LSN Diffusion Limited

Strategic Report, Report of the Directors and

Consolidated Financial Statements

for the Period

5 January 2020 to 2 January 2021

LSN Diffusion Limited

Contents of the Financial Statements
for the Period 5 January 2020 to 2 January 2021

LSN Diffusion Limited

Company Information
for the Period 5 January 2020 to 2 January 2021

DIRECTORS:	N J Allnatt L J Griffiths V Jones P Garg P J Allnatt S W Harrison
REGISTERED OFFICE:	Unit A & B Cilyrychen Ind. Estate Llandybie Ammanford SA18 3GY
REGISTERED NUMBER:	08198122 (England and Wales)
SENIOR STATUTORY AUDITOR:	Andrew Packer
AUDITORS:	Anser Solutions Limited Registered Auditors Suite 3 Warren House 10-20 Main Road Hockley Essex SS5

LSN Diffusion Limited

Strategic Report
for the Period 5 January 2020 to 2 January 2021

The directors present their strategic report of the company and of the group for the period from 5 January 2020 to 2 January 2021 (52 weeks). For ease of reference, the 52 weeks period ended 2 January 2021 and the balance sheet date of 2 January 2021 have been referred to as "2020".

This is the seventh year the directors have reported on the company's performance.

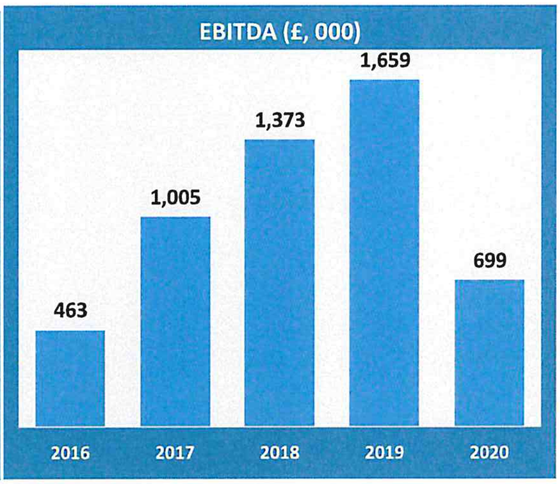
Impact of Covid-19
The virus has had a significant impact on global economies during 2020. The group has not been immune to the effect it has had upon demand and economic activity levels.

The virus has necessitated changes to ways of working to safeguard its employees.

The group, from the outset, reacted swiftly to the threat of the virus:

- The operations in the plant have been organised to protect the workforce from the risk of infection.
- Where possible staff are working from home.
- Social distancing guidelines have been reinforced with all employees.
- When working with reduced demand, the government's furlough scheme has been deployed to retain staff that are not immediately required with lower levels of production.
- Cost reductions have been made to reduce the fixed cost base of the company.

Sales demand fell in the second quarter of the year, as customers adjusted to the lower levels of economic activity; group sales fell commensurately. Despite falling demand, the group has not lost customers and has been able to maintain its market share. However, operating at lower levels of activity, sales and profitability have been adversely impacted:



LSN Diffusion Limited

Strategic Report
for the Period 5 January 2020 to 2 January 2021

Sales fell in the year by 17%, reversing the consistent growth trend of prior years. The nature of the business, with a significant element of fixed costs, has meant that there has been a disproportionate fall in earnings before interest, tax, depreciation and amortisation ("EBITDA"). It has been estimated that the reduced demand has cost the group approximately £1.6 million in lost profitability during the year.

Funding
The group has taken advantage of the support that has been available from HM Government and the Welsh Government through obtaining "government backed" loans:

- £2 million of loans have been provided by HSBC, under the Coronavirus Business Interruption Scheme ("CBILS")
- A further £0.5 million was provided by the Development Bank of Wales (a subsidiary of the Welsh Government)
- A "soft loan" of £0.2 million from the Welsh Government
- The Welsh Government is the group's landlord and has provided £0.3 million to the cost of upgrading the electricity to the site.

These loans are long term in nature and have enabled the group to strengthen its operations to take advantage of an expected increase in demand, during 2021.

Prospects
The group is experiencing a strengthening in its order book during early 2021. Activity levels in 2021 are expected to increase, for the following reasons:

- Despite the reduction in demand during 2020, the group has retained its customer base – there has been no erosion in customers or loss of market share. As a result, when activity levels start increasing, sales demand will quickly follow.
- Global economies are expected to improve slowly as countries deal with controlling the virus
- New business is anticipated from new and existing customers, where approvals were obtained for new products.

