

LSN Diffusion Limited

Strategic Report, Report of the Directors and

Consolidated Financial Statements

for the Period

3 January 2021 to 1 January 2022

LSN Diffusion Limited

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for the Period 3 January 2021 to 1 January 2022**

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LSN Diffusion Limited

**Company Information
for the Period 3 January 2021 to 1 January 2022**

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)

AUDITORS:

Gerald Thomas
Chartered Accountants and Statutory Auditor
3 New Mill Court
Swansea Enterprise Park
Swansea
SA7 9FG

LSN Diffusion Limited

Strategic Report for the Period 3 January 2021 to 1 January 2022

The directors present their strategic report for the company and of the group in respect of the period from 3 January 2021 to 1 January 2022 (52 weeks). For ease of reference, the 52 weeks period ended 1 January 2022 and the balance sheet date of 1 January 2022 have been referred to as “2021”.

This is the eighth year the directors have reported on the company and group’s performance.

Performance in 2021

The last two years have been impacted by Covid-19 and its variants, which have disrupted trading worldwide. The speed of recovery has been slow, as countries have been forced into a series of “lockdowns”. However, global vaccination programmes have enabled the global economy to achieve a slow but steady recovery, during 2021.

The group saw a steady improvement in activity levels during 2021, although its progress was disrupted by supply chain issues in the automotive sector, caused by shortages of microchip and magnesium (used in engine manufacture); this has led to car production falling.

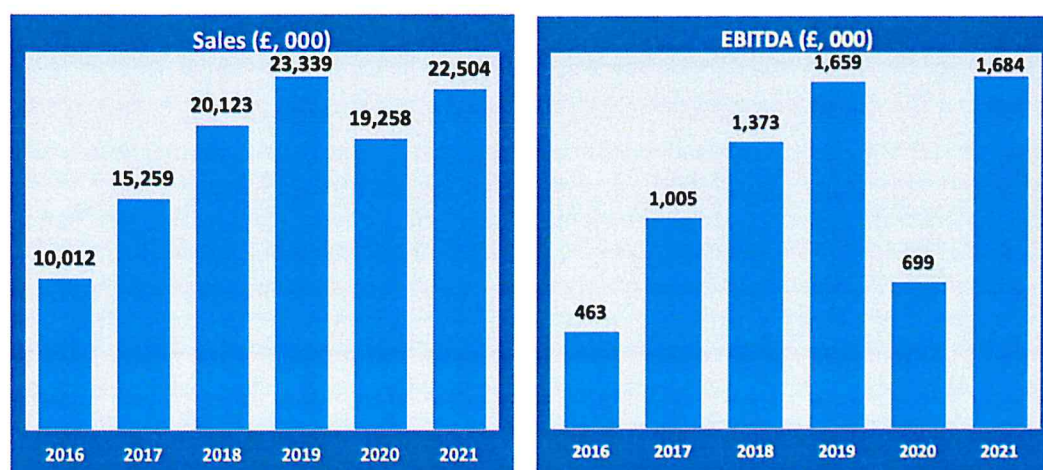
Nevertheless, the group’s spread of customers (both across geographies and sectors) enabled the company to continue on its recovery path, with growing sales, in particular, to the oil and gas sector and to component manufacturers, who are adopting the relatively new technologies of Additive Manufacture (“AM”) and Hot Isostatic Processing (“HIPping”). These new technologies are increasing the demand for specialist powders from companies, like LSN, that can work collaboratively with its customers in developing alloy powders for specific applications.

Sales, during 2021, increased from £19.3 million in 2020 to £22.5 million in 2021 - an increase of 17%.

As a result of the investment in increasing productive capacity, during the second half of 2020 (mainly the commissioning of a new atomising tower), the group has been able to improve productivity and operational efficiencies. The “full year” benefit of these improvements has been felt during 2021, with the cost base only increasing 11%, compared with the 17% growth in sales. This has led to Earnings Before Interest, Taxes, Depreciation and Amortisation (“EBITDA”) before exceptional items increasing by 142% from £0.7 million to £1.7 million.

During the latter part of 2021, sales demand returned to pre-Covid levels and, importantly, the group saw new and existing customers developing new products, which should support further growth in 2022.

The following graphs show the trend of sales and EBITDA, pre-Covid and post-Covid:



LSN Diffusion Limited
Strategic Report
for the Period 3 January 2021 to 1 January 2022

Laboratory fire

Included, within exceptional items, is the costs of a fire, which destroyed the group's laboratory, during November 2020. The facility was quickly back in operation, due to the group's own internal engineering skills. This mitigated the operational disruption, during December 2020 and the early part of 2021. Nevertheless, the group suffered a significant cash cost because of the fire. The costs of replacing damaged equipment have been capitalised and are included in fixed asset additions in the financial statements; the building repair costs and accelerated depreciation of assets, destroyed in the fire, have been written off in the Income Statement – the cost of £0.3 million is included in exceptional items.

The losses and the replacement cost of assets are subject to an insurance claim, which has been independently assessed to be c£0.7 million. Disappointingly and after long delays, Allianz (the insurer) is disputing the claim. The group has taken legal advice from its legal counsel, who believe the group to have a meritorious claim. However, any recovery under the insurance policy is likely to take time; accordingly, the financial statements do not include any potential recovery under the policy

Continuing support

During this difficult period, caused by the disruptive impact of Covid-19, the group has enjoyed the continuing support of the Welsh Government, the Development Bank of Wales (a subsidiary company of the Welsh Government), Carmarthenshire County Council and its bankers (HSBC). Individually and collectively, they have supported the group by providing loans and extended credit periods. This support has allowed the group to operate comfortably within its cash flow during the year. At the end of the 2021, the group had a headroom in its facilities of £0.9 million.

