

**Company Registration No: 2755398**

**Rapiscan Systems Limited**

**Report and Financial Statements**

**29 June 2017**

TUESDAY



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# **Rapiscan Systems Limited**

## **Report and Financial Statements**

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# **Rapiscan Systems Limited**

## **Report and financial statements 2017**

### **Officers and professional advisors**

#### **Directors**

T S Ghataure  
A Mehra  
A L Mixer  
M J Stas  
P C Williamson

#### **Secretary**

Gravitas Company Secretarial Services Limited  
One New Change  
London  
EC4M 9AF

**Company Registration No.** 2755398

#### **Registered office**

Gravitas Company Secretarial Services Limited  
One New Change  
London  
EC4M 9AF

#### **Bankers**

HSBC plc  
Global House  
High Street  
Crawley  
West Sussex  
RH10 1DL

#### **Solicitors**

K & L Gates LLP  
110 Cannon Street  
London  
EC4N 6AR

#### **Independent auditors**

Mazars LLP  
Tower Bridge House  
St Katharine's Way  
London E1W 1DD

# Rapiscan Systems Limited

## Report and financial statements 2017

### Strategic report

The Directors present their Strategic Report for the year ended 29 June 2017.

#### Business environment

The company operates in the growing market of security screening, with the increased alertness towards terrorist threats and border protection. The aviation market is highly regulated, whereas other areas such as border protection and ports have developing requirements and standards. The company's aim is to provide complete security screening solutions for its clients.

#### Strategy

The company's objective is to achieve sustainable growth through a combination of product development, market expansion into developing regions and complete security screening solutions.

The key elements to the company's growth strategy are:

##### *Product development*

The company will continue to develop products that meet the changing requirements for security screening, with innovative design and use of new technology and advances in imagery technology.

##### *Market expansion*

The company will continue to develop new distribution channels around the EMEA region whilst working with existing distributors to increase their product portfolio.

##### *Complete security screening solutions*

The company has looked to develop a complete range of solutions for the market covering people screening, checkpoint and hold baggage through to multiple levels of cargo and vehicle inspection, which it believes positions them well to meet all customer requirements.

#### Future outlook

The company believes that the growth in the security screening market will help the company achieve its strategy.

#### Principal business risks and uncertainties

The key business risks affecting the company are set out below:

##### *Competitive Risk*

The security business is a highly competitive market particularly around price and product performance. This applies pressure to our margins. Our sales team monitor product performance and competitor performance to ensure we can meet the customers' performance expectations.

##### *Distribution Risk*

The company goes to market through a network of distributors; these distributors also provide valuable market knowledge. The overall performance of distributors is monitored; this includes reviewing performance and financial stability. The company mitigates its risk by selecting distributors with the required knowledge and financial strength. These risks are reviewed and monitored by the board and appropriate actions to mitigate them are put in place.

#### Financial risk management

From the perspective of the company, the financial risks and uncertainties are integrated with those of the OSI Systems Inc group to which it belongs and are not managed separately. Accordingly, the principal financial risks and uncertainties of OSI Systems Inc, are discussed on pages 24-47 Part I, Item 1A "Risk Factors" of the 2017 Form 10k published on 24 August 2017 which does not form part of this report.

Whilst some of the risks do not affect the company directly, the company is dependent on the group as its source of financing, and therefore these risks could have an effect on the company.

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk and liquidity risk.

##### *Credit risk*

Financial instruments that are potentially subject to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. The company restricts investments in cash equivalents to financial institutions with high credit standing. Credit risk on accounts receivable is minimised as a result of the large and diverse nature of the company's worldwide customer base. The company performs ongoing credit evaluations of its customers' financial condition and maintains provisions for potential credit losses.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Strategic report (continued)

#### Financial risk management (continued)

##### *Working Capital*

The company's liquidity is dependent upon the group's ability to provide the necessary funds. The company maintains sufficient funds for its operations, and has support available from other group companies should this become necessary.

##### *Foreign currency risk*

The company has a large proportion of its contracts in US dollars and Euros. The exchange risk is managed by matching receivables with payables as the bulk of the purchases are also US dollar based. The company's exposure to exchange rate fluctuations is managed as part of OSI Systems Inc group's overall policy on foreign currency. The company has not entered into any forward exchange contracts.

##### *Interest risk*

The company has loans from other group undertakings. The company's borrowings are at agreed rates of interest which are fixed for the duration of the loans.

Revenue, costs, current and non current assets, current and non current liabilities and reserves are subject to management's judgement and estimate.

Following the referendum on 23 June 2016, the United Kingdom (UK) has committed itself to leaving the European Union (EU). The consequences of this decision to the company are not expected to be significant as the company's revenues are generated all around the globe, and in accordance with Commission Regulation (EC) 2261/98 of 26 October 1998, the majority of the products sold by the company into the EU would attract import duty at zero percent, once the UK has left the EU.

#### Key performance indicators (KPIs)

The companies KPIs relate to maintaining margins whilst achieving sustainable growth.

	2017	2016	Definition, method of calculation and analysis
Total sales increase / growth %	14%	(28%)	Year on year total sales growth. Total sales divided by previous year's total sales. The year on year increase was the result of increase in activity as a result of increase in orders for RTT products.
External export sales (decrease) / growth %	53%	(21%)	Year on year external export sales growth. External export sales divided by previous year's external export sales. The year on year increase was the result of increased activity as a result of increase in orders for RTT products.
Gross margin %	26%	27%	Gross margin as a % of total sales. Gross margin divided by total sales. The company is satisfied with its overall margins, which are consistent from year to year.

