

VERACITY UK LTD

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Company Registration No. SC291812 (Scotland)

VERACITY UK LTD

COMPANY INFORMATION

Directors Mr Alastair McLeod BSc (Hons)
Mr David Corson B.Acc.,CA
Mr Garfield Collins BSc (Hons)
Mr Michael J Gallagher (Appointed 30 October 2019)
Mr Robert Hamilton (Appointed 30 October 2019)

Secretary Mr Garfield Collins BSc (Hons)

Company number SC291812

Registered office Prestwick International Aerospace Park
4 Dow Road
Monkton
Prestwick
Ayrshire
KA9 2TU

Auditor William Duncan + Co Ltd
30 Miller Road
Ayr
Ayrshire
KA7 2AY

Business address Prestwick International Aerospace Park
4 Dow Road
Monkton
Prestwick
Ayrshire
KA9 2TU

Bankers HSBC
2 Buchanan Street
Glasgow
G1 3LB

Solicitors Wright, Johnston & Mackenzie LLP
302 St Vincent Street
Glasgow
G2 5RZ

VERACITY UK LTD

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VERACITY UK LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Fair review of the business

The principal activity of the Group continued to be Research and Development of high technology software and hardware products for digital video surveillance markets.

The Group has continued to benefit from the increasingly strong relationships formed with major industry partners and high-profile customers across the globe. Despite the business uncertainty caused by UK and global political factors the Group managed to maintain business levels and gross margins in key core markets whilst increasing its business in the Middle East and India as its more recently formed subsidiaries improved their market penetration. Software sales in the UK benefited from the acquisition of all of the share capital of Visual Management Systems Holdings Limited and its subsidiaries with effect from 1st June 2019. The Group increased its investment in the research, design and development of innovative networked products in the specific fields of IP video transmission, video data storage and Integrated Command and Control system platforms whilst controlling other overhead expenditure. As a result, Group Operating Profit improved whilst Profit before Tax increased substantially after Currency and Investment gains. The Group continues to innovate, maintaining a broad product development roadmap coupled with a strong strategic vision of the relevant security industry markets.

Profits and cash reserves continue to be retained within the business and Group. Despite providing funds for acquisitions and strategic minority share investments both in the UK and the USA, Group cash reserves net of borrowing, were £2.1m at the year end and they have continued to strengthen post year end. Funds were also provided to open a new office in Mumbai, India and to expand the Groups marketing, R&D, logistics and support activities, alongside increased market penetration and territorial expansion of sales, primarily through global distribution channels.

The Group is determined to continue its overseas expansion and form relationships in new territories and markets whilst still reviewing further investment opportunities. Group turnover increased 26% year on year whilst software sales become an ever more important part of the Group sales mix. There is a series of important new and replacement products expected to launch in summer 2020 in Transmission and Storage Systems to maintain and indeed enhance the Veracity Group's innovative status with its increasing global customer and partner base.

Principal risks and uncertainties

Given the political uncertainty surrounding the UK's future relationship with Europe and the potential for further tariffs in the trade dispute between the USA and China in particular, the Veracity Group Board are continuing to take proactive steps to try and mitigate these risks to the business ensuring that our business model remains robust and flexible to the changing regulatory and economic pressures. We constantly review our critical KPI's so that the Board can take decisive and timely action on each issue as it arises.

In addition, post year end the business has suffered from the impact of COVID-19 with Group sales for 2020 expected to be up to 10% lower than that achieved in 2019 and substantially below Budget predictions. However, due to the swift actions of the Board to realign costs to activity over the period from March to July 2020, the Group has continued to earn pre-tax profits albeit at a lower level than was originally forecast. With strong cash reserves, new products having, or just being, launched over the summer period, the Board remains confident of being profitable in 2020 and in the long term growth of the Group with substantial improvements to both its profits and cash reserves allowing it to consider further major product expansions or bolt on acquisitions to enhance the products and services provided to its global customer base.

On behalf of the board

Mr Alastair McLeod BSc (Hons)

Director

2 September 2020

VERACITY UK LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of the group continued to be Research and Development of high technology hardware and software products for digital video surveillance markets.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr Alastair McLeod BSc (Hons)	
Mr David Corson B.Acc.,CA	
Mr Garfield Collins BSc (Hons)	
Mr Sam Brown BSc (Hons)	(Resigned 19 February 2020)
Mr James William Foley BSc MBA	(Resigned 7 May 2019)
Mr David Aindow	(Resigned 30 October 2019)
Mr Michael J Gallagher	(Appointed 30 October 2019)
Mr Robert Hamilton	(Appointed 30 October 2019)

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The directors do not recommend payment of a further dividend.

Future developments

The Group continues to innovate, maintaining a broad product development roadmap coupled with a strong strategic vision of the relevant security industry markets.

