Pentest Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2022

Company Registration No: 11925182

PENTEST LIMITED

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PENTEST LIMITED

COMPANY INFORMATION

DIRECTORS
P Harris
P McFadden
D Williams

COMPANY NUMBER
11925182

REGISTERED OFFICE
22 Great James Street
London
England
WC1N 3ES

INDEPENDENT AUDITOR
BDO LLP
55 Baker Street
London
W1U 7EU

BUSINESS ADDRESS
26a The Downs
Altrincham
WA14 2PU

BANKERS
Natwest Bank
440 Strand
London
WC2R 0QS

SOLICITORS
Mayer Brown
201 Bishopsgate
London
EC2M 3AF

PENTEST LIMITED

STRATEGIC REPORT

The Directors submit their strategic report for the financial year ended 31 March 2022.

PRINCIPAL ACTIVITY
The Company's principal activity during the year was the sale of consultancy and advisory services on a range of subjects including penetration testing, red-teaming and offensive security.

BUSINESS REVIEW

The Company's key financial indicators during the year were as follows:

	31 March 2022	31 March 2021 (restated)
	£	£
Revenue	2,562,418	1,908,474
Gross profit	1,338,981	739,503
Gross profit margin	52%	39%
Operating profit / (loss)	50,323	(413,450)

Revenue of £2,562,418 for the year ended 31 March 2022 (31 March 2021: £1,908,474) represents a 34% increase and an operating profit of £50,323 for the year ended 31 March 2022 (31 March 2021: restated £413,450 loss) demonstrates significantly improved year-on-year performance.

FUTURE DEVELOPMENTS
The Company is focussed to deliver sustainable growing revenues and profits from its existing core areas of expertise through the continued commitment to build a strong team capable of scaling the business, organisational effectiveness, investment in technology and tight cost control.

PRINCIPAL RISKS AND UNCERTAINTIES
The key business risk and uncertainties affecting the Company arise from potential cyber security attacks along with the rapidly changing technologies which require continued investment. Further discussion of these risks and uncertainties, in the context of Shearwater Group plc as a whole, is provided in the group's annual report. The financial statements of Shearwater Group plc are publicly available and can be accessed via the following link: https://shearwatergroup.com/investor-overview/

FINANCIAL RISK MANAGEMENT
Liquidity risk, credit risk and currency risk are managed on a group-wide basis by the Company's ultimate parent Company, Shearwater Group plc. The Company operates in accordance with funding policies controlled by the Executive Directors of the ultimate parent Company.

The Company is exposed to credit risk associated with selling on credit, which it manages through credit control procedures. The Company has international customers, some of which are invoiced in US Dollars and Euros. The Company maintains bank accounts in foreign currencies, which is converted to Sterling at appropriate times in accordance with the ultimate parent Company's policy.

By order of the board

P Harris
Director
2 March 2023

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the financial period ended 31 March 2022.

GOING CONCERN
The Directors continue to adopt the going concern basis in preparing the annual report and financial statements. Further details are set out in note 1.

DIVIDENDS AND RESULTS
No dividends were proposed or paid in the year to 31 March 2022 or 31 March 2021. Results for the year are detailed on page 9.

DIRECTORS
The Directors who held office during the period and up to the date of signing the accounts are as shown below:

P Harris
P McFadden
D Williams

DIRECTORS' THIRD PARTY INDEMNITY PROVISIONS
A qualifying third-party indemnity provision was in place for Directors throughout the year and at the date of approval of the financial statements.

FUTURE DEVELOPMENTS AND PRINCIPAL RISKS AND UNCERTAINTIES
Future developments and principal risks and uncertainties are disclosed within the Strategic Report on page 3.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosures Framework* (FRS 101).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 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.

PENTEST LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

DISCLOSURE OF INFORMATION TO AUDITOR

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the board

P Harris
Director
2 March 2023

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF PENTEST 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 March 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 Pentest Limited ("the Company") for the year ended 31 March 2022 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity 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 101 Reduced Disclosure Framework (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.