Approved by the Board of Directors on 30/11/17  
and signed on behalf of the Board



A L Mixer  
Director

# Rapiscan Systems Limited

## Report and financial statements 2017

### Directors' report

#### Principal activities

The company is principally engaged in the manufacture and distribution of equipment for the purposes of baggage and personnel security screening and cargo inspection.

#### Results and dividends

The profit for the year after taxation was USD 2,114,000 (2016: loss USD 9,036,000).

No dividends were paid during the year.

The Directors are confident about the future prospects of the company. The company's statement of financial position is set out on page 13.

#### Post balance sheet events

There are no post balance sheet events to report.

#### Going concern

The company's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The company has considerable financial resources together with backlog orders from customers across different geographical areas. As a consequence, the directors believe that the company is well placed to manage its business risks successfully. Thus, the company continues to adopt the going concern basis in preparing these accounts.

#### Research and development

The company will continue its development of products in line with regulatory and customer requirements with the continued advances of technology in X-ray imagery.

#### Branches outside the UK

The company has a branch in Norway.

#### Equal opportunity of employment

The company is committed to eliminating discrimination amongst our workforce. The company objective is to create a working environment in which there is no unlawful discrimination and all decisions are based on merit.

#### Recruitment and selection of employees

The company aims to ensure that job requirements and job selection criteria are clear and based only on what is required to get the job done effectively. The company will avoid making stereotypical assumptions based on protected characteristics about who is able to do a particular job.

The company aims to ensure that no job applicant is placed at a disadvantage by practices or requirements which disproportionately disadvantage protected groups and which are not justified by the demands of the job.

#### Promotion, training and appraisals of employees

Promotion and training decisions are made on the basis of merit. The company will not unlawfully discriminate against any employee in making promotion or training decisions. The company believes all employees should have an equal opportunity to progress and develop.

#### Communication with employees

The company makes use of a company intranet site, email notices and noticeboards.

There is a regular all-management meeting, and managers are encouraged to feed back information from these meetings to their staff.

#### Disabled Employees

The company's policy in respect of disabled persons is that their applications for employment are always fully and fairly considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that employment with the company continues and where necessary, appropriate training is arranged. Career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees in similar position.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Directors' report (continued)

#### Disclosure of information to auditors

The Directors, at the time when this Directors' report is approved, have confirmed that:

- a) The Directors have taken all the necessary steps to make themselves aware, as Directors, of any relevant information and to establish that the auditors are aware of that information.
- b) As far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware.

#### Directors' indemnity

The company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the company. Appropriate Directors' and officers' liability insurance cover is in place in respect of all of the company's Directors.

#### Directors and their interests

The Directors who served during the year or were directors at the time of the signing of the accounts were as follows:

F Baldwin      Resigned on 31 March 2017  
T S Ghattaure  
G F Martin      Resigned on 28 June 2017  
A Mehra  
A L Mixer  
M J Stas  
P C Williamson

No Director had any interest in the shares of the company or fellow UK group undertakings at either the beginning or end of the year. As a wholly owned subsidiary of an overseas parent, which is a body corporate incorporated outside Great Britain, the Directors are not required to notify the company of interests in shares of that or any other body corporate incorporated outside Great Britain.

#### Matters covered in the strategic report

As permitted by paragraph 1A of schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Report of the Directors have been omitted as they are included in the Strategic Report on page 3. These matters relate to the review and analysis of the business and the principal risks and uncertainties.

#### Auditor

Mazars LLP have indicated their willingness to be reappointed as auditors for another term and appropriate arrangements have been put in place for them to be deemed reappointed at the end of the general meeting at which the financial statements are laid.

Approved by the Board of Directors on 30/11/17  
and signed on behalf of the Board



A L Mixer.  
Director

# **Rapiscan Systems Limited**

## **Report and financial statements 2017**

### **Statement of Directors' responsibilities in respect of the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The financial reporting standard applicable in the UK & Ireland." The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the Company for that period.

In preparing those 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **Rapiscan Systems Limited**

### **Report and financial statements 2017**

#### **Independent auditor's report to the members of Rapiscan Systems Limited**

##### **Opinion**

We have audited the financial statements of Rapiscan Systems Limited (the 'company') for the year ended 29 June 2017 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the 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 company's affairs as at 29 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 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 report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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.

## **Rapiscan Systems Limited**

### **Report and financial statements 2017**

#### **Independent auditor's report to the members of Rapiscan Systems Limited (continued)**

##### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

##### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specific 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 set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard. 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.

**Rapiscan Systems Limited**

**Report and financial statements 2017**

**Independent auditor's report to the members of Rapiscan Systems Limited (continued)**

**Auditor's responsibilities for the audit of the financial statements (continued)**

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



Signed:

Name: Jonathan Seaman  
(Senior Statutory Auditor)  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
Mazars LLP  
Tower Bridge House  
St Katharine's Way  
London  
E1W 1DD  
Date: 4 December 2017

# Rapiscan Systems Limited

## Report and financial statements 2017

### Income statement

Year ended 29 June 2017

	Note	2017	2016
		USD 000	USD 000
Revenue	3	166,628	145,932
Cost of sales		(122,119)	(106,463)
<b>Gross profit</b>		<u>44,509</u>	<u>39,469</u>
Administrative expenses		(40,603)	(48,517)
Other income	4	126	553
<b>Profit / (loss) on ordinary activities before finance costs and taxation</b>	5	<u>4,032</u>	<u>(8,495)</u>
Finance income	6	463	1,190
Finance costs	6	(1,486)	(2,948)
<b>Profit / (loss) on ordinary activities before taxation</b>		<u>3,009</u>	<u>(10,253)</u>
Tax on profit/(loss) on ordinary activities	9	(895)	1,217
<b>Profit / (loss) for the financial year transferred to reserves</b>		<u><u>2,114</u></u>	<u><u>(9,036)</u></u>

All activities are considered to be continuing.

