Andor Technology Limited

Annual Report and Financial Statements
Registered number NI022466
31 March 2019

Contents

The Companies Act 2006 requires the company to set out, in this report, a fair review of the business of the company during the year ended 31 March 2019, including an analysis of the position of the company at 31 March 2019 and a description of the principal risks and uncertainties facing the company.

Principal activities

The principal activities of the company are in the development and manufacture of high performance scientific digital cameras, systems and software for Research in Life Science and Physical Science markets. End customer applications are broad in nature and range from understanding the formation of distant stars to the development of anti-cancer therapies.

2019 Financial performance

Revenue
Overall company revenue increased during the year to £75.2m (2018: £63.6m).

Gross margin
Gross margin increased from 53.7% to 56.0% in the year due to sales mix and the impact of foreign exchange movements.

Operating expenses
Operating expenses increased to £30.5m (2018: £26.4m) during the year.

Employee benefit expenses have increased in the year to £16.0m (2018: £14.9m).

Expenditure on research and development activities, including development expenditure capitalised in accordance with FRS 101, decreased to £5.1m (2018: £5.5m) representing 6.7% (2018: 8.6%) of turnover. This investment continues to be strategically important and necessary to retain our competitive advantage.

Operating profit
Operating profit is £11.6m (2018: £7.8m) and operating margin increased to 15.4% (2018: 12.2%).

Profit before tax
The company received a dividend of £3m (2018: £1.8m) in the year. Net interest income was £0.04m (2018: £0.02m) resulting in profit before tax of £14.7m (2018: £9.6m).

Taxation
The taxation charge for the year was £2.0m (2018: charge of £2.6m). The effective tax rate of 13.66% (2018: 26.86%) is lower than the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%) mainly due to the non-taxable dividend income.

Property, plant and equipment
Tangible assets reduced from £4.1m to £3.9m, comprising additions of £0.3m and depreciation of £0.5m.

Intangible assets
Intangible assets decreased from £4.7m to £3.0m, reflecting additions of £0.4m and amortisation of £2.1m.

As at 31 March 2019, internally generated development expenditure accounted for £1.3m (2018: £2.6m) of the total intangible assets of £3.0m (2018: £4.7m), with the remainder having arisen on the acquisitions of Bitplane and Photonic Instruments, which were completed in the year ended 30 September 2010.

Cash position
At the end of the year, the company had cash balances of £17.0m (2018: £28.4m).

Key performance indicators

The company's key performance indicators include revenue, gross margin %, operating profit, profit before tax, headcount and were as follows:

	Year ended 2019 £'000	Year ended 2018 £'000	Increase / (decrease) £'000
Revenue	**75,164**	63,587	11,577
Gross margin %	**56.0**	53.7	n/a
Operating profit	**11,600**	7,758	3,842
Profit before tax	**14,690**	9,592	5,098
Headcount at year end	**281**	271	10

Principal risks and uncertainties

There are risks and uncertainties inherent in the company's operations that could have a significant impact on its business, results and financial position. The company has a well-developed structure and set of processes for identifying and mitigating the key business risks it faces. The most significant business risks faced, which are unchanged from last year and which will continue to affect the company's businesses, together with the strategies adopted by the company to mitigate them, are set out below:

Risk	**Impact**	**Mitigation**
The company's growth potential is dependent on its ability to innovate and bring new products to market	Failure to innovate may restrict future growth and impact results	Products are managed through a New Product Introduction (NPI) process, which is overseen by the Andor board of directors with sign-off authority at each stage gate. Each project stage gate review is underpinned by a business case review, which incorporates financial and strategic objectives. Progress on projects is reported monthly to the Andor board, tracking key performance indicators. Additionally, Andor has an Intellectual Property (IP) process that assesses opportunities for innovation and protection of same through patents and trade secrets. Outcomes and status of each opportunity is reported monthly to the Andor board.

Risk	Impact	Mitigation
Failure to align research and development activities with customer needs	Failure to align research and development activities with customer needs may restrict future growth and impact results	In order to mitigate this risk, we need to ensure our technology roadmap is aligned with market needs and to do so we employ a number of Business Managers. The role of these Business Managers is to spend time engaging with customers, understanding new and emerging applications, and then setting our roadmap to intercept these opportunities. The executive directors meet weekly with the Business Managers and report monthly updates to the board, allowing the board to take corrective action as necessary.
The company has a significant number of customers that are located outside the United Kingdom. The majority of these customers are invoiced in currencies other than Sterling thereby exposing the company to currency movement	The company's results and net assets may be adversely impacted by movements in foreign currency rates	Whilst an element of risk is mitigated due to the existence of natural hedges in the locations in which the company operates. The parent company has forward contracts in place.
A large proportion of company revenues are dependent on government funding which may be restricted	Failure of customers to obtain sufficient funding may impact their level of expenditure and volume of purchases thus potentially leading to revenue decline and impact results	In order to mitigate this risk, we continue to drive for increased market share by providing a flow of innovative products to ensure Andor is the supplier of choice. Sales channels are continuously challenged to expand their reach while maximising each commercial opportunity which arises.
Brexit related risks identified as a result of the UK leaving the EU: • Lower participation in EU- funded research projects post Brexit. • Potential short-term hiatus in UK research funding. • Barriers to existing free movement of goods and services in the EU. • Tariffs on exports to EU countries from the UK and vice versa • UK becomes less attractive to EU nationals as a place to work	• Lower sales and profitability. • Salary inflation. • Loss of key skills, and/or increased recruitment, and/or salary costs. • Supply chain disruption • Lower net pricing on UK exports to EU and increased input costs on products sourced from the EU.	• Long term pricing agreements for key suppliers. • A strategic supply chain review is underway. • The company participates in the Group Brexit committee. • Market diversification • Pricing strategy. • Renewal of UK work permit scheme to facilitate employment of non-UK/EU nationals. • Application for Authorised Economic Operator status to facilitate movement of goods with EU 27.