With a series of important new and replacement products expected to launch in 2020, the Board are confident that the Group will maintain a substantial rate of growth in both sales and profits.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

On behalf of the board

Mr Alastair McLeod BSc (Hons)
Director

2 September 2020

VERACITY UK LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

VERACITY UK LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VERACITY UK LTD

Opinion

We have audited the financial statements of Veracity UK Ltd (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the group statement of comprehensive income, the group balance sheet, the company balance sheet, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows, the company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

VERACITY UK LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF VERACITY UK LTD

Opinions on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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 further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

VERACITY UK LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF VERACITY UK LTD

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.

Mr John Wallace (Senior Statutory Auditor)
for and on behalf of William Duncan + Co Ltd

4 September 2020

Chartered Accountants
Statutory Auditor

30 Miller Road
Ayr
Ayrshire
KA7 2AY

VERACITY UK LTD

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Turnover	3	18,244,227	14,408,368
Cost of sales		(7,633,549)	(5,809,285)
Gross profit		10,610,678	8,599,083
Administrative expenses		(8,968,645)	(7,211,106)
Other operating income		11,719	755
Operating profit	4	1,653,752	1,388,732
Interest receivable and similar income	8	21,331	13,088
Interest payable and similar expenses	9	(1,835)	(395)
Adjustments to the fair value of financial assets	10	370,422	68,120
Profit/(loss) on foreign exchange		115,807	65,812
Profit before taxation		2,159,477	1,535,357
Tax on profit	11	21,958	(48,097)
Profit for the financial year		2,181,435	1,487,260
Other comprehensive income			
Currency translation difference		(84,433)	6,227
Total comprehensive income for the year		2,097,002	1,493,487

Profit for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

VERACITY UK LTD

GROUP BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019		2018	
		£	£	£	£
Fixed assets					
Goodwill	12		1,957,468		388,579
Other intangible assets	12		14,264		21,446
			<u>1,971,732</u>		<u>410,025</u>
Total intangible assets			1,971,732		410,025
Tangible assets	13		1,024,356		913,857
Investments	14		966,913		171,380
			<u>3,963,001</u>		<u>1,495,262</u>
Current assets					
Stocks	18	1,563,849		1,348,043	
Debtors	19	4,775,680		3,115,685	
Cash at bank and in hand		2,480,042		3,710,766	
			<u>8,819,571</u>		<u>8,174,494</u>
Creditors: amounts falling due within one year	20	(2,343,797)		(1,945,805)	
			<u>6,475,774</u>		<u>6,228,689</u>
Net current assets			<u>6,475,774</u>		<u>6,228,689</u>
Total assets less current liabilities			<u>10,438,775</u>		<u>7,723,951</u>
Creditors: amounts falling due after more than one year	21		(280,805)		-
Provisions for liabilities	23		(3,682)		-
			<u>10,154,288</u>		<u>7,723,951</u>
Net assets			<u>10,154,288</u>		<u>7,723,951</u>
Capital and reserves					
Called up share capital	26		17,806		17,084
Share premium account			1,720,252		1,057,246
Revaluation reserve			11,003		11,003
Capital redemption reserve			486		408
Fair value reserve	27		447,006		76,584
Profit and loss reserves			7,957,735		6,561,626
			<u>10,154,288</u>		<u>7,723,951</u>
Total equity			<u>10,154,288</u>		<u>7,723,951</u>

VERACITY UK LTD

GROUP BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

The financial statements were approved by the board of directors and authorised for issue on 2 September 2020 and are signed on its behalf by:

Mr Alastair McLeod BSc (Hons)
Director

Mr David Corson B.Acc., CA
Director

VERACITY UK LTD

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2019

		2019		2018	
	Notes	£	£	£	£
Fixed assets					
Goodwill	12		150,000		-
Other intangible assets	12		14,264		21,446
			<u>164,264</u>		<u>21,446</u>
Total intangible assets			164,264		21,446
Tangible assets	13		757,871		787,897
Investments	14		4,383,592		1,160,916
			<u>5,305,727</u>		<u>1,970,259</u>
Current assets					
Stocks	18	1,169,708		1,154,152	
Debtors	19	3,641,425		4,019,887	
Cash at bank and in hand		1,653,272		2,599,817	
		<u>6,464,405</u>		<u>7,773,856</u>	
Creditors: amounts falling due within one year	20	(1,109,061)		(1,504,057)	
Net current assets			<u>5,355,344</u>		<u>6,269,799</u>
Total assets less current liabilities			10,661,071		8,240,058
Creditors: amounts falling due after more than one year	21		(280,805)		-
Net assets			<u>10,380,266</u>		<u>8,240,058</u>
Capital and reserves					
Called up share capital	26		17,806		17,084
Share premium account			1,720,252		1,057,246
Revaluation reserve			11,003		11,003
Capital redemption reserve			486		408
Fair value reserve	27		447,006		76,584
Profit and loss reserves			8,183,713		7,077,733
Total equity			<u>10,380,266</u>		<u>8,240,058</u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £1,806,873 (2018 - £1,211,086 profit).