Prospects

Following Covid-19, the group's recovery has accelerated during the first quarter of 2022. The group's order book has reached record levels, due to the recovery of demand from existing customers (returning to pre-Covid levels) and further growth, which has been driven by increased demand for new products.

The crisis in Ukraine has created global trading uncertainties. The imposition of sanctions has caused a dislocation in the supply of metals, which together with speculative trading have caused volatility in non-ferrous metal prices. Metal price uncertainty will continue, until the markets stabilise. In addition, the crisis has disrupted manufacturing supply chains resulting in increased operating costs. However, the group has been successful in maintaining its margins.

Despite the uncertainties and increasing prices, sales demand is continuing to grow and is expected to reach record levels during 2022.

Taxation

The group will receive tax credits amounting to £0.2m during early 2022, 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 of c£0.5 million, provided in the financial statements, will not crystallise in the foreseeable future.

The group's tax losses amounted to £3.4 million at the end of 2021.

LSN Diffusion Limited
Strategic Report
for the Period 3 January 2021 to 1 January 2022

Accounting for forward exchange contracts

The group sells in foreign currencies (mainly Euros and US\$). This creates uncertainty, given the volatility of exchange rates. 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). This residual risk is mitigated, as the group sells forward its surplus foreign currency cash flows.

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.

“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 revaluation of the forward exchange contracts, to “fair value” is dependent on exchange rates at the balance sheet date. At 1 January 2022, this resulted in a surplus, arising on the forward exchange contracts c. £0.1 million (2020: £0.5 million deficit). This swing of £0.6 million (from a deficit to a surplus) has been recognised in “Other Comprehensive Income”.


LSN Diffusion Limited

**Strategic Report
for the Period 3 January 2021 to 1 January 2022**

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. |
| Impact of the crisis in Ukraine | The crisis has created volatility in the price of ferrous metals. This creates uncertainty for sales. | The group selling prices are determined by metal cost plus operating costs and profits. In the case of the metal content, this is determined by the current price of metals when a customer places its sales order. This removes the volatility risk for the group, as it sells the metal at the same price as it buys the metal. |
| 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: 19 May 2022

LSN Diffusion Limited

Report of the Directors for the Period 3 January 2021 to 1 January 2022

The directors present their report with the financial statements of the company and the group for the period 3 January 2021 to 1 January 2022.

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 1 January 2022.

DIRECTORS

The directors, shown below, have held office during the whole of the period from 3 January 2021 to the date of this report.

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

DISCLOSURE IN THE STRATEGIC REPORT

Included in the company's strategic report is a review of the business, details in relation to the risk management policies in respect of financial instruments and a description of the principal risks and uncertainties facing the group.

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 3 January 2021 to 1 January 2022**

AUDITORS

During the year, Anser Solutions Limited retired as auditors. Gerald Thomas were appointed auditors, under the provisions for a casual vacancy to undertake the audit for 2021. Their re-appointment will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:


S W Harrison - Director

Date:

19 May 2022

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 1 January 2022 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 1 January 2022;
- 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.

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

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 five, 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Detecting irregularities

The objectives of our audit in relation to fraud are as follows:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses;
- and to respond appropriately to fraud or suspected fraud identified during the audit.

However, the primary responsibility for the prevention and detection of fraud rests with the directors.

Auditor's approach to assessing the risks of material mis-statement due to irregularities, including fraud

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (FRS 102 and the Companies Act 2006) and the relevant tax compliance regulations in the UK.

We assessed the risks of material misstatement in respect of fraud and considered the extent to which non-compliance with laws and regulations might have a material effect on the financial statements.

Audit procedures designed to respond to the risks of non-compliance with laws and regulations

Based on the results of our risk assessment, we designed our audit procedures to identify non-compliance with such laws and regulations identified above. We made enquiries of senior management of the group of companies to understand how the company is complying with those frameworks. Audit procedures performed by the engagement team also included a review of the financial statements disclosures to underlying supporting documentation.

**Report of the Independent Auditors to the Members of
LSN Diffusion Limited - continued**

Audit procedures designed to respond to the risks of fraud

We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by means of developing an understanding the company's controls and discussing with management the perceived risks and garnering where they considered there was susceptibility to fraud.

Based on the results of our risk assessment we designed our audit procedures to identify and to address material misstatements in relation to fraud.

The COVID-19 working environment increases the inherent risk of fraud. Our audit procedures have been tailored to address this risk, with focus on Government supports schemes fraudulently being claimed due to carelessness or intent.

As well as adopting an attitude of professional scepticism, we have obtained information for use in identifying the risk of fraud when performing risk assessment procedures and performed the following procedures in light of the risk of fraud :

- Discussion amongst the group engagement team regarding the susceptibility of the client to fraud;
- Consideration of the risk of fraud when documenting and testing internal controls;
- Enquiring of management how they assess the risk of fraud; identify and respond to the risks of fraud;
- Enquiring of management and directors whether they have any knowledge of actual or suspected fraud;
- Remaining alert to inconsistent or contradictory information and obtaining evidence to support information provided.