The group had headroom in its facilities, at the balance sheet date, of £1.1 million and is well positioned to take advantage of this expected increase in activity.

Taxation
The group will receive tax credits amounting to £135,000, during early 2021, in respect of the group's investment in research and development.

The accounting profession's views on deferred tax have changed over the years – from partial provision (for that element of the deferred tax liability that was likely to crystallise) to full provision. In reality, the deferred tax liability, provided in the financial statements, will not crystallise in the foreseeable future.

At 2 January 2021, the group's tax losses amounted to £3.3 million.

Accounting for forward exchange contracts

The group sells in foreign currencies (mainly Euros and US$). This creates uncertainty, given the volatility of exchange rates. In order to reduce this risk, the group purchases metals in foreign currencies, however, a residual risk remains in respect of the sales margin (the difference in selling prices and metal prices). In order to mitigate this residual risk, the group sells forward its surplus foreign currency cash flows.

LSN Diffusion Limited

Strategic Report
for the Period 5 January 2020 to 2 January 2021

Sterling weakened during 2020 against the euro, as a result of continuing uncertainty regarding the impact of Brexit on the UK economy. This has had a favourable impact on sales margins. However, to mitigate risks of fluctuating exchange rates, the board decided to enter into a three year forward exchange contract to sell its forecast surplus euro cash flows forward in December 2019. This protects the group's forecast margins against a potential strengthening of sterling, following the initial disruption to trade following Brexit.

Financial Reporting Standard 102 ("FRS 102"), requires that forward exchange contracts, qualifying as cash flow hedges, should be revalued at every reporting period to their "fair value". Any gain or deficit arising on the revaluation will be excluded from the Income Statement but recognised as "Other Comprehensive Income/ (Loss)". To the extent that future sales are covered by the forward exchange contract, future sales will be recognised in the Income Statement at the contracted exchange rates.

The revaluation of the forward exchange contracts, to "fair value", is dependent on exchange rates at the balance sheet date. At 2 January 2021, this resulted in a deficit arising on the forward exchange contracts of £0.5 million (2020: Nil). This deficit has been recognised in Other Comprehensive Income.

"Fair value accounting" by its nature, creates volatility in the balance sheet as it is dependent upon market movements on a particular day. The final gain or loss on the forward exchange contracts will arise when the contracts mature and at that time will be offset by the gains or losses arising on future sales. The volatility of "fair value accounting" is demonstrated by the fair value reducing to a small gain in March, due to the strengthening of sterling post year end.

LSN Diffusion Limited

Strategic Report
for the Period 5 January 2020 to 2 January 2021

Principal risks and uncertainties:

Nature of Risk and Uncertainty	Comment	Mitigation
UK leaving the European Union ("Brexit")	There is a risk that Brexit will disrupt trade, as a result of the administrative burden placed on customers.	The company has a subsidiary company in Germany. LSN has started to ship to this German subsidiary, which will onward ship to customers in the European Union. This will reduce the administrative burden for these customers. The company's products will be unaffected by World Trade Organisation tariffs.
Competition	There is always a risk of losing business where price is the main sales factor.	Some segments of the customer base are price competitive. Continual improvement in operational efficiency means we can ensure our prices remain competitive. Increasingly quality demands and close working relationships with customers are critical. The group continues investment in technical personnel, production capabilities and customer relationships ensure we can succeed in a competitive global market.
Credit risk	Dealing with customers globally means there are inevitable credit risks i.e., corporate failure of a customer.	Customers are carefully assessed for credit risk and, where possible, credit agencies are used. An element of the group's debtors is insured. Internal credit control procedures are designed to ensure that debtors comply with agreed terms of trade. However, if customers experience difficulties, the group will work with them to ensure that risks are managed appropriately.
Interest and liquidity risks	Cash flow risks are inevitable for a group investing and growing sales. In this regard, the directors consider the liquidity risk as being greater than the interest rate risk.	The group seeks to ensure that its investments in fixed assets (tangible and intangible) are financed by shareholder funds, government grants and committed financing arrangements. Working capital is funded through invoice discounting and factoring, which can increase, as the scale of the group's activity increases.
Currency risks	For commercial reasons the group sells in foreign currencies, which creates inevitable risks of currency fluctuations impacting the group's profitability.	Strategically the group seeks to match exposure to assets denominated in foreign currencies by ensuring those assets are financed in the same currency. Longer term, the group seeks to mitigate the risk by entering derivative contracts for the forward sale of currencies, thereby "locking in" the exchange rate. This gives a reasonable window of transparency, over the group's margins in the medium term.