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

VERACITY UK LTD

COMPANY BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

The financial statements were approved by the board of directors and authorised for issue on 2 September 2020 and are signed on its behalf by:

Mr Alastair McLeod BSc (Hons)
Director

Mr David Corson B.Acc., CA
Director

Company Registration No. SC291812

VERACITY UK LTD

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Profit and loss reserves	Total
Notes	£	£	£	£	£	£
Balance at 1 January 2018	17,469	1,117,929	11,003	-	5,211,534	6,357,935
Year ended 31 December 2018:						
Profit for the year	-	-	-	-	1,487,260	1,487,260
Other comprehensive income:						
Currency translation differences	-	-	-	-	6,227	6,227
Total comprehensive income for the year	-	-	-	-	1,493,487	1,493,487
Own shares acquired	-	-	-	-	(116,445)	(116,445)
Credit to equity for equity settled share-based payments	25	-	-	-	16,422	16,422
Redemption of shares	26	(408)	(30,435)	408	-	(30,435)
Other movements	23	(30,248)	-	-	33,212	2,987
Balance at 31 December 2018	17,084	1,057,246	11,003	408	6,638,210	7,723,951

VERACITY UK LTD

GROUP STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Profit and reserves	Total
Notes	£	£	£	£	£	£
Year ended 31 December 2019:						
Profit for the year	-	-	-	-	2,181,435	2,181,435
Other comprehensive income:						
Currency translation differences	-	-	-	-	(84,433)	(84,433)
Total comprehensive income for the year	-	-	-	-	2,097,002	2,097,002
Issue of share capital	26	800	663,006	-	-	663,806
Own shares acquired		-	-	-	(191,275)	(191,275)
Credit to equity for equity settled share-based payments	25	-	-	-	(139,196)	(139,196)
Redemption of shares	26	(78)	-	78	-	-
Balance at 31 December 2019	17,806	1,720,252	11,003	486	8,404,741	10,154,288

VERACITY UK LTD

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Fair value reserves	Profit and loss reserves	Total
Notes	£	£	£	£	£	£	£
Balance at 1 January 2018	17,469	1,117,929	11,003	-	8,464	6,001,578	7,156,443
Year ended 31 December 2018:							
Profit and total comprehensive income for the year	-	-	-	-	-	1,211,086	1,211,086
Own shares acquired	-	-	-	-	-	(116,445)	(116,445)
Credit to equity for equity settled share-based payments	25	-	-	-	-	16,422	16,422
Redemption of shares	26	(408)	-	408	-	-	(30,435)
Transfers	-	-	-	-	68,120	(68,120)	-
Other movements	23	(30,248)	-	-	-	33,212	2,987
Balance at 31 December 2018	17,084	1,057,246	11,003	408	76,584	7,077,733	8,240,058
Year ended 31 December 2019:							
Profit and total comprehensive income for the year	-	-	-	-	-	1,806,873	1,806,873
Issue of share capital	26	800	663,006	-	-	-	663,806
Own shares acquired	-	-	-	-	-	(191,275)	(191,275)
Credit to equity for equity settled share-based payments	25	-	-	-	-	(139,196)	(139,196)
Redemption of shares	26	(78)	-	78	-	-	-
Transfers	-	-	-	-	370,422	(370,422)	-
Balance at 31 December 2019	17,806	1,720,252	11,003	486	447,006	8,183,713	10,380,266

VERACITY UK LTD

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019		2018	
		£	£	£	£
Cash flows from operating activities					
Cash generated from operations	33	445,455		1,502,689	
Interest paid		(1,835)		(395)	
Income taxes paid		(22,457)		(8,072)	
Net cash inflow from operating activities		421,163		1,494,222	
Investing activities					
Purchase of business		(1,130,430)		-	
Purchase of intangible assets		(150,000)		-	
Purchase of tangible fixed assets		(129,203)		(274,236)	
Proceeds on disposal of tangible fixed assets		-		10,418	
Purchase of associate		(37,603)		-	
Other investments and loans made		100		-	
Purchase of other investment		(387,508)		-	
Interest received		21,331		13,088	
Net cash used in investing activities		(1,813,313)		(250,730)	
Financing activities					
Proceeds from issue of shares		3,806		-	
Other movements		-		2,987	
Purchase of shares		(191,275)		(146,880)	
Bank loan movement		348,895		-	
Net cash generated from/(used in) financing activities		161,426		(143,893)	
Net (decrease)/increase in cash and cash equivalents		(1,230,724)		1,099,599	
Cash and cash equivalents at beginning of year		3,710,766		2,611,408	
Effect of foreign exchange rates		-		(241)	
Cash and cash equivalents at end of year		2,480,042		3,710,766	

