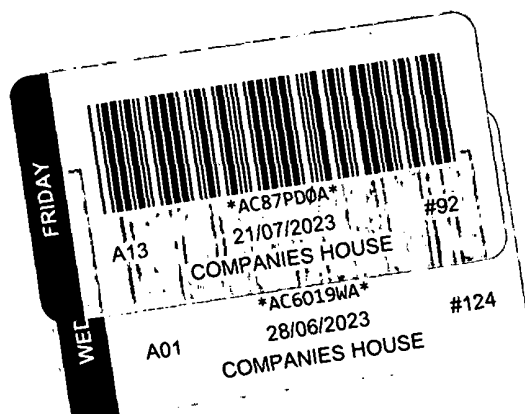


PARENT ACCOUNTS OF:
ASH WIRELESS ELECTRONICS
LIMITED (04148550)

CAPTEC GROUP PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022



CAPTEC GROUP PLC

COMPANY INFORMATION

Directors	Max Toti Edward Spurrier (appointed 1 August 2022) Mike Trench (appointed 1 August 2022) Hjordis Toti (resigned 7 March 2023) Martin Glanfield (appointed 8 March 2023; resigned 27 March 2023)
Company secretary	Mike Trench (appointed 2 March 2023)
Registered number	11281644
Registered office	7 Whittle Avenue Fareham Hampshire PO15 5SH

CAPTEC GROUP PLC

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CAPTEC GROUP PLC

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Captec Group Plc delivered against its business plan, despite a backdrop of significant supply chain pressure. As well as double-digit growth in revenue, gross profits and adjusted EBITDA, this year saw Captec secure its highest ever order intake and two significant customer wins, within our target sectors.

The success is extremely pleasing, given it has been achieved within both UK and North American operations. Investment in all operating locations within the Group means the Group is equipped with the capacity enabling the delivery of future growth.

The Group perceives a number of structural growth trends, that play to its strengths, as computing is increasingly pushed to the "edge" in support of IOT applications. The Group's value proposition is specifically focused on keeping computing operational in critical, certified and/or challenging environments. This leaves the Group well placed to deliver further sustainable growth in the forthcoming years.

People

Attracting, retaining and inspiring talent has become an increasing priority for the Group. It is developing the employee proposition, in order to create a great place to work.

Headcount was broadly in line with 2021, at an average of 159. The delivery of the Group's financial performance without a concurrent increase in employees, is demonstration of the team's commitment and their focus on continuous improvement.

The Group's cost base has been impacted by inflationary pressures. However, a number of improvements in benefits have been delivered in a manner which has partially offset higher costs. Improvements in this area are likely to have contributed to a reduction in staff turnover across the Group.

Much can still be improved within the Group, but the progress made in the year is pleasing and efforts will continue during 2023.

Product

Opportunities continue to be sought, where the full, end-to-end capability of the Group can be leveraged, to provide products to customers.

FY22 saw a new ruggedised tablet, predominantly sold into the leisure industry. In addition, the Group entered the high-performance server market, where it has already had success securing new customers and significant new orders.

Its embedded engineering team is working on a number of exciting projects, several of which have the potential to give rise to new product and manufacturing opportunities in the future.

Economic climate

Sentiment around the UK economy was negative for large parts of 2022, but the start of 2023 has seen some improvement, with inflationary concerns having reduced.

Whilst the potential for recession cannot be ignored in some of the sectors the Group addresses, it also serves healthcare and defence which are typically more resilient to such conditions.

The team in North America are benefitting from a renewed focus on manufacture in the US, serving as it does, a number of OEM manufacturers located there.

The potential for a UK recession cannot be ignored, but the Group has no debt, a robust balance sheet and has proven its model is sufficiently scalable to maintain high levels of profitability, despite the sharpest of downturns.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Outlook

The team will continue to be built during 2023 to ensure the group invests in the capability at both senior level and across our engineering functions. Coupled with an expansion of the business development and marketing teams and the scale of the market opportunity makes the Group's future potential exciting.

Key performance indicators

	2022	2021	
Financial KPIs	£m	£m	Change
Revenue	32.6	26.2	24.4%
Gross Profit	10.4	9.0	15.6%
Adjusted EBITDA ¹	6.1	5.6	8.9%
Underlying cash ²	23.0	25.9	-11.2%
Non-Financial KPIs	2022	2021	Change
Orders secured	38.9	30.7	26.7%
Book-to-billed	119%	117%	1.7%

¹Adjusted EBITDA excludes share-based payment charges and costs related to a potential transaction, along with depreciation, amortisation, interest and tax from the measure of profit.

²Underlying cash is Cash and cash equivalents and amounts held as Current asset investments because it is held on deposits of over 3 months at year end.

Section 172 Statement

The Directors are aware of their duty under Section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Engaging with employees

The company conducts all staff meetings on a quarterly basis, to share updates from local business units and the wider Group on a regular basis. It is also instituting more frequent communication to the whole Group, to ensure news flow within the organisation is improved. In addition, departments and business units meet to give staff a chance to provide feedback to the senior leadership team via line management.

Whilst the company operates a 'working from home' and a flexible working policy, outside of production, it is encouraged employees work on-site a few times per week to encourage the building and maintenance of a more cohesive culture and interrelationship with other members of the wider team. The company also supports social events for its staff including both a winter and summer events, as well as being supportive of more regular, informal social activities.

Engaging with customers

All recurring customers have dedicated points of contact, with its major customers often having multiple touchpoints within the Organisation at multiple levels, including executive board members, and across various business functions. Outside of operational interactions, the business seeks feedback through customer satisfaction reviews and regular Net Promoter Index surveys.

Engaging with suppliers

The company has a wide-ranging supplier base as part of its supply chain arrangements in the countries in which it operates and worldwide. Major suppliers are interacted through multiple levels within the organisation, up to and including the executive board members, but typically communication is focused around staff within its procurement functions. Supplier performance is reviewed on a continuous basis, with two-way communication in place.

Engaging with regulators

Management teams within the Group work closely with regulators and trade associations to ensure best practice is followed, wherever relevant. The Group does not operate in a sector which is automatically regulated in its own right, but by virtue of its customer base and capabilities, particularly delivery to certified applications, it has to conform to a broad range of accreditations to ensure it meets the needs of its wider stakeholders.

Minimising environmental impact

The Board is committed to ensuring the business progresses towards operating in a sustainable way and reduces its environmental impact. The majority of the Group's operations have formalised this commitment, operating under an ISO 14001 accreditation, having passed its recertification audit in early FY23. The Board recognises its ethical responsibility to surpass legal requirement and therefore the business strives to ensure its operations reduce energy consumption, minimise waste, and increase recycling where possible. The Board also considers environmental impact in its decision making and is now taking a proactive approach to carbon reduction, establishing its first Carbon Offsets Strategy.

Key decisions during the year

The Board has regard to its responsibilities under s. 172 as set out below when making key decisions. It does this by ensuring stakeholder perspectives are factored into the thought processes when considering what strategic options to take. Conflicts of interest between alternative perspectives are mediated through the selection of options which create the most overall benefit and/or progress against its strategic plans. These plans are themselves, developed with stakeholder perspectives in mind.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Principal risks and uncertainties

The Group faces a number of business risks and uncertainties due to dynamic market conditions, including risks from competitors, supply-chain disruptions, cyber criminals and other economic events.

Effective risk management aids decision making, underpins the delivery of the Group's strategy and objectives, and helps to ensure that the risks the Group takes are adequately assessed and actively managed. The Board retains ultimate responsibility for the Group's risk management. Therefore, the Board determines the Group's risk appetite, paying regard to the interests of wider stakeholders, market expectations and the Group's strategic plans. The Group regularly monitors its key risks and reviews its management processes and systems to ensure that they are effective and consistent with good practice.

The risk management process involves the identification and prioritisation of key risks, together with appropriate controls and plans for mitigation, which are then reported to the Board. As part of this process, risks may move in and out of designation as a key risk, according to the relative effectiveness of actions taken to mitigate the risk, changes in likelihood or potential impact.

As with all businesses, the Group is affected by a number of risks and uncertainties, not all of which are within its control. The table below sets out the key risks that have been identified, along with the company's approach to mitigating those risks.

Risk and Mitigation

Dependence on key customers

The Group benefits from strong relationships with its top ten customers and benefit from strength and longevity within those relationships.

However, the Board recognises the need to increase diversification, but believes this will naturally develop through execution of its growth strategy, as outlined in the Chief Executives Report.

Description

While the Group supplies products and services to a number of leading OEMs and other key customers, it depends on a limited number of large customers for a significant proportion of its revenue.

The relationship of the Group with its key customers could be materially adversely affected by a number of factors, that occur in the ordinary course of an ongoing relationship.