The notes on pages 15 - 28 form part of these financial statements.

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Statement of comprehensive income

At 29 June 2017

	2017	2017	2016	2016
Note	USD 000	USD 000	USD 000	USD 000
<b>Profit / (loss) attributable to the shareholders of the company</b>		2,114		(9,036)
Pension asset gains arising during the year	626		253	
Pension liability losses arising during the year	(421)		(387)	
Deferred tax liability on pension funded surplus	(47)		20	
Currency translation differences on pension schemes	(15)		(90)	
Remeasurement of net defined benefit obligation		143		(204)
<b>Total comprehensive income / profit for the financial year</b>		<u>2,257</u>		<u>(9,240)</u>

**Rapiscan Systems Limited**  
Company Registration No. 2755398

**Report and financial statements 2017**

**Statement of financial position**  
**At 29 June 2017**

	Note	2017 USD 000	2017 USD 000	2016 USD 000	2016 USD 000
<b>Non current assets</b>					
<b>Fixed assets</b>					
Intangible assets	10		243		198
Property, plant and equipment	12		15,366		16,378
Financial assets	11		<u>90</u>		<u>90</u>
			15,699		16,666
<b>Accounts receivable amounts due in more than one year</b>	15		12,306		12,306
<b>Current assets</b>					
Inventory	13	77,908		101,631	
Accounts receivable and other receivables	14	91,220		84,826	
Cash and cash equivalents		<u>15,747</u>		<u>6,798</u>	
		184,875		193,255	
<b>Accounts payable and other payables amounts due within one year</b>	16	<u>(71,562)</u>		<u>(74,888)</u>	
<b>Net current assets</b>			<u>113,313</u>		<u>118,367</u>
<b>Total assets less current liabilities</b>			141,318		147,339
<b>Accounts payable and other payables amounts due in more than one year</b>	17		(26,969)		(35,585)
<b>Provisions for liabilities and charges</b>	18		<u>(5,705)</u>		<u>(5,094)</u>
<b>Net assets excluding pension</b>			108,644		106,660
<b>Pension asset</b>	22		<u>759</u>		<u>486</u>
<b>Net assets including pension asset</b>			<u>109,403</u>		<u>107,146</u>
<b>Capital &amp; reserves</b>					
Called up share capital	19		17,416		17,416
Currency translation reserve			(5,772)		(5,772)
Retained earnings			97,759		95,502
<b>Total shareholders' funds - equity</b>			<u>109,403</u>		<u>107,146</u>

The notes on pages 15 - 28 form part of these financial statements.

These financial statements were approved by the Board of Directors on 30/11/17  
Signed on behalf of the Board of Directors



A L Mixer  
Director

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Statement of changes in equity Year ended 29 June 2017

Company	Called up share capital	Currency translation reserve	Retained earnings	Shareholders Equity
	USD 000	USD 000	USD 000	USD 000
At 30 June 2016	17,416	(5,772)	95,502	107,146
Profit for the year	-	-	2,114	2,114
Other comprehensive profit	-	-	143	143
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>2,257</b>	<b>2,257</b>
<b>At 29 June 2017</b>	<b>17,416</b>	<b>(5,772)</b>	<b>97,759</b>	<b>109,403</b>

Company	Called up share capital	Currency translation reserve	Retained earnings	Shareholders Equity
	USD 000	USD 000	USD 000	USD 000
At 30 June 2015	17,416	(5,772)	104,742	116,386
Loss for the year	-	-	(9,036)	(9,036)
Other comprehensive loss	-	-	(204)	(204)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(9,240)</b>	<b>(9,240)</b>
<b>At 29 June 2016</b>	<b>17,416</b>	<b>(5,772)</b>	<b>95,502</b>	<b>107,146</b>

#### Called up share capital

This account represents the nominal value of the shares that have been issued.

#### Currency translation reserve

This includes foreign exchange differences as a result of change in functional currency from GBP to USD in 2014.

#### Retained earnings

This reserve represents cumulative profits or losses.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Notes to the accounts

#### Year ended 29 June 2017

Rapiscan Systems Ltd is a company limited by shares and incorporated and domiciled in England and Wales.

The registered office is disclosed on page 2 and principal place of business is located at X Ray House, 8 Bonehurst Road, Salfords, Surrey, RH1 5GG, UK.

#### 1. Basis of preparation and statement of compliance

The financial statements have been prepared on the going concern basis under the historical cost convention, and in compliance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Ireland," and in accordance with the Companies Act 2006.

#### 2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

##### Going concern

The company's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The company has considerable financial resources together with backlog orders from customers across different geographical areas. As a consequence, the directors believe that the company is well placed to manage its business risks successfully. Thus, the company continues to adopt the going concern basis in preparing these accounts.

##### Consolidated financial statements

The company is exempt from the requirement to prepare consolidated financial statements under Sections 399 to 402 of the Companies Act 2006. Consolidated financial statements are prepared by OSI Systems Inc., the ultimate parent undertaking, incorporated in the USA and are available from the address set out in the notes.