ON BEHALF OF THE BOARD:

S W Harrison - Director
Date:23 April 2021

LSN Diffusion Limited

Report of the Directors
for the Period 5 January 2020 to 2 January 2021

The directors present their report with the financial statements of the company and the group for the period 5 January 2020 to 2 January 2021.

PRINCIPAL ACTIVITY
The principal activity of the company and group, in the period under review, was that of the manufacture of metallurgical products and alloy powders.

DIVIDENDS
No dividends will be distributed for the period ended 2 January 2021.

DIRECTORS
The directors, shown below, have held office during the whole of the period from 30 December 2018 to the date of this report.

N J Allnatt
L J Griffiths
V Jones
P Garg
P J Allnatt
S W Harrison

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 company and the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate;
- to presume that the company and group will continue in business.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

LSN Diffusion Limited

Report of the Directors
for the Period 5 January 2020 to 2 January 2021

AUDITORS
The auditors, Anser Solutions Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

S M Harrison - Director
Date: 23 April 2021

Report of the Independent Auditors to the Members of LSN Diffusion Limited

Opinion

We have audited the financial statements of LSN DIFFUSION LTD (the 'parent company') and its subsidiaries (the 'group') for the period ended 2 January 2021 which comprise the Consolidated Income Statement, Consolidated Other Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Cash Flow Statement, Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 of the parent company affairs as at 2 January 2021;
- 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the group 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
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The directors are responsible for the other information. The other information comprises the information in the Group Strategic Report and the Report of the Directors but does not include the financial statements and our Report of the Auditors 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Group Strategic Report and the report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Report of the Directors 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 Group Strategic Report or the Report of the Directors.

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 Statement of Directors' Responsibilities set out on page three, 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 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.

Auditors' 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 a Report of the Auditors 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In performing an audit in accordance with ISAs (UK) we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the groups internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the group's and parent company's ability to continue as a going concern for a reasonable period of time.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

We identified areas of laws and regulation that could reasonably be expected to have a material effect on the financial statements from our general experience and through discussions with directors and other management and from inspection of the Group's regulatory and legal correspondence and discussed policies and procedures regarding compliance with laws and regulations.

The potential effect of these laws and regulations on the financial statements varies.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and related companies legislation, distributable profits legislation and taxation legislation and we assess the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and employment law. Auditing standards limit the required procedures to identify non-compliance with those laws and regulations to enquiry of the directors and other management and through inspection of regulatory and legal correspondence, if any. Through these procedures we did not become aware of any actual or suspected non-compliance that would lead to our response being identified as a key audit matter.

Owing to the inherent limitations of an audit there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have performed our audit in accordance with auditing standards. In addition, as with any audit, there remains a risk of non-detection of irregularities as these may involve collusion, forgery, intentional omissions, misrepresentations or override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors 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.

Andrew Packer (Senior Statutory Auditor)
for and on behalf of Anser Solutions Limited
Registered Auditors
Suite 3 Warren House
10-20 Main Road
Hockley
Essex
SS5 4QS

Date: 23 April 2021

LSN Diffusion Limited

Consolidated Income Statement
for 52 weeks from 5 January 2020 to 2 January 2021

	Notes	52 weeks 2020	53 weeks 2019
		£'000	**£'000**
TURNOVER	3	19,258	23,339
Cost of sales		(15,130)	(18,204)
GROSS PROFIT		4,128	5,135
Administrative expenses		(4,589)	(4,949)
OPERATING (LOSS)/ PROFIT	5	(461)	186
Income from joint venture company		31	60
(Loss)/ profit before interest and taxation		**(430)**	**246**
Interest and similar charges	6	(463)	(413)
Analysed as:			
Earnings before interest, depreciation, amortisation and exceptional items		**699**	**1,659**
Income from joint venture company		31	60
Interest payable and similar expenses		(463)	(413)
Depreciation and amortisation		(902)	(955)
Exceptional items		(258)	(518)
(LOSS)/PROFIT BEFORE TAXATION		(893)	(167)
Tax credit	7	299	177
Tax receivable in respect of:			
Research & Development tax credits		148	321
Deferred tax credit/ (charge)		151	(144)
LOSS/ PROFIT FOR THE FINANCIAL PERIOD		**(594)**	**10**

The notes form part of these financial statements

LSN Diffusion Limited

Other Consolidated Comprehensive Income
for the Period 5 January 2020 to 2 January 2021

