whilst the Directors were pleased to achieve 2022 revenue of £8.3m (2021 - £11.4m), it was negatively impacted by supply chain issues. Our order book at 1 January 2023 was over £6m (including part of the contracts signed in the second half of 2022) with a significant uncontracted pipeline. Operating profit was £2.0m (2021 - £3.0m) and EBITDA was £2.5m (2021 - £3.3m). Given the global supply chain issues and the delays in government procurements, we are delighted with this performance for 2022.

During the year, the Company continued to invest in research and development across electro-optics and artificial intelligence. New products were designed, trialled by customers, and sold during the period, extending our range of capabilities in the military sector. We exhibited our enhanced capabilities in March 2022, resulting in new overseas government contracts being placed later during the year which extend our export reach.

Our commercial business is expanding, allowing the Company to leverage from the military R&D achievements for specific applications. The runway debris detection system, and the ATEX approved LREO asset/border protection system continue to be two of our primary products, and 2022 saw continuing interest from the UK and overseas. The sale of commercial lenses continues, and our sub-contract machining saw growth in the year.

Key Performance Indicators

We use a number of measures to manage the business, but as with most businesses of our size we focus on the Profit and Loss account, specifically revenue, gross margin, overheads and EBITDA (compared with budget and prior year). Our balance sheet is deliberately extraordinarily strong providing resilience during long term projects and enabling us to compete for pending large Defence contract opportunities, and we closely monitor working capital against cash flow projections.

Sales and Operations

We continue to deliver to various departments of the UK Government, but we recognise that there are budgetary constraints and the electro-optics requirements are moving between UK MoD departments. Following a very successful exhibition in March 2022, we made a step change in our sales activity with substantial military orders and enquiries coming from overseas.

Most of our R&D investment was around thermal imaging technology, artificial intelligence, video analytics and FPGA based high speed processing. We completed and were awarded two patents in 2022 and are delivering that technology into our new product portfolio.

Sesanti Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Our people continue to be our most valuable resource, and we would like to thank them for their hard work and dedication throughout the year. Without them and their passion for the Company, its products and its customers, we wouldn't have the continued success we are reporting. Several people were promoted during 2022, and we were delighted to welcome Richard Pitt to the Board.

Financial risk management policies and procedures

Principal risks and uncertainties

The Company operates in both the military and commercial sectors, in the UK and overseas. Part of our strategy has been to diversify our customer base to mitigate the impact of changes in the levels of Government spending. We have continued to maintain significant levels of cash within the business to finance short term periods affected by revenue volatility, and ensure that we can respond quickly to new business opportunities.

Information on exposure to price risk, credit risk, liquidity risk and cash flow risk

Price risk

The Company uses many materials and components in the production of its products. Where possible, the Company controls the price of these items by dual sourcing, competitive quoting and the use of bulk discounts where possible. Where there are known component shortages, the Company will buy stock if forecast orders suggest it is sensible to do so. Component availability has been and will continue to be challenging as the global supply chain recovers from Covid and political pressures around the semi-conductor industry.

Interest rate risk

The Company holds only fixed rate debt, which is owed to shareholders. In terms of its cash deposits, it is subject to fluctuations in the interest rate achievable in the market, but is not reliant on interest income.

Credit risk

The company has a low exposure to credit rate risk with its UK and overseas government customers. For commercial customers, the Company seeks to mitigate risk by performing credit checks on accounts and taking up trade references.

Liquidity and Cash flow risk

Due to the long term nature of some of the Company's programmes and the contracted progress payment profiles, cash flow can be variable. This is mitigated by shorter term commercial business, sub-contract machining and equipment support contracts, which deliver regular income and cash. Liquidity risk at the Company is considered to be very low due to the policy of maintaining high levels of cash in the business to compete with Tier 2 Defence Contractors, and careful planning and forecasting of overheads.

Likely future developments in the business of the company

Since the year end, the Company has continued to grow signing new contracts and recruiting additional staff. In March 2023 we were delighted to be awarded the ADS Innovation Award at Security & Policing, and in April 2023 we were thrilled to receive a King's Award for Enterprise – Innovation. Our strategy to continue long-term investment in "next generation" and "generation after next" capability within the business has made Sesanti innovation standout and be recognised at the highest level. These awards are the ultimate recognition of many years of staff dedication to achieving optical performance at the limits of classical physics.