Andor Technology Limited
Strategic Report
for the year ended 31 March 2019

Signed on behalf of the Board of directors by:

Stephanie Quinn
Finance Director
20th December 2019

Andor Technology Limited
Directors' report
for the year ended 31 March 2019

The directors present their report and the audited financial statements of the company for the year ended 31 March 2019.

Directors

The directors who served during the year were as follows:

Donal Denvir
Gary Wilmot (resigned 31st May 2019)
Stephanie Quinn
Andrew Dennis
Gavin Hill
Ian Barkshire
Thomas Curtis (resigned 30th April 2018)

Results and dividends

The profit before taxation is £14.7m (2018: £9.6m) which, after taxation, results in a net profit for the year of £12.7m (2018: £7m).

Branches outside the UK

The company's branches in Japan and America were closed on 31 March 2019, with the trade and net assets transferring to newly created subsidiaries in exchange for the issue of shares in those subsidiaries. The shares in the new Japanese subsidiary were transferred to an existing group company in a share for share exchange. Post year end the shares in the new US subsidiary were also transferred to an existing group company in a share for share exchange.

Environment

The company is committed to its corporate responsibility of carrying out operations whilst minimising environmental impacts. The directors' continued aim is to minimise and properly manage energy efficiency, reduce the waste generated by reusing and recycling waste materials wherever feasible, and complying with all applicable environmental legislation. The company has developed an environmental management standard accredited to ISO 14001:2015 to achieve this goal.

Health and safety

The company is committed to achieving the highest practicable standards in both health and safety management for all its operations, and also recognises and is committed to promoting the wellbeing of employees. The directors have implemented a comprehensive health and safety management system accredited to OHSAS 18001:2007 (currently working towards ISO45001:2018) to exceed the legislative requirements, maintain safe and healthy working conditions, establish objectives and targets, and achieve continual improvement.

Human resources

Our employees are central to our business, driving innovation and contributing to our growth. Our aim is to create a safe, modern place of work that recognises the value of diversity and encourages people to give their best. We continue to invest in our people developing environments and opportunities that will attract, develop, motivate and retain talented people.

Andor is committed to being an inclusive and fair employer and to creating equal opportunity for employees regardless of colour, nationality, sex, marital status, sexual orientation, age, religion, disability or any other characteristic protected by law. We believe diversity helps us achieve and sustain excellence. Our selection, promotion and succession planning processes ensure that we recruit, train and promote the best candidates based on suitability for the job.

Research and development

The company continues to invest in research and development in support of its product range, and expenditure in the year amounted to £5,068,000 (2018: £5,468,000).

Political contributions

The company made no political donations nor incurred any political expenditure during the year (2018: £nil). Charitable donations of £600 (2018: £2,448) were made, principally for the benefit of local communities in which the company operates.

Financial risk

Management policies

The company's operations expose it to a variety of financial risks that include foreign currency risk, interest rate risk, credit risk and liquidity risk. The company has in place a risk management policy that seeks to limit the adverse effects of these risks on the financial performance of the company. The board reviews and agrees policies for managing each of these risks on an ongoing basis and they are summarised below.

Foreign currency risk
The company is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions denominated in US Dollars, Euros, Swiss Francs and Japanese Yen. An element of this risk is mitigated due to the existence of natural hedges. The company's policy is to maximise the source of product supplies in these currencies.

Foreign exchange risk also exists in respect of the company's net investment in its foreign subsidiaries.

Interest rate risk
The company finances its operations primarily through retained profits. At the end of the current and prior years all of its financial liabilities, which include bank borrowings, on which interest is payable, were at variable rates, and the company has not used interest rate swaps or other derivative financial instruments to manage this risk.

Credit risk
The company is exposed to credit risk in respect of credit exposures to its customers, intercompany transactions and also with its banking arrangements. The company has implemented policies that require appropriate credit checks on potential customers before sales are made and regularly reviews the spread of its banking arrangements. The company's maximum exposure to credit risk from external customers is £5.7m (2018: £8.7m).

Liquidity risk
The company regularly monitors cash forecasts to ensure that it has sufficient cash available to meet operational needs.

Andor Technology Limited
Directors' report
for the year ended 31 March 2019

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statutory independent auditors

In accordance with Section 487 of the Companies Act, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

Future developments

There are no material future developments to disclose which are not in line with the business activity disclosed in the strategic report.