	52 weeks 2020 £'000	53 weeks 2019 £'000
(LOSS)/ PROFIT FOR THE PERIOD	(594)	10
OTHER COMPREHENSIVE INCOME/ (LOSS)		
(Deficit)/ Surplus on cash flow hedge	(564)	398
Deferred tax on cash flow hedge	107	(72)
TOTAL COMPREHENSIVE (DEFICIT)/ INCOME FOR THE PERIOD	(1,051)	336

The notes form part of these financial statements

LSN Diffusion Limited (Registered number: 08198122)

Balance Sheets
2 January 2021

	Notes	Consolidated 2020 £'000	Consolidated 2019 £'000	Parent Company 2020 £'000	Parent Company 2019 £'000
FIXED ASSETS					
Intangible assets	8	2,082	2,196	2,082	2,196
Tangible assets	9	5,566	3,971	5,566	3,971
Investments	10	266	235	124	124
		7,914	**6,402**	**7,772**	**6,291**
CURRENT ASSETS					
Stocks	11	4.498	4,151	4,096	3,866
Debtors	12	4,005	5,023	4,592	5,312
Cash at bank and in hand		492	17	431	-
		8,995	9,191	9,119	9,178
CREDITORS Amounts falling due within one year	13	(8.894)	(9,854)	(8,941)	(9,841)
NET CURRENT ASSETS/(LIABILITIES)		**101**	**(663)**	**178**	**(663)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,015**	**5,739**	**7,950**	**5,628**
CREDITORS: Amounts falling due after one year	14	(4,943)	(2,320)	(4,943)	(2,320)
NET ASSETS		**3,072**	**3,419**	**3,007**	**3,308**
PROVISIONS FOR LIABILITIES	18	840	534	856	534
DEFERRED INCOME		632	234	632	234
CAPITAL AND RESERVES		**1,600**	**2,651**	**1,519**	**2, 540**
Called up share capital	20	3,500	3,500	3,500	3,500
Retained earnings	21	(1,443)	(849)	(1,524)	(960)
Deficit on cash flow hedge	21	(457)	-	(457)	-
TOTAL CAPITAL EMPLOYED		**3,072**	**3,419**	**3,007**	**3, 308**

The financial statements were approved by the Board of Directors on 23 April 2021 and were signed on its behalf by:

S.W. Harrison
S W Harrison - Director

N.J. Allnatt
N J Allnatt - Director

LSN Diffusion Limited

Consolidated Statement of Changes in Equity
for the Period 5 January 2020 to 2 January 2021

	Called up share capital	Retained earnings	Deficit on cash flow hedge	Total equity
	£'000	£'000	£'000	£'000
Balance at 29 December 2018	3,500	(859)	(326)	2,315
Changes in equity				
Total comprehensive profit (loss)	-	10	326	336
Balance at 4 January 2020	**3,500**	**(849)**	**-**	**2,651**
Changes in equity				
Total comprehensive income	-	(594)	(457)	(1,051)
Balance at 2 January 2021	**3,500**	**(1,443)**	**(457)**	**1,600**

Company Statement of Changes in Equity
for the Period 5 January 2020 to 2 January 2021

	Called up share capital	Retained earnings	Deficit on cash flow hedge	Total equity
	£'000	£'000	£'000	£'000
Balance at 29 December 2018	3,500	(929)	(326)	2,245
Changes in equity				
Total comprehensive loss	-	(31)	326	295
Balance at 4 January 2020	**3,500**	**(960)**	**-**	**2,540**
Changes in equity				
Total comprehensive income/ (loss)	-	(564)	(457)	(1,021)
Balance at 2 January 2021	**3,500**	**(1,524)**	**(457)**	**1,519**

The notes form part of these financial statements

LSN Diffusion Limited

Consolidated Cash Flow Statement
for the Period 5 January 2020 to 2 January 2021

	Notes	2020 £'000	2019 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (absorbed)/ generated from operations	1	(113)	1,002
Interest paid		(463)	(413)
Taxation refund		329	91
Net cash flow from operating activities		**(247)**	**680**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible fixed assets		(406)	(987)
Purchase of tangible fixed assets		(1,979)	(981)
Investment in subsidiary company		-	-
Net cash from investing activities		**(2,385)**	**(1,968)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Shareholder loans (repaid)/received		19	(58)
Asset finance loans		620	364
Capital repayments in year		(284)	(198)
Bank Loan (paid)/received		2,668	(59)
Grants		398	49
Net cash from financing activities		**3,421**	**98**
INCREASE IN CASH AND CASH EQUIVALENTS		**789**	**(1,190)**
CASH AND CASH EQUIVALENTS	2		
At beginning of period		(297)	893
At end of period		**492**	**(297)**

The notes form part of these financial statements

Notes to the Consolidated Cash Flow Statement for the Period 5 January 2020 to 2 January 2021

1. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2020	2019
	£'000	£'000
(Loss)/Profit before taxation	(893)	(167)
Depreciation and amortisation charges	903	955
Finance costs	463	413
Income from joint venture company	(31)	(60)
	442	1,141
(Increase) in stocks	(347)	(670)
Decrease/ (Increase) in trade and other debtors	837	(491)
(Decrease)/ Increase in trade and other creditors	(1045)	1,022
Cash generated from operations	(113)	1,002

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement, in respect of cash and cash equivalents, are in respect of these Balance Sheet amounts:

	2020	2019
	£'000	£'000
Cash and cash equivalents	492	17
Bank overdrafts	-	(314)
	492	(297)

1. **STATUTORY INFORMATION**

LSN Diffusion Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.
The presentation currency of the financial statements is the Pound Sterling (£'000).

2. **ACCOUNTING POLICIES**

Comparatives

The results are for the 52 weeks ended 2 January 2021 and the balance sheet is stated as at 2 January 2021. For ease of reference, the 52 weeks period ended 2 January 2021 and the balance sheet date are referred to as "2020". The comparatives (referred to as '2019') are for the 53-week period from 30 December 2018 to 4 January 2020.

Basis of consolidation

The group consolidates the financial statements of the company, its subsidiary company and its joint venture company. The notes to the accounts relate to the company and the group, unless otherwise stated.
The joint venture company is jointly controlled on a 50:50 basis with the other shareholders of that company. Adjustments are made to eliminate the profit or loss arising on transactions with the joint venture company to the extent of the Group's interest in the entity.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)' and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value.

The company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.
The company is a qualifying entity for the purposes of FRS 102 and has elected to take the exemption under paragraph 1.12(b) of that accounting standard not to present the parent company cash flow.

The significant accounting policies, which have been consistently applied in the preparation of these financial statements, are set out below.

Significant judgements and estimates

The directors use their experience and knowledge to make judgements, estimates and assumptions regarding stock provisions that affect the figures reported in the financial statements. The directors consider the nature and condition of the stock as well as applying assumptions around anticipated future sales of goods. Actual results may differ from those estimates.

Turnover

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes and is recognised as and when the goods are despatched.

Exceptional items

The group classifies certain one-off charges or credits that have a material impact on the group's financial results as "exceptional items". These are disclosed separately to provide further understanding of the group's financial performance.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any impairment losses.
Intangible assets comprise development costs, which have been capitalised. Development costs include the costs of developing new processes, materials and customer products.
Research expenditure is written off as an expense in the income statement when it is incurred.
Development costs are recognised as an intangible asset only if it has future economic benefit and the cost can be reliably measured.

The cost of internally generated intangible assets comprises all directly attributable costs necessary to create, produce and prepare the asset to operate in its current location and condition.
Development costs are amortised evenly over their estimated useful life or, in the case of product developments, the lesser of the estimated useful life or 5 years.

Tangible fixed assets
Tangible fixed assets are stated at cost (or deemed cost) or valuation less accumulated depreciation and accumulated impairment losses. Cost includes those costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Improvements to leasehold property - Over period of lease
Fixtures and fittings - 10% on cost
Motor vehicles - 20% on reducing balance
Computer equipment - 20% on reducing balance

Plant and machinery is depreciated by reference to the assets' expected physical output. This approach will effectively recognise depreciation in line with its output.

Government grants
Government grants are only recognised upon receipt. Capital based grants are initially deferred and released to the income statement over the remaining useful economical life of the related asset. Revenue based grants are recognised in the income statement in the same period in which the relevant expenditure is incurred.

Investments in joint venture company
The group considers that it has significant influence over the financial and operating decisions of the joint venture company. The results of the joint venture company are accounted for using the equity method of accounting.

Stocks
Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing stock to its present location and condition. Cost is calculated using the first-in, first-out formula. Provision is made for damaged, obsolete and slow-moving stock where appropriate.

Financial instruments
The company recognises a financial asset or financial liability only when it becomes a party to the contractual provisions of the instrument.

The company measures a financial asset or liability at the transaction price (including transaction costs except on the initial measurement of financial assets and liabilities that are measured at fair value through profit and loss) unless the arrangement constitutes, in effect, a financing transaction.

If the arrangement constitutes a financing transaction, the company measures the financial asset or liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Taxation
Taxation, for the period, comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.
Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. **ACCOUNTING POLICIES - continued**

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. 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.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Where foreign exchange contracts are held to manage the cash flow exposures of forecast transactions denominated in foreign currencies, gains and losses on those contracts are recognised in the income statement in the periods when those contracts mature. The gains or losses, arising from the revaluation of foreign exchange contracts that are extant at the balance sheet date, and which relate to forecast sales, are deferred in "Other Comprehensive Income" as qualifying cash flow hedges.