Management override of controls

We considered the risk of fraud through management override and, in response, we incorporated testing of manual journal entries into our audit approach. The audit engagement team performed journal entry testing using a risk-based approach and evaluated whether there was evidence of bias, with a focus on any journals indicating large or unusual transactions, non-routine journals and journals processed for before and after the accounting reference date.

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.



Rachel Doyle (Senior Statutory Auditor)
for and on behalf of Gerald Thomas
Chartered Accountants and Statutory Auditor
3 New Mill Court
Swansea Enterprise Park
Swansea
SA7 9FG

Date: 19.05.22

LSN Diffusion Limited

Consolidated Income Statement
for 52 weeks from 3 January 2021 to 1 January 2022

| | Notes | Result prior to exceptional costs 52 weeks 2021 £'000 | Exceptional costs 52 weeks 2021 £'000 | 52 weeks 2021 £'000 | 52 weeks 2020 £'000 |
|---|-------|---|---|---------------------------|---------------------------|
| TURNOVER | 3 | 22,504 | - | 22,504 | 19,258 |
| Cost of sales | | (17,278) | - | (17,278) | (15,130) |
| GROSS PROFIT | | 5,226 | - | 5,226 | 4,128 |
| Administrative expenses | | (4,530) | (436) | (4,966) | (4,589) |
| OPERATING PROFIT/(LOSS) | 5 | 696 | (436) | 260 | (461) |
| Share of operating profit in joint venture company | | 60 | - | 60 | 31 |
| Profit/ (Loss) before interest & taxation | | 756 | (436) | 320 | (430) |
| Interest and similar charges | 6 | (516) | - | (516) | (463) |
| <i>Analysed as:</i> | | | | | |
| Earnings before interest, depreciation, amortisation & exceptional items | | 1,684 | - | 1,684 | 699 |
| Share of operating profit in joint venture company | | 60 | - | 60 | 31 |
| Interest payable and similar expenses | | (516) | - | (516) | (463) |
| Depreciation and amortisation | | (988) | (145) | (1,133) | (902) |
| Exceptional items | | - | (291) | (291) | (258) |
| PROFIT/ (LOSS) BEFORE TAXATION | | 240 | (436) | (196) | (893) |
| Tax credit | 7 | | | 78 | 299 |
| Tax receivable in respect of: | | | | | |
| Research & Development tax credits | | | | 211 | 148 |
| Deferred tax credit/(charge) | | | | (133) | 151 |
| LOSS FOR THE FINANCIAL PERIOD | | | | (118) | (594) |

LSN Diffusion Limited

Other Consolidated Comprehensive Income
for the Period 3 January 2021 to 1 January 2022

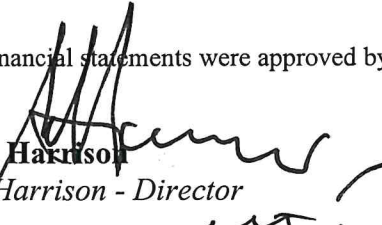
| | 52 weeks 2021 £'000 | 52 weeks 2020 £'000 |
|---|---------------------------|---------------------------|
| LOSS FOR THE PERIOD | (118) | (594) |
| OTHER COMPREHENSIVE INCOME/ (LOSS) | | |
| Surplus/ (Deficit) on cash flow hedge | 639 | (564) |
| Deferred tax on cash flow hedge | (122) | 107 |
| | <hr/> | <hr/> |
| TOTAL COMPREHENSIVE INCOME/ (DEFICIT) FOR THE PERIOD | 399 | (1,051) |
| | <hr/> <hr/> | <hr/> <hr/> |

LSN Diffusion Limited (Registered number: 08198122)

Balance Sheets
1 January 2022

| | Notes | Consolidated | | Parent Company | |
|--|-------|---------------------|---------------------|---------------------|---------------------|
| | | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| FIXED ASSETS | | | | | |
| Intangible assets | 8 | 2,180 | 2,082 | 2,180 | 2,082 |
| Tangible assets | 9 | 5,436 | 5,566 | 5,436 | 5,566 |
| Investments | 10 | 326 | 266 | 124 | 124 |
| | | <u>7,942</u> | <u>7,914</u> | <u>7,740</u> | <u>7,772</u> |
| FINANCIAL ASSET | 18 | 75 | - | 75 | - |
| CURRENT ASSETS | | | | | |
| Stocks | 11 | 5,816 | 4,498 | 5,010 | 4,096 |
| Debtors | 12 | 5,590 | 4,005 | 6,616 | 4,592 |
| Cash at bank and in hand | | 250 | 492 | 213 | 431 |
| | | <u>11,656</u> | <u>8,995</u> | <u>11,839</u> | <u>9,119</u> |
| CREDITORS Amounts falling due within one year | 13 | <u>(11,822)</u> | <u>(8,894)</u> | <u>(11,941)</u> | <u>(8,941)</u> |
| NET CURRENT (LIABILITIES)/ ASSETS | | <u>(166)</u> | <u>101</u> | <u>(102)</u> | <u>178</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,851 | 8,015 | 7,713 | 7,950 |
| CREDITORS: Amounts falling due after one year | 14 | <u>(4,759)</u> | <u>(4,943)</u> | <u>(4,759)</u> | <u>(4,943)</u> |
| NET ASSETS | | <u>3,092</u> | <u>3,072</u> | <u>2,954</u> | <u>3,007</u> |
| PROVISIONS FOR LIABILITIES | 18 | 601 | 840 | 601 | 856 |
| DEFERRED INCOME | 19 | 492 | 632 | 492 | 632 |
| CAPITAL AND RESERVES | | 1,999 | 1,600 | 1,861 | 1,519 |
| Called up share capital | 20 | 3,500 | 3,500 | 3,500 | 3,500 |
| Retained earnings | 21 | (1,561) | (1,443) | (1,699) | (1,524) |
| Suplus/(Deficit) on cash flow hedge | 21 | 60 | (457) | 60 | (457) |
| TOTAL CAPITAL EMPLOYED | | <u>3,092</u> | <u>3,072</u> | <u>2,954</u> | <u>3,007</u> |