On behalf of the board

Donal Denvir
Director
20th December 2019

Address of registered office:

Andor Technology Ltd
7 Millennium Way
Belfast
BT12 7AL

Part of Oxford Instruments Plc
Tubney Woods
Abingdon
Oxfordshire
OX13 5QX

Andor Technology Limited
Statement of directors' responsibilities
for the year ended 31 March 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with *FRS 101 Reduced Disclosure Framework.*

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

• select suitable accounting policies and then apply them consistently;
• make judgements and estimates that are reasonable and prudent;
• state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
• assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls 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 Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

Donal Denvir
Director
20th December 2019

KPMG
Audit
The Soloist Building
1 Lanyon Place
Belfast BT1 3LP
Northern Ireland

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANDOR TECHNOLOGY LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Andor Technology Limited ('the Company') for the year ended 31 March 2019 set out on pages 14 to 36, which comprise the profit and loss account and other comprehensive income, the balance sheet, the statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 3. The financial reporting framework that has been applied in their preparation is UK Law and *FRS 101 Reduced Disclosure Framework*.

In our opinion, the accompanying financial statements:

• give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
• have been properly prepared in accordance with *FRS 101 Reduced Disclosure Framework*; and
• have been properly prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other matter – The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. Some of the uncertainties arising from Brexit may impact certain of the financial statement captions in the financial statements. The preparation of the financial statements on a going concern basis and the financial statement caption containing estimates all depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. No audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANDOR TECHNOLOGY LIMITED (CONTINUED)

We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic and directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information;

- we have not identified material misstatements in the directors report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANDOR TECHNOLOGY LIMITED (CONTINUED)

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they 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.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

Our 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.

Dominic Mudge (Senior Statutory Auditor)
For and on behalf of KPMG, Statutory Auditor
Chartered Accountants
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

20 December 2019

Andor Technology Limited
Profit and loss account
for the year ended 31 March 2019

	Note	**Year ended 2019 £'000**	Year ended 2018 £'000
Turnover	6	**75,164**	63,587
Cost of sales	8	**(33,085)**	(29,462)
Gross profit		**42,079**	34,125
Net operating expenses	8	**(30,479)**	(26,367)
Operating profit		**11,600**	7,758
Income from shares in group undertakings		**3,047**	1,815
Profit before finance income & expense		**14,647**	9,573
Finance income	10	**48**	19
Finance expense	10	**(5)**	-
Finance income – net		**43**	19
Profit before tax		**14,690**	9,592
Tax on profit	11	**(2,008)**	(2,576)
Profit for the year		**12,682**	7,016

All profits are attributable to the owners and relate to continuing operations.

Other comprehensive income
for the year ended 31 March 2019

	Year ended 2019 £'000	Year ended 2018 £'000
Profit for the year	**12,682**	7,016
Other comprehensive income	**-**	-
Total comprehensive income for the year	**12,682**	7,016

Total comprehensive income is attributable to the owners and relates to continuing operations.

The notes on pages 17 to 36 form an integral part of these financial statements.

Registered number: NI022466.

Andor Technology Limited
Balance Sheet
As at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets			
Goodwill	13	**777**	777
Other intangible assets	13	**2,236**	3,897
		3,013	4,674
Tangible assets	12	**3,910**	4,108
Investments in subsidiaries	14	**10,469**	8,867
Deferred tax assets	20	**66**	183
		17,458	17,832
Current assets			
Inventories	15	**6,366**	6,519
Debtors	16	**27,524**	22,569
Corporation tax recoverable		**250**	148
Cash and cash equivalents	17	**17,024**	28,429
		51,164	57,665
Total assets		**68,622**	75,497
Creditors: Amounts falling due within one year			
Current liabilities			
Trade and other creditors	18	**8,355**	6,062
Other provisions	19	**1,413**	1,688
Corporation tax liability		**2,908**	1,122
Accrued expenses		**7,084**	5,980
Government grants and deferred income	21	**510**	749
		20,270	15,601
Net current assets		**30,894**	42,064
Total assets less current liabilities		**48,352**	59,896
Creditors: Amounts falling due after one year			
Deferred tax liabilities	20	**490**	689
Government grants and deferred income	21	**1,131**	1,233
		1,621	1,922
Net assets		**46,731**	57,974
Capital and reserves			
Called up share capital	22	**668**	668
Share premium account		**10,605**	10,605
Other reserves		**2,257**	2,240
Profit and loss account		**33,201**	44,461
Shareholders funds		**46,731**	57,974

The notes on pages 17 to 36 form an integral part of these financial statements.

The financial statements on pages 14 to 36 were authorised for issue by the board of directors on 20 December 2019 and were signed on its behalf by:

Stephanie Quinn
Finance Director
Registered number: NI022466

Andor Technology Limited

Statement of changes in equity

For the year ended 31 March 2019

Company	Called up share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 31 March 2017	668	10,605	1,843	397	37,345	50,858
Comprehensive income						
Profit for the year	—	—	—	—	7,016	7,016
Total comprehensive income	—	—	—	—	7,016	7,016
Transactions with owners						
Equity-settled share based payment options	—	—	—	—	100	100
Total transactions with owners	—	—	—	—	100	100
Balance at 31 March 2018	**668**	**10,605**	**1,843**	**397**	**44,461**	**57,974**
Comprehensive income						
Profit for the year	—	—	—	—	12,682	12,682
Total comprehensive income	—	—	—	—	12,682	12,682
Transactions with owners						
Equity-settled share based payment options	—	—	—	—	58	58
Tax on equity-settled share based payment transactions	—	—	—	—	17	17
Dividend paid	—	—	—	—	(24,000)	(24,000)
Total transactions with owners	—	—	—	—	(23,925)	(23,925)
Balance at 31 March 2019	**668**	**10,605**	**1,843**	**397**	**33,218**	**46,731**

The notes on pages 17 to 36 form an integral part of these financial statements.