Hire purchase and leasing commitments
Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the income statement over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Pension costs and other post-retirement benefits
The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period. The company also contributes to specific employees' personal pension schemes.

Impairment
Assets not measured at fair value are reviewed for any indication that the asset may be impaired at each balance sheet date. If such indication exists, the recoverable amount of the asset, or the asset's cash generating unit, is estimated and compared to the carrying amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the income statement unless the asset is carried at a revalued amount where the impairment loss is a revaluation decrease.

Provisions
Provisions are recognised when the company has an obligation at the balance sheet date as a result of a past event, it is probable that an outflow of economic benefits will be required in settlement and the amount can be reliably estimated.

3. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below:

	2020	2019
	£'000	£'000
Europe	12,699	13,707
Rest of the World	6,559	9,632
	19,258	23,339

4. EMPLOYEES AND DIRECTORS

	2020	2019
	£'000	£'000
Wages and salaries	2,992	3,265
Social security costs	303	307
Other pension costs	125	127
	3,420	3,699

£121,000 (2019: £197,000) of the above wage and salary costs were capitalised.

The average monthly number of employees during the period was as follows:

	2020	2019
Remunerated Directors	2	2
Production	55	53
Sales & Administration	44	43
	101	98

	2020	2019
	£'000	£'000
Directors' remuneration	124	119
Directors' pension contributions to money purchase schemes	6	6

4. EMPLOYEES AND DIRECTORS - continued

	2020	2019
The number of directors, to whom retirement benefits were accruing, was as follows:		
Money purchase schemes	2	2

5. OPERATING PROFIT/(LOSS)

The operating profit is stated after charging:

	2020	2019
	£'000	£'000
Hire of plant and machinery	55	43
Depreciation - owned assets	299	297
Depreciation - assets on finance leases	84	97
Development costs amortisation	520	561
Auditors' remuneration	13	13
Other operating leases	219	228

Exceptional items:		
Restructuring and exceptional employment costs	(37)	(104)
Release/ (creation of provision) in respect of liabilities relating to prior years	91	(99)
Non-productive training & recruitment	-	(267)
Excess costs of operations due to supplier failure	-	(200)
Exchange (loss)/ gain on derivative contracts and exchange*	(312)	152
Other costs	-	-
	(258)	(518)

*No unrealised exchange gains or loss arose in the year (2019: £35,000) arising from the retranslation of assets and liabilities denominated in foreign currencies.

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020	2019
	£'000	£'000
Bank interest	67	30
Factoring costs	108	153
Loan interest	139	108
Interest on leases	80	62
Shareholders' loan interest	69	60
	463	413

7. TAXATION

The tax credit on the profit for the period was as follows:

	2020	2019
	£'000	£'000
Corporation tax:		
R&D tax credit	135	316
R&D tax credit (prior years)	13	5
Total corporation tax	148	321
Deferred tax credit/(charge)		
Current year	168	(120)
Prior year	(17)	(24)
Total deferred tax credit/ (charge)	151	(144)
Tax credit	299	177

7. TAXATION – continued

Tax recoverable for the year is higher than the standard rate of corporation tax in the UK for 2020. The differences are explained below:

	2020 £'000	2019 £'000
(Loss)/Profit before tax	(893)	(167)

	2020 £'000	2019 £'000
Profit multiplied by the standard rate of tax of 19% (2019: 19%)	170	32
Income from joint venture	6	11
Impact of tax enhancement of research & development	135	165
Adjustment in respect of prior years	13	2
Re-measurement of deferred tax	(17)	(21)
Other	(8)	(12)
	299	177

8. INTANGIBLE FIXED ASSETS (GROUP AND COMPANY)

Development costs	2020 £'000	2019 £'000
COST		
At 5 January 2020	3,386	2,525
Additions	406	987
Deletions	-	(126)
At 2 January 2021	3,792	3,386
AMORTISATION		
At 5 January 2020	1,190	755
Amortisation for period	520	561
Deletions	-	(126)
At 2 January 2021	1,710	1,190
NET BOOK VALUE		
At 2 January 2021	2,082	2,196

Included within development costs are £252,000 (2019: £758,000) of costs, in respect of new developments, where the development work is ongoing.