Should any of these occur, and they impact the commercial relationship adversely, leading to loss or material reduction in the level of trade with that customer, it would cause a material reduction in revenue and profitability, in the absence of new business being secured from elsewhere.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Competition in its sectors

All business face competition in the markets in which they operate and the Group is fortunate not to experience a single competitor across all the product areas and sectors it serves. This provides mitigation in that competition is more likely to occur within a particular segment, rather than across the breadth of the Group's activities.

Furthermore, the Board reviews its strategic position across its operations, to ensure strategic threats are identified and mitigated. Where specific conditions are identified, from time to time, that could give rise to a competitive problem, appropriate responses are identified and implemented. This could include proposing new business models, revisions to product or approach to the market.

The Group faces competition, both domestically and internationally. In some markets, where commercial alternatives or existing suppliers are competitive to the Group's offering, certain of these competitors are larger and have access to greater financial, technical and marketing resources than the Group, enabling unit economics the Group cannot compete with.

The Group's future success will depend in part upon the Group's ability to retain its competitive position in the market. Any failure to maintain its competitive position may have material adverse effect on the Group's prospects, results of operations and financial condition.

The Group may also face competition from new companies that have greater research, development, marketing, financial and personnel resources than the Group or as a result of the insourcing of its activities into OEMs, prime contractors or systems integrators to which it currently sells.

Dependence on key staff

The Board is aware of the potential risk and focus was placed on this area through establishment of incentive programs to help minimise flight risk.

In addition, its remuneration committee will provide oversight of the Groups offering around retention and reward, to ensure it remains competitive.

During FY23, the Board will establish a Nominations committee which will ensure suitable succession plans are in place.

Finally, for members of staff considered to be especially key, the Group is considering establishing key man insurance arrangements to help mitigate the financial impact should an issue arise in respect to them.

The Group has dependencies on key senior management personnel who have extensive experience and knowledge of the Group, its solutions, its customers, its target markets and its business generally.

The successful implementation of the Group's growth strategy depends on the continued availability of senior management and the Group's ability to continue to attract, motivate and retain such individuals.

If members of the Group's senior management depart and adequate succession plans are not put in place, the Group may not be able to find effective replacements in a timely manner, or at all and the Group's business may be disrupted. In addition, the loss of key members of senior management to competitors may have an adverse longer-term impact on the financial performance of the Group.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Supply chain dependence

The Group enjoys strong and lengthy relationships with its supply chain but the Board recognises areas exist where dependencies have been created or could develop in the future. For this reason, the Board is developing proactive strategies around its existing supply chains, to minimise these areas through identifying second sources of supply and addressing geographical supply concentration. As well as holding significant levels of inventory where specific threats are identified and it is possible to do so.

In order to produce its products, the Group is dependent on the delivery of certain components and raw materials and hence has built up a reliable supplier base for its externally sourced components. If for any reason, any suppliers cease to, or became unable to, supply the parts or materials required for the Group's products, the Group may not be able to find an alternative source or supply or may only be able to do so on less advantageous terms.

Any unexpected disruption to, or termination of, these supply arrangements could negatively impact the Group's ability to deliver on customer contracts which may have a material adverse effect on the Group's reputation, business, prospects, results of operations and financial condition.

Component availability throughout the value chain

The Group's relationships with its supply chain has afforded some degree of flexibility across the past few years, where industry conditions have been materially more difficult than in the past.

However, where possible, and in particular during FY22, the Board made a decision to make a significant, strategic investment in inventory to ensure it could meet customer demand, enabling delivery of its FY22 business plan.

The Group is fortunate to have the cash reserves and physical capacity to hold significant amounts of inventory in response to such risks and will continue to do so until the Board is confident that the position has eased.

The Group is exposed to the risk that supply shortages impact the components within its products.

For example, key suppliers and OEMs faced a global shortage of semiconductors, which has resulted in lower production volumes.

The related shortages currently remain ongoing. The outlook is improving steadily but is unlikely to be fully alleviated in the near term.

A persistent shortage of semiconductors and other components may affect the business, operating results and financial condition of the Group going forward. Shorter-term impacts would likely impact the timing of delivery of financial performance.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Failure to implement growth strategies successfully

The Group's growth strategies are outlined in the Chief Executive Officer's report. The Board recognises the need for additional resources to ensure these strategies are delivered as planned.

The Group is therefore investing in additional physical capacity in its production facilities and through its employee base to ensure that delivery is not constrained by either of these factors.

In addition, the drumbeat of monthly Board meetings and introduction of, credible, experienced non-executive directors with skills pertinent to the Group's plans, has and will continue to help ensure the strong delivery of strategic actions.

The Group's growth and future prospects will be dependent on the success of those growth and expansion strategies currently or proposed to be undertaken by the Group.

The execution of the Group's growth and expansion strategies is expected to place further demands on management, support functions, sales and marketing functions and other resources of the Group. In order to manage the further expansion of the Group's business and the growth of its operations and personnel, the Group may be required to expand and enhance its infrastructure and technology and enhance its operational and financial systems as well as its procedures and controls from time to time in order to match that expansion. This could have a material cost to the Group and may have a material adverse effect on the Group's prospects, results of operations and financial condition.

There can be no assurance that the Group's current and planned staff, infrastructure, systems, procedures and controls will be adequate to support any expansion of operations in the future and across the periods currently envisioned. If the Group fails to manage its expansion effectively, it may have a material adverse effect on the Group's business and financial results.

Cybersecurity

Having suffered a ransomware attack in FY22, the Group took the opportunity to revise its network protection arrangements in line with recommendations made by external specialists engaged to support the incident.

The Group retains full disaster recovery plans and a Cyberessentials + certification across the majority of its operations, with that certification being extended across all UK operations in FY23.

Cybersecurity is a standing item on the Board's agenda at each meeting and the Group retains staff with sufficient experience to help identify, address and respond to threats as they arise.

The Group is exposed to the risks associated with cybersecurity by virtue of its external technology connections and communications and was subject to such an attack during the course of FY22. Whilst the impact was contained and relatively minimal, the potential for significant operational disruption as a result of any such future incident is clear.

Given many of the Group's operational systems are virtual and cloud-based in nature, in line with industry expectation, the risk that a further incident could occur remains a feature of any operating business. It is possible that any similar event with a more significant impact, could materially restrict the Company's operations and therefore its financial performance.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Rising labour costs

The Group in part mitigates this, by continuing to grow and improve efficiency, which permits it to afford the higher expense associated with increased labour costs, whilst retaining a suitable level of profitability.

Any increase in employment and employee benefit costs in those countries in which the Group operates may adversely affect the Group's operating costs and compromise its competitiveness.

A shortage in the labour pool or other general inflationary pressures or changes will also increase the Group's employment costs.

Any increases in employment costs could have a material adverse effect on the Group's prospects, operating results and financial condition.

Geopolitical crisis/Global issues

The Board recognises the uncertainty under which the Group has operated in the past couple of years.

Whilst it believes across a longer timeframe, the Group has sufficient resilience to withstand and adapt to such issues, it recognises that where impacts are foreseeable, proactive measures should be taken. In such cases the Board defines and implements an appropriate response e.g. potential diversification or second sourcing away from areas of supply risk, where possible.

The last couple of years have seen a significant number of global crises, including Brexit, the pandemic, the war in Ukraine and heightened political tensions with China. All of these types of issue have the potential to create a cascading effect which would impact on the Group and its operations.

Often the impacts of such issues are not immediate or easily discernible, as they may arise indirectly through interrelationships, particularly within complex supply chains, where for example natural resources are affected.

Should a globally impacting risk arise, that has a significant, direct impact on the Group, it could impact operations and financial performance adversely.

CAPTEC GROUP PLC

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

Complex contract/project performance

The Group's approach aims to maintain a close working relationship with both engineering and contractual team members from related customers, during project execution.

In addition, the Group employs people who are sufficiently qualified to identify and address the risks arising from contracts/projects.

To assist in this process, the Group has also developed processes and procedures to help take secured contracts/projects through to the operational and concluding phases. This is in order to ensure all obligations are met on a timely basis, according to the project plan.

The Group maintains ISO9001 accreditation across all its operations, which helps support risk identification, management and a continuous improvement approach.

The Group undertakes projects which are inherently complex and are therefore subject to contracts which are themselves complex. In doing so a risk associated with delivering contractual obligations may not be identified and therefore managed.

Equally, an identified obligation or requirement may not be fully complied with on execution of the project. In conjunction with normal risks around project delivery, these dynamics could create an adverse impact on project schedule and/or financial performance under the contract.

This in turn could have a knock-on impact on reputation and/or customer relationship, also impacting securing future work and therefore the Group's growth plans.

This report was approved by the board on 26/5/2023 and signed on its behalf.



Max Toti
Director

CAPTEC GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

The preparation of financial statements is in compliance with IFRS issued by the International Accounting Standards Board (IASB) ("IFRS") and IFRIC Interpretations issued by the International Accounting Standards Board (IASB).