##### Reduced disclosure for subsidiaries

The company is a qualifying entity for the purposes of disclosure exemptions under FRS 102. Rapiscan Systems Limited's financial statements are consolidated into the financial statements of OSI Systems Inc., the ultimate parent undertaking, incorporated in the USA and copies are publicly available from the address set out in note 23.

The company has applied the following disclosure exemptions under FRS 102 on the basis that equivalent disclosures are included in the consolidated financial statements of OSI Systems Inc.:

paragraph 1.12 (a) (iv) reconciliation of the number of outstanding shares at the beginning and end of the year

paragraph 1.12 (b) requirement to prepare a statement of cash flows

paragraph 1.12 (c) exemption relating to the basis of measurement and disclosure for financial assets and liabilities

paragraph 1.12 (d) (i) exemption relating to certain disclosure requirements of section 26, share based payments

paragraph 1.12 (e) exemption from disclosure of key management personnel compensation in total.

##### Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents the amount received or receivable for goods supplied or services rendered, net of any actual returns, discounts and rebates allowed by the company and value added taxes.

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; and (d) it is probable that future economic benefits will flow to the company.

##### Functional Currency

The functional and presentational currency of Rapiscan Systems Ltd is considered to be USD because that is the currency of the primary economic environment in which the company operates.

##### Foreign currencies

Trading transactions denominated in foreign currencies are translated into US Dollars at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the exchange rate ruling at the statement of financial position date. All exchange gains or losses are accounted for in the income statement. These financial statements have been prepared in United States Dollars (USD) in accordance with applicable accounting standards on the basis that USD is the functional currency.



## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued) Year ended 29 June 2017

##### 2. Accounting policies (continued)

###### Research and development

Research and development expenditure is charged to the income statement when it is incurred.

###### Government grants

Government grants are recognised on an accrual model basis. The company receives government grants in the form of the Research and Development Expenditure Credit (RDEC). The company does not benefit from any other forms of government assistance.

###### Goodwill

Goodwill arising on the acquisition of new businesses representing the difference between fair value of consideration given and fair value of assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life.

###### Patents

Patents are measured at cost. Amortisation is calculated to write off the cost in equal instalments over their estimated useful lives which is deemed to be 20 years.

###### Computer software

Computer software is measured at cost. Amortisation is calculated to write off the cost in equal instalments over their estimated useful lives which is deemed to be between 1 and 4 years.

###### Financial assets

Investments in subsidiaries are stated at cost, less accumulated impairment losses.

###### Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to working condition for its intended use, dismantling and restoration costs. Borrowing costs are not capitalised.

###### a) Leasehold improvements, land and buildings

Leasehold improvements, land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses, as the properties are held for the purposes of use in production, supplying goods and services, and for administration.

###### b) Motor vehicles, plant machinery, fittings & equipment, computer hardware

Motor vehicles, plant machinery, fittings & equipment, computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

###### c) Depreciation

Land is not depreciated. Depreciation is provided on tangible fixed assets on a straight line basis from the time they are available for use, so as to write off their historical costs over their estimated useful lives, as follows:

Leasehold improvements	5 -10 years
Freehold & long leasehold buildings	20 years
Motor vehicles	1 - 4 years
Plant and machinery	1 - 5 years
Fittings and equipment	3 -10 years
Computer hardware	1 - 4 years

###### d) Construction in progress

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

###### Leased assets

Rentals applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are charged to the income statement on a straight line basis as incurred.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 2. Accounting policies (continued)

##### Inventory and work in progress

Inventory comprises finished goods, raw materials and consumable items. They are stated at the lower of cost and estimated net realisable value, after provision for obsolescence. Work in progress is stated at cost or net realisable value, whichever is the lower. Cost includes materials at purchase price, labour and appropriate production related overheads.

Hire and demonstration equipment is amortised, on a straight line basis, so as to write off the cost of the equipment over their estimated useful lives. The amortisation rates used are:

Hire and demonstration stock      3 years

##### Impairment of non-financial assets

At each reporting date assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the income statement. Any impairment loss recognised for all assets, including goodwill, shall be reversed in a subsequent period if, and only if, the reasons for the impairment have ceased to exist.

##### Taxation and deferred taxation

The charge for taxation is based on the results for the period and is calculated with reference to the tax rates enacted or substantially enacted by the end of the period. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

##### Employee benefits

###### (i) Short term benefits

All short term benefits, including holiday pay and similar non-monetary benefits are recognised as an expense in the period in which the service is received.

###### (ii) Pension costs

###### a) Defined contribution scheme:

The company operates a defined contribution scheme for its employees. The company pays fixed contributions into a separate entity. Once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as an expense when they fall due. Amounts not paid are shown in accruals in the statement of financial position. The assets are held separately from the company in independently administered funds.

###### b) Defined benefit scheme:

The company operates a defined benefit scheme for certain employees. The scheme is closed to future accrual. The company has an obligation to provide each qualifying employee with an amount every month throughout their period of retirement. That amount is dependent upon several qualifying factors, including age, length of service and remuneration.

The pension asset recognised in the statement of financial position is the fair value of the scheme assets less the present value of the defined benefit obligation at the reporting date. The company intends to recover the surplus through reduced contributions in the future.