The Company launched its latest "standard" product portfolio in March 2023, offering a range of capability across overt/covert applications, long range/short range, visual/low light/thermal, and military/commercial. We expect that the combination of diverse standard products, and the ability to deliver bespoke solutions at the highest optical performance levels, will deliver significant increases in revenue in the forthcoming years.

Sesanti Limited

Strategic Report (continued) For the Year Ended 31 December 2022

The Directors have completed an exercise on the future projections of the Company and concluded that it continues to be a going concern. Further details are given in note 2.2 to the financial statements. The Directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements.

Approved by the board of directors and signed on its behalf of the board.


A V Kyle-Henney
Director

Date: 4 August 2023

Sesanti Limited

Directors' Report For the Year Ended 31 December 2022

The directors present their report together with the audited financial statements for the year ended 31 December 2022.

Directors

The directors who served during the year and up to the date of approving the financial statements were as follows:

A V Kyle-Henney
P T Kyle-Henney
R C Pitt (appointed 1 June 2022)
S D Rood
L J Sturges

Qualifying indemnity provisions

The company holds insurance cover to protect directors and officers against liability arising from legal actions brought against them in the course of their duties.

Dividends

The directors do not recommend the payment of a dividend for the year (2021 - £Nil).

Directors' report disclosures that have been included in the strategic report

The following directors' report requirements have been included in the strategic report:

- Likely future developments in the business.
- Financial risk management objectives and policies.
- Information on exposure to price risk, credit risk, liquidity risk and cash flow risk.

Post Balance Sheet Events

There are no material post balance sheet events.

Research and Development

We have continued to invest significantly in the research and development of new technologies and products.

Employee Involvement

Employee involvement is fundamental to the company's success. The directors hold meetings with employees to provide information on emerging developments and encourage the free flow of information and ideas. Investment in training and development is actively monitored, mainly through mentoring and promotion where appropriate. Full consideration is given to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Where an employee suffers disablement during service every effort is made to find alternative suitable employment in the company.

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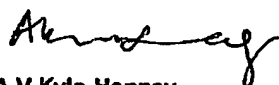
Directors' Report (continued) For the Year Ended 31 December 2022

Disclosure of Information to the auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed:

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

Approved by the board of directors and signed on behalf of the board



A V Kyle-Henney
Director

4 August 2023

Sesanti Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2022

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

Company law requires the directors to prepare financial statements for each financial period. 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). 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 apply them consistently;
- make judgements and accounting 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sesanti Limited

Independent Auditor's Report to the Members of Sesanti Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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.

We have audited the financial statements of Sesanti Limited ("the Company") for the year ended 31 December 2022 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, 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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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

Independence

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.

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 at least twelve 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.

Sesanti Limited

Independent Auditor's Report to the Members of Sesanti Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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.

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 the 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, 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.

Sesanti Limited

Independent Auditor's Report to the Members of Sesanti 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.

Extent to which the audit was 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company and the industry in which it operates, we considered those laws and regulations that have a direct impact on the financial statements, such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Audit procedures performed included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, corroborating responses with information gained from other aspects of the audit;
- Challenging assumptions made by management in their significant accounting estimates, in particular in relation to the stage of completion of contracts spanning the year end including costs to complete, warranty provision and capitalisation of development costs; and
- Identifying and testing journal entries, in particular any journal entries posted directly to revenue or cash.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Sesanti Limited

Independent Auditor's Report to the Members of Sesanti Limited (continued)

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:

David I Anson

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David I'Anson (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK

Date: 04 August 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Sesanti Limited

Statement of Comprehensive Income For the Year Ended 31 December 2022

	Note	2022 £	2021 £
Turnover	4	8,317,142	11,413,274
Cost of sales		(4,697,595)	(6,861,575)
Gross profit		3,619,547	4,551,699
Administrative expenses		(1,576,970)	(1,570,519)
Operating profit	5	2,042,577	2,981,180
Interest receivable and similar income	8	15,951	325
Interest payable and similar charges	9	(166,805)	(169,380)
Profit before tax		1,891,723	2,812,125
Tax on profit	10	27,483	(390,553)
Profit for the financial year		1,919,206	2,421,572

There was no other comprehensive income for 2022 (2021 - £Nil).