Matters covered by the Strategic Report

Where not addressed within the Directors' Report, disclosures required under S416(4) of the Companies Act 2006 are commented upon in the strategic report in accordance with S414C(11) as the directors consider them to be of strategic importance to the company. This includes the likely future developments of the business and engagement with employees. The Strategic Report is set out on pages 3 to 11.

Principal activity

The principal activity of Captec Group Plc is the design, manufacture and support of specialist computer systems operating in hostile or certified environments.

Research and development

The Group continues to utilise its technical and financial resources in working with new and existing customers and suppliers to develop its knowledge and product range. Total expenditure on Research and development was £868,000 (2021: £1,169,000).

Directors

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

1. Max Toti
2. Edward Spürrier (appointed 1 August 2022)
3. Mike Trench (appointed 1 August 2022)
4. Hjördis Toti (resigned 7 March 2023)
5. Martin Glanfield (appointed 8 March 2023; resigned 27 March 2023)

The Company has agreed to indemnify its Directors against third party claims which may be brought against them and has put in place a Directors' and Officers' insurance policy.

Risk management objectives and policies

Details of the Company's financial risk management objectives and policies are set out in the notes to the financial statements. The key non-financial risks that the Company faces are set out within the Strategic Report.

Greenhouse gas reporting

The disclosure requirements of SI 2008/410 Sch 7 Part 7A have not been provided here by virtue of the entity not being within the scope of the requirements.

CAPTEC GROUP PLC

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Results and dividends

The profit for the year, after taxation, amounted to £4.5 million (2021 -£4.3 million).

An interim dividend of £0.4m (18.35p per share) was paid during the year in respect of the year ended 31 December 2022 (2021: £1.0m, 49.50p per share). The total distribution of dividends for the year ended 31 December 2022 was £0.4m (2021: £1.0m).

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware; and
- the director has 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 and the Group's auditors are aware of that information.

Auditors

BDO UK LLP were appointed during the period and have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

This report was approved by the board on 28/3/2023 and signed on its behalf.



Max Toti
Director

CAPTEC GROUP PLC

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

The directors are responsible for preparing the Group Strategic Report, Directors' Report and the consolidated financial statements, in accordance with applicable law.

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law they have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the UK, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

CAPTEC GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPTEC GROUP PLC

Qualified Opinion on the financial statements:

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK adopted International accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Captec Group Plc ("the Parent Company") and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated 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 the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standard, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for qualified opinion

We were unable to observe the counting of physical inventory at 31 December 2021 for Captec Americas Inc., the subsidiary in Canada. We were unable to satisfy ourselves by alternative means concerning the stock quantities held at 31 December 2021, which were included in the Consolidated Statement of Financial Position at £632,561, by using other auditing procedures. Consequently, we were unable to determine whether any adjustment to this amount at 31 December 2021 was necessary or whether there was any consequential effect on the cost of sales for the year ended 31 December 2022. In addition, were any adjustment to the inventory balance to be required, the Strategic report and Directors' report would also need to be amended. 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 qualified 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.

CAPTEC GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPTEC GROUP PLC

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 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.

As described in the basis of qualified opinion section of our report, we were unable to satisfy ourselves concerning the inventory quantities of £632,561 included in the Consolidated Statement of Financial Position at 31 December 2021. We have concluded that where the other information refers to the inventory balance or related balance such as cost of sales or profit for the year, it may be materially misstated for the same reason.

Other Companies Act 2006 reporting

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, 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.

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Arising from the limitation on the scope of our work referred to above we have not obtained all of the information and explanations that we considered necessary for the purpose of our audit.

CAPTEC GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPTEC GROUP PLC

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.

Responsibilities of Directors

As explained more fully in the Directors Responsibility 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.

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:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the industry in which it operate. We considered the significant laws and regulations to be FRS102 and the Companies Act 2006.
- We understood how the company is complying with those frameworks by making enquires of management and those charged with governance. We have corroborated our enquiries through review of Board minutes.
- We have evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override and revenue recognition and considered that the principal risk were related to the posting of inappropriate journal entries to improve the result before tax for the year. We have addressed this by assessing journal entries as part of our planning audit approach.
- We have obtained an understanding of the controls designed to prevent and detect irregularities.

CAPTEC GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPTEC GROUP PLC

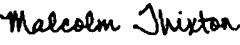
- We had discussions with management and those charge with governance regarding known or suspected instances of non-compliance with laws and regulations.

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. In addition, the extent to which the audit was capable of detecting irregularities, including fraud was limited by the matter described in the basis for qualified opinion section of our report.

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:

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Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK
Date: 26 May 2023

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

CAPTEC GROUP PLC

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
Revenue	7	32,594	26,236
Cost of sales		(22,222)	(17,258)
Gross profit		10,372	8,978
Other operating income	9	90	50
Adjusted administrative expenses		(4,322)	(3,451)
EBITDA		6,140	5,577
Exceptional items	10	(394)	-
Depreciation and amortisation	11	(414)	(155)
Other expenses	32	(67)	(300)
Administrative expenses		(5,197)	(3,906)
Profit from operations		5,265	5,122
Finance income		182	150
Finance expense		(1)	(2)
Profit before tax		5,446	5,270
Tax expense	15	(942)	(964)
Profit for the year		4,504	4,306
Other comprehensive income:			
Exchange gains arising on translation on foreign operations		1	32
Total comprehensive income		4,505	4,338
		2022 £	2021 £
Earnings per share attributable to the ordinary equity holders of the parent			
Profit or loss			
Basic	16	0.090	2.132
Diluted	16	0.086	2.028

The notes on pages 26 to 75 form part of these financial statements.

CAPTEC GROUP PLC
REGISTERED NUMBER: 11281644

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

		2022	2021	As at 1 January 2021
	Note	£000	£000	£000
Assets				
Non-current assets				
Property, plant and equipment	18	5,029	4,971	5,089
Intangible assets	19	1,426	1,262	830
		<u>6,455</u>	<u>6,233</u>	<u>5,919</u>
Current assets				
Inventories	21	9,521	3,914	3,128
Contract assets	23	189	285	10
Trade and other receivables	22	8,773	5,629	5,744
Cash and cash equivalents		16,947	9,710	2,721
Current asset investments	24	6,085	16,234	20,321
		<u>41,515</u>	<u>35,772</u>	<u>31,924</u>
Total assets		<u>47,970</u>	<u>42,005</u>	<u>37,843</u>
Liabilities				
Non-current liabilities				
Trade and other liabilities	25	25	34	-
Lease liabilities and borrowings	27	77	-	25
Deferred tax liability	15	347	315	145
		<u>449</u>	<u>349</u>	<u>170</u>
Current liabilities				
Trade and other liabilities	25	5,693	4,096	3,642
Contract liabilities	26	1,050	1,061	1,156
Lease liabilities and borrowings	27	32	25	39
		<u>6,775</u>	<u>5,182</u>	<u>4,837</u>
Total liabilities		<u>7,224</u>	<u>5,531</u>	<u>5,007</u>
Net assets		<u>40,746</u>	<u>36,474</u>	<u>32,836</u>

CAPTEC GROUP PLC
REGISTERED NUMBER: 11281644

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

		2022	2021	As at 1 January 2021
	Note	£000	£000	£000
Issued capital and reserves attributable to owners of the parent				
Share capital	28	50	2	2
Foreign exchange reserve		99	29	(3)
Share option reserve		367	300	-
Retained earnings		40,230	36,143	32,837
		<u>40,746</u>	<u>36,474</u>	<u>32,836</u>
TOTAL EQUITY		<u><u>40,746</u></u>	<u><u>36,474</u></u>	<u><u>32,836</u></u>

The financial statements on pages 4 to 75 were approved and authorised for issue by the board of directors on 26/05/23 and were signed on its behalf by:



Max Toti
Director

The notes on pages 26 to 75 form part of these financial statements.

CAPTEC GROUP PLC
REGISTERED NUMBER: 11281644

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Investments		2,772	2,713
		<u>2,772</u>	<u>2,713</u>
Current assets			
Trade and other receivables	22	1,734	-
Cash and cash equivalents		141	-
		<u>1,875</u>	<u>-</u>
Total assets		<u>4,647</u>	<u>2,713</u>
Liabilities			
Non-current liabilities			
Current liabilities			
Trade and other liabilities	25	251	2,411
		<u>251</u>	<u>2,411</u>
Total liabilities		<u>251</u>	<u>2,411</u>
Net assets		<u>4,396</u>	<u>302</u>
Issued capital and reserves attributable to owners of the parent			
Share capital	28	50	2
Other reserves		367	300
Retained earnings		3,979	-
TOTAL EQUITY		<u>4,396</u>	<u>302</u>

The Company's profit for the year was £4,396k (2021 - £1,000k).