The defined benefit obligation is measured using the projected unit credit method. The company engages independent actuaries to calculate the obligation approximately every three years. In the intervening years, the actuaries approximate the liabilities based on their estimates of changes in market conditions and employee membership of the scheme. The present value is determined by discounting the estimated future payments using market yields on AA-rated corporate bonds that have terms approximating the estimated period of the future payments.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 2. Accounting policies (continued)

##### b) Defined benefit scheme (continued):

The fair value of the scheme assets are measured at market rate bid values.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, alongside the return on scheme assets, less amounts included in net interest, together with currency translation changes, are charged or credited to other comprehensive income, and disclosed as "Remeasurement of net defined benefit liability."

Interest income on scheme assets is included in finance income, and interest expense on scheme obligations is included in finance expense in the income statement.

##### (iii) Share-based employee compensation plans

The company's ultimate parent company, OSI Systems Inc., operates share-based employee compensation plans in which certain of the company's employees and directors are eligible to participate. The company measures and recognises the share based payment expense as an allocation of cost to the group.

##### (iv) Bonus plans

The company operates various bonus plans for its employees. An expense is recognised in the income statement when the company has a legal or constructive obligation to make payments under these bonus plans and a reliable estimate of the obligation can be made.

##### Provisions for liabilities and charges

A provision is recognised when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. These provisions are not discounted.

Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected, and has therefore a legal or constructive obligation to carry out the restructuring.

##### Financial instruments

###### a) Basic financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, are initially recognised at transaction price, 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. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If the 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 the income statement.

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 value does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when a) the contractual rights to the cash flows from the asset expire or are settled, or b) substantially all risks and rewards of ownership of the asset are transferred to another party or c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 2. Accounting policies (continued)

##### Financial instruments (continued)

##### b) Basic financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, and loans from fellow group undertakings 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 receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as accounts payable due within one year if payment is due within one year or less. If not, they are presented as accounts payable due in more than one year. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### c) Offsetting

Financial assets and liabilities are offset and 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.

##### Critical accounting judgements and key sources of uncertainty

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

##### i) Deferred tax liability

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. See note 9 for the carrying amount of deferred tax liability.

##### ii) Impairment of patents

The value of patents is dependent on the technological advances and discoveries created by the company being able to provide the solutions to security needs as required by customers and legislation. These circumstances are assessed annually by management, and patent values are impaired when necessary to reflect expectations regarding technological changes, future investment and economic conditions in the market. See note 10 for the carrying amount of patents.

##### iii) Inventory provisioning

The company's products are subject to changes in customer demands, legislation, technology and market conditions. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 13 for the net carrying amount of the inventory after taking into account the associated provision of USD 23,536k (2016: USD 9,329k)

##### (iv) Impairment of accounts receivable

The company makes an estimate of the recoverable value of trade and other accounts receivable. When assessing impairment of trade and other accounts receivable, management considers factors including the current credit rating, ageing profile of accounts receivable and historical experience. See notes 14 and 15 for the net carrying amounts of accounts receivable after taking into account the associated impairment provision of USD 106k (2016: USD 168k)

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

Year ended 29 June 2017

##### Critical accounting judgements and key sources of uncertainty (continued)

v) Provision for warranty

The company offers its customers warranties on many of the products that it sells. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. The company records provisions for estimated warranty expenses concurrently with revenue recognition. Management periodically adjust this provision based on historical experience and anticipated expenses. The company charges actual expenses of repairs under warranty, including parts and labour, to this provision when incurred. See note 18 for the provision for warranty at the year end.

vi) Provision for contract losses

The company monitors the projected profitability of all orders it has accepted from customers. Where a contract loss is forecast, the estimated loss is immediately provided for in the income statement, and it is revised periodically if the circumstances impacting on the future loss change. See note 18 for the provision for contract losses at the year end.

(vii) Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 22 for the disclosures relating to the defined benefit pension scheme.

#### 3 Analysis of revenue by geographical destination comprises:

	2017	2016
	USD 000	USD 000
External sales:		
United Kingdom	21,771	12,911
Americas	7,198	3,043
Europe (excluding UK)	85,019	44,874
Middle East	27,009	16,185
Africa	6,058	17,852
Asia Pacific	1,197	1,858
Total external sales	<u>148,252</u>	<u>96,723</u>
Sales to group companies:-		
(Australia, Finland, Malaysia, Singapore and United States)	18,376	49,209
	<u>166,628</u>	<u>145,932</u>

There is only one class of business, namely the manufacture, distribution and rental of equipment for the purposes of cargo baggage and personnel security screening. The equipment rental revenue for 2017 was USD 517k (2016: USD 22k)

#### 4 Other Income

Government grants	<u>126</u>	<u>553</u>
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There are no unfulfilled conditions or other contingencies attached to grants recognised as income.

# Rapiscan Systems Limited

## Report and financial statements 2017

### Notes to the accounts (continued)

Year ended 29 June 2017

#### 5 Operating profit

##### Profit/Loss on ordinary activities before finance costs and taxation

	Note	2017 USD 000	2016 USD 000
Rentals under operating leases:			
Buildings		1,085	1,113
Plant and machinery		752	752
Depreciation on property, plant and equipment	12	2,236	1,755
Loss on disposal of fixed assets		-	57
Amortisation of intangible assets	10	50	14
Auditors' remuneration:			
Audit fees		82	134
Taxation services		-	-
Amortisation of hire and demonstration stock		1,119	963
Research and development		5,701	6,702
Net exchange gain		(1,779)	(2,991)