1 Basis of preparation

Andor Technology Limited ("the company") is a company incorporated and domiciled in the UK.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company's ultimate parent undertaking, Oxford Instruments Plc includes the company in its consolidated financial statements. The consolidated financial statements of Oxford Instruments Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Oxford Instruments Plc, Tubney Woods, Abingdon, Oxfordshire, OX13 5QX.

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

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Oxford Instruments Plc include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the company in the current and prior years including the comparative year reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures Notes.

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

2 Going concern

At the end of the year, the company had net cash balances of £17.0m (2018: £28.4m), net of borrowings of £nil (2018: £nil). The company's internal budgets and forecasts, which incorporate all reasonably foreseeable changes in trading performance, show that it will be able to operate within its current banking facilities, taking into account available cash balances for the foreseeable future. The going concern basis is, accordingly, adopted by the board in preparing the financial statements.

3 Accounting policies

The financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through the profit and loss account.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

Foreign currency translation
Items included in the financial statements of each of the branches are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Sterling, which is the company's functional and presentation currency.

New standards, amendment and interpretations
The following standards, amendments and interpretations were effective for accounting periods beginning on or after 1 January 2018:

- IFRS15 *Revenue from Contracts with Customers*
- IFRS 9 *Financial Instruments*

The Company has initially applied IFRS 9 from 1 April 2018. Due to the transition method chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect the requirements of IFRS 9. The Company has applied IFRS 9 in the current financial year, and the effect on the financial statements is not material. No transition adjustments have been made as a result.

The Company has initially applied IFRS 15 from 1 April 2018. Due to the transition method chosen by the Company in applying IFRS 15, comparative information throughout these financial statements has not been restated to reflect the requirements of IFRS 15. The Company has applied IFRS 9 in the current financial year, and the effect on the financial statements is not material. No transition adjustments have been made as a result.

The Company has initially applied IFRS 16 from 1 April 2018, although it only became mandatory for financial periods beginning on or after 1 January 2019. IFRS 16 has replaced *IAS17: Leases* and *IFRIC4: Determining wether an arrangement contains a lease.* Due to the transition method chosen by the Company in applying IFRS 16 (modified retrospective approach), comparative information throughout these financial statements has not been restated to reflect the requirements of IFRS 16 and continued to be reported under IAS17 & IFRIC4. Further information of this change in accounting policy can be found in note 25.

3 Accounting policies (continued)

Transactions and balances

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the company. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the company's activities. The company bases its estimates on historical results, taking into consideration the type of customer, transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue in respect of the sale of goods is recognised upon customer receipt of those goods.

(b) Sale of software products

Revenue in respect of the sale of software products is recognised at the point at which the customer has received the software activation codes.

(c) Sale of maintenance contracts

Revenue from maintenance contracts is generally recognised in the period the services are provided, using a straight-line basis over the term of the contract.

(d) Sales of extended warranties

Revenue from the sale of extended warranties is credited to deferred income and released to the income statement using a straight-line basis over the extended warranty period.

(e) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

Tangible Fixed Assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any impairment in value.

The cost of property, plant and equipment is equal to its purchase cost, together with any incidental costs of acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used are as follows:

3 Accounting policies (continued)

Tangible Fixed Assets (continued)

	%
Freehold buildings	4
Plant and machinery	10 to 33

Land is not depreciated.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset.

Intangible assets

(a) Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any year is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

(b) Research and development
Costs associated with research activities are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable products controlled by the company are recognised as intangible assets in accordance with the recognition criteria set out in IAS 38, 'Intangible assets'.

Directly attributable costs that are capitalised as part of products include employee costs incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs recognised as intangible assets are amortised over their estimated useful economic lives.

(c) Acquired development expenditure
Development expenditure acquired in a business combination is recognised at fair value at the acquisition date. The development expenditure has a finite useful life and is carried at fair value less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful economic lives of the products to which the development expenditure relates.

	Years
Research and development	2 to 10
Acquired development intangibles	9 to 16

Impairment of non-financial assets
Assets that have an indefinite useful economic life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets

3 Accounting policies (continued)

Impairment of non-financial assets (continued)
other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost for raw materials is calculated on a first-in first-out basis. Net realisable value for work in progress and finished goods is based on estimated selling prices less further costs expected to be incurred in bringing the inventories to completion and disposal. Cost comprises materials, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods. Provisions are made against the value of inventories to take account of slow moving stock, obsolescence and non-conforming products.