The financial statements on pages 4 to 80 were approved and authorised for issue by the board of directors on and were signed on its behalf by:

26/05/23



Max Toti
Director

The notes on pages 26 to 75 form part of these financial statements.

CAPTEC GROUP PLC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share capital £000	Foreign exchange reserve £000	Share option reserve £000	Retained earnings £000	Total equity £000
At 1 January 2021	2	(3)	-	32,837	32,836
Comprehensive income for the year					
Profit for the year	-	-	-	4,306	4,306
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,306	4,306
Dividends	-	-	-	(1,000)	(1,000)
Share options granted	-	-	300	-	300
Currency translation differences	-	32	-	-	32
Total contributions by and distributions to owners	-	32	300	(1,000)	(668)
At 31 December 2021	2	29	300	36,143	36,474
At 1 January 2022	2	29	300	36,143	36,474
Comprehensive income for the year					
Profit for the year	-	-	-	4,504	4,504
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,504	4,504
Dividends	-	-	-	(369)	(369)
Bonus Issue	48	-	-	(48)	-
Share options granted	-	-	67	-	67
Currency translation differences	-	70	-	-	70
Total contributions by and distributions to owners	48	70	67	(417)	(232)
At 31 December 2022	50	99	367	40,230	40,746

The notes on pages 26 to 75 form part of these financial statements.

CAPTEC GROUP PLC

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share capital	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2021	2	-	-	2
Comprehensive income for the year				
Profit for the year	-	-	1,000	1,000
Total comprehensive income for the year	-	-	1,000	1,000
Dividends	-	-	(1,000)	(1,000)
Share options granted	-	300	-	300
Total contributions by and distributions to owners	-	300	(1,000)	(700)
At 31 December 2021	2	300	-	302
At 1 January 2022	2	300	-	302
Comprehensive income for the year				
Profit for the year	-	-	4,396	4,396
Total comprehensive income for the year	-	-	4,396	4,396
Dividends	-	-	(369)	(369)
Bonus Issue	48	-	(48)	-
Share options granted	-	67	-	67
Total contributions by and distributions to owners	48	67	(417)	(302)
At 31 December 2022	50	367	3,979	4,396

The notes on pages 26 to 75 form part of these financial statements.

CAPTEC GROUP PLC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Profit for the year		4,504	4,306
Adjustments for			
Income tax expense	15	942	964
Other non-cash income		(50)	-
Share option expense		68	300
Finance income	14	(182)	(150)
Finance expense	14	1	2
Depreciation of property, plant and equipment and ROU-assets	18	271	147
Amortisation of intangible fixed assets	19	143	8
		5,697	5,577
Movements in working capital:			
Increase in inventories		(5,608)	(786)
Increase in trade and other receivables		(3,144)	(1,439)
Decrease/(increase) in contract assets		96	(289)
Increase in trade and other payables		1,764	462
Decrease in contract liabilities		(11)	(95)
Cash used in / generated from operations		(1,206)	3,430
Income taxes paid		(1,008)	(789)
Net cash (used in)/from operating activities		(2,214)	2,641
Cash flows from investing activities			
Interest received		182	150
Purchases of property, plant and equipment		(218)	(20)
Cash released from deposit		10,149	4,087
Repayment of loan		-	1,100
Payments to acquire intangible assets	19	(307)	(441)
Net cash from investing activities		9,806	4,876
Cash flows from financing activities			
Dividends paid	17	(369)	(500)
Capital payments in respect of leases		(27)	(38)
Interest paid in respect of leases		(1)	(2)
Net cash used in financing activities		(397)	(540)
Net cash increase in cash and cash equivalents		7,195	6,977
Cash and cash equivalents at the beginning of year		9,710	2,721
Exchange gains on cash and cash equivalents		42	12
Cash and cash equivalents at the end of the year		16,947	9,710

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies

1.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at this time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiary company's Cove Industrial Enterprises Limited and Ash Wireless Electronics Limited are exempt from the requirement of the Companies Act 2006 relating to the audit of the accounts under section 479A. Captec Group Plc has provided a guarantee for the subsidiaries for the current year.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.2 Going concern

The management assessment of whether the Company should continue to report on the going concern basis includes the preparation of a detailed budget for a period of twelve months, with a higher-level forecast for the period beyond 12 months for no less than 3 years from the balance sheet date, which is also broken down by month. Assessment of performance against both the budget and the longer-term model is undertaken on a monthly basis.

The going concern analysis also includes the evaluation of the material uncertainties and all available information, including potential material adverse effects within the industry, the global economy and the regulatory regime. In addition, the Group undertakes sensitivity analysis against key assumptions to make an assessment of the impact of adverse variances.

The Company's continuation as a going concern is based on its significant cash resources and an operating model that remained cash positive throughout the review period. This is despite the impact Covid had on its operations and customers and the supply chain issues that resulted when restrictions were eased. The Directors are confident that profitable operation will continue and its balance sheet will remain robust.

At the time of the preparation of the annual report, management were not aware of any other events or conditions beyond the period of management's assessment that cast significant doubt on the entity's ability to continue as a going concern.

1.3 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

1. Accounting policies (continued)

1.4 Revenue

The Group designs and manufactures a range of electronic equipment. It therefore recognises revenue as follows:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred control to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Therefore, for relevant contracts, the Group's performance obligations with respect to physical goods are to deliver a finished product to a customer at a point in time.

Rendering of services

Revenue from a contract to provide services is recognised when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

For some services performance obligations are recognised at a point in time in accordance with the level of completion achieved at that point in time. Whereas other services, such as extended warranty sales, are recognised over time as the performance obligation to support warranty requirements is discharged, in accordance with the sales contract.

Where performance obligations have not been satisfied at the reporting date any advanced payments are recognised as contract liabilities in this set of financial statements.

Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.4 Revenue (continued)

The Group follows the 5-step process as set out within IFRS 15 "Revenue" for all revenue streams:

- contract identification is performed, with each customer having a separate contract with the Group. Thereafter, any subsequent changes are affected by separate addendums to the relevant contract. Although every contract is unique – each has a significant level of replicated clauses that give similar trading arrangements within each income stream;
- the performance obligation for each revenue stream is set out above;
- the transaction price is determined as the fair value of the consideration the Group expects to receive for the provision of the goods or services;
- the transaction price is allocated to the performance obligations in respect of the fair value of each obligation, often determined by the level of effort involved in each; and
- revenue is either recognised at a point in time, or over time, as set out above, as each performance obligation is fulfilled. Occasionally, revenue transactions are accrued at period end (reflected as contract assets) and transferred to trade receivables when invoiced.

No element of financing is deemed present as the sales are made with a credit term of 30 to 90 days, which is consistent with market practice. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a returns provision to the extent it is considered necessary to do so.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

1.5 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The rental income is included in 'Other Operating Income' as applicable, in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.5 Leasing (continued)

(ii) The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined using the risk-free rate based on government bond rates for the country where the lease takes place and an entity-specific adjustment to reflect the terms considered likely to be extended to the entity that enters into the lease.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is included in the 'Loans and borrowings' line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised discount rate;

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.5 Leasing (continued)

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the 'Property, Plant and Equipment' as applicable, in the Consolidated Statement of Financial Position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 1.11.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

1.6 Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.7 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Tax credits claimed under the research and development expenditure credit ('RDEC') scheme are accounted for under IAS 20 as government grants in line with the accounting policy noted above.

1.8 Employee benefits

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

1.9 Share-based payments

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.9 Share-based payments (continued)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

1.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.10 Taxation (continued)

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

1.11 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following range:

Long-term leasehold property	50 years
Leasehold improvements	5%
Plant and machinery	10%
Fixtures and fittings	10% - 33%

1.12 Intangible assets

(i) Internally-generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

1. Accounting policies (continued)

1.12 Intangible assets (continued)

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

1.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in, first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

1.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1.16 Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets and financial liabilities are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

1.17 Financial assets

On initial recognition, the Group classifies its financial assets as either financial assets at "fair value through profit or loss", at "amortised cost using the effective interest method" or at "fair value through comprehensive income", as appropriate. The classification depends on the purpose for which the financial assets were acquired. At the reporting date, the financial assets of the Group were all classified as "loans" or "receivables".

Trade receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also to incorporate other types of contractual monetary assets. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment loss.

The Group's financial assets comprise "trade receivables", "other receivables" (excluding prepayments) and "cash and cash equivalents".

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Accounting policies (continued)

1.17 Financial assets (continued)

Trade and other receivables - impairment

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end.

The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in the countries where the Group operates

1.18 Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

1.19 Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Dividends on preference shares, which are classified as a financial liability, are treated as finance costs and are recognised on an accruals basis when an obligation exists at the reporting date.