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.

PENTEST LIMITED

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF PENTEST LIMITED (CONTINUED)

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 the 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 Statement of directors' responsibilities, 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.

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.

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF PENTEST LIMITED (CONTINUED)

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:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We have identified and assessed the potential risks related to irregularities, including fraud, by considering the following:
    - enquiries of management regarding : the compliance with laws and regulations; the detection and response to the risk of fraud and any knowledge of actual, suspected or alleged fraud; and the controls in place to mitigate risks related to fraud or non-compliance with laws and regulations; and
    - obtaining an understanding of the legal and regulatory framework in which the company operates.
- We have responded to risks identified by performing procedures including the following:
    - review of financial statements disclosures and testing to supporting documentation;
    - enquiry of in-house management concerning actual and potential litigation and claims;
    - performing analytical procedures to identify any unusual or unexpected relationships which may indicate risks of misstatement due to fraud; and
    - reading the minutes of meetings of those charged with governance.
- We have also considered the risk of fraud through management override of controls by:
    - testing on a sample basis the appropriateness of journal entries and other adjustments; and
    - assessing whether the judgements made in making accounting estimates are indicative of potential bias.

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.

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:

Mark Ayres (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK 02 March 2023

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

PENTEST LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the financial year ended 31 March 2022

	Note	2022 £	2021 (restated) £
Revenue	2	2,562,418	1,908,474
Cost of sales		(1,223,437)	(1,168,971)
Gross profit		1,338,981	739,503
Administrative expenses		(1,288,658)	(1,152,953)
OPERATING PROFIT / (LOSS)	3	50,323	(413,450)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		50,323	(413,450)
Tax on profit / (loss)	5	(572)	(436)
PROFIT / (LOSS) AND TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE FINANCIAL YEAR		49,751	(413,886)

The revenue and operating profit for the year arises from the Company's continuing operations.

The Company has no other comprehensive income other than those included in the results above.

PENTEST LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 March 2022

	Note	2022 £	2021 (restated) £
FIXED ASSETS			
Tangible assets	6	9,204	9,098
		9,204	9,098
CURRENT ASSETS			
Trade and other receivables	7	1,342,981	1,289,831
Cash and cash equivalents		215,597	92,598
		1,558,578	1,382,429
Creditors: Amounts falling due within one year	8	(2,547,208)	(2,424,054)
NET CURRENT LIABILITIES		**(988,630)**	**(1,041,625)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**(979,426)**	**(1,032,527)**
PROVISION FOR LIABILITIES			
Creditors: Amounts falling due after one year		(2,301)	(1,729)
NET LIABILITIES		**(981,727)**	**(1,034,256)**
CAPITAL AND RESERVES			
Called up share capital	9	2,956	2,956
Share based payment reserve		17,775	14,997
Retained loss		(1,002,458)	(1,052,209)
TOTAL SHAREHOLDERS' DEFICIT		**(981,727)**	**(1,034,256)**

The financial statements on pages 9 to 19 were approved by the board of Directors and authorised for issue on 2 March 2023.

P Harris
Director

PENTEST LIMITED

STATEMENT OF CHANGES IN EQUITY
for the financial year ended 31 March 2022

	Called up share capital (note 9)	Share based payment reserve	Retained loss	Total shareholders' deficit
At 1 April 2020	2,956	-	(638,323)	(635,367)
Loss for the financial year (restated)	-	-	(413,886)	(413,886)
Total comprehensive loss for the year	-	-	(413,886)	(413,886)
Contributions by and distributions to owners				
Share based payments charge for the year	-	14,997	-	14,997
At 31 March 2021 (restated)	**2,956**	**14,997**	**(1,052,209)**	**(1,034,256)**
Profit for the financial year	-	-	49,751	49,751
Total comprehensive income for the year	-	-	49,751	49,751
Contributions by and distributions to owners				
Share based payments charge for the year	-	2,778	-	2,778
At 31 March 2022	**2,956**	**17,775**	**(1,002,458)**	**(981,727)**

Restatement relates to prior year share based payment charges relating to share options held by employees of the Company that had previously been recognised in the financial statements of the Company's Parent Company.