The financial statements were approved by the Board of Directors on 19 May 2022 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 3 January 2021 to 1 January 2022**

| | Called up share capital £'000 | Retained earnings £'000 | Deficit on cash flow hedge £'000 | Total equity £'000 |
|------------------------------------|--|-------------------------------|---|-----------------------|
| Balance at 4 January 2020 | 3,500 | (849) | - | 2,651 |
| Changes in equity | | | | |
| Total comprehensive (loss) | - | (594) | (457) | (1,051) |
| Balance at 3 January 2021 | 3,500 | (1,443) | (457) | 1,600 |
| Changes in equity | | | | |
| Total comprehensive (loss)/ income | - | (118) | 517 | 399 |
| Balance at 1 January 2022 | 3,500 | (1,561) | 60 | 1,999 |

**Company Statement of Changes in Equity
for the Period 3 January 2021 to 1 January 2022**

| | Called up share capital £'000 | Retained earnings £'000 | Deficit on cash flow hedge £'000 | Total equity £'000 |
|------------------------------------|--|-------------------------------|---|-----------------------|
| Balance at 4 January 2020 | 3,500 | (960) | - | 2,540 |
| Changes in equity | | | | |
| Total comprehensive loss | - | (564) | (457) | (1,021) |
| Balance at 3 January 2021 | 3,500 | (1,524) | (457) | 1,519 |
| Changes in equity | | | | |
| Total comprehensive (loss)/ income | - | (175) | 517 | 342 |
| Balance at 1 January 2022 | 3,500 | (1,699) | 60 | 1,861 |

LSN Diffusion Limited

**Consolidated Cash Flow Statement
for the Period 3 January 2021 to 1 January 2022**

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| | £'000 | £'000 |
| Notes | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash generated from/(absorbed) by operations 1 | 1,528 | (113) |
| Interest paid | (516) | (463) |
| Taxation refund | <u>135</u> | <u>329</u> |
| Net cash flow from operating activities | <u>1,147</u> | <u>(247)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of intangible fixed assets | (634) | (406) |
| Purchase of tangible fixed assets | <u>(466)</u> | <u>(1,363)</u> |
| Net cash from investing activities | <u>(1,100)</u> | <u>(1,769)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Shareholder loans received | 20 | 19 |
| Capital repayments in year | (222) | (284) |
| Bank Loan (paid)/received | (87) | 2,668 |
| Grants | <u>-</u> | <u>398</u> |
| Net cash from financing activities | <u>(289)</u> | <u>2,801</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | (242) | 785 |
| CASH AND CASH EQUIVALENTS 2 | | |
| At beginning of period | <u>492</u> | <u>(293)</u> |
| At end of period | <u>250</u> | <u>492</u> |

LSN Diffusion Limited

**Notes to the Consolidated Cash Flow Statement
for the Period 3 January 2021 to 1 January 2022**

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

| | 2021 | 2020 |
|--|---------------------|---------------------|
| | £'000 | £'000 |
| Loss before taxation | (196) | (893) |
| Depreciation and amortisation charges | 1,133 | 903 |
| Finance costs | 516 | 463 |
| Share of operating profit in joint venture company | <u>(60)</u> | <u>(31)</u> |
| | 1,393 | 442 |
| | | |
| (Increase) in stocks | (1,318) | (347) |
| (Increase)/ Decrease in trade and other debtors | (1,509) | 837 |
| Increase/ (Decrease) in trade and other creditors | <u>2,962</u> | <u>(1,045)</u> |
| | | |
| Cash generated from operations | <u><u>1,528</u></u> | <u><u>(113)</u></u> |

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:

| | 2021 | 2020 |
|---------------------------|-------------------|-------------------|
| | £'000 | £'000 |
| Cash and cash equivalents | <u>250</u> | <u>492</u> |
| | <u><u>250</u></u> | <u><u>492</u></u> |

LSN Diffusion Limited

Notes to the Financial Statements for the Period 3 January 2021 to 1 January 2022

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 1 January 2022 and the balance sheet is stated as at 1 January 2022. For ease of reference, the 52 weeks period ended 1 January 2022 and the balance sheet date are referred to as "2021". The comparatives are for the 52-week period from 5 January 2020 to 2 January 2021 and the balance sheet referred to as "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.

