

Financial Statements Ipeco Holdings Limited

For the year ended 31 December 2021



Registered number: 00672443

Company information

DIRECTORS	C Johnson S Johnson E Johnson S Nash A Johnson S Hair R Hamlin
COMPANY SECRETARY	Indigo Corporate Secretary Limited
REGISTERED NUMBER	00672443
REGISTERED OFFICE	Aviation Way Southend-on-Sea Essex SS2 6UN
INDEPENDENT AUDITOR	PKF Littlejohn LLP 15 Westferry Circus London United Kingdom E14 4HD

Contents

	Pages
Group strategic report	4-8
Directors' report	9-13
Independent auditor's report	14-17
Consolidated Statement of Comprehensive Income	18
Consolidated Balance Sheet	19
Company Balance Sheet	20
Consolidated Statement of Changes in Equity	21-22
Company Statement of Changes in Equity	23
Consolidated Statement of Cash Flows	24
Notes to the financial statements	25-46

Group strategic report

For the year ended 31 December 2021

INTRODUCTION

The directors present their strategic report for the year ended 31 December 2021.

Principal activity and review of the business

The group's principal activities are the provision of crew seating, executive passenger seating and electrical galley insert equipment for commercial, business and military aircraft. This is supported by an established global aftermarket business consisting of retrofit, refurbishment and spares. Our customer base includes major aircraft manufacturers and the world's leading airlines.

Due to the impact of the COVID-19 pandemic, the group had a challenging trading period in the year ending 31st December 2021. Total revenue continued to decline to £62m (2020 - £69m; 2019 - £101m), but there was evidence of market recovery in the second half of the year. The group recorded a loss after tax of £0.7m (2020 - £1m profit). Net assets reduced to £92.4m (2020 - £95.4m) reflecting changes in the mark-to-market values of foreign exchange contracts.

The completion of a new 130,000 sq ft component manufacturing plant in 2020 facilitated the successful relocation of the group's fabrication operations, the addition of extended machining capability and the introduction of surface treatment processing into the group during 2021. The relocations led to the sale of two buildings during the year.

In October 2021, the group was pleased to announce the acquisition of OTM Servo Mechanism Ltd, a supplier of actuation systems, thereby mitigating significant risks in its supply chain and fulfilling a strategic goal of extending engineering and manufacturing capability.

The strength of the group's balance sheet, together with the financial support provided by governments and the unwavering support of its outstanding employees and shareholders, have mitigated the impact of the COVID-19 pandemic on the business. Staffing reductions have been implemented and non-essential costs eliminated as the group re-aligns itself to new levels of customer demand. The directors continue to keep the situation under close review, particularly as resulting material supply issues, together with price inflation, become prominent issues for the business.

Key areas of strategic development and performance of the business include:

- Sales and marketing: demand for air travel and commercial air traffic continued to be severely impacted by the COVID-19 pandemic. As a result many airlines operated at reduced capacity, grounding large portions of their fleets. Recovery has been led by the US airlines with the resumption of almost full domestic flight schedules triggering higher than anticipated demand for our aftermarket services in the USA. The European air travel market started to show signs of recovery in Q4. Demand for our products in China and the rest of the world remained low, relative to historical levels. Demand from aircraft manufacturers was also lower in 2021 as aircraft build rates continued to be suppressed by the airlines' over-capacity issues. Boeing, the group's largest customer, did make some progress with the resumption of B737MAX production and aircraft deliveries, but were also impacted by quality issues with the B787 aircraft model which has brought about an extended pause to the production line. A key seat retrofit programme was delayed in order to accommodate late changes to the product requested by the customer; deliveries will resume in 2022. Recovery was most evident in the business aircraft market where Textron's success in securing orders for new aircraft led to an aggressive production ramp-up, shortly followed by announcements of increased build rates at competitors Bombardier and Gulfstream. Demand for the group's galley insert products declined due to the B787 issue and other postponed deliveries of twin-aisle aircraft to the airlines.

Group strategic report

For the year ended 31 December 2021

- **People:** the group has continued to protect the welfare and the remuneration of its workforce during the COVID-19 pandemic and has benefited from government financial assistance in meeting these objectives. Throughout 2021, the workforce has been re-aligned to support the changing demands on the business and recruitment recommenced in some manufacturing disciplines towards the end of the year. The recruitment market has been challenging but good progress has been made. The group continues to benefit from the services of many long-serving employees and the success of its training organisation, especially the engineering apprentice programme which has brought many talented individuals into the business. The group's management remains unchanged.
- **Research and Development:** throughout 2021 the company invested £5.9m in research and development activities, a record amount. Primary R&D programmes included new executive passenger seats and new cabin attendant seats in support of customer contracts. Significant milestones on these programmes have been achieved and the group is committed to continued investment in these products over the coming years. A new beverage maker has also been developed which will shortly be available for airlines to purchase. Other aircraft galley inserts are under development as the group seeks to extend its portfolio of products in the Airbus and Boeing catalogues.
- **Capability:** the group is committed to further enhancing its own engineering and manufacturing capabilities and in 2021 these were extended with the acquisition of OTM Servo Mechanism Ltd and a commitment to fund an upgrade to composite manufacturing capability.