#### 6 Interest receivable and payable

	2017 USD 000	2016 USD 000
Bank interest received	-	-
Intercompany interest receivable	330	970
Other interest receivable	133	220
Interest receivable and similar income	463	1,190
Intercompany interest payable	(666)	(2,120)
Other interest receivable	(820)	(828)
Interest payable and similar charges	(1,486)	(2,948)

#### 7 Information regarding directors and employees

a) Employees (including directors)	2017 USD 000	2016 USD 000
Staff costs during the year comprise:		
Wages and salaries	21,083	23,019
Share based payments	254	230
Social security costs	2,108	2,336
Pension service cost	537	519
Redundancy and other costs	205	220
	24,187	26,324

The average monthly number of employees of the company during the year was:	2017 No.	2016 No.
Selling and distribution	26	23
Production and service	218	226
Administration and other	102	107
	346	356

b) Directors	2016 USD 000	2017 USD 000
Aggregate remuneration in respect of qualifying services	641	1,091
Aggregate amounts received under long term incentive plans	81	277

Four directors received remuneration from the company during the year. The other three directors were paid by OSI Systems Inc. in their capacity as directors of that company and disclosed within the financial statements of OSI Systems Inc.

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 7. Information regarding directors and employees (continued)

##### b) Directors (continued)

	2017	2016
	No.	No.
Number of directors who received restricted shares and share options in the ultimate parent company in respect of qualifying services	3	3
Number of directors who exercised share options in the ultimate parent company	3	3
Number of directors accruing benefits under defined contribution schemes	3	5
In respect of the highest paid director:		
Aggregate remuneration	195	591
Accrued defined contribution pension at the end of the year	4	7

The highest paid director did not receive shares in the ultimate parent company under the group's long term incentive plan during the year and did exercise stock options.

#### 8. Share options plans and restricted share units

OSI Systems Inc., the ultimate parent company, ("OSI"), has granted share options and restricted stock units to certain employees and directors of Rapiscan Systems Limited. As of 29 June 2017, OSI maintained two share-based employee compensation plans (the "OSI Plans"): the 2012 Incentive Award Plan ("2012 Plan") and the Amended and Restated 2006 Equity Participation Plan ("2006 Plan"). Upon shareholder approval of the 2012 Plan, OSI ceased to make grants under the 2006 plan.

Under the 2012 Plan, OSI is authorised to grant awards in the form of incentive options, nonqualified options, restricted stock awards, stock appreciation rights, RSUs, performance shares and stock bonuses, amongst other forms of equity, to qualified employees, directors and consultants. The method of settlement for qualifying employees, directors and consultants is the award of shares in OSI Systems Inc.

Under the OSI Plans, the exercise price of nonqualified options and incentive stock options may not be less than the fair market value of OSI's Common Stock on the date of grant. The exercise price of nonqualified options and incentive stock options granted to individuals who own more than 10% of OSI's voting stock may not be less than 110% of the fair market value of OSI's Common Stock on the date of the grant.

Stock options granted under the OSI Plans typically vest over three years based on continued service. Restricted stock and RSUs typically vest over three to four years based on continued service. Certain restricted stock awards granted to senior management vest based on the achievement of pre-established performance goals.

#### 9. Tax on profit on ordinary activities

(a) Analysis of charge in period	2017	2016
	USD 000	USD 000
Current tax:		
UK corporation tax on profit / (loss) for the year	774	(2,227)
Adjustments in respect of previous periods	313	311
Current tax charge for period	<u>1,087</u>	<u>1,916</u>
Deferred tax:		
Origination and reversal of timing differences	(200)	674
Adjustments in respect of previous periods	49	25
Change in tax rates	(41)	-
Total deferred tax	<u>(192)</u>	<u>699</u>
Tax charge on profit / (loss) on ordinary activities (see (b) below)	<u>895</u>	<u>(1,217)</u>

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 9. Tax on profit on ordinary activities (continued)

##### (b) Factors affecting tax charge for period

The tax assessment for the year is higher than (2016: lower) the standard rate of corporation tax in the UK for 2017 of 19.75% (2016: 20%)

The differences are explained below:

	2017 USD 000	2016 USD 000
Profit / (loss) on ordinary activities before tax	3,009	(10,253)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.75% (2016: 20%)	594	(2,051)
Effects of:		
Expenses not deductible for tax purposes	109	49
Income not taxable for tax purposes	-	(16)
Other permanent differences	(47)	(79)
Patent box restriction on losses	(136)	655
Adjustments to tax charge in respect of previous periods	376	336
Changes in tax rates	(1)	(31)
Effect of change in tax rate on losses carried back	-	(80)
Tax charge for period (see (a) above)	<u>895</u>	<u>(1,217)</u>

##### (c) Deferred tax

The deferred tax in the statement of financial position is as follows:

Included in accounts payable amounts due in more than one year (note 17)	<u>(544)</u>	<u>(689)</u>
Accelerated depreciation	(39)	22
Defined benefit pension scheme surplus	(57)	(92)
Other timing differences	(448)	(619)
Total recognised deferred tax liability	<u>(544)</u>	<u>(689)</u>
Deferred tax (liability) / asset at 30 June	(689)	(28)
Deferred tax expense included in the income statement for the year	192	(699)
Deferred tax income relating to changes in tax rates	-	7
Deferred tax income / (expense) relating to defined benefit pension funded surplus	(47)	31
Deferred tax liability at 29 June	<u>(544)</u>	<u>(689)</u>

##### (d) Factors affecting future tax charges

The Finance Act 2013 enacted a rate of corporation tax rate of 20% from 1 April 2015. The Finance Act 2015 reduces the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. Deferred tax has been calculated at 19% which is the corporation tax rate applicable from 1 April 2017, when timing differences are expected to reverse.



## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued) Year ended 29 June 2017

##### 10. Intangible fixed assets

	Goodwill USD 000	Patents USD 000	Computer software USD 000	Total USD 000
<b>Cost</b>				
At 30 June 2016	325	134	616	1,075
Additions	-	1	94	95
At 29 June 2017	325	135	710	1,170
<b>Amortisation</b>				
At 30 June 2016	(325)	(48)	(504)	(877)
Provided during the year	-	(7)	(43)	(50)
At 29 June 2017	(325)	(55)	(547)	(927)
<b>Net book value</b>				
At 29 June 2017	-	80	163	243
At 29 June 2016	-	86	112	198

The amortisation expense is included in the administrative expenses in the Income statement in both 2017 and 2016.

##### 11. Financial assets

	Shares in subsidiary	
	2017 USD 000	2016 USD 000
At 30 June 2016	90	90
Additions	-	-
Disposal	-	-
At 29 June 2017	90	90

On 4 November 2014, the company set up a subsidiary, ES Rapiscan Systems Turkmen in Turkmenistan, subscribing for USD 90,000 for a 90% share of the company. The remaining 10% was subscribed to by CXR Limited, a fellow group company. The principal activities of ES Rapiscan Systems Turkmen is provision of service, maintenance and support in relation to Rapiscan Systems Limited products.

##### 12. Property, plant and equipment

	Leasehold improvements USD 000	Land & buildings USD 000	Motor vehicles USD 000	Plant, machinery, fittings & equipment USD 000	Computer hardware USD 000	Total USD 000
<b>Cost</b>						
At 30 June 2016	507	11,879	29	8,897	637	21,949
Additions	-	206	-	1,149	13	1,368
Transfers	-	-	-	590	-	590
Disposals	-	(41)	-	(175)	(13)	(229)
At 29 June 2017	507	12,044	29	10,462	637	23,678
<b>Accumulated depreciation</b>						
At 30 June 2016	(223)	(2,505)	(22)	(2,441)	(380)	(5,571)
Transfers	-	-	-	(590)	-	(590)
Charge for the year	(40)	(447)	(3)	(1,629)	(117)	(2,236)
Disposals	-	22	-	50	13	85
At 29 June 2017	(263)	(2,930)	(25)	(4,610)	(484)	(8,312)
<b>Net book value</b>						
At 29 June 2017	244	9,114	4	5,852	153	15,366
At 29 June 2016	284	9,374	7	6,456	257	16,378

The depreciation expense is included in the administrative expenses in the Income statement in both 2017 and 2016.

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

#### Year ended 29 June 2017

13. Inventory	2017	2016
	USD 000	USD 000
Raw materials and consumables	45,605	60,503
Work-in-progress	26,544	20,952
Hire and demonstration equipment	798	2,356
Finished goods and goods for resale	4,961	17,820
	<u>77,908</u>	<u>101,631</u>

Inventory expenses during the year USD 103,997k (2016: USD 96,597k) and amounts written off as stock impairment during the year USD 11,292k (2016: 765k)

14. Accounts receivable amounts falling due within one year	2017	2016
	USD 000	USD 000
Trade receivables	33,369	29,947
Amounts owed by group undertakings	49,791	45,617
Other receivables	3,507	5,252
Prepayments and accrued income	2,058	1,434
Corporation tax	2,496	2,576
	<u>91,220</u>	<u>84,826</u>

15. Accounts receivable amounts due in more than one year	2017	2016
Note	USD 000	USD 000
Amounts owed by group undertakings	<u>12,306</u>	<u>12,306</u>

Amounts owed by group undertakings are unsecured, with the date of repayment September 2015 and are repayable on demand however the directors currently have no plans of demanding early repayment and are interest bearing at the annual applicable Federal Rate of the US Federal Reserve.

16. Accounts payable falling due within one year	2017	2016
	USD 000	USD 000
Bank loans & overdrafts	-	184
Trade payable	16,185	19,395
Amounts due to group undertakings	34,531	21,442
Tax and social security	1,341	4,096
Accruals	5,816	4,202
Deferred revenue	13,689	25,569
	<u>71,562</u>	<u>74,888</u>

Accruals include USD 58K due to the ultimate parent undertaking (2016 - USD 153K)

Amounts owed to group undertakings are unsecured, have no fixed date of repayment, are repayable on demand and interest free.

At the statement of financial position date, the company's bankers had a fixed charge over the company's debtor balances and a floating charge over all assets of the company.

17. Accounts payable falling due after one year	2017	2016
	USD 000	USD 000
Bank loans	-	1,377
Amounts due to group undertakings	25,568	32,161
Deferred tax liability LT	544	689
Deferred revenue LT	857	1,358
	<u>26,969</u>	<u>35,585</u>

Amounts owed to group undertakings are unsecured, are repayable 10 years from inception date, and are interest bearing at the annual Applicable Federal Rate of the US Federal Reserve.

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

Year ended 29 June 2017

18. Provisions for liabilities and charges	Balance at 29 June 2016	Profit & loss charge	Applied during year	Balance at 29 June 2017
	USD 000	USD 000	USD 000	USD 000
Warranty provision	4,316	3,321	(1,932)	5,705
Contract loss provision	778	-	(778)	-
	<u>5,094</u>	<u>3,321</u>	<u>(2,710)</u>	<u>5,705</u>

The warranty provision represents estimated potential cost of repair to be carried out under product warranty and will be utilised between 1 - 5 years. Warranty periods vary in accordance with the terms of individual contracts.