Going concern

The directors have carried out an extensive review of the group and company's future profitability, cash generation and asset base. The directors utilise complex rolling forecast models that enable multiple sensitivities and scenarios to be considered and the directors are confident that the group and company's financial resources are adequate. The company is reliant upon the continued support of shareholders and its bankers. The directors have assessed an expectation of continued support for the foreseeable future.

The directors have reviewed the current financial position and likely future cash flows and have a reasonable expectation that the company will have sufficient resources to operate for a period of at least twelve months from the approval of the accounts. Accordingly they continue to adopt the going concern basis of preparation.

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 valuation of assets for any indication of impairment. The directors also 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 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.

LSN Diffusion Limited

Notes to the Financial Statements for the Period 3 January 2021 to 1 January 2022

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 are 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. In the parent company financial statements, investments in subsidiaries and joint ventures and stated at cost less any provision for impairment.

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.

LSN Diffusion Limited

Notes to the Financial Statements - continued for the Period 3 January 2021 to 1 January 2022

2. ACCOUNTING POLICIES - continued

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.

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.

LSN Diffusion Limited

**Notes to the Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

2. ACCOUNTING POLICIES - continued

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:

| | 2021 | 2020 |
|-------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Europe | 13,782 | 12,699 |
| Rest of the World | <u>8,722</u> | <u>6,559</u> |
| | <u><u>22,504</u></u> | <u><u>19,258</u></u> |

The company's share of turnover relating to the joint venture company amounts to £1,665,000 (2020: £995,000).

4. EMPLOYEES AND DIRECTORS

| | 2021 | 2020 |
|-----------------------|---------------------|---------------------|
| | £'000 | £'000 |
| Wages and salaries | 2,813 | 2,992 |
| Social security costs | 295 | 303 |
| Other pension costs | 124 | 125 |
| | <u><u>3,232</u></u> | <u><u>3,420</u></u> |

£274,000 (2020: £121,000) of the above wage and salary costs were capitalised.

The wages and salary costs are after deducting furlough grants of £258,000 (2020: £130,000). The grant has been deducted from the cost of employees, rather than shown as "other income", as this is considered a "fairer presentation" than showing the gross cost of employees' costs and classifying the grant as other income.

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

| | 2021 | 2020 |
|--|------------------|-------------------|
| Remunerated Directors | 2 | 2 |
| Production | 53 | 55 |
| Sales & Administration | <u>42</u> | <u>44</u> |
| | <u><u>97</u></u> | <u><u>101</u></u> |
| | 2021 | 2020 |
| | £'000 | £'000 |
| Directors' remuneration | 113 | 124 |
| Directors' pension contributions to money purchase schemes | <u>6</u> | <u>6</u> |

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

4. EMPLOYEES AND DIRECTORS – continued

| | 2021 | 2020 |
|---|----------|----------|
| The number of directors, to whom retirement benefits were accruing, was as follows: | | |
| Money purchase schemes | <u>2</u> | <u>2</u> |

5. OPERATING PROFIT/(LOSS)

The operating profit is stated after charging/ (crediting):
2020

| | 2021 | 2020 |
|---|--------------|-------------|
| | £'000 | £'000 |
| Hire of plant and machinery | 60 | 55 |
| Depreciation - Pre-exceptional | 335 | 299 |
| Depreciation - Exceptional (accelerated depreciation) | 145 | - |
| Depreciation - assets on finance leases | 117 | 84 |
| Development costs amortisation | 536 | 520 |
| Auditors' remuneration | 13 | 13 |
| Other operating leases | 262 | 219 |
| Other income | <u>(140)</u> | <u>(53)</u> |

Exceptional items:

Costs relating to a fire:

| | | |
|---|--------------|--------------|
| Direct costs | (111) | - |
| Provision for future costs | (50) | - |
| Accelerated depreciation of assets destroyed in the fire | <u>(145)</u> | <u>-</u> |
| Total | (306) | - |
| Restructuring and exceptional employment costs | (20) | (37) |
| Release of provisions in respect of liabilities relating to prior years | 45 | 91 |
| Exchange loss) on derivative contracts and exchange* | (140) | (312) |
| Other costs | <u>(15)</u> | <u>-</u> |
| | <u>(436)</u> | <u>(258)</u> |

*Included in the exchange loss are unrealised exchange losses of £95,000 (2020: Nil), arising from the retranslation of assets and liabilities denominated in foreign currencies.

6. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2021 | 2020 |
|-----------------------------|------------|------------|
| | £'000 | £'000 |
| Bank interest | 78 | 67 |
| Factoring costs | 107 | 108 |
| Loan interest | 181 | 139 |
| Interest on leases | 90 | 80 |
| Shareholders' loan interest | <u>60</u> | <u>69</u> |
| | <u>516</u> | <u>463</u> |

7. TAXATION

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

| | 2021 | 2020 |
|-------------------------------------|--------------|------------|
| | £'000 | £'000 |
| Corporation tax: | | |
| R&D tax credit | 211 | 135 |
| R&D tax credit (prior years) | - | 13 |
| Total corporation tax | <u>211</u> | <u>148</u> |
| Deferred tax credit/(charge) | | |
| Current year | (44) | 168 |
| Prior year | (89) | (17) |
| Total deferred tax credit/ (charge) | <u>(133)</u> | <u>151</u> |
| Tax credit | <u>78</u> | <u>299</u> |

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

7. TAXATION – continued

Tax recoverable for the year is higher than the standard rate of corporation tax in the UK for 2021. The differences are explained below:

| | 2021 £'000 | 2020 £'000 |
|--|---------------|---------------|
| Loss before tax | <u>(196)</u> | <u>(893)</u> |
| Profit multiplied by the standard rate of tax of 19% (2020: 19%) | 39 | 170 |
| Share of operating profit in joint venture | 11 | 6 |
| Impact of tax enhancement of research & development | 84 | 135 |
| Adjustment in respect of prior years | - | 13 |
| Re-measurement of deferred tax | (89) | (17) |
| Increase capital allowances (“super deduction”) | 23 | - |
| Other | <u>10</u> | <u>(8)</u> |
| | <u>78</u> | <u>299</u> |

The main rate of corporation tax increases to 25% from April 2023 and deferred tax has been calculated utilising the expected rate of tax in force during the period of reversal.