9. TANGIBLE FIXED ASSETS (GROUP AND COMPANY)

	Improvements to property £'000	Plant & machinery £'000	Fixtures & fittings £'000	Other £'000	Total £'000
COST					
At 5 January 2020	98	5,083	111	60	5,352
Additions	-	1,976	3	-	1,979
At 2 January 2021	98	7,059	114	60	7,331
DEPRECIATION					
At 5 January 2020	26	1,248	67	40	1,381
Charge for the period	3	364	11	5	383
At 2 January 2021	29	1,612	78	45	1,764
NET BOOK VALUE					
At 5 January 2020	72	3,835	44	20	3,971
At 2 January 2021	69	5,447	36	15	5,566

Included within fixed assets are:

a) No projects were in progress at the year-end (2019: £149,000).

b) Assets which are the subject of finance lease agreements. These assets had a net value of £1,496,000 (2019: £1,078,000).

10. FIXED ASSET INVESTMENTS

	Interest in subsidiary company	Interest in joint venture company		
	Company £'000	Company £'000	Total company £'000	Group £'000
COST				
At 5 January 2020	19	105	124	235
Eliminated on consolidation	-	-	-	-
Income from interests in joint venture company	-	-	-	31
At 2 January 2021	19	105	124	266
NET BOOK VALUE				
At 2 January 2021	19	105	124	266
At 5 January 2020	19	105	124	235

LSN Engineering GmbH
Registered office: Germany
Nature of business: Distribution of powder alloys
Class of stock: Common stock - 85.00% holding

Surface Flow Technologies Inc
Registered office: Michigan USA
Nature of business: Manufacture of products serving Brazing Industry
Class of shares: Common stock - 50.00% holding

	2020 £'000	2019 £'000
Aggregate capital and reserves	599	447
Profit for the period/year	70	168

11 STOCKS (Group and Company)

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Raw materials (metal)	2,056	1,343	2,056	1,343
Work-in-progress	1,044	1,523	1,044	1,523
Finished goods	939	827	537	542
Consumables and spares	459	458	459	458
	4,498	4,151	4,096	3,866

12 DEBTORS (Group and Company)

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Amounts falling due within one year:				
Trade debtors	3,512	4,098	3,442	4,090
Amount due from subsidiary company	-	-	657	297
Tax	135	316	135	316
Value added tax	252	210	252	210
Prepayments & accrued income	106	399	106	399
	4,005	5,023	4,592	5,312

The company has a factoring arrangement with HSBC with recourse. The gross amount of debt included in trade debtors, subject to the agreement, at 2 January 2021 was £3,137k (2019: £3,324k). Obligations for proceeds received in advance from HSBC in respect of discounted debts total £2,750k (2019: £2,600k) and are included in other creditors.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 15)	415	470	415	470
Finance leases (see note 16)	360	219	360	219
Trade creditors	4,644	5,497	4,645	5,497
Social security and other taxes	103	87	103	87
Other creditors	2,762	3,144	2,750	3,131
Accrued expenses	610	437	668	437
	8.894	9,854	8,941	9,841

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Group and Company)

	2020	2019
	£'000	£'000
Finance leases (see note 16)	782	587
Bank loans	3,411	1,002
Shareholders' loans	750	731
	4,943	2,320

Included within shareholders' loans is accrued interest £228,000 (2019: £209,000). The loans and interest are not repayable within the next 12 months. £500,000 of the shareholders' loans are not repayable until 2028.

15. LOANS (Group and Company)

An analysis of the maturity of loans is given below:

	2020	2019
	£'000	£'000
Amounts falling due within one year or on demand:		
Bank loans	415	156
Bank overdrafts	-	314
Amounts falling due after more than one year	3411	1,002

16. LEASING AGREEMENTS (Group and Company)

Minimum lease payments fall due as follows:

	Finance leases	
	2020	2019
	£'000	£'000
Net obligations repayable:		
Within one year	305	219
Between one and five years	837	587
	1,142	806

16. **LEASING AGREEMENTS - continued**

	Non-cancellable operating leases	
	2020	2019
	£'000	£'000
Within one year	260	204
Between one and five years	1,040	816
	1,300	1,020

17. **SECURED DEBTS (Group and Company)**

The following secured debts are included within creditors:

	2020	2019
	£'000	£'000
Bank overdrafts	-	314
Bank loans	3,826	1,158
Finance leases	1,142	806
Other creditors	2,750	3,112
	7,718	5,390

HSBC has provided loans of £2 million (2019: Nil) of loans under the Coronavirus Business Interruption Scheme ("CBILS"). These loans are interest-free for 12 months; thereafter interest is charged at 3.99%. The loans have no capital repayments for 12 months and will be repaid over 3 years. Two loans totalling £1,626k have been provided by the Development Bank of Wales (a subsidiary of the Welsh Government). These loans attract interest at 8%. There are no capital repayments in the next 12 months; thereafter a bullet repayment of £500k is made to repay one of the loans, the other will commence capital repayments in April and will be repaid over 5 years.