The contract loss provision represents estimated potential losses on contracts denominated in foreign currencies movements where there have been adverse exchange rate

#### 19. Called up share capital

	2017 USD 000	2016 USD 000
Authorised 11,591,117 (2016 - 11,591,117) ordinary shares of £1 each	<u>17,416</u>	<u>17,416</u>

#### 20. Contingent liabilities

At 30 June 2017 the company had a contingent liability in respect of outstanding performance bonds with a value of USD 35,154K (2016 - USD 31,326K). In the opinion of the Directors it is unlikely that these bonds will be called upon.

#### 21. Operating lease commitments

At 30 June 2017, the company had minimum future commitments under non-cancellable operating leases as follows:

	2017		2016	
	Buildings USD 000	Other USD 000	Buildings USD 000	Other USD 000
Accounts payable:				
In less than one year	576	295	619	296
Within two to five years	418	254	880	231
After five years	237	6	355	4
	<u>1,231</u>	<u>555</u>	<u>1,854</u>	<u>531</u>

#### 22. Pension scheme

The company operates two separate pension schemes, namely a defined contribution scheme and a defined benefit scheme. The amount recognised in the statement of financial position is as follows:

	2017 USD 000	2016 USD 000
Defined benefit scheme asset	759	486
Defined contribution scheme payment accrual	(114)	(100)

The amount recognised in the income statement is as follows:

	2017 USD 000	2016 USD 000
Defined benefit scheme:		
Interest expense on defined benefit obligation	(122)	(181)
Interest income on scheme assets	133	206
Net income	<u>11</u>	<u>25</u>

The total charge for the defined contribution pension scheme was USD 537K (2016: USD 519K)

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 22. Pension scheme (continued)

##### Defined benefit scheme

The company sponsors a funded defined benefit pension plan with assets held in a separately administered fund. The scheme is closed to future accrual although benefits are provided based on final salary. The scheme is administered by trustees, who are responsible for ensuring that the plan is sufficiently funded to meet current and future obligations.

The last funding valuation of the scheme was carried out by a qualified actuary as at 31 March 2013 and the results of that valuation have been adjusted to the statement of financial position date taking account of experience over the period since 2013, changes in market conditions and differences in the financial and demographic assumptions. The present value of the defined benefit obligation was measured using the projected unit credit method.

The principal assumptions used to calculate the liabilities under FRS 102 are set out below:

	2017	2016
<b>Main financial assumptions</b>		
Inflation (RPI)	3.20%	2.90%
Inflation (CPI)	2.30%	1.80%
Pension increases	3.10%	2.70%
Discount rate for scheme liabilities	2.60%	2.80%

##### Main demographic assumptions

The mortality assumptions are based on 100% of the SI tables with improvements in line with the CMI 2015 projections and a long-term rate of improvement of 1% pa.

	2017	2016
<b>Life expectancy in years from age of 65</b>		
Male currently aged 65	22	22
Female currently aged 65	24	25
Male currently aged 45	23	24
Female currently aged 45	26	26

##### Fair value of scheme assets

	2017	2016
	USD 000	USD 000
Equities	2,833	3,033
Gilts	944	1,055
Corporate bonds	1,333	617
Other	445	505
<b>Total</b>	<b>5,555</b>	<b>5,210</b>

##### Actual return on scheme assets

	2017	2016
	USD 000	USD 000
Interest income on scheme assets	134	206
Gain on scheme assets	612	253
<b>Actual return on scheme assets</b>	<b>746</b>	<b>459</b>

## Rapiscan Systems Limited

### Report and financial statements 2017

#### Notes to the accounts (continued)

#### Year ended 29 June 2017

#### 22. Pension scheme (continued)

##### Defined benefit scheme (continued)

##### Reconciliation of the fair value of scheme assets

	2017	2016
	USD 000	USD 000
Fair value of assets at 30 June	5,210	5,847
Interest Income on scheme assets	134	206
Gain on scheme assets	612	253
Contributions by the employer	65	55
Net benefits paid out	(344)	(246)
Translation adjustment	(122)	(905)
Fair value of scheme assets at 29 June	<u>5,555</u>	<u>5,210</u>

##### Reconciliation of the defined benefit obligation

	2017	2016
	USD 000	USD 000
Defined benefit obligation at 30 June	4,724	5,197
Interest expense	122	181
Actuarial loss on scheme liabilities	421	387
Net benefits paid out	(351)	(246)
Translation adjustment	(120)	(795)
Defined benefit obligation at 29 June	<u>4,796</u>	<u>4,724</u>

#### 23. Ultimate parent undertaking and controlling entity

Rapiscan Systems Limited is a wholly owned subsidiary of OSI (Holdings) Company Limited, a company registered in England and Wales. OSI (Holdings) Company Limited is a subsidiary undertaking of OSI Systems Inc., a company registered in the State of California USA. The directors consider OSI Systems Inc. to be the controlling ultimate parent company and a copy of this company's accounts can be obtained from 12525 Chadron Avenue, Hawthorne, CA 90250, USA.

#### 24. Related party disclosures

The company has taken advantage of the exemption under FRS 102 section 33.1A, as a wholly owned subsidiary of OSI Systems Inc. and has not disclosed details of transactions with other group companies.

#### 25. Post balance sheet events

There are no reportable post balance sheet events.