VERACITY UK LTD

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

		2019		2018	
	Notes	£	£	£	£
Cash flows from operating activities					
Cash generated from operations	34	1,296,530		773,663	
Interest paid		(1,835)		-	
Net cash inflow from operating activities		<u>1,294,695</u>		<u>773,663</u>	
Investing activities					
Purchase of intangible assets		(150,000)		-	
Purchase of tangible fixed assets		(84,752)		(233,053)	
Proceeds on disposal of tangible fixed assets		-		4,583	
Purchase of subsidiary		(2,427,143)		-	
Purchase of associate		(37,603)		-	
Purchase of other investment		(387,508)		-	
Interest received		24,340		24,872	
Net cash used in investing activities		<u>(3,062,666)</u>		<u>(203,598)</u>	
Financing activities					
Proceeds from issue of shares		663,806		-	
Redemption of shares		-		2,987	
Purchase of shares		(191,275)		(146,880)	
Bank loan movement		348,895		-	
Net cash generated from/(used in) financing activities		<u>821,426</u>		<u>(143,893)</u>	
Net (decrease)/increase in cash and cash equivalents		<u>(946,545)</u>		<u>426,172</u>	
Cash and cash equivalents at beginning of year		2,599,817		2,173,645	
Cash and cash equivalents at end of year		<u><u>1,653,272</u></u>		<u><u>2,599,817</u></u>	

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

Veracity UK Ltd ("the company") is a private limited company domiciled and incorporated in Scotland. The registered office is Prestwick International Aerospace Park, 4 Dow Road, Monkton, Prestwick, Ayrshire, KA9 2TU.

The group consists of Veracity UK Ltd and all of its subsidiaries.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

In the parent company financial statements, the cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably, and is adjusted for changes in contingent consideration after the acquisition date. Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date. Investments in subsidiaries, joint ventures and associates are accounted for at cost less impairment.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination accounted for using the purchase method and the amounts that can be deducted or assessed for tax, considering the manner in which the carrying amount of the asset or liability is expected to be recovered or settled. The deferred tax recognised is adjusted against goodwill or negative goodwill.

The consolidated financial statements incorporate those of Veracity UK Ltd and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2019. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

1.3 Going concern

At the date on which the financial statements were approved, the financial implications arising from the Coronavirus outbreak, which has affected the UK, are uncertain. The directors are reviewing forecasts for the next 12 months based on an anticipated change in the group's operational activities in the short term. The group appears to have sufficient funding available to see them through the next 12 months, thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.5 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.6 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of a business over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is 10 years.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least 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 the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit.

1.7 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	16%-33% Straight Line
Patents & licences	10% Straight Line

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.8 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold land and buildings	2% Straight Line
Leasehold land and buildings	25% Straight Line
Leasehold improvements	20% Straight Line
Plant and equipment	25%-33% Straight Line
Fixtures and fittings	16%-33% Straight Line
Computers	20%-33% Straight Line
Motor vehicles	25% Reducing Balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

1.9 Fixed asset investments

In the parent company financial statements, investments in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Investments in non controlling interests are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

1.10 Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.12 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.13 Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. 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. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.14 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.15 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date 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. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.16 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

The company operates an HMRC approved EMI scheme in which employees are granted options on shares with an exercise price agreed annually with HMRC as being a fair valuation.

1.17 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.18 Share-based payments

The fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period. In the directors opinion the fair value of the equity-settled share based payments is determined using the EBITDA model, netted against the agreed HMRC exercise price. Equity-settled share based payments will be reversed when either exercised or an employee leaves the company.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

1.19 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.20 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.21 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

3 Turnover and other revenue

	2019	2018
	£	£
Turnover analysed by class of business		
Hardware and software sales	18,244,227	14,408,368
	<u> </u>	<u> </u>
	2019	2018
	£	£
Other significant revenue		
Interest income	21,331	13,088
Grants received	13,475	2,890
	<u> </u>	<u> </u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover and other revenue		(Continued)	
	2019	2018	
	£	£	
Turnover analysed by geographical market			
UK	5,879,691	2,830,716	
USA	6,274,212	6,102,103	
Europe	4,065,951	3,964,526	
Australia & New Zealand	165,232	213,102	
Middle East	1,252,926	886,400	
India	606,215	411,521	
	<u>18,244,227</u>	<u>14,408,368</u>	
4 Operating profit		2019	2018
		£	£
Operating profit for the year is stated after charging/(crediting):			
Research and development costs		1,235,714	1,084,255
Government grants		(13,475)	(2,890)
Depreciation of owned tangible fixed assets		195,082	165,867
(Profit)/loss on disposal of tangible fixed assets		-	922
Amortisation of intangible assets		146,659	57,364
Share-based payments		(139,196)	16,422
Operating lease charges		186,180	139,170
		<u>186,180</u>	<u>139,170</u>
5 Auditor's remuneration		2019	2018
		£	£
Fees payable to the company's auditor and associates:			
For audit services			
Audit of the financial statements of the group and company		22,000	20,500
Audit of the financial statements of the company's subsidiaries		8,900	3,750
		<u>30,900</u>	<u>24,250</u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