PENTEST LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2022

GENERAL INFORMATION
Pentest Limited ('the Company') participates in the sales of consultancy and advisory services. The Company is a private limited Company and is incorporated and domiciled in the UK. The address of its registered office is 22 Great James Street, London, WC1N 3ES.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PREPARATION
The financial statements have been prepared under the historical cost convention unless otherwise specified within these financial statements and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

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

- Paragraph 45(b) and 46-52 of IFRS 2, 'Share-based payment' (because the share-based payment arrangement concerns the instruments of another group entity).
- IFRS 7, 'Financial Instruments; Disclosures'.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  (i) paragraph 79(a)(iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 'Property, plant and equipment'; and
  (iii) paragraph 118(e) of IAS 38 'Intangible assets' (reconciliation between the carrying amount at the beginning and end of the period).
- The requirements of paragraphs 10(d), 10(f), 16, 38(a)-(d), 39(c), 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors.
- Paragraph 17 and 18A of IAS 24 'Related party disclosures' (key management compensation).
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j), to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations'.
- The requirement to include a list of new accounting standards that have been issued but not yet applied.

GOING CONCERN
The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future, being a period of at least 12 months from the date of signing the audit report.

Management have reviewed and challenged what it believes to be an extreme scenario, a reverse stress test on the Company up to March 2024. The purpose of the reverse stress test for the Company is to test the impact on cash facilities if the assumptions in the budget are altered.

The results of the reverse stress test have been shared with the Company's ultimate parent Company Shearwater Group plc which has subsequently consolidated these to give a position for the overall Group which demonstrates that the Group will be able to pay its debts as they fall due for the period to at least 31 March 2024. The Directors thus believe that the basis of preparation of the annual accounts as a going concern is appropriate.

PENTEST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Although the company is in a net current liability position the ultimate parent company, Shearwater Group plc, has stated its intention to provide financial support as necessary. The company owes £1,658,609 to Shearwater Shared Services Ltd, £664,468 to Xcina Consulting Ltd, and £21,452 to SecurEnvoy Ltd (all fellow subsidiaries) which have confirmed that they will not recall the amount due within 12 months from signing the financial statements.

In additional to this, the Company has access to a £4.0 million three-year revolving credit facility, held by its ultimate parent which provides additional financing capacity to all of its subsidiaries.

For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

REVENUE

Revenue with customers is evaluated based on the five-step model under IFRS 15 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied.

The Company has one revenue stream which is detailed below:

1) Sale of consultancy services:
   Consultancy services are provided on a range of topics including penetration testing, red-teaming and offensive security. Client contracts stipulate a number of consultancy days that make up the contracted consideration and the Company has an enforceable right to payment for work completed to date. Consultancy days generally comprise of fieldwork and (where required) report writing and delivery which is considered to be of equal value to the client. Revenue is recognised over time based on the number of consultancy days provided within the period compared to the total days in the contract.

Revenue recognised in the Statement of Comprehensive Income but not yet invoiced is held on the Statement of Financial Position within accrued income. Revenue invoiced but not yet recognised in the Statement of Comprehensive Income is held on the Statement of Financial Position within deferred revenue.

TANGIBLE FIXED ASSETS

Tangible assets are stated at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs of bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Office equipment	25 per cent per annum

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, as adjusted items if significant, within the Statement of Comprehensive Income.

The Company assesses at each reporting date whether tangible fixed assets are impaired.

TAXATION

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss and is accounted for using the balance sheet method.

PENTEST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluate positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised, or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

UNCERTAINTY OVER INCOME TAX TREATMENTS
IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- the Group to determine whether uncertain tax treatments should be considered separately, or together as a Group, based on which approach provides better predictions of the resolution;
- the Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Company elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 April 2019. The adoption of IFRIC 23 has had no impact on retained earnings or on corporate tax liabilities.