The notes on pages 16 to 31 form part of these financial statements.

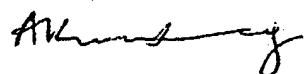
Sesanti Limited
Registered number: 08666509

Statement of Financial Position
As at 31 December 2022

	Note	2022 £	2022 £	2021 £	2021 £
Fixed assets					
Intangible fixed assets	11		1,516,321		1,071,827
Tangible fixed assets	12		575,075		765,050
			<u>2,091,396</u>		<u>1,836,877</u>
Current assets					
Stocks	13	2,063,813		1,866,287	
Debtors: amounts falling due within one year	14	2,434,204		634,433	
Investments	15	3,513,257		1,500,047	
Bank and cash balances		6,787,281		8,826,623	
		<u>14,798,555</u>		<u>12,827,390</u>	
Creditors: amounts falling due within one year	16	(3,440,752)		(3,073,029)	
Net current assets			<u>11,357,803</u>		<u>9,754,361</u>
Total assets less current liabilities			<u>13,449,199</u>		<u>11,591,238</u>
Provisions for liabilities					
Deferred tax	17	(494,882)		(416,000)	
Other provisions	18	(769,821)		(909,948)	
			<u>(1,264,703)</u>		<u>(1,325,948)</u>
Net assets			<u><u>12,184,496</u></u>		<u><u>10,265,290</u></u>
Capital and reserves					
Called up share capital	19		700		700
Profit and loss account	20		12,183,796		10,264,590
Total equity			<u><u>12,184,496</u></u>		<u><u>10,265,290</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

4 August 2023



A V Kyle-Henney
Director

The notes on pages 16 to 31 form part of these financial statements.

Sesanti Limited

Statement of Changes in Equity For the Year Ended 31 December 2022

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2022	700	10,264,590	10,265,290
Comprehensive income for the year			
Profit for the year	-	1,919,206	1,919,206
Total comprehensive income for the year	-	1,919,206	1,919,206
At 31 December 2022	700	12,183,796	12,184,496

Statement of Changes in Equity For the Year Ended 31 December 2021

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2021	700	7,843,018	7,843,718
Comprehensive income for the year			
Profit for the year	-	2,421,572	2,421,572
Total comprehensive income for the year	-	2,421,572	2,421,572
At 31 December 2021	700	10,264,590	10,265,290

The notes on pages 16 to 31 form part of these financial statements.

Sesanti Limited

Statement of Cash Flows For the Year Ended 31 December 2022

	2022 £	2021 £
Cash flows from operating activities		
Profit for the financial year	1,919,206	2,421,572
Adjustments for:		
Depreciation of tangible assets	297,604	578,094
Amortisation of intangible assets	131,651	-
Net interest payable	150,854	169,055
Taxation charge	(27,483)	390,553
(Increase)/decrease in stocks	(197,526)	2,560,253
(Increase) in debtors	(1,694,510)	(192,691)
Increase/(decrease) in creditors	668,035	(53,071)
(Decrease)/increase in provisions	(140,127)	362,837
Corporation tax (paid)	(233,896)	(287,976)
Net cash generated from operating activities	873,808	5,948,626
Cash flows from Investing activities		
Purchase of intangible fixed assets	(576,145)	(708,913)
Purchase of tangible fixed assets	(107,629)	(136,019)
Purchases of investments	(2,013,210)	(1,500,047)
Interest received	15,951	325
Net cash from Investing activities	(2,681,033)	(2,344,654)
Cash flows from financing activities		
Repayment of directors loans	-	(100,000)
Repayment of finance leases	(65,312)	(156,751)
Interest paid	(166,805)	(169,380)
Net cash used in financing activities	(232,117)	(426,131)
Net (decrease)/increase in cash and cash equivalents	(2,039,342)	3,177,841

Sesanti Limited

Statement of Cash Flows (continued) For the Year Ended 31 December 2022

	2022 £	2021 £
Cash and cash equivalents at beginning of year	8,826,623	5,648,782
Cash and cash equivalents at the end of year	6,787,281	8,826,623
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	6,787,281	8,826,623
	6,787,281	8,826,623

The notes on pages 16 to 31 form part of these financial statements.