6 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

	Group 2019 Number	2018 Number	Company 2019 Number	2018 Number
Administration	16	13	7	7
Marketing	2	1	1	1
Operations	16	12	8	7
Research and development	31	18	12	13
Sales	29	18	5	5
Technical	26	13	4	4
Design	5	3	3	3
	<u>125</u>	<u>78</u>	<u>40</u>	<u>40</u>

Their aggregate remuneration comprised:

	Group 2019 £	2018 £	Company 2019 £	2018 £
Wages and salaries	4,227,368	3,520,504	1,451,378	1,710,425
Social security costs	529,977	387,774	136,981	149,480
Pension costs	164,357	130,404	96,124	107,583
	<u>4,921,702</u>	<u>4,038,682</u>	<u>1,684,483</u>	<u>1,967,488</u>

In addition to the above wages and salaries costs, there is £867,653 (2018 - £703,779) included within research and development costs in administrative costs that have been reallocated from wages and salaries.

7 Directors' remuneration

	2019 £	2018 £
Remuneration for qualifying services	918,831	795,816
Company pension contributions to defined contribution schemes	80,792	93,006
	<u>999,623</u>	<u>888,822</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 5 (2018 - 5).

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

7 Directors' remuneration	(Continued)	
Remuneration disclosed above includes the following amounts paid to the highest paid director:		
	2019	2018
	£	£
Remuneration for qualifying services	171,858	168,900
Company pension contributions to defined contribution schemes	28,189	39,650
	<u> </u>	<u> </u>
8 Interest receivable and similar income		
	2019	2018
	£	£
Interest income		
Interest on bank deposits	21,331	13,088
	<u> </u>	<u> </u>
Investment income includes the following:		
Interest on financial assets not measured at fair value through profit or loss	21,331	13,088
	<u> </u>	<u> </u>
9 Interest payable and similar expenses		
	2019	2018
	£	£
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	1,835	395
	<u> </u>	<u> </u>
10 Amounts written off investments		
	2019	2018
	£	£
Fair value gains/(losses) on financial instruments		
Change in value of financial assets held at fair value through profit or loss	370,422	68,120
	<u> </u>	<u> </u>
11 Taxation		
	2019	2018
	£	£
Current tax		
Foreign current tax on profits for the current period	9,244	48,097
	<u> </u>	<u> </u>
Deferred tax		
Origination and reversal of timing differences	(31,202)	-
	<u> </u>	<u> </u>
Total tax (credit)/charge	(21,958)	48,097
	<u> </u>	<u> </u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

11 Taxation (Continued)

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

	2019 £	2018 £
Profit before taxation	2,159,477	1,535,357
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	410,301	291,718
Tax effect of expenses that are not deductible in determining taxable profit	34,875	14,114
Tax effect of utilisation of tax losses not previously recognised	(28,004)	74,535
Depreciation on assets not qualifying for tax allowances	2,927	2,578
Adjustments in respect of financial assets	(70,380)	(12,942)
Research and development tax credit	(371,677)	(321,906)
Taxation (credit)/charge	(21,958)	48,097

The group has estimated UK tax losses of £1,653,290 (2018 - £1,195,229) available for carry forward against future trading profits.

12 Intangible fixed assets

Group	Goodwill £	Software £	Patents & licences £	Total £
Cost				
At 1 January 2019	485,725	19,803	92,723	598,251
Additions - separately acquired	1,708,366	-	-	1,708,366
At 31 December 2019	2,194,091	19,803	92,723	2,306,617
Amortisation and impairment				
At 1 January 2019	97,146	19,803	71,277	188,226
Amortisation charged for the year	139,477	-	7,182	146,659
At 31 December 2019	236,623	19,803	78,459	334,885
Carrying amount				
At 31 December 2019	1,957,468	-	14,264	1,971,732
At 31 December 2018	388,579	-	21,446	410,025

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Intangible fixed assets	(Continued)		
Company	Goodwill	Patents & licences	Total
	£	£	£
Cost			
At 1 January 2019	-	92,723	92,723
Additions - separately acquired	150,000	-	150,000
	<u>150,000</u>	<u>92,723</u>	<u>242,723</u>
At 31 December 2019	150,000	92,723	242,723
	<u>150,000</u>	<u>92,723</u>	<u>242,723</u>
Amortisation and impairment			
At 1 January 2019	-	71,277	71,277
Amortisation charged for the year	-	7,182	7,182
	<u>-</u>	<u>78,459</u>	<u>78,459</u>
At 31 December 2019	-	78,459	78,459
	<u>-</u>	<u>78,459</u>	<u>78,459</u>
Carrying amount			
At 31 December 2019	150,000	14,264	164,264
	<u>150,000</u>	<u>14,264</u>	<u>164,264</u>
At 31 December 2018	-	21,446	21,446
	<u>-</u>	<u>21,446</u>	<u>21,446</u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