18. **PROVISIONS FOR LIABILITIES (Group and Company)**

GROUP:

Provisions for liabilities comprise:

	2020	2019
	£'000	£'000
Deferred tax liability (Note: 18(a))	276	534
Deficit arising on foreign exchange contracts (Note 18(b))	564	-
Total	840	534

The movement in provisions for liabilities is summarised below:

	2020	2019
	£'000	£'000
Balance at beginning of period	534	716
(Credit)/Charge to income statement during the period (deferred tax charge)	(151)	144
Charge/(Credit) to other comprehensive income	457	(326)
Balance at end of period	840	534

18(a) Deferred tax

	2020	2019
	£'000	£'000
Accelerated capital allowance	1,015	943
Tax losses carried forward	(632)	(409)
Deficit arising on foreign exchange contract	(107)	-
	276	534

COMPANY:

Provisions for liabilities comprise:

	2020	2019
	£'000	£'000
Deferred tax liability (Note: 18(a))	292	534
Deficit arising on foreign exchange contracts (Note 18(b))	564	-
Total	856	534

The movement in provisions for liabilities is summarised below:

	2020	2019
	£'000	£'000
Balance at beginning of period	534	716
(Credit)/Charge to income statement during the period (deferred tax charge)	(135)	144
Charge/(Credit) to other comprehensive income	457	(326)
Balance at end of period	856	534

18(a) Deferred tax

	2020	2019
	£'000	£'000
Accelerated capital allowance	1,015	943
Tax losses carried forward	(616)	(409)
Deficit arising on foreign exchange contract	(107)	-
	292	534

18(b) Deficit arising on foreign exchange contracts

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for forecast euro sales in foreign currencies. At 2 January 2021, these forward contracts were for a period of 22 months. These foreign exchange contracts are qualifying cash flow hedges, which protect future margins.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP1: EUR1.173. At 2 January 2021 a loss arose on the forward exchange contracts of £564k (2019 Nil).

19. DEFERRED INCOME (Group and Company)

	2020 £'000	2019 £'000
Government Grants	632	234

The balance represents government grants, which have been received. These are being released to the income statement over the lives of the fixed assets to which the grants relate. During the year grants of £53k were released to the income statement (2019: £24,000).

20. CALLED UP SHARE CAPITAL

	Number 2020 No.	Number 2019 No.	Nominal Value £	Share capital 2020 £'000	2019 £'000
Ordinary shares	1	1	1	-	-
'A' Ordinary shares	3,500,000	3,500,000	1	3,500	3,500

All shares are allotted, issued and fully paid.

21. RESERVES

	Retained losses £'000	Deficit on cash flow hedge £'000	Total £'000
At 5 January 2020	(849)	-	(849)
Loss for the period	(594)	-	(594)
Deficit on cash flow hedge	-	(457)	(457)
At 2 January 2021	(1,443)	(457)	(1,900)

The parent company's loss for the period was £549,000 (2019: loss of £31,000). The total comprehensive loss for the company for the period was £1,006,000 (2019: loss of £295,000).

22. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

The contributions for the year amounted to £125,183 (2019: £127,552) of which £33,729 (2019: £19,439) were unpaid at the year end and are included in creditors.

23. RELATED PARTY DISCLOSURES - continued

Entities with control, joint control or significant influence over the entity

	2020	2019
	£'000	£'000
Sales	205	317
Amount due from related party	29	75

Entities over which the entity has control, joint control or significant influence

	2020	2019
	£'000	£'000
Sales	1,297	2,807
Purchases	27	30
Amount due from related party	391	620
Amount due to related party	2	5

Key management personnel of the entity or its parent (in the aggregate)

	2020	2019
	£'000	£'000
Key personnel compensation in the year totalled	138	133
Amount due to shareholders	750	731

At the year end the related parties continued to grant the company unsecured loans. The loans are repayable after more than one year with interest being calculated at a rate of 8.3% (AER), compounded on a monthly basis. Interest accrued but not yet paid at the balance sheet date was £226,000 (2019: £214,000).

Other related parties

	2020	2019
	£'000	£'000
Purchases	16	17
Amount due to related party	3	1

24. ULTIMATE CONTROLLING PARTY

There is no single party with ultimate control.