Inventories that are provided to customers for demonstration purposes are classified as demonstration stock and are stated at the lower of cost and net realisable value. Demonstration stocks are maintained to a condition that allows them to be sold to customers, without further modification, once the demonstration period has ended and are expected to be sold within 18 months of manufacture.

Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected useful economic lives of the related assets.

Financial Assets
IFRS 9 *Financial instruments* (effective 1 January 2018) – This is a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 will also introduce an 'expected loss' impairment model replacing the 'incurred loss' model. This new model will mean an entity will now always recognise 12 months of expected losses on financial assets in profit or loss. This change has an immaterial impact on the Company's provision for impairment of trade receivables.

Recognition and initial measurement
Financial assets issued are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification
On initial recognition, a financial asset is classified as measured at amortised cost. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model

3 Accounting policies (continued)

Financial Assets (continued)
for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies its financial assets as loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables.

Impairment
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within other operating costs in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Prior to 1 January 2018, the accounting policy was as follows:

Classification
The Company classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables.

Impairment
Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows (discounted at the original effective interest rate) associated with the impaired receivable.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within other operating costs in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

a) Hedges of the fair value of recognised assets or liabilities (fair value hedges); or

3 Accounting policies (continued)

Financial Assets (continued)

b) Hedges of a particular risk associated with a recognised asset or liability or a highly probably forecast transaction (cash flow hedges).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. Amounts accumulated in equity are reclassified to either profit or loss in the periods when the hedged item affects profit or loss or to the initial measurement of the cost of a non-financial asset when the forecast transaction that is hedged results in recognition of such an asset.

Share capital

Ordinary shares are classified as equity.

Share premium

The premium arising on the issue of ordinary shares is included within the share premium account, apart from where shares are issued as part of an acquisition and the issue of those shares qualifies for merger relief.

Other reserves

(a) Merger reserve

Where the company has issued shares as part of an acquisition and the issue of those shares qualifies for merger relief, the excess of the fair value of the shares issued above their nominal value is taken to a merger reserve.

(b) Capital redemption reserve

The nominal value of preference shares previously redeemed by the company is held within the capital redemption reserve.

Income tax and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

3 Accounting policies (continued)

Income tax and deferred income tax (continued)

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

The company does not act as a lessor on any leases. The accounting policies presented below set out the policies for recognising leases where the company acts as a lessee.

Policy applicable from 1 April 2018

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether:

- the contract involves the use of an identified asset;
- the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- the company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed on or after 1 April 2018.

At inception or on reassessment of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Policy applicable before 1 April 2018

For contracts entered into before 1 April 2018, the company determined whether the arrangement was, or contained, a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3 Accounting policies (continued)

Leases (continued)
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. The company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the company changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Under IAS 17

In the comparative period, as a lessee the company classified leases that transfer substantially all of the risks and rewards of ownership as financing leases. No such leases were held.

Assets held under other leases were classified as operating leases and were not recognised in the company's statement of financial position. Payments made under operating leases were recognised in profit or less on a straight-line basis over the term of the lease.

Pension costs
The company operates a defined contribution pension plan for certain directors and employees. Contributions are charged to the income statement in the period to which they relate.

Share-based payments
Following the acquisition there is no individual company share option scheme in place and employees are eligible to take part in the Oxford Instruments scheme as detailed in Note 23.

4 Financial risk management

Financial risk factors
The company's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk, cash flow and interest rate risk), credit risk and liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring the foregoing risks.

Market risk
a. *Price risk*

4 Financial risk management (continued)

The company is not exposed to equity securities price risk as it holds no listed investments. Consideration of investment in subsidiaries and associated risk is detailed in note 14.

b. *Foreign currency risk*

The company is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions denominated in US Dollars, Euros, and Japanese Yen. An element of this risk is mitigated due to the existence of natural hedges.

Foreign exchange risk also exists in respect of the company's net investment in its foreign subsidiaries.

c. *Interest rate risk*

The company finances its operations primarily through retained profits. At the end of the current and prior years all of its financial liabilities, which include bank borrowings, on which interest is payable, were at variable rates, and the company has not used interest rate swaps or other derivative financial instruments to manage this risk.

Credit risk

The company is exposed to credit risk in respect of credit exposures to its customers, intercompany transactions and also with its banking arrangements. The company has implemented policies that require appropriate credit checks on potential customers before sales are made and regularly reviews the spread of its banking arrangements. The company's maximum exposure to credit risk from external customers is £5.7m (2018: £8.7m).

Liquidity risk

The company regularly monitors cash forecasts to ensure that it has sufficient cash available to meet operational needs. Cash balances not needed for daily operations are deposited with the parent company.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of product viability and technological advancements that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are:

- The useful economic life of intangible assets and the cash flows derived from these product lines (see note 13).
- The carrying value of investments in subsidiaries. The Company assesses the carrying value at each reporting date to determine whether there are any indicators of impairment. If any such indication exists, then the recoverable amount is estimated. There is significant judgement involved in considering whether an impairment arises because of the difference between the carrying value and the fair value, being value in use (see note 14).
- Recoverable value of deferred tax assets.