13	Tangible fixed assets	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Plant and equipment	Fixtures and fittings	Computers	Motor vehicles	Total
Group		£	£	£	£	£	£	£	£
Cost or valuation									
At 1 January 2019		606,563	12,451	49,658	564,783	46,537	3,285	53,856	1,337,133
Additions		31,100	-	1,914	86,013	140,157	-	46,397	305,581
At 31 December 2019		637,663	12,451	51,572	650,796	186,694	3,285	100,253	1,642,714
Depreciation and impairment									
At 1 January 2019		28,639	6,699	18,831	319,936	21,504	2,349	25,318	423,276
Depreciation charged in the year		10,883	1,812	12,558	135,579	19,228	936	14,086	195,082
At 31 December 2019		39,522	8,511	31,389	455,515	40,732	3,285	39,404	618,358
Carrying amount									
At 31 December 2019		598,141	3,940	20,183	195,281	145,962	-	60,849	1,024,356
At 31 December 2018		577,924	5,752	30,827	244,847	25,033	936	28,538	913,857

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Freehold buildings were revalued in 2014 at £300,000 by independent external valuers on an open market basis. Additions since that date are included at cost.

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

	Group	2018	Company	2018
	2019	£	2019	£
	£	£	£	£
Cost	538,660	507,560	538,660	507,560
Accumulated depreciation	(28,900)	(23,120)	(28,900)	(23,120)
Carrying value	<u>509,760</u>	<u>484,440</u>	<u>509,760</u>	<u>484,440</u>

The transitional rules set out in FRS 102 have been applied in implementing FRS 102. Accordingly the 2014 valuation is being deemed as the cost therefore revaluations are not required in the future.

Company	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost or valuation					
At 1 January 2019	606,563	12,451	395,395	53,856	1,068,265
Additions	31,100	-	53,652	-	84,752
At 31 December 2019	<u>637,663</u>	<u>12,451</u>	<u>449,047</u>	<u>53,856</u>	<u>1,153,017</u>
Depreciation and impairment					
At 1 January 2019	28,639	6,699	219,712	25,318	280,368
Depreciation charged in the year	10,883	1,812	94,763	7,320	114,778
At 31 December 2019	<u>39,522</u>	<u>8,511</u>	<u>314,475</u>	<u>32,638</u>	<u>395,146</u>
Carrying amount					
At 31 December 2019	<u>598,141</u>	<u>3,940</u>	<u>134,572</u>	<u>21,218</u>	<u>757,871</u>
At 31 December 2018	<u>577,924</u>	<u>5,752</u>	<u>175,683</u>	<u>28,538</u>	<u>787,897</u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 Fixed asset investments

	Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Investments in subsidiaries	15	-	-	3,416,679	989,536
Investments in associates	16	37,603	-	37,603	-
Unlisted investments		929,310	171,380	929,310	171,380
		<u>966,913</u>	<u>171,380</u>	<u>4,383,592</u>	<u>1,160,916</u>

Movements in fixed asset investments

Group	Shares in group undertakings and participating interests £	Other investments other than loans £	Total £
Cost or valuation			
At 1 January 2019	-	171,380	171,380
Additions	37,603	387,508	425,111
Valuation changes	-	370,422	370,422
At 31 December 2019	<u>37,603</u>	<u>929,310</u>	<u>966,913</u>
Carrying amount			
At 31 December 2019	<u>37,603</u>	<u>929,310</u>	<u>966,913</u>
At 31 December 2018	<u>-</u>	<u>171,380</u>	<u>171,380</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 Fixed asset investments (Continued)

Movements in fixed asset investments Company	Shares in group undertakings and participating interests	Other investments other than loans	Total
	£	£	£
Cost or valuation			
At 1 January 2019	989,536	171,380	1,160,916
Additions	2,464,746	387,508	2,852,254
Valuation changes	-	370,422	370,422
At 31 December 2019	<u>3,454,282</u>	<u>929,310</u>	<u>4,383,592</u>
Carrying amount			
At 31 December 2019	<u>3,454,282</u>	<u>929,310</u>	<u>4,383,592</u>
At 31 December 2018	<u>989,536</u>	<u>171,380</u>	<u>1,160,916</u>