PENSIONS
The Company operates a defined contribution pension scheme, the assets of which are held separately from those of the Company in an independently administered fund. Contributions are charged to the Statement of Comprehensive Income in the period in which they are incurred.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date.

- **Revenue**
  Revenue recognition is a critical judgement which management consider and apply IFRS 15 criteria when recognising revenue in the financial statements.

FINANCIAL INSTRUMENTS
Pentest Limited's financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets comprise trade and other receivables (excluding prepaid commissions and prepaid expenses) and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs.

PENTEST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Trade and other receivables are measured at amortised cost less a provision for doubtful debts, determined as set out below in "impairment of financial assets". Any write-down of these assets is expensed to the Statement of Comprehensive Income.

Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Company always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses are updated at each reporting date.

The new impairment model only applies to the Company's financial assets that are debt instruments measured at amortised costs or FVOCI as well as the Company's contract assets and issued financial guarantee contracts. The Company has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables and contracts assets as required or permitted by IFRS 9.

Expected credit losses are calculated with reference to average loss rates incurred in the three most recent reporting periods. The Company's average combined loss rate is 0.94% (2021: 0.34%). This percentage rate is then applied to current receivable balances using a probability risk spread as follows:

- 80% of debt not yet due (i.e. the Company's average combined loss rate of 0.94% is discounted by 20%, meaning a 0.75% provision would be made to debt not yet due);
- 85% of debt that is <30 days overdue;
- 90% of debt that is 30-60 days overdue;
- 90% of debt that is 60-90 days overdue; and
- 100% of debt that is >90 days overdue.

Management have performed the calculation to ascertain the expected credit loss which works out to £2,346 (2021: £1,462).

A calculation for expected credit loss has been made in relation to the Company's inter-group receivables. This is made up of a specific provision for expected credit default plus a general provision which is based upon a 0.5% provision per-annum for each year the receivable is expected to remain outstanding.

At 31 March 2022 the expected credit loss on inter-group receivables is £nil (2021: £nil).

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the Statement of Comprehensive Income

Financial liabilities

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the invoiced amount. They are subsequently carried at amortised cost using the effective interest method (if the time value of money is significant).

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income.

Share based payments

Shearwater Group plc, the company's ultimate and controlling party, operates equity-settled share based compensation plans, under which the company receives services from employees as consideration for equity instruments in Shearwater Group plc. The fair value of the employee services received in exchange for the grant of the awards is recognised as an expense in the statement of comprehensive income and as a separate reserve in equity. The total amount to be expensed is determined by reference to the grant date fair value of the awards, without taking into account expectations concerning the future impact of service conditions and non-market performance conditions. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified conditions are to be satisfied.

2. REVENUE

Revenue is attributable to one segment of business.

	2022	2021
The company's turnover by geographical area was as follows:	£	£
United Kingdom	1,463,365	1,076,993
North America	995,043	605,865
Europe	44,532	220,955
Rest of the world	59,478	4,661
	2,562,418	**1,908,474**

3. OPERATING PROFIT / (LOSS)

	2022	2021
Operating profit / (loss) is stated after charging	£	£
Depreciation of owned tangible assets (note 6)	3,398	2,614
Auditors remuneration: statutory audit	13,390	13,000

4. EMPLOYEES

The average monthly number of persons (including Directors) employed by the Company during the year was:

	2022	2021
	No	No
Production	16	16
Sales and Marketing	7	8
Administration	1	1
	24	**25**

	2022	2021 (restated)
Staff costs for the above persons are:	£	£
Wages and salaries	1,770,976	1,686,030
Share based payments	2,778	14,997
Social security costs	184,861	187,075
Other pension costs	61,439	64,003
	2,020,054	**1,952,105**

	2022	2021 (restated)
Directors remuneration:	£	£
Wages and salaries	141,475	100,000
Share based payments	728	1,518
Social security costs	15,079	11,331
Other pension costs	4,475	3,000
	161,757	**115,849**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Two of the company's Directors were remunerated by Shearwater Group plc, the ultimate parent company; their emoluments are disclosed in the financial statements of Shearwater Group plc. One Director is remunerated by the company and their remuneration is included in the staff numbers above.