6 Turnover

The company's customers are located globally. There are no individual customers that account for more than 10% of total revenue.
Analysis of revenues from external customers is as follows:

	Year ended 2019 £'000	Year ended 2018 £'000
Analysis by geographical area		
United Kingdom (country of domicile)	**5,010**	5,745
Americas	**26,664**	22,126
APAC	**26,933**	21,341
EMEA (excluding UK)	**16,557**	14,375
Revenue from external customers	**75,164**	63,587

7 Auditors' remuneration

During the year, the company obtained the following services from the company's auditors and its associates:

	Year ended 2019 £'000	Year ended 2018 £'000
Fees payable to the company's auditors for the audit of the company	**30**	28
Total fees payable to the company's auditors and their associates	**30**	28

8 Expenses by nature

	Note	Year ended 2019 £'000	Year ended 2018 £'000
Changes in inventories of finished goods and work in progress		**(167)**	972
Raw materials and consumables used		**25,346**	22,876
Employee benefit expense	9	**16,014**	14,933
Depreciation, amortisation and impairment charges – owned assets	12, 13	**2,581**	2,249
Depreciation of right of use assets		**53**	-
Impairment of investments		**-**	577
Operating lease expenses		**-**	73
Impairment / (Write back) of trade receivables		**621**	(285)
Net expense in respect of share based payments		**58**	100
Release of deferred income in respect of government grants		**(67)**	(67)
Repairs and maintenance expenditure on property, plant and equipment		**36**	43
Research and development expenditure*		**(308)**	613
Foreign exchange loss		**883**	2,262
Restructuring costs – restructuring programme		**355**	-
Other expenses		**18,159**	11,483
Total cost of sales and net operating expenses		**63,564**	55,829

* Excludes employee benefit expenses and amortisation of capitalised development expenditure. The total amount of research and development expenditure relating to employee costs (including employee benefit expenses) during the year was £3,420,000 (2018: £4,347,000) of which £417,000 (2018: £705,000) was capitalised within intangible assets.

9 Staff numbers and costs

	Year ended 2019 Number	Year ended 2018 Number
Average monthly number of persons employed (including directors) during the year by activity		
Production	**93**	82
Research & development	**87**	90
Administration and shared services	**19**	17
Sales and marketing	**77**	93
	276	282

The aggregate payroll costs of these persons were as follows:

	Year ended 2019 £'000	Year ended 2018 £'000
Wages and salaries*	**13,508**	12,598
Social security costs	**1,656**	1,538
Pension costs – defined contribution plans	**850**	797
	16,014	14,933

*Excludes salaries capitalised within intangible assets in the year of £939,000 (2018: £802,000)

	Year ended 2019 £'000	Year ended 2018 £'000
Directors' emoluments		
Aggregate emoluments	**908**	899

* Aggregate emoluments paid to the highest paid director during the year totalled £247,258 (2018: £321,064).
The emoluments of certain directors have been borne by another group company. These directors were also *directors or officers of other group companies within the Oxford Instruments plc group.*

10 Finance income and expenses

	Year ended 2019 £'000	Year ended 2018 £'000
Finance income		
Interest income on short-term bank deposits	**48**	19
Finance income	**48**	19
Finance expense		
Interest payable on bank borrowings	**(5)**	-
Finance expense	**(5)**	-
Finance income net	**43**	19

11 Taxation

	Year ended 2019 £'000	Year ended 2018 £'000
Current income tax		
Current tax on profits for the period	2,626	2,011
Adjustments to tax in respect of previous periods	(414)	(36)
Total current tax	2,212	1,975
Deferred tax		
Origination and reversal of temporary differences	(229)	671
Effect of change in tax rate	49	62
Adjustments in respect of earlier periods	(24)	(132)
Total deferred tax	(204)	601
Income tax expense	2,008	2,576

The tax on the company's profit before income tax differs from the amount that would arise using the standard rate of UK corporation tax of 19% (2018: 19%) applied to profits as follows:

	Year ended 2019 £'000	Year ended 2018 £'000
Profit before tax	14,690	9,592
Tax calculated at the standard rate of UK corporation tax 19% (2018: 19%)	2,791	1,822
Tax effects of:		
Adjustments to tax in respect of previous periods	(438)	(168)
Profits taxed at rates other than 19% (2018: 19%)	77	108
Tax rate change on deferred tax	49	62
Share based payments	-	2
De-recognition of deferred tax asset	-	839
Movement on unrecognised deferred tax	59	-
Expenses not deductible for tax purposes	49	256
Income not subject to tax	(579)	(345)
Income tax expense	2,008	2,576

Factors that may affect future, current and total tax charges

Reductions to the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax balances at 31 March 2019 have been calculated based on these rates, which were substantively enacted at the balance sheet date.

12 Tangible assets

	Property Leases £'000	Freehold land and buildings £'000	Plant and buildings £'000	Total £'000
Cost				
At 1 April 2018	—	6,710	6,963	13,673
Disposals	—	—	(169)	(169)
Additions	146	—	334	480
Reclasses	(146)	(12)	12	(146)
Currency translation difference	—	—	11	11
At 31 March 2019	—	6,698	7,151	13,849
Accumulated depreciation				
At 1 April 2018	—	3,000	6,565	9,565
Charge for the year	53	257	246	556
Disposals	(53)		(137)	(190)
Currency translation difference	—	—	8	8
At 31 March 2019	—	3,257	6,682	9,939
Net book value				
At 31 March 2019	—	**3,441**	**469**	**3,910**
At 31 March 2018	—	3,710	398	4,108

Depreciation expense of £503,000 (2018: £468,000) has been charged to net operating expenses.