15 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
I-Comply Veracity Surveillance Private Ltd	India	Command & control software and CCTV products	Ordinary	99.99	0.01
Veracity ME DMCC	United Arab Emirates	Command & control software and CCTV products	Ordinary	100.00	0
Veracity Systems Ltd	UK	Command and control software	Ordinary	100.00	0
Veracity USA, Inc.	USA	CCTV products	Ordinary	100.00	0
Visual Management Systems Holdings Limited	UK	Holding company	Ordinary	100.00	0
Visual Management Systems Limited	UK	Command & control software	Ordinary	0	100.00
Titan AI Limited	UK	Dormant company	Ordinary	0	100.00
Vitre Limited	UK	Dormant company	Ordinary	0	51.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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16 Associates

Details of associates at 31 December 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Bluebox Video Limited	UK	Manufacture of computers and peripheral equipment	Ordinary	40.00	0

17 Financial instruments

	Group 2019 £	2018 £	Company 2019 £	2018 £
Carrying amount of financial assets				
Instruments measured at fair value through profit or loss	929,310	171,380	929,310	171,380

18 Stocks

	Group 2019 £	2018 £	Company 2019 £	2018 £
Work in progress	72,263	-	-	-
Finished goods and goods for resale	1,491,586	1,348,043	1,169,708	1,154,152
	1,563,849	1,348,043	1,169,708	1,154,152

19 Debtors

	Group 2019 £	2018 £	Company 2019 £	2018 £
Amounts falling due within one year:				
Trade debtors	4,152,453	2,664,885	948,374	1,179,186
Amounts owed by group undertakings	-	-	2,274,783	2,488,856
Other debtors	290,478	259,363	252,979	242,869
Prepayments and accrued income	332,749	191,437	165,289	108,976
	4,775,680	3,115,685	3,641,425	4,019,887

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

20 Creditors: amounts falling due within one year

	Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Bank loans	22	68,090	-	68,090	-
Trade creditors		1,115,584	1,000,580	544,138	929,048
Corporation tax payable		-	48,097	-	-
Other taxation and social security		267,384	197,719	78,720	79,003
Other creditors		30,976	43,116	7,227	12,121
Accruals and deferred income		861,763	656,293	410,886	483,885
		<u>2,343,797</u>	<u>1,945,805</u>	<u>1,109,061</u>	<u>1,504,057</u>

21 Creditors: amounts falling due after more than one year

	Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Bank loans and overdrafts	22	280,805	-	280,805	-
		<u>280,805</u>	<u>-</u>	<u>280,805</u>	<u>-</u>

22 Loans and overdrafts

	Group 2019 £	2018 £	Company 2019 £	2018 £
Bank loans	348,895	-	348,895	-
	<u>348,895</u>	<u>-</u>	<u>348,895</u>	<u>-</u>
Payable within one year	68,090	-	68,090	-
Payable after one year	280,805	-	280,805	-
	<u>348,895</u>	<u>-</u>	<u>348,895</u>	<u>-</u>

The bank loan is secured by standard security over the property of the company.

23 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the group and company, and movements thereon:

Group	Liabilities 2019 £	Liabilities 2018 £
Accelerated capital allowances	3,682	-
	<u>3,682</u>	<u>-</u>

The company has no deferred tax assets or liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

23 Deferred taxation (Continued)

	Group 2019 £	Company 2019 £
Movements in the year:		
Asset at 1 January 2019	-	-
Charge to profit or loss	3,682	-
Liability at 31 December 2019	<u>3,682</u>	<u>-</u>

24 Retirement benefit schemes

	2019 £	2018 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	<u>164,357</u>	<u>130,404</u>

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

In addition to the above defined contribution scheme costs, there is £37,009 (2018 - £35,240) included within research and development costs in administrative costs that have been reallocated from pension costs.

25 Share-based payment transactions

	Group 2019 £	2018 £	Company 2019 £	2018 £
Expenses recognised in the year				
Arising from equity settled share based payment transactions	<u>(139,196)</u>	<u>16,422</u>	<u>(139,196)</u>	<u>16,422</u>

26 Share capital

	Group and company 2019 £	2018 £
Ordinary share capital Issued and fully paid		
178,067 Ordinary shares of 10p each	<u>17,806</u>	<u>17,084</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

27 Fair value reserve

	Group 2019 £	2018 £	Company 2019 £	2018 £
At the beginning of the year	76,584	8,464	76,584	8,464
Transfer of non-distributable profits relating to prior periods	370,422	68,120	370,422	68,120
At the end of the year	<u>447,006</u>	<u>76,584</u>	<u>447,006</u>	<u>76,584</u>

28 Acquisitions

On 1 June 2019 the group acquired 100 percent of the issued capital of Visual Management Systems Holdings Limited.