5. TAX ON PROFIT / (LOSS)

	2022	2021
Current taxation:	£	£
UK corporation tax on profit / (loss) of the financial period	-	-
Deferred taxation	572	436
Tax on profit / (loss)	572	436

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2022	2021 (restated)
	£	£
Profit / (loss) before taxation	**50,323**	**(414,322)**
Profit / (loss) multiplied by the standard rate of UK corporation tax of 19% (2021: 19%)	9,561	(78,721)
Effects of		
Prior year adjustment – share based payments	-	3,015
Other expenses not deductible for tax purposes	(319)	(319)
Deferred taxation	572	436
Adjustment for group relief	(9,242)	76,025
	572	**436**

6. TANGIBLE ASSETS

	Office Equipment
	£
COST	
At 1 April 2021	13,040
Additions	3,504
At 31 March 2022	**16,544**
ACCUMULATED DEPRECIATION	
At 1 April 2021	(3,942)
Charge for the financial year	(3,398)
At 31 March 2022	**(7,340)**
NET BOOK VALUE	
At 31 March 2022	**9,204**
At 31 March 2021	**9,098**

7. TRADE AND OTHER RECEIVABLES

	2022	2021
Amounts due within one year	£	£
Amounts owed by group undertakings	755,255	747,961
Trade debtors	292,933	519,754
Prepayments and accrued income	294,793	22,116
	1,342,981	**1,289,831**

Amounts due from group undertakings are interest free, unsecured and are repayable on demand.

8. CREDITORS: Due within one year

	2022	2021
Amounts due within one year	£	£
Amounts owed to group undertakings	2,344,529	2,353,254
Other taxation and social security	117,558	52,104
Accruals and deferred income	85,121	18,696
	2,547,208	**2,424,054**

Amounts due to group undertakings are interest free, unsecured and are repayable on demand.

9. CALLED UP SHARE CAPITAL

	2022	2021
	£	£
Authorised and Allotted, issued and fully paid:		
Ordinary shares of £1 each	**2,956**	**2,956**

10. PRIOR PERIOD RESTATEMENT

Prior year restatement relates to prior year share-based payment charges of share options held by employees of the Company that had previously been recognised in the financial statements of the Company's Parent Company.

	2021 as previously stated £ (000)	**Increase/ (decrease) £ (000)**	**2021 restated £ (000)**
Impact on statement of financial position			
Equity			
Called up share capital	2,956	-	2,956
Share-based payments reserve	-	14,997	14,997
Retained losses	(1,037,212)	(14,997)	(1,052,209)
Total equity	(1,034,256)	-	(1,034,256)
Impact on statement of comprehensive income			
Share-based payment charge	-	14,997	14,997
Total comprehensive loss for the financial year	(398,889)	(14,997)	(413,886)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. ULTIMATE PARENT COMPANY

The Company is controlled by Shearwater Group plc, its immediate parent.

The ultimate parent Company, and the parent undertaking of the largest and smallest group for which consolidated financial statements are prepared is Shearwater Group plc, which is incorporated in the UK and for which financial statements are available from 22 Great James Street, London, WC1N 3ES.

12. RELATED PARTY TRANSACTIONS

Shearwater Group plc, together with its other wholly owned subsidiaries, offers certain group-wide purchasing facilities to the Company and other subsidiaries whereby the actual costs are recharged. Transactions during the year with other group entities were cost recharges and cash movements.

The Company is a wholly owned subsidiary of a group that prepares publicly available consolidated financial statements, namely the group headed by Shearwater Group plc, so it has taken advantage of the exemption IAS 24, 'Related party disclosure' to disclose related party transactions entered into between two or more members of a group.