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

8. INTANGIBLE FIXED ASSETS (GROUP AND COMPANY)

| Development costs | 2021 | 2020 |
|--------------------------|--------------|--------------|
| | £'000 | £'000 |
| COST | | |
| At 5 January 2020 | 3,792 | 3,386 |
| Additions | 634 | 406 |
| Deletions | - | - |
| At 2 January 2021 | <u>4,426</u> | <u>3,792</u> |
| AMORTISATION | | |
| At 5 January 2020 | 1,710 | 1,190 |
| Amortisation for period | 536 | 520 |
| Deletions | - | - |
| At 2 January 2021 | <u>2,246</u> | <u>1,710</u> |
| NET BOOK VALUE | | |
| At 2 January | <u>2,180</u> | <u>2,082</u> |

Included within development costs are £252,000 (2020: £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 3 January 2021 | 98 | 7,059 | 114 | 60 | 7,331 |
| Additions | - | 466 | - | - | 466 |
| Disposals | - | (271) | - | - | (271) |
| At 1 January 2022 | <u>98</u> | <u>7,254</u> | <u>114</u> | <u>60</u> | <u>7,526</u> |
| DEPRECIATION | | | | | |
| At 3 January 2021 | 29 | 1,612 | 78 | 45 | 1,764 |
| Charge for the period | 3 | 578 | 10 | 6 | 597 |
| Elimination on disposal | - | (271) | - | - | (271) |
| At 1 January 2022 | <u>32</u> | <u>1,919</u> | <u>88</u> | <u>51</u> | <u>2,090</u> |
| NET BOOK VALUE | | | | | |
| At 1 January 2022 | <u>66</u> | <u>5,335</u> | <u>26</u> | <u>9</u> | <u>5,436</u> |
| At 3 January 2021 | <u>69</u> | <u>5,447</u> | <u>36</u> | <u>15</u> | <u>5,566</u> |

Included within fixed assets are:

- a) No projects were in progress at the year-end.
- b) Assets which are the subject of finance lease agreements. These assets had a net value of £1,450,000 (2020: £1,496,000).

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

10. FIXED ASSET INVESTMENTS

| | Interest in subsidiary company | Interest in joint venture company | Total company £'000 | Group £'000 |
|--|--------------------------------------|---|---------------------------|----------------|
| | Company £'000 | Company £'000 | | |
| COST | | | | |
| At 3 January 2021 | 19 | 105 | 124 | 266 |
| Eliminated on consolidation | - | - | - | - |
| Income from interests in joint venture company | - | - | - | 60 |
| At 1 January 2022 | 19 | 105 | 124 | 326 |
| NET BOOK VALUE | | | | |
| At 1 January 2022 | 19 | 105 | 124 | 326 |
| At 3 January 2021 | 19 | 105 | 124 | 266 |

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

| | 2021 £'000 | 2020 £'000 |
|--------------------------------|---------------|---------------|
| Aggregate capital and reserves | 455 | 368 |
| Profit for the period/year | 120 | 70 |

11 STOCKS (Group and Company)

| | Group | | Company | |
|------------------------|---------------|---------------|---------------|---------------|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Raw materials (metal) | 2,747 | 2,056 | 2,747 | 2,056 |
| Work-in-progress | 1,074 | 1,044 | 1,074 | 1,044 |
| Finished goods | 1,503 | 939 | 697 | 537 |
| Consumables and spares | 492 | 459 | 492 | 459 |
| | <u>5,816</u> | <u>4,498</u> | <u>5,010</u> | <u>4,096</u> |

12 DEBTORS (Group and Company)

| | Group | | Company | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 5,219 | 3,512 | 5,004 | 3,442 |
| Amount due from subsidiary company | - | - | 1,290 | 657 |
| Tax | 211 | 135 | 211 | 135 |
| Value added tax | 100 | 252 | 51 | 252 |
| Prepayments & accrued income | 60 | 106 | 60 | 106 |
| | <u>5,590</u> | <u>4,005</u> | <u>6,616</u> | <u>4,592</u> |

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

The company has factoring arrangements, with recourse. The gross amount of debt included in trade debtors, subject to the agreement, at 1 January 2021 was £5,642k (2020: £3,137k). Obligations for proceeds received in advance from its bankers in respect of discounted debts total £4,622k (2020: £2,750k) and are included in other creditors.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---------------|--------------|---------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank loans and overdrafts (see note 15) | 627 | 415 | 627 | 415 |
| Finance leases (see note 16) | 296 | 360 | 296 | 360 |
| Trade creditors | 5,618 | 4,644 | 5,609 | 4,645 |
| Social security and other taxes | 86 | 103 | 86 | 103 |
| Other creditors | 4,622 | 2,762 | 4,606 | 2,750 |
| Accrued expenses | 573 | 610 | 717 | 668 |
| | <u>11,822</u> | <u>8,894</u> | <u>11,941</u> | <u>8,941</u> |