13 Intangible assets

	Goodwill £'000	Patents and intellectual property £'000	Internally generated development expenditure £'000	Acquisition development costs £'000	Total £'000
Cost					
At 1 April 2018	777	248	14,692	3,700	19,417
Additions	-	-	417	-	417
At 31 March 2019	**777**	**248**	**15,109**	**3,700**	**19,834**
Accumulated amortisation					
At 1 April 2018	-	248	12,054	2,441	14,743
Charge for the year	-	-	1,773	305	2,078
At 31 March 2019	**-**	**248**	**13,827**	**2,746**	**16,821**
Net book value					
At 31 March 2019	**777**	**-**	**1,282**	**954**	**3,013**
At 31 March 2018	777	-	2,638	1,259	4,674

Amortisation of £2,078,000 (2018: £1,781,000) is included in net operating expenses.

Estimate of useful economic life of intangible assets

The company assesses the useful economic life of intangible assets on an annual basis. The useful economic life of intangible assets ranges from two years to 16 years. If the remaining useful economic lives had been shortened by one year, amortisation charged to the income statement during the year would have increased by £501,000 and if the remaining useful economic lives had been extended by one year, amortisation charged to the income statement during the year would have decreased by £372,000.

13 Intangible assets (continued)

Included within internally generated development expenditure are labour costs directly attributable to the development of new products.

In accordance with IAS 36, an impairment review has been carried out for goodwill arising on acquisitions. This has been measured based on a value in use calculation, calculated by discounting expected future cashflows. The company prepares 5 year cashflow forecasts annually, with changes in growth rates, selling prices and direct costs being based on past practices and expectations of future changes in the market.

Cash generating units ("CGUs")
At 31 March 2019, the company had one CGU, Andor.

Allocation of goodwill to cash generating units
Goodwill is allocated to the company's cash generating units as follows:

	2019	2018
	£'000	£'000
Andor	**777**	777
Total	**777**	777

14 Investments in subsidiaries

	Total
	£'000
At 1 April 2018	8,867
Additions	1,602
At 31 March 2019	**10,469**

Investments in subsidiaries are recorded at cost less impairment, which is the fair value of consideration paid at the acquisition date.

The principal subsidiaries of the company are:

Subsidiaries	Registered office	Nature of business	Proportion of ordinary shares held
Andor US Holdings Inc	300 Baker Avenue, Concord MA 01742, USA	Holding company	100%
Bitplane AG	Badenerstrasse 682, Zurich 8048, Switzerland	Image analysis software	100%
Bitplane Inc	300 Baker Avenue, Concord MA 01742, USA	Image analysis software	100%
OIKK*	IS Building 3-32-42, Higashi-Shinagawa, Shinagawa-Ku, Tokyo 140-0002, Japan	Distibutor + after sales	7.536%
Andor Technology Inc*	300 Baker Avenue, Suite 150, Concord, MA 01742, USA	Holding Company	100%
Spectral Applied Research Inc	9078 Leslie Street, Richmond Hill, ON L4B3L8, Canada	Optical Systems	100%

**On the 31st March 2019 Andor Technology Limited exchanged the assets and liabilities of the US & Japan branches with shares in Andor Technology Inc & OIKK respectively.*

15 Inventories

	2019 £'000	2018 £'000
Raw materials	**3,321**	2,435
Work in progress	**1,298**	1,618
Finished goods	**1,055**	902
Demonstration stock	**692**	1,564
	6,366	6,519

Raw materials, changes in finished goods, work in progress and demonstration stock recognised as cost of sales in the year amounted to £25,346,000 (2018: £22,876,000). The write-down of stocks to net realisable value amounted to £381,000 (2018: £372,000).

16 Debtors

	2019 £'000	2018 £'000
Trade debtors	**6,612**	9,069
Less: provision for impairment of trade debtors	**(961)**	(326)
Trade debtors – net	**5,651**	8,743
Other debtors	**872**	345
Intercompany debtors	**20,834**	12,985
Prepayments	**167**	496
	27,524	22,569

The fair values of trade and other debtors are the same as their carrying value. The maximum exposure to credit risk is the fair value of each class of receivable mentioned above.

Trade receivables impaired and the amount of the impairment provision was £961,000 (2018: £326,000). The individually impaired debtors mainly relate to invoices which are in dispute. The other classes within trade and other debtors do not contain impaired assets.

17 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	**17,024**	28,429
Cash and cash equivalents	**17,024**	28,429

18 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	**3,797**	2,820
Intercompany creditors	**4,538**	3,242
Social security and other taxes	**20**	—
	8,355	6,062

19 Other provisions

	Other Provisions £'000	Warranty provision £'000	Total £'000
At 31 March 2018	952	736	1,688
Provisions used during the year	-	(381)	(381)
Provisions made during the year	50	411	461
Provisions released the year	-	(355)	(355)
At 31 March 2019	**1,002**	**411**	**1,413**

Warranty provisions
Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the company's standard terms and conditions. Warranty commitments typically apply for a twelve-month period. The provision represents the Directors' best estimate of the company's liability based on past experience.