2. Reporting entity

Captec Group Plc (the 'Company') is a limited company incorporated in United Kingdom. The Company's registered office is at 7 Whittle Avenue, Fareham, Hampshire, PO15 5SH. These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). The Group is primarily involved in the design manufacture and supply management of specialise high availability computer systems capable of operating in hostile environments.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. Basis of preparation

The Group's consolidated and the Company's individual financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations as adopted by the UK (collectively IFRSs). They were authorised for issue by the Company's board of directors on 25 May 2023.

Details of the Group's accounting policies, including changes during the year, are included in note 1.

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and elected not to present its own Statement of Comprehensive Income in these financial statements.

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas where judgments and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in note 6.

4. Changes in accounting policies

1) New standards, interpretations and amendments effective from 1 January 2022

Amendments to IFRS 3 – Business combinations

IASB effective date periods commencing on or after 1 January 2022.

The adoption of this standard did not have any material impact on the Group.

Amendments to IAS 16 – Property Plant and Equipment – Proceeds before intended use

IASB effective date periods commencing on or after 1 January 2022.

The adoption of this standard did not have any material impact on the Group.

Amendments to IAS 37 – Provisions – onerous contracts

IASB effective date periods commencing on or after 1 January 2022.

The adoption of this standard did not have any material impact on the Group.

Amendments to IAS 1 – Presentation of financial statements on classification of liabilities

IASB effective date periods commencing on or after 1 January 2022.

The adoption of this standard did not have any material impact on the Group.

Annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

IASB effective date periods commencing on or after 1 January 2022.

The adoption of this standard did not have any material impact on the Group.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

4. Changes in accounting policies (continued)

ii) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);*
- *Definition of Accounting Estimates (Amendments to IAS 8); and*
- *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12.)*

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

The Group does not expect any standards issued by IASB, but not yet effective, to have a material impact on the Group.

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

IFRS 17 Insurance contracts

IASB effective date is for periods commencing on or after 1 January 2023.

The directors anticipate that the adoption of these Standards in future periods will not have a material impact on the results and net assets of the Company, however, it is too early to quantify this.

The directors anticipate that the adoption of other Standards and interpretations that are not yet effective in future periods will only have an impact on the presentation in the financial statements of the Company.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

5. Functional and presentation currency

These consolidated financial statements are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

6. Accounting estimates and judgments

6.1 Judgment

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Capitalisation of Intangible Fixed Assets - Development costs (see note 19)

The Directors make judgements regarding the point at which projects meet the technical and commercial feasibility criteria for projects, which are required to be capitalised under IAS 38. In addition, judgement is required when considering which costs should be capitalised. All expenditure on potential intangible fixed assets is treated as an expense unless the item being worked on meets the definition of an intangible asset.

Each month, relevant staff report the amount of actual time spent on development. The resulting direct labour cost arising that meet the above criteria is transferred from "administrative costs" on the Statement of Comprehensive Income to "intangible fixed assets" on the Statement of Financial Position

Classification of cash and cash equivalents and current asset investments

The Directors make judgements regarding when liquid financial assets should be disclosed as cash and cash equivalents or current asset investments. This determination is made with regard to the original maturity of these instruments, how readily convertible they are to a known amount of cash and limited risk of a change in value.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

6. Accounting estimates and judgments (continued)

6.2 Estimates and assumptions

Useful Economic Lives of Intangible Fixed Assets - Development costs (see note 19)

The Directors make estimates regarding the useful economic lives of intangible fixed assets. Intangible fixed assets consist of product development – which is assessed on a product-by-product basis but is considered to have no longer than a 3-year life, from the point amortisation commences.

Useful economic lives of property, plant and equipment (excluding right of use assets)

Management have assessed the estimated useful lives of property, plant, and equipment as between 3 and 50 years using a straight-line basis. This estimate is based on historical knowledge of similar classes of assets and with regard to comparable businesses.

The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Valuation of share options (see note 32)

The valuation of share options has been conducted in accordance with FRS 102, utilising a Black-Scholes model. This type of model relies inherently on a number of inputs which must be estimated in order to calculate option values and further estimates in terms of lapsing options and time until an exit event is forecast to occur. Outside of this the terms of this option plan also included a market condition in respect of business valuation that needed to be incorporated into the valuation of the share option at inception.

7. Revenue

The following is an analysis of the Group's revenue for the year from continuing operations:

	2022	2021
	£000	£000
Sale of goods and services	32,594	26,236
	<u>32,594</u>	<u>26,236</u>
Timing of revenue recognition:		
	2022	2021
	£000	£000
Goods and services transferred at a point in time	32,479	26,152
Services transferred over time	115	84
	<u>32,594</u>	<u>26,236</u>

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

8. Segment information

8.1 Products and services from which reportable segments derive their revenues

The Group's reportable segments under IFRS 8 are as follows:

Complex Systems
Other computing hardware
Tablets and other services

IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operational decision maker, to allocate resources to assess their performance. For management and reporting purposes, the Group, during the year ended 31 December, reported against the following product area designations at a gross profit level: Complex systems, Other computing hardware and Tablets and Other services.

These segments were reported to the Group on a monthly basis following their introduction, therefore these are the segments reported to the Board as its primary reporting segments under IFRS 8, the Board being considered as the chief operating decision maker.

Management makes no allocation of costs, assets or liabilities between these segments since trading activities are operated across individual business units. Therefore, the directors believe it is not possible to allocate administrative expenses or assets and liabilities to these segments.

8.2 Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Segment revenue		Segment gross profit	
	2022	2021	2022	2021
	£000	£000	£000	£000
Complex Systems	15,802	11,930	3,760	3,479
Other computing hardware	11,045	10,180	3,622	3,369
Tablets and other services	5,747	4,126	2,990	2,130
	<u>32,594</u>	<u>26,236</u>	<u>10,372</u>	<u>8,978</u>
Gross Profit			<u>10,372</u>	<u>8,978</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profit of associates, share of profit of a joint venture, gain recognised on disposal of interest in former associate, investment income, other gains and losses, as well as finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

8.3 Revenue from major products and services

	2022 £000	2021 £000
Complex Systems	15,802	11,931
Other computing hardware	11,045	10,180
Tablets and other services	5,747	4,126
	<u>32,594</u>	<u>26,237</u>

8.4 Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2022 £000	2021 £000	2022 £000	2021 £000
United Kingdom	20,681	16,921	6,275	6,198
Europe	3,098	2,320	-	-
North America	6,244	5,354	181	36
Rest of the world	2,571	1,642	-	-
	<u>32,594</u>	<u>26,237</u>	<u>6,456</u>	<u>6,234</u>

8.5 Information about major customers

In year ended 31 December 2022 one customer accounted for more than 10% of revenue, accounting for 53% of the Company's revenues (2021 - 55%).

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

9. Other operating income

	2022 £000	2021 £000
Other operating income	16	13
Government grants receivable	74	37
	<u>90</u>	<u>50</u>

10. Exceptional costs

	2022 £000	2021 £000
Transaction-related costs	<u>394</u>	-

Costs and income are classified as exceptional if they are of a one-off nature or their inclusion within larger expense categories on the Consolidated Statement of Comprehensive Income would be potentially misleading to users of the financial statements.

Costs in FY22 related to the corporate fees and related costs incurred in the period in relation to work undertaken for a potential transaction.

11. Expenses by nature

	2022 £000	2021 £000
Depreciation of property, plant and equipment	271	147
Foreign exchange gains/loss	109	(3)
Amortisation of intangible assets	143	8
Share option expense	<u>67</u>	<u>300</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

12. Auditors' remuneration

During the year, the Group obtained the following services from the Company's auditors:

	2022 £000	2021 £000
Fees payable to the Company's auditors for the audit of the consolidated and parent Company's financial statements	62	45

13. Employee benefit expenses

Group

	2022 £000	2021 £000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	6,123	4,436
National insurance	553	404
Defined contribution pension cost	248	199
Share based payment expenses	67	300
	<u>6,991</u>	<u>5,339</u>

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the Company listed on page 1, and the Financial Controller of the Company.