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

| | 2021 | 2020 |
|------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Finance leases (see note 16) | 624 | 782 |
| Bank loans | 2,912 | 3,411 |
| Welsh Government Loan | 200 | - |
| Shareholders' loans | 770 | 750 |
| Other trade creditors | <u>253</u> | <u>-</u> |
| | <u>4,759</u> | <u>4,943</u> |

Included within shareholders' loans is accrued interest £245,000 (2020: £228,000). The loans and interest are not repayable within the next 12 months. £500,000 of the shareholders' loans are not repayable until 2028. The Welsh Government has provided an unsecured loan of £200,000 (2020: £200,000), which is interest-free, and the requirement to make loan repayments has not been triggered.

15. LOANS (Group and Company)

An analysis of the maturity of bank loans is given below:

| | 2021 | 2020 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Amounts falling due within one year or on demand: | | |
| Bank loans | <u>627</u> | <u>415</u> |
| Amounts falling due after more than one year | <u>2,912</u> | <u>3,211</u> |

16. LEASING AGREEMENTS (Group and Company)

Minimum lease payments fall due as follows:

| | Finance leases | |
|----------------------------|----------------|--------------|
| | 2021 | 2020 |
| | £'000 | £'000 |
| Net obligations repayable: | | |
| Within one year | 296 | 360 |
| Between one and five years | <u>624</u> | <u>782</u> |
| | <u>920</u> | <u>1,142</u> |

LSN Diffusion Limited

Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022

16. LEASING AGREEMENTS - continued

| | Non-cancellable operating leases | |
|----------------------------|-------------------------------------|--------------|
| | 2021 | 2020 |
| | £'000 | £'000 |
| Within one year | 260 | 260 |
| Between one and five years | 1,140 | 1,090 |
| After five years | 2,480 | 2,790 |
| | <u>3,880</u> | <u>4,140</u> |

17. SECURED DEBTS (Group and Company)

The following secured debts are included within creditors:

| | 2021 | 2020 |
|-------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Bank loans | 3,539 | 3,826 |
| Finance leases | 920 | 1,142 |
| Other creditors (see note 13) | 4,606 | 2,750 |
| | <u>9,065</u> | <u>7,718</u> |

HSBC has provided loans of £1.95 million (2020: £2 million) under the Coronavirus Business Interruption Scheme ("CBILS"). Interest is charged at 3.99% over bank base rate. The loans are repayable over the next 5 years. Two loans totalling £1.59 million have been provided by the Development Bank of Wales (a subsidiary of the Welsh Government). These loans attract interest at 8% and 10.9% per annum. Finance leases are secured against the assets to which they relate. Other items above are secured by fixed and floating charges over company assets.

18. PROVISIONS FOR LIABILITIES (Group and Company)

GROUP:

Provisions for liabilities comprise:

| | 2021 | 2020 |
|--|------------|------------|
| | £'000 | £'000 |
| Deferred tax liability (Note: 18(a)) | 531 | 276 |
| Other | 70 | - |
| Deficit arising on foreign exchange contracts (Note 18(b)) | - | 564 |
| Total | <u>601</u> | <u>840</u> |

The movement in provisions for liabilities is summarised below:

| | 2021 | 2020 |
|---|-------------|------------|
| | £'000 | £'000 |
| Balance at beginning of period | 840 | 534 |
| Charge to income statement during the period (provisions) | 70 | - |
| Charge/(Credit) to income statement during the period (deferred tax charge) | 133 | (151) |
| (Credit)/ Charge to other comprehensive income | (517) | 457 |
| Net balance | <u>526</u> | <u>840</u> |
| Balances at end of period disclosure | | |
| Provisions | 601 | 840 |
| Financial asset | <u>(75)</u> | <u>-</u> |

18(a) Deferred tax

| | 2021 | 2020 |
|--|------------|------------|
| | £'000 | £'000 |
| Accelerated capital allowance | 1,167 | 1,015 |
| Tax losses carried forward | (651) | (632) |
| Surplus/(Deficit) arising on foreign exchange contract | 15 | (107) |
| | <u>531</u> | <u>276</u> |

LSN Diffusion Limited

**Notes to the Consolidated Financial Statements - continued
for the Period 3 January 2021 to 1 January 2022**

18. PROVISIONS FOR LIABILITIES (Group and Company), continued

COMPANY:

Provisions for liabilities comprise:

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | £'000 | £'000 |
| Deferred tax liability (Note: 18(a)) | 531 | 292 |
| Other provisions | <u>70</u> | <u>-</u> |
| Deficit arising on foreign exchange contracts (Note 18(b)) | <u>-</u> | <u>564</u> |
| Total | <u>601</u> | <u>856</u> |