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. General Information

Sesanti Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Going concern and supply chain issues

The directors have undertaken their usual cash flow forecasting process for 2023/2024 and concluded that the business is a going concern.

Global shortages and delays in the supply chain, especially in electronic components, are continuing to impact our customer delivery schedules. Where possible, we are holding additional stock of key components where we anticipate new orders from customers will be forthcoming. We have also re-designed some sub-assemblies of our products around components which are more readily available. However, we are anticipating that this will continue to be an issue in 2023 and 2024 with extended lead times quoted by suppliers.

In spite of the ongoing challenges, The directors have concluded that the available cash resources in the business are more than adequate to fund the growth strategy and conclude that the business is a going concern.

2.3 Revenue

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. It is recognised when products or services are supplied, except in respect of long term contracts, where turnover represents the sales value of work done in the year. This is calculated by recognising the contract sales value based on the proportion of work completed on the contract as a whole at the Statement of Financial Position date. Profit is recognised on an individual contract basis based on the expected final margin to be achieved. Losses expected on long term contracts are charged to the Statement of Comprehensive Income in full as soon as they are foreseen.

Sesanti Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2. Accounting policies (continued)

2.4 Research and development

Expenditure on pure and applied research is charged to the Statement of Comprehensive Income in the year in which it is incurred.

Development costs are also charged to the Statement of Comprehensive Income in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding ten years commencing in the year the company starts to benefit from the expenditure.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	- 20% per annum
Fixtures and fittings	- 20% per annum
Computer equipment	- 20% per annum
Leasehold improvements	- 20% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.6 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.7 Debtors

Short-term debtors are measured at transaction price, less any impairment.

Sesanti Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2. Accounting policies (continued)

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors and loans from related parties.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

2.10 Creditors

Short-term creditors are measured at the transaction price.

2.11 Foreign currency translation

Transactions and balances

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

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.12 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.13 Operating leases: the company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight-line basis over the lease term.

2.14 Finance leases / hire purchase

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the Statement of Comprehensive Income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Sesanti Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2. Accounting policies (continued)

2.15 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.16 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

2.17 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.18 Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow will be required to settle the obligation.

Provisions for the expected cost of warranty obligations under the contract terms are recognised at the date of sale of each item of equipment, at the directors' best estimate of the expenditure required to settle the company's obligation.

Where the unavoidable costs of a contract exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the contract.

Provisions are made for estimated dilapidations, including reinstatement costs (where there is an obligation to restore premises to their original condition upon vacating them under the terms of the lease).

2.19 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the reporting date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Sesanti Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2. Accounting policies (continued)

2.19 Current and deferred taxation (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- determine whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.
- determine whether certain costs should be capitalised as development costs.

Other key sources of estimation uncertainty:

- Intangible fixed assets (see note 11)

Development costs that meet the qualifying criteria are capitalised and systematically amortised over the useful economic life of the intangible asset. Determining whether development costs qualify for capitalisation as intangible assets requires judgement, including estimates of technical and commercial viability of the asset created and its applicable useful economic life. These estimates are continually reviewed and updated based on past experiences and reviews of competitor products available in the market.

- Tangible fixed assets (see note 12)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

3. Judgements in applying accounting policies (continued)

Warranty provision (see note 18)

Provisions for the expected cost of warranty obligations are recognised at the date of sale based on the directors' best estimate of the expenditure required to settle the company's obligation. There is inherent uncertainty in making an estimate of the provision required.

4. Turnover

An analysis of turnover by class of business is as follows:

	2022 £	2021 £
System sales, support and repairs	7,816,300	10,956,533
Component sales	285,868	251,092
Sub-contract machining	208,051	195,803
Other	6,923	9,846
	<u>8,317,142</u>	<u>11,413,274</u>

Analysis of turnover by country of destination:

	2022 £	2021 £
United Kingdom	7,322,751	10,932,504
Rest of the world	994,391	480,770
	<u>8,317,142</u>	<u>11,413,274</u>

5. Operating profit

The operating profit is stated after charging:

	2022 £	2021 £
Depreciation of tangible fixed assets	256,354	185,919
Amortisation of intangible fixed assets	131,651	293,175
Depreciation charge on assets held under hire purchase	41,250	99,000
R&D Expenditure charged to the statement of comprehensive income	1,219,150	630,007
Exchange differences	(28,563)	292,614
Operating lease rentals	153,243	166,967
Staff bonuses	-	400,081
	<u>-</u>	<u>-</u>

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

6. Employees

Staff costs were as follows:

	2022 £	2021 £
Wages and salaries	1,776,985	2,158,465
Social security costs	208,314	248,424
Costs of defined contribution scheme	52,153	51,807
	<u>2,037,452</u>	<u>2,458,696</u>

Included within staff costs in 2022 are discretionary bonuses amounting to £Nil (2021 - £400,081).