	2022 £000	2021 £000
Salary	376	192
National Insurance	42	21
Defined contribution scheme costs	7	16
Share based payment expense	7	46
	<u>432</u>	<u>275</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

13. Employee benefit expenses (continued)

The monthly average number of persons, including the directors, employed by the Group during the year was as follows:

	2022	2021
	No.	No.
Operations	85	87
Sales and marketing	17	14
Innovation and development	34	34
General and administration	23	27
	<u>159</u>	<u>162</u>

Company

	2022	2021
	£000	£000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	429	-
National insurance	51	-
Defined contribution pension cost	7	-
	<u>487</u>	<u>-</u>

The monthly average number of persons, including the directors, employed by the Company during the year was as follows:

	2022	2021
	No.	No.
Operations	1	-
General and administration	3	-
	<u>4</u>	<u>-</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

14. Finance income and expense

Recognised in profit or loss

	2022	2021
	£000	£000
Finance income		
Interest on:		
- Bank deposits	182	150
Total interest income arising from financial assets measured at amortised cost or FVOCI	182	150
Total finance income	182	150
Finance expense		
Interest on lease liabilities	1	2
Total finance expense	1	2
Net finance income recognised in profit or loss	181	148

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Tax expense

15.1 Income tax recognised in profit or loss

	2022	2021
	£000	£000
Current tax		
Current tax on profits for the year	861	793
Adjustments in respect of prior years	(205)	(224)
Overseas tax	254	226
Total current tax	<u>910</u>	<u>795</u>
Deferred tax expense		
Origination and reversal of temporary differences	24	124
Changes to tax rates	8	45
Total deferred tax	<u>32</u>	<u>169</u>
	<u><u>942</u></u>	<u><u>964</u></u>
Total tax expense		
Tax expense excluding tax on sale of discontinued operation and share of tax of equity accounted associates and joint ventures	942	964
	<u><u>942</u></u>	<u><u>964</u></u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Tax expense (continued)

15.1 Income tax recognised in profit or loss (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2022 £000	2021 £000
Profit for the year	4,504	4,306
Income tax expense (including income tax on associate, joint venture and discontinued operations)	942	964
Profit before income taxes	5,446	5,270
Tax using the Company's domestic tax rate of 19% (2021:19%)	1,034	1,001
Fixed asset differences	15	-
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	99	76
Higher rate taxes on overseas earnings	67	60
2021 Research and development claim	(199)	(224)
Adjustments to tax charge in respect of prior periods - deferred tax	(3)	-
Remeasurement of deferred tax for change in tax rates	8	-
Non-taxable income	(10)	(45)
Additional deduction for R&D expenditure	(119)	-
Adjustment in research and development tax credit leading to an increase/(decrease) in the tax charge	50	-
Other differences leading to an increase/(decrease) in the tax charge	-	96
Total tax expense	942	964

Changes in tax rates and factors affecting the future tax charges

There were no factors that may affect future tax charges.

15.2 Current tax assets and liabilities

	2022 £000	2021 £000
Current tax liabilities		
Corporation tax payable	196	462

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

15. Tax expense (continued)

15.3 Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

	2022	2021
	£000	£000
Deferred tax liabilities	<u>(347)</u>	<u>(315)</u>

	Opening balance £000	Recognised in profit or loss £000	Closing balance £000
2022			
Deferred tax (liabilities)/assets in relation to:			
Accelerated capital allowances	(320)	(32)	(352)
Tax losses carried forward	5	-	5
	<u>(315)</u>	<u>(32)</u>	<u>(347)</u>

	Opening balance £000	Recognised in profit or loss £000	Closing balance £000
2021			
Deferred tax (liabilities)/assets in relation to:			
Accelerated capital allowances	(151)	(169)	(320)
Tax losses carried forward	7	(2)	5
	<u>(144)</u>	<u>(171)</u>	<u>(315)</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

16. Earnings per share

(i) Basic earnings per share

	2022	2021
	£	£
From continuing operations attributable to the ordinary equity holders of the Company	<u>0.090</u>	<u>2.132</u>

(ii) Diluted earnings per share

	2022	2021
	£	£
From continuing operations attributable to the ordinary equity holders of the Company	<u>0.086</u>	<u>2.028</u>

(iii) Reconciliation of earnings used in calculating earnings per share

	2022	2021
	£000	£000
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	<u>4,504</u>	<u>4,306</u>
Profit from continuing operations attributable to the ordinary equity holders of the Company:		
Used in calculating basic earnings per share	<u>4,504</u>	<u>4,306</u>
Used in calculating diluted earnings per share	<u>4,504</u>	<u>4,306</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

16. Earnings per share (continued)

(iv) Weighted average number of shares used as the denominator

	2022 Number	2021 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	50,000,000	2,020,000
Adjustments for calculation of diluted earnings per share:		
Options	2,568,894	103,783
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>52,568,894</u>	<u>2,123,783</u>

17. Dividends

	2022 £000	2021 £000
Final dividend of 183 pence (2021: 495 pence) per Ordinary share proposed and paid during the year relating to the previous year's results	<u>369</u>	<u>1,000</u>

No final dividend is/was proposed in respect of either 31 December 2022 or 31 December 2021.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. Property, plant and equipment

Group	Long-term leasehold property £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost or valuation				
At 1 January 2021	5,669	145	304	6,118
Additions	4	4	12	20
Transfers between classes	-	(1)	1	-
Foreign exchange movements	-	10	-	10
At 31 December 2021	5,673	158	317	6,148
Additions	162	98	69	329
Disposals	-	-	(1)	(1)
Foreign exchange movements	1	4	-	5
At 31 December 2022	5,836	260	385	6,481
Accumulated depreciation and impairment				
At 1 January 2021	755	129	145	1,029
Charge/(credit) owned for the year	130	(59)	38	109
Charged financed for the year	38	-	-	38
Exchange adjustments	-	1	-	1
At 31 December 2021	923	71	183	1,177
Charge owned for the year	129	76	42	247
Charged financed for the year	24	-	-	24
Exchange adjustments	1	3	-	4
At 31 December 2022	1,077	150	225	1,452
Net book value				
At 1 January 2021	4,914	16	159	5,089
At 31 December 2021	4,750	87	134	4,971
At 31 December 2022	4,759	110	160	5,029

Computer software has been reclassified in the prior year from tangible fixed assets to intangibles to show the appropriate classification because of its non-physical nature. This figure was immaterial in the prior year.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Property, plant and equipment (continued)

18.1. Assets held under leases

The net book value of leased assets included as "Property, plant and equipment" in the Consolidated Statement of Financial Position is as follows:

	31 December 2022 £000	31 December 2021 £000
Right-of-use assets, excluding investment property	<u>108</u>	<u>21</u>

Information about right-of-use assets is summarised below:

Net book value

	31 December 2022 £000	31 December 2021 £000
Long-term leasehold property	<u>108</u>	<u>21</u>

Depreciation charge for the year ended

	31 December 2022 £000	31 December 2021 £000
Long-term leasehold property	<u>24</u>	<u>38</u>

Additions to right-of-use assets

	31 December 2022 £000	31 December 2021 £000
Additions to right-of-use assets	<u>111</u>	<u>-</u>

18.2 Assets pledged as security

The property at 18 Invincible Way, is subject to a fixed and floating charge in respect of banking facilities in place.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Intangible assets

Group

	Goodwill £000	Development expenditure £000	Computer software £000	Total £000
Cost				
At 1 January 2021	771	-	101	872
Additions - external	-	-	40	40
Additions - internal	-	401	-	401
At 31 December 2021	771	401	141	1,313
Additions - external	-	-	50	50
Additions - internal	-	257	-	257
At 31 December 2022	771	658	191	1,620
	Goodwill £000	Development expenditure £000	Computer software £000	Total £000
Accumulated amortisation and impairment				
At 1 January 2021	-	-	42	42
Charge for the year - owned	-	-	9	9
At 31 December 2021	-	-	51	51
Charge for the year - owned	-	129	14	143
At 31 December 2022	-	129	65	194
Net book value				
At 1 January 2021	771	-	59	830
At 31 December 2021	771	401	90	1,262
At 31 December 2022	771	529	126	1,426

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

19. Intangible assets (continued)

Computer software has been reclassified in the prior year from tangible fixed assets to intangibles to show the appropriate classification because of its non-physical nature. This figure was immaterial in the prior year.

The carrying amount of goodwill relates to the acquisitions of Cove Industrial Enterprises Limited (£487,000) and ASH Wireless Electronics Limited (£284,000), both of which are considered to be Cash Generating Units (CGUs) in their own right. No intangibles with indefinite economic lives are allocated to either investment. Whilst all the capitalised development costs relate to the Group's product development activities, where the criteria for recognition are met.

The Group tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The carrying values are assessed on a value in use basis for impairment purposes by calculating the net present value of future cash flows arising from the original acquired business. The goodwill impairment review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 5 years and a discount rate of 11 per cent, throughout the period under review, where applicable. The key assumption within the projections is a growth rate of c. 20% for each investment. The growth assumption is underpinned by an assessment of both the existing capacity of each CGU and future revenue/profitability potential, as supported by being part of the overall Group. No terminal value of future growth rate is used to determine cashflows beyond the forecast period.