The movement in provisions for liabilities is summarised below:

| | 2021 | 2020 |
|---|--------------|------------|
| | £'000 | £'000 |
| Balance at beginning of period | 856 | 534 |
| Charge to income statement during the period (provisions) | 70 | - |
| Charge/(Credit) to income statement during the period (deferred tax charge) | 117 | (135) |
| (Credit)/ Charge to other comprehensive income | <u>(517)</u> | <u>457</u> |
| Net balance | <u>526</u> | <u>856</u> |
| Balances at end of period disclosure | | |
| Provisions | 601 | |
| Financial Asset | <u>(75)</u> | |

18(a) Deferred tax

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | £'000 | £'000 |
| Accelerated capital allowance | 1,167 | 1,015 |
| Tax losses carried forward | (651) | (616) |
| Surplus/(Deficit) arising on foreign exchange contract | <u>15</u> | <u>(107)</u> |
| | <u>531</u> | <u>292</u> |

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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 1 January 2022, these forward contracts were for a period of 10 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 1 January 2022 a gain arose on the forward exchange contracts of £75,000 (2020: Loss £564,000).

19. DEFERRED INCOME (Group and Company)

| | 2021 | 2020 |
|-------------------|------------|------------|
| | £'000 | £'000 |
| Government Grants | <u>492</u> | <u>632</u> |

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 £140,000 were released to the income statement (2020: £53,000).

20. CALLED UP SHARE CAPITAL

| | Number | | Nominal Value £ | Share capital | |
|---------------------|-------------|-------------|-----------------------|---------------|---------------|
| | 2021 No. | 2020 No. | | 2021 £'000 | 2020 £'000 |
| Ordinary shares | 1 | 1 | 1 | - | - |
| 'A' Ordinary shares | 3,500,000 | 3,500,000 | 1 | <u>3,500</u> | <u>3,500</u> |

All shares are allotted, issued and fully paid. Both share classes carry equal rights.

21. RESERVES

| | Deficit | Surplus/ (Deficit) | Total |
|----------------------------|----------------|-----------------------------------|----------------|
| | £'000 | on cash flow hedge £'000 | £'000 |
| At 3 January 2021 | (1,443) | (457) | (1,900) |
| Loss for the period | (118) | - | (118) |
| Deficit on cash flow hedge | - | 517 | 517 |
| At 1 January 2022 | <u>(1,561)</u> | <u>60</u> | <u>(1,501)</u> |

The parent company's loss for the period was £175,000 (2020: loss of £564,000). The total comprehensive income for the company for the period was a surplus of £399,000 (2020: loss of £1,021,000). The minority interest relating to the subsidiary company, as included within the retained deficit, is £3,000.

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22. NET DEBT RECONCILIATION

| | At 3 January 2021 £'000 | Cash flows £'000 | New finance Leases £'000 | At 1 January 2022 £'000 |
|---------------------------------|----------------------------------|------------------------|-----------------------------------|----------------------------------|
| Cash at bank and in hand | 492 | (242) | - | 250 |
| Obligations under finance lease | (1,142) | 336 | (114) | (920) |
| Bank loans | (3,626) | 87 | - | (3,539) |
| Welsh Government loans | (200) | - | - | (200) |
| Shareholders' loans | (750) | (20) | - | (770) |
| Net debt | <u>(5,226)</u> | <u>161</u> | <u>(114)</u> | <u>(5,179)</u> |

There are no restrictions over the use of the cash and cash equivalent balances, which comprise cash at bank and in hand.

At 1 January 2022, the group has bank overdraft facilities of £650,000, which were undrawn.

23. 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 £124,319 (2020: £125,183) of which £18,290 (2020: £33,729) were unpaid at the year end and are included in creditors.

24. Contingent gain

The company had a fire in its premises in November 2020. The costs of replacing damaged equipment have been capitalised and are included in fixed asset additions in the financial statements; the building repair costs and accelerated depreciation of assets, destroyed in the fire, have been written off in the Income Statement – the cost of £0.3 million is included in exceptional items.

The losses and the replacement cost of assets are subject to an insurance claim, which has been independently assessed to be c.£0.7 million. Disappointingly and after long delays, Allianz (the insurer) is disputing the claim. The group has taken legal advice from its legal counsel, who believe the group to have a meritorious claim. However, any recovery under the insurance policy is likely to take time; accordingly, the financial statements do not include any potential recovery under the policy.

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25. RELATED PARTY DISCLOSURES

The group and company has taken advantage of the exemptions available to it in respect of not disclosing related party transactions with wholly owned subsidiaries.

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

| | 2021 | 2020 |
|-------------------------------|-----------|-----------|
| | £'000 | £'000 |
| Sales | 355 | 205 |
| Amount due from related party | <u>77</u> | <u>29</u> |

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

| | 2021 | 2020 |
|-------------------------------|-------|-------|
| | £'000 | £'000 |
| Sales | 3,101 | 1,297 |
| Purchases | 14 | 27 |
| Amount due from related party | 1,122 | 391 |
| Amount due to related party | 2 | 2 |

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

| | 2021 | 2020 |
|---|------------|------------|
| | £'000 | £'000 |
| Key personnel compensation in the year totalled | 119 | 130 |
| Amount due to shareholders | <u>770</u> | <u>750</u> |

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 £245,000 (2020: £226,000).

Other transactions with related parties

| | 2021 | 2020 |
|-----------------------------|------------|----------|
| | £'000 | £'000 |
| Purchases | 406 | 16 |
| Amount due to related party | <u>113</u> | <u>3</u> |

26. ULTIMATE CONTROLLING PARTY

There is no single party with ultimate control.