The average monthly number of employees, including the directors, during the year was as follows:

	2022 £	2021 £
Directors	5	4
Technical and production	23	25
Administration	5	5
	<u>33</u>	<u>34</u>

7. Directors' remuneration

	2022 £	2021 £
Directors' emoluments	842,542	964,475
Pension contributions	14,680	10,790
	<u>857,222</u>	<u>975,265</u>

The highest paid director received remuneration of £404,681 (2021 - £457,571). The company made pension contributions in respect of the highest paid director of £Nil (2021 - £Nil).

During the year, retirement benefits were accruing to 2 directors (2021 - 1) in respect of defined contribution pension schemes.

8. Interest receivable and similar income

	2022 £	2021 £
Other interest receivable	<u>15,951</u>	<u>325</u>

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

9. Interest payable and similar charges

	2022 £	2021 £
Directors' loan interest	164,154	163,248
Finance leases and hire purchase contracts	2,651	6,132
	<u>166,805</u>	<u>169,380</u>

10. Taxation

	2022 £	2021 £
Corporation tax		
Current tax on profits for the year	(105,261)	235,000
Adjustments in respect of previous periods	(1,104)	3,663
Total current tax	<u>(106,365)</u>	<u>238,663</u>
Deferred tax		
Origination and reversal of timing differences	77,190	52,062
Changes to tax rates	1,692	99,828
Total deferred tax	<u>78,882</u>	<u>151,890</u>
	<u>(27,483)</u>	<u>390,553</u>
Taxation on profit on ordinary activities		

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2021 - lower than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £	2021 £
Profit on ordinary activities before tax	<u>1,891,723</u>	<u>2,812,125</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	359,427	534,302
Effects of:		
Fixed asset differences	4,019	9,290
Adjustments in respect of previous periods	588	3,663
Remeasurement of deferred tax for changes in tax rates	18,526	99,828
Additional deduction for R&D expenditure	(410,919)	(258,299)
Expenses not deductible	709	-
Other differences	167	1,769
Total tax (credit)/charge for the year	<u>(27,483)</u>	<u>390,553</u>

Factors that may affect future tax charges

The Finance Act 2021 was substantively enacted in May 2021 and has increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. The deferred taxation balances have been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

For further information on deferred tax balances see note 17.

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

11. Intangible assets

	Research and development £
Cost	
At 1 January 2022	1,749,142
Additions	576,145
At 31 December 2022	2,325,287
Amortisation	
At 1 January 2022	677,315
Charge for the year	131,651
At 31 December 2022	808,966
Net book value	
At 31 December 2022	1,516,321
At 31 December 2021	1,071,827

Management has determined that the amortisation charge for the R&D assets relating to the long term contract milestones recognised as revenue in the year should be included in Cost of Sales to recognise that they are incremental with the economic benefit of the contract asset.

Sesanti Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

12. Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Leasehold improvements £	Total £
Cost					
At 1 January 2022	1,342,935	51,953	187,322	503,134	2,085,344
Additions	8,385	18,738	70,133	10,373	107,629
At 31 December 2022	1,351,320	70,691	257,455	513,507	2,192,973
Depreciation					
At 1 January 2022	985,557	19,138	106,212	209,387	1,320,294
Charge for the year	152,851	10,592	33,414	100,747	297,604
At 31 December 2022	1,138,408	29,730	139,626	310,134	1,617,898
Net book value					
At 31 December 2022	212,912	40,961	117,829	203,373	575,075
At 31 December 2021	357,378	32,815	81,110	293,747	765,050

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

12. Tangible fixed assets (continued)

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2022 £	2021 £
Plant and machinery	-	239,250