Even if no growth was achieved, which is considered possible, over 100% headroom remains when compared to the current carrying value of the related goodwill for both CGUs. Both CGUs would have to be over 80% under current forecasts in order to suggest there is an indication of impairment.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Subsidiaries

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group (%)	
			2022	2021
1) Captec Limited	Design, manufacture and supply of specialist high availability computer systems capable of operating in hostile environments	7 Whittle Avenue, Fareham, Hampshire, PO15 5SH	100	100
2) Cove Industrial Enterprises Limited	Manufacturer of metalwork and rack systems for aerospace and defence industry, including services related to welding, milling etc.	7 Whittle Avenue, Fareham, Hampshire, PO15 5SH	100	100
3) Ash Wireless Electronics Limited	Design of specialist electronic and wireless communications	7 Whittle Avenue, Fareham, Hampshire, PO15 5SH	100	100
4) Captec Americas Inc.	Design, manufacture and supply of specialist computing platforms engineered to meet the exact requirements of any application, irrespective of complexity or environmental demands.	15 Saltzman Drive, Unit 4, Cambridge, Ontario, N3H 4R7, Canada	100	100
5) Captec Inc.*	Dormant	4020 University Drive, Suite 300, Fairfax, Virginia, 22030	100	100

*indirectly held

Company

	2022	2021
	£000	£000
Investments in subsidiary companies	2,772	2,713

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

21. Inventories

Group	2022 £000	2021 £000
Raw materials	7,154	2,226
Work in progress	2,367	1,688
	<u>9,521</u>	<u>3,914</u>

The amount of inventories recognised as an expense during 2022 was £19,533k (2021 - £15,234k).

22. Trade and other receivables

Group	2022 £000	2021 £000
Trade receivables	8,511	5,417
Prepayments and accrued income	184	178
Other receivables	78	34
Total trade and other receivables	<u>8,773</u>	<u>5,629</u>
Total current portion	<u>(8,773)</u>	<u>(5,629)</u>

The carrying value of trade and other receivables classified as loans and receivables approximates fair value.

The average credit period on sales of goods is 95 days. No interest is charged on outstanding trade receivables.

The Group recognised one bad debt provision in the year amounting to £23,000, where a company had entered administration within the period. Outside of this the Group has recognised no loss allowance against trade receivables because historical experience has indicated that receivables are generally recoverable.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

22. Trade and other receivables (continued)

The expected loss rates are based on the Group's historical credit losses experiences over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in the countries where the Group operates.

The lifetime expected loss provision for trade receivables and contract assets is as follows:

	2022	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total £000
Expected loss rate		0%	0%	0%	0%	
Gross carrying amount		7,963	155	256	137	8,511
Loss Provision		-	-	-	-	-

	2021	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total £000
Expected loss rate		0%	0%	0%	0%	
Gross carrying amount		5,050	236	47	84	5,417
Loss provision		-	-	-	-	-

All non-current receivables are due within 3 years of 31 December 2022. None of those receivables has been subject to a significant increase in credit risk since initial recognition and, consequently, 12 month expected credit losses have been recognised, and there are no non-current receivable balances lifetime expected credit losses.

As at 31 December 2022, there were no lifetime expected credit losses.

Company	2022 £000	2021 £000
Amounts due from group undertakings	1,720	-
Total financial assets other than cash and cash equivalents classified as loans and receivables	1,720	-
Prepayments and accrued income	14	-
Total trade and other receivables	1,734	-
Total current portion	(1,734)	-

The carrying value of trade and other receivables classified as loans and receivables approximates fair value.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

22. Trade and other receivables (continued)

The amounts due from group undertakings to the Company have arisen in the normal course of group trading and funding and are due within 1 year. By applying the general approach to expected credit losses, IFRS 7, the provision is £Nil.

23. Contract assets

Group

	2022	2021
	£000	£000
Balance at 1 January	285	10
Transfers from contract assets recognised at the beginning of the year to receivables	(285)	(10)
Performance under contracts with customer in advance of consideration being paid or due	189	285
Balance at 31 December	<u>189</u>	<u>285</u>

24. Current asset investments

	2022	2021
	£000	£000
Cash deposits with terms greater than 3 months	<u>6,085</u>	<u>16,234</u>

Current asset investments are made up of cash placed on deposit for a term greater than 3 months at time of inception.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

25. Trade and other payables

Group

	2022	2021
	£000	£000
Trade payables	3,335	865
Other payables	155	166
Accruals	751	1,741
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	4,241	2,772
Other payables - tax and social security payments	1,452	1,324
Government grants received	25	34
Total trade and other payables	5,718	4,130
Less: current portion - trade payables	(3,335)	(865)
Less: current portion - other payables	(1,607)	(1,490)
Less: current portion - accruals	(751)	(1,741)
Total current portion	(5,693)	(4,096)
Total non-current position	25	34

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

Company

	2022	2021
	£000	£000
Trade payables	44	-
Amounts owed to group undertakings	-	2,411
Accruals	141	-
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	185	2,411
Other payables - tax and social security payments	66	-
Total trade and other payables	251	2,411
Total current portion	(251)	(2,411)

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

26. Contract liabilities

Group

	2022	2021
	£000	£000
Balance at 1 January	1,061	1,156
Recognised as revenue in the year	(119)	(676)
Additions	108	581
Balance at 31 December	<u>1,050</u>	<u>1,061</u>

27. Loans and borrowings

Group

	2022	2021
	£000	£000
Non-current		
Lease liabilities	77	-
	<u>77</u>	<u>-</u>
Current		
Lease liabilities	32	25
	<u>32</u>	<u>25</u>
Total loans and borrowings	<u>109</u>	<u>25</u>

The carrying value of loans and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

The currency profile of the Group's loans and borrowings is as follows:

Canadian Dollar (CAD)	<u>109</u>	<u>25</u>
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CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

28. Share capital

Authorised

	2022 Number	2022 £000	2021 Number	2021 £000
Shares treated as equity				
Ordinary shares of £0.001 each	50,000,000	50	2,020,000	2
	<u>50,000,000</u>	<u>50</u>	<u>2,020,000</u>	<u>2</u>

Issued and fully paid

	2022 Number	2022 £000	2021 Number	2021 £000
Ordinary shares of £0.001 each				
At 1 January	2,020,000	2	2,020,000	2
Shares issued	47,980,000	48	-	-
	<u>50,000,000</u>	<u>50</u>	<u>2,020,000</u>	<u>2</u>
At 31 December				

29. Reserves

The Group's capital and reserves are as follows:

Share Capital

Ordinary shares are classified as equity. The nominal value of shares is included in share capital

Foreign exchange reserve

The foreign exchange reserve represents the cumulative differences on retranslation of the Group's Canadian subsidiary

Retained earnings

Represents all other net gains and losses and transactions with shareholders (e.g. dividends) not recognised elsewhere

Share option reserve

The share option reserve represents the fair value of all options granted under the Captec EMI Share Option Plan

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

30. Leases

Group

(I) Leases as a lessee

The Group leases office buildings through Captec Americas Inc.

Lease liabilities are due as follows:

	2022	2021
	£000	£000
Contractual undiscounted cash flows due		
Not later than one year	32	25
Between one year and five years	77	-
	<u>109</u>	<u>25</u>
 Lease liabilities included in the Consolidated Statement of Financial Position at 31 December	 <u>109</u>	 <u>25</u>
 Non-current	 77	 -
Current	<u>32</u>	<u>25</u>

The Group considers the liquidity risk of difficulties in meeting its financial obligations extremely low by virtue of its significant cash reserves

The following amounts in respect of leases have been recognised in profit or loss:

	2022	2021
	£000	£000
Interest expense on lease liabilities	<u>1</u>	<u>2</u>

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

31. Financial instruments - fair values and risk management

31.1 Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	Carrying amount 2022 £000	2021 £000
Financial assets not measured at fair value			
Trade and other receivables	22	8,773	5,629
Cash and cash equivalents		16,947	9,710
		<u>25,720</u>	<u>15,339</u>
Financial liabilities not measured at fair value			
Financial lease liabilities	27	109	25
Trade and other payables	25	4,241	2,772
		<u>4,350</u>	<u>2,797</u>

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

31. Financial instruments - fair values and risk management (continued)

31.2 Financial risk management objectives

The Directors have overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group reports in Pounds Sterling (£). All funding requirements and financial risks are managed based on policies and procedures adopted by the Directors.

The Group is exposed to the following financial risks:

- market risk;
- interest rate risk;
- credit risk;
- liquidity risk; and
- foreign exchange risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- current asset investments; and
- trade and other payables.

To the extent financial instruments are not carried at fair value on the Statement of Financial Position, book value approximates to fair value. At 31 December 2021 and 31 December 2022:

Trade and other receivables are measured at amortised cost. Book values and expected cash flows are reviewed by the Directors and any impairment charged to the Statement of Comprehensive Income in the relevant period. Trade and other payables are measured at amortised cost.

31.3 Market risk

Market risk arises from the Group's use of interest-bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (foreign exchange risk).