	Book Value £	Adjustments £	Fair Value £
Property, plant and equipment	176,378	-	176,378
Investments	100	-	100
Inventories	232,731	-	232,731
Trade and other receivables	726,423	-	726,423
Cash and cash equivalents	636,713	-	636,713
Trade and other payables	(872,366)	-	(872,366)
Provisions	(31,202)	-	(31,202)
Total identifiable net assets	<u>868,777</u>	<u>-</u>	868,777
Goodwill			<u>1,558,366</u>
Total consideration			<u>2,427,143</u>
The consideration was satisfied by:			£
Cash			1,767,143
Issue of shares			660,000
			<u>2,427,143</u>
Contribution by the acquired business for the reporting period included in the consolidated statement of comprehensive income since acquisition:			£
Turnover			2,631,616
Loss after tax			<u>(41,166)</u>

VERACITY UK LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

29 Financial commitments, guarantees and contingent liabilities

As part of the acquisition of the Visual Management Systems Holdings group there is a possibility of earn out payments to the VMS vendors in respect of accounting periods 1st June 2019 to 31st December 2019; 1st January 2020 to 31st December 2020; and 1st January 2021 to 31st December 2021.

The earn out payments will be calculated on a percentage of net profit relating to core business sales and distribution business sales. The first earn out payment will be calculated at 50% of net profit on core business sales and 40% of net profit on distribution business sales for the period ending 31st December 2019. The second earn out payment will be calculated at 40% of net profit on core business sales and 30% of net profit on distribution business sales for the year ending 31st December 2020. The final earn out payment will be calculated at 30% of net profit on core business sales and 20% of net profit on distribution business sales for the year ending 31st December 2021.

If the company breaks even or makes a loss no earn out payment will be made, therefore no payment is expected for the period ended 31st December 2019 as a result of the loss.

30 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Within one year	186,382	88,393	59,020	49,093
Between two and five years	393,388	80,868	4,250	34,000
In over five years	32,476	-	-	-
	<u>612,246</u>	<u>169,261</u>	<u>63,270</u>	<u>83,093</u>

31 Capital commitments

Amounts contracted for but not provided in the financial statements:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Acquisition of tangible fixed assets	-	52,000	-	52,000
	<u>-</u>	<u>52,000</u>	<u>-</u>	<u>52,000</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

32 Events after the reporting date

At the date on which the financial statements were approved, the overall financial implications arising from the Coronavirus (Covid-19) outbreak, which has affected the UK from March 2020, remain uncertain. The Directors implemented changes as a result of the Covid-19 crisis, which have allowed the group to continue to trade strongly in the current financial year, and it is anticipated the group will continue to do so in the foreseeable future.

The Directors are of the opinion that the Covid-19 outbreak is a non-adjusting Post Balance Sheet event and that the group remains a going concern.

33 Cash generated from group operations

	2019	2018
	£	£
Profit for the year after tax	2,181,435	1,487,259
Adjustments for:		
Taxation (credited)/charged	(21,958)	48,097
Finance costs	1,835	395
Investment income	(21,331)	(13,088)
(Gain)/loss on disposal of tangible fixed assets	-	922
Amortisation and impairment of intangible assets	146,659	57,364
Depreciation and impairment of tangible fixed assets	195,082	165,867
Adjustments to the fair value of financial assets	(370,422)	(68,120)
Currency translation differences	(84,433)	6,227
Equity settled share based payment expense	(139,196)	16,422
Decrease in provisions	(31,202)	-
Movements in working capital:		
Decrease/(increase) in stocks	16,926	(36,472)
Increase in debtors	(933,572)	(27,262)
Decrease in creditors	(494,367)	(134,920)
Cash generated from operations	<u>445,456</u>	<u>1,502,691</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

34 Cash generated from operations - company

	2019	2018
	£	£
Profit for the year after tax	1,806,873	1,211,086
Adjustments for:		
Finance costs	1,835	-
Investment income	(24,340)	(24,872)
(Gain)/loss on disposal of tangible fixed assets	-	922
Amortisation and impairment of intangible assets	7,182	8,791
Depreciation and impairment of tangible fixed assets	114,778	117,102
Amounts written off investments	(370,422)	(68,120)
Equity settled share based payment expense	(139,196)	16,422
Movements in working capital:		
Increase in stocks	(15,556)	(3,624)
Decrease/(increase) in debtors	378,462	(393,979)
Decrease in creditors	(463,086)	(90,065)
Cash generated from operations	<u>1,296,530</u>	<u>773,663</u>

35 Analysis of changes in net funds - group

	1 January 2019	Cash flows	31 December 2019
	£	£	£
Cash at bank and in hand	3,710,766	(1,230,724)	2,480,042
Borrowings excluding overdrafts	-	(348,895)	(348,895)
	<u>3,710,766</u>	<u>(1,579,619)</u>	<u>2,131,147</u>

36 Analysis of changes in net funds - company

	1 January 2019	Cash flows	31 December 2019
	£	£	£
Cash at bank and in hand	2,599,817	(946,545)	1,653,272
Borrowings excluding overdrafts	-	(348,895)	(348,895)
	<u>2,599,817</u>	<u>(1,295,440)</u>	<u>1,304,377</u>

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.