13. Stocks

	2022 £	2021 £
Raw materials and consumables	1,402,702	1,226,912
Work in progress	661,111	639,375
	<u>2,063,813</u>	<u>1,866,287</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

14. Debtors: amounts falling due within one year

	2022 £	2021 £
Trade debtors	847,812	196,071
Tax recoverable	105,261	-
Prepayments and accrued income	1,481,131	438,362
	<u>2,434,204</u>	<u>634,433</u>

15. Investments

	2022 £	2021 £
95 day notice account	<u>3,513,257</u>	<u>1,500,047</u>

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

16. Creditors: amounts falling due within one year

	2022 £	2021 £
Trade creditors	729,043	270,060
Other taxation and social security	166,848	907,400
Corporation tax	-	235,000
Other creditors	12,334	8,294
Obligations under finance lease and hire purchase contracts	-	65,312
Accruals and deferred income	1,132,527	186,963
Directors' loans	1,400,000	1,400,000
	<u>3,440,752</u>	<u>3,073,029</u>

The directors' loans (unsecured loan notes) are redeemable on demand. Interest is payable quarterly in arrears at a rate of 11% per annum.

17. Deferred taxation

	2022 £
At beginning of year	416,000
Charged to profit or loss	78,882
At end of year	<u>494,882</u>

The provision for deferred taxation is made up as follows:

	2022 £	2021 £
Fixed asset timing differences	494,925	417,000
Short term timing differences	(43)	(1,000)
	<u>494,882</u>	<u>416,000</u>

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

18. Provisions

	Warranty provisions £	Dilapidations provision £	Total £
At 1 January 2022	884,948	25,000	909,948
Released in year	(140,127)	-	(140,127)
At 31 December 2022	744,821	25,000	769,821

19. Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
700,000 ordinary shares of £0.001 each	700	700

In addition to the 700,000 shares noted above, an additional 300,000 have been allocated in relation to the Enterprise Management Limited Incentive Plan options, of which 190,000 had been issued at the year end (2021 - 170,000).

20. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

21. Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The company's employers pension charge amounted to £52,153 (2021 - £51,807). Contributions amounting to £531 (2021 - £Nil) were payable to the fund and are included in creditors.

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

22. Commitments under operating leases

At 31 December 2022 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2022 £	2021 £
Not later than 1 year	<u>61,977</u>	<u>60,172</u>

23. Related party transactions

Sesanti Limited is the tenant under a lease agreement with Lambda Developments Limited, a company in which PT Kyle-Henney and LJ Sturges are shareholders and directors. During the year Sesanti Limited was charged £153,241 (2021 - £147,949) by Lambda Developments Limited for rent and associated charges. At the year end the balance owed by the company to Lambda Developments Limited was £Nil (2021 - £Nil).

	2022 £	2021 £
PT Kyle-Henney	375,000	375,000
AV Kyle-Henney	375,000	375,000
LJ Sturges	650,000	650,000
	<u>1,400,000</u>	<u>1,400,000</u>

Included within other creditors are £1,400,000 of unsecured Loan Notes, £375,000 (2021 - £375,000) held by AV Kyle-Henney, £375,000 (2021 - £375,000) held by PT Kyle-Henney, £650,000 (2021 - £650,000) held by LJ Sturges. This year end balance of £1,400,000, held an interest rate of 11%.

In addition to the Loan Notes, the company had a Revolving Credit Facility (with effect from 6 March 2014) of £250,000 (2021 - £250,000) which it could draw against at any time by giving notice to the facility providers. The facility providers are AV Kyle-Henney and PT Kyle-Henney. Interest is payable on this facility and a total of £8,336 (2021 - £9,250) was paid by the company during the year. At the year end the amount of interest outstanding to the providers of the facility was £Nil (2021 - £Nil).

24. Controlling party

The company is controlled by PT Kyle-Henney, AV Kyle-Henney and LJ Sturges.

Sesanti Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

25. Analysis of net cash

	At 1 January 2022 £	Cash flows £	At 31 December 2022 £
Cash at bank and in hand	8,826,623	(2,039,342)	6,787,281
Obligations under finance leases	(65,312)	65,312	-
Directors' loans	(1,400,000)	-	(1,400,000)
	<u>7,361,311</u>	<u>(1,974,030)</u>	<u>5,387,281</u>