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. Financial instruments - fair values and risk management (continued)

31.4 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2022	2021	2022	2021
	£000	£000	£000	£000
US Dollar (USD)	420	345	813	451
Canadian Dollar (CAD)	348	645	3,047	2,300
Euro (EUR)	41	-	179	151

Foreign currency sensitivity analysis

The Group is mainly exposed to the US Dollar (USD), the Canadian Dollar (CAD) and the Euro (EUR).

The following table details the Group's sensitivity to a 20% increase and decrease in the pound sterling against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit or equity where the pound sterling strengthens 20% against the relevant currency. For a 20% weakening of the pound sterling against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	US Dollar (USD)		Canadian Dollar		Euro (EUR)	
	Impact		(USD) impact		impact	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Profit or loss	(65)	(18)	-	-	(23)	(25)
Equity	-	-	(450)	(276)	-	-

31.5 Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group considers that its exposure to credit risk is relatively low as its customer base comprises large multinationals where the credit risk is generally lower. It maintains policies and procedures to help minimise and manage credit risk and there were no losses resulting from customer default across the period.

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the amount of the deposit. To date, the Group has not experienced any losses on its cash and cash equivalent or current asset investment deposits.

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

31. Financial instruments - fair values and risk management (continued)

31.6 Liquidity risk management

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Carrying amount £000	Total	1 - 3 months £000	3 - 12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
31 December 2022							
Trade payables	3,335	3,335	3,278	57	-	-	-
	Carrying amount £000	Total	1 - 3 months £000	3 - 12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
31 December 2021							
Trade payables	865	865	865	-	-	-	-

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. Financial instruments - fair values and risk management (continued)

31.6 Liquidity risk management (continued)

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Carrying amount £000	Total	1 - 3 months £000	3 - 12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
31 December 2022							
Trade receivables	8,511	8,511	8,373	138	-	-	-
	Carrying amount £000	Total	1 - 3 months £000	3 - 12 months £000	1 - 2 years £000	2 - 5 years £000	More than 5 years £000
31 December 2021							
Trade receivables	5,417	5,417	5,333	84	-	-	-

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

31. Financial instruments - fair values and risk management (continued)

31.7 Fair value measurements

This note provides information about how the Group determines fair values of various financial assets and liabilities.

Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximates their fair values.

	Carrying amount 2022 £000	Fair value 2022 £000	Carrying amount 2021 £000	Fair value 2021 £000
Financial assets				
Amortised cost	8,589	8,589	5,451	5,451
- trade and other receivables	8,589	8,589	5,451	5,451
Financial liabilities				
Financial liabilities held at amortised cost:	4,241	4,241	2,772	2,772
- trade and other payables	4,241	4,241	2,772	2,772
Financial lease payables	109	109	25	25

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

32. Share based payments

Employee share option plan of the company

The Group has an HMRC approved share options scheme for certain employees. Each option entitles the holder to purchase one share at a set exercise price and is an equity-settled transaction. Options are forfeited if the employee leaves the Group before the options vest. The options would only vest on change of ownership or listing of the Group.

In addition, there are a number of options that were issued under the same scheme that were issued after the point the Group breached the gross assets threshold required to benefit from preferential tax treatment. The options are on the same terms as the approved scheme.

The Group used the Black Scholes model in arriving at the fair value at grant date for the options granted in the period due to no market conditions being attached to the shares.

The following were the weighted average assumptions used in the valuation on grant, for the options considered exercisable in the period as granted in 2021:

	2021
Share price at grant date	£28.40
Exercise price	£3.00
Expected vesting period (years)	£2.26
Volatility	£0.43
Dividend yield	£0.05
Risk-free interest rate	0.03%
Discount	51.4%
Fair value	£11.73

There were no grants in 2022. The expected volatility was determined by calculating the historical volatility of a listed comparator company of the Group's across the expected vesting period, with the share price determined by applying an EV/EBITDA multiple.

The total expense in respect of the options amounted to £67k (2021: £300k).

CAPTEC GROUP PLC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

32. Share-based payments (continued)

Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2022 Number of options	2022 Weighted average exercise price £	2021 Number of options	2021 Weighted average exercise price £
Balance at the beginning of the year	247,250	3	191,000	3
Granted during the year	-	-	85,750	-
Forfeited during the year	(83,000)	-	(29,500)	-
	<u>164,250</u>	<u>3</u>	<u>247,250</u>	<u>3</u>

Options exercisable at 31 December 2022 totalled 2,568,894 (2021: 103,741) with a weighted average exercise price of £3.

	2022	2021
Weighted average contractual life	5 years 8 months	6 years 8 months

CAPTEC GROUP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

33. Adoption of IFRS

As stated in note 3, the Group Financial Information has been prepared in accordance with IFRS.

The date of transition to IFRS is 1 January 2021 (the "Transition date").

The accounting policies described in note 1 were applied when preparing the Group Financial Information for the years ended 31 December 2021 and 31 December 2022 and the consolidated Statement of Financial Position At the Transition date.

In preparing its opening IFRS consolidated Statement of Financial Position At 1 January 2021 and adjusting amounts reported previously in the historical financial information prepared in accordance with UK GAAP (Generally Accepted Accounting Practice in the UK, previous GAAP), the Group has applied IFRS 1 First-Time Adoption of International Financial Reporting Standards, which contains a number of voluntary exemptions and mandatory exceptions from the requirement to apply IFRS retrospectively.

Exceptions and Exemptions used during transition to IFRS

The Group has applied the following mandatory exception required by IFRS 1 in the conversion from UK GAAP to IFRS:

- estimates — hindsight is not used to create or revise estimates. The estimates previously made by the Group under UK GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.

Adjustments Made in Connection with Transition to IFRS

The most significant impact of the adoption of IFRS on the Group Financial Information is as follows:

- IFRS 3 "Business combinations" – the standard requires all transaction costs to be expensed, rather than added to the cost of the investment and in doing so reduces the value of goodwill related to that investment. In addition, goodwill is not amortised, but tested for signs of impairment, necessitating the write-back of any amortisation previously recognised within the Statement of Comprehensive Income;
- IFRS 16 "Leases" – the standard requires all qualifying leases to be recognised on the position statement; most leases previously treated as operating leases must have a "right-of-use" asset created together with an offsetting "lease liability". This is instead of the cost of the operating lease rentals being expenses in the period in which they are incurred; and

In restating its financial information, the Group has made IFRS adjustments to the profit or loss and equity and certain re-grouping and re-classification of items for the presentation of the Group Financial Information.

The main items contributing to the change in the Group Financial Information compared with that reported under UK GAAP At the Transition Date are shown below.

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33. Adoption of IFRS (continued)

A summary of the impact of IFRS transition equity in the Statement of Financial Position is as follows:

	£000
Equity reported in accordance with UK GAAP as at 31 December 2021	36,130
IFRS adjustments:	
IFRS 3 - Business combinations - reversal of amortisation	365
IFRS 3 - Business combinations - transaction costs	(14)
IFRS 16 - Leases	(7)
Equity reported in accordance with IFRS as at 31 December 2021	<u>36,474</u>

A summary of the impact of IFRS transition to the Statement of Comprehensive Income and to the Statement of Cash Flows is as follows:

	£000
Profit after tax reported in accordance with UK GAAP as at 31 December 2021	4,148
IFRS adjustments:	
IFRS 3 - Business combinations - reversal of amortisation	157
IFRS 3 - Business combinations - transaction costs	-
IFRS 16 - Leases	1
Profit after tax reported in accordance with IFRS as at 31 December 2021	<u>4,306</u>

A summary of the impact of IFRS transition to the Statement of Changes in Equity is as follows:

	£000
Equity as at 31 December 2020 (as previously reported)	32,650
IFRS 3 - Business combinations - reversal of amortisation	208
IFRS 3 - Business combinations - transaction costs	(14)
IFRS 16 - Leases	(8)
At 1 January 2021	<u>32,836</u>
Profit for the year (restated)	4,307
Total comprehensive income for the year (restated)	<u>(669)</u>
At 31 December 2021 and 1 January 2022 (restated)	<u>36,474</u>

Company Transition

The Company's transition to IFRS is considered immaterial from the Company's perspective and therefore the Directors do not deem it necessary to provide detailed transition disclosures.

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34. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

34.1 Other related party transactions

Other related party transactions are as follows:

Related party relationship	Type of transaction	Transaction amount	
		2022 £000	2021 £000
Family of Director	Consultancy services	<u>5</u>	<u>1</u>

35. Controlling party

The group's ultimate controlling party is Mr M Toti, the managing director and majority shareholder.

36. Capital management

The Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Company consists of shareholders' equity as set out in the statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings.

The Group is not subject to any externally imposed capital requirements.

37. Events after the reporting date

Group and Company

The Company undertook a number of steps to reorganise its share capital:

- registration as a PLC which took place in March 2023;
- a new set of interim articles of association were adopted by the Company to reflect its re-registration as a public limited company and the Company's name was changed to Captec Group Plc.