Other provisions
The company has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent the Directors' best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain, reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the Directors' best estimate of the cost of settling future obligations and reflect the Directors' assessment of the likely settlement method, which may change over time. However, no provision is made for proceedings which have been, or might be, brought by other parties against the company unless the Directors, taking into account professional advice received, assess that it is more likely than not that such proceedings may be successful. The company's expectation is that the other provisions are likely to be utilised within a twelve-month period

20 Deferred tax

The movement in deferred tax assets and liabilities during the period is as follows:

	Other £'000	Accelerated capital allowances £'000	Intangibles £'000	Deferred tax assets total £'000	Deferred tax liabilities total £'000
At 1 April 2018	**183**	**(236)**	**(453)**	**183**	**(689)**
Income statement expense	4	(16)	215	4	199
Recognised directly in equity	17	-	-	17	-
Transferred out on disposal	(149)	-	-	(149)	-
Currency translation difference	11	-	-	11	-
At 31 March 2019	**66**	**(252)**	**(238)**	**66**	**(490)**

The deferred tax asset that is expected to reverse within 12 months is £nil (2018: £nil)

21 Government grants and deferred income

The current portion of government grants and deferred income is £510,000 (2018: £749,000) and the non-current portion is £1,131,000 (2018: £1,233,000).

Company	Government grant £'000	Deferred income £'000	Total £'000
At 1 April 2018	787	1,195	1,982
Extended warranty/maintenance revenue deferred during the year	-	1,018	1,018
Transferred as part of share for share exchange	-	(391)	(391)
Income recognised in the year	(67)	(901)	(968)
At 31 March 2019	**720**	**921**	**1,641**

Grants were receivable from government departments in respect of the purchase of buildings and machinery, and the development of software.

22 Called up share capital

	Number	£'000
Allotted, called up and fully paid (ordinary shares of £0.02 each)		
At 1 April 2018	**33,374,996**	**668**
Issued during the year	-	-
At 31 March 2019	**33,374,996**	**668**

All ordinary shares of £0.02 each have equal rights in respect of voting, receipt of dividends and repayment of capital.

During the year, the company issued no additional ordinary shares (2018: nil issued).

23 Share-based payments

The company, as part of the wider Oxford Instruments plc Group, operates share option schemes available to employees

All employee Share Incentive Plan (SIP)
All UK employees are eligible to participate in the Group's HM Revenue and Customs approved SIP. Participating employees make a cash contribution to the plan each month. The Group contributes a further amount equal to 20% of the employee's contribution. Independent trustees then purchase matching shares in the market on behalf of the employees. The matching shares vest on the completion by the participating employee of a further three years' service and can be withdrawn from the plan tax-free after five years' service.

Executive Share Option Scheme (ESO)
Options awarded under the Executive Share Option Scheme are made annually to certain senior managers. The exercise prices are determined according to the mid-market closing share price on the day before the date of grant. Options have a life of ten years and a vesting period of three years.

24 Commitments

As at 31 March 2019, the company had capital commitments in respect of contracted expenditure of £nil (2018: £nil).

The company transferred it's only leased assets to Andor Technology Inc in exchange for shares on 31st March 2019.

	Land and buildings		Equipment	
	2019	2018	**2019**	2018
Company	**£'000**	£'000	**£'000**	£'000
No later than one year	-	56	-	3
Later than one year and no later than five years	-	95	-	-
Later than five years	-	-	-	-
	-	**151**	-	3

25 Leases

Changes in accounting policies

Except for the changes below, the company has consistently applied the accounting policies to all periods presented in these financial statements.

The company applied IFRS 16 with a date of initial application of 1 April 2018. As a result, the company has changed its accounting policy for lease contracts as detailed below.

The company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2018. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 1.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether there is a lease.

As a lessee

As a lessee, the company previously classified leases as operating or financing leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company. Under IFRS 16, the company recognises right-of-use assets and lease liabilities for most leases i.e. these leases are included on the balance sheet.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental rate of borrowing as at 1 April 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued payments.

As a practical expedient to applying IFRS 16 the company used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on financial statements

On transition to IFRS 16, the company recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 April 2018
	£'000
Right of use asset presented in plant, property and equipment	146
Lease liabilities	146

The leased assets set out above were transferred to Andor Technology Inc on 31 March 2019 (see note 24 for details). Depreciation charged on these assets prior to transfer was £53k, payments made under the lease liability were £54k and interest charges of £3k were incurred.

26 Ultimate controlling party

The company is a subsidiary undertaking of Oxford Instruments plc which is the ultimate parent company incorporated in UK. The Directors do not consider there to be one ultimate controlling party.

The largest group in which the results of the company are consolidated is that headed by Oxford Instruments plc, incorporated in the United Kingdom. The consolidated financial statements of this group is available to the public and may be obtained from the company secretary, Oxford Instruments plc, Tubney Woods, Abingdon OX13 5QX, UK.

27 Subsequent events

There were no subsequent events which require disclosure in the financial statements.