Future developments

The group is continuing to take the necessary actions to ensure it can provide its customers with secure supply in the face of the ongoing challenges being presented by COVID-19, raw material supply and cost inflation. It is committed to ensuring its customer base remains well-supported.

The group will continue to protect the welfare of the workforce and to the further development of its employees, including the apprentice training programme.

Investment in new product development will continue in accordance with existing contractual commitments and the strategic objective of introducing innovative new products into our marketplaces.

The group is committed to further investment in our manufacturing capability most notably in terms of introducing new manufacturing technologies into its composites division. It is also formulating plans for further modernisation of facilities.

The commitment to remaining a family company and a strong balance sheet mean that the group is well placed to respond to difficult market challenges. They also provide a secure base from which the group can meet its long term aspirations.

Group strategic report

For the year ended 31 December 2021

KEY FINANCIAL INDICATORS

The key financial and other performance indicators during the year were as follows:

	2021 £000	2020 £000
Turnover	62,239	69,485
Operating (loss)/profit	(2,371)	(2,422)
Net cash generated from operating activities	3,103	6,822
Average number of employees	735	804

PRINCIPAL RISKS AND UNCERTAINTIES

The group has carried out a review to evaluate the risks and uncertainties facing the group. The principal risks and uncertainties are broadly grouped as:

Safety

The group operates in a highly regulated industry where the safety of its products and people are the highest priority. There is clear accountability for safety and a culture that puts safety first. Through extensive engineering, design and validation processes, supported by relevant training, the group ensures that our products conform to their specifications. The safety and well-being of people is ensured through the group's Health & Safety and Environmental management systems.

Business Continuity

Major disruption of the group's operations following a major event such as the COVID-19 pandemic and the impact this has had on the aviation industry, extreme weather, fire, supplier failure etc. is mitigated by several factors. This includes the strength of the balance sheet, the extent to which the group is vertically integrated, dual source and alternative supply arrangements, a resilient and collaborative workforce and the group's business continuity plan.

Competitive Environment

The group's challenge is to remain competitive in the global marketplace. To achieve this, the board considers that the best interests of customers can be served by remaining in family ownership. The directors continually invest in product innovation, manufacturing capability and customer support. Improvements in productivity, incorporating new manufacturing methods and ideas are continually implemented. In addition, the directors look to form strategic relationships with key suppliers so that the supply chain is focused on efficiency and cost management.

Compliance

In addition to changes in government legislation, increasing regulation in both the aviation industry and within individual customer contracts may have an impact on the group's ability to manufacture and supply products profitably. The group carries out an annual review of quality management systems and reviews upcoming changes in legislation and regulation to assess the impact and plan any changes required to business processes.

Cyber Threat

To mitigate the threat of unauthorised access, manipulation and corruption of data, systems or products through cyberspace, the group deploys web gateways, filtering, firewalls, advanced persistent threat detectors and various IT security protocols.

Group strategic report

For the year ended 31 December 2021

Major Product Programme Delivery

Major programmes are reviewed at levels and frequencies appropriate to their criticality and performance for potential risks, issues and opportunities throughout the development and certification phases. Investment in facilities and people enhances the programme management and product development processes.

Market and Financial Shock

The group maintains a strong balance sheet through managing cash balances and debt. A high level of liquidity and credit rating provides financial flexibility. The breadth of the product range and diversity of markets provides additional protection. The group is subject to transactions in foreign currency and seeks to mitigate this exposure using forward currency contracts covering several years. The present nature of these contracts means that not all of these contracts comply with hedge accounting requirements and therefore movements in exchange rates can cause significant movements in the unrealised mark-to-market position presented in the group's financial statements. The group has no interest-bearing borrowings and hence has no significant exposure to interest rate risk other than on cash deposits. Inflationary pressures could affect the group's profitability and are mitigated by the vertical integration of operations and long term supplier contracts.

Political Risk

Through the global diversification of the group's operations, excessive concentration of risks in a particular area is avoided. Although the greater majority of sales are considered to be with low risk countries, trade sanctions can impact group revenues. The group's largest customers are in North America.

Retaining Talent and Capability

The group leverages its position as a world leader in aerospace engineering to attract and retain talent and capability. It funds and delivers world class training programmes for employees (including apprentices) and engages with universities and other higher education establishments to attract engineering graduates. Talent and capability are recruited globally. The leadership looks to promote a culture that provides development opportunities to existing staff by promoting from within wherever possible, and that is welcoming and supportive.

The COVID-19 pandemic, the resulting health and economic crises and actions taken in response to the spread of the pandemic, including government measures and travel limitations and restrictions, have resulted in significant disruption to the group's business operations and supply chain. Measures have been taken by the group to implement stringent health and safety procedures, protecting our employees and those who interact with the group.

PROMOTING THE SUCCESS OF THE COMPANY - s172(1) statement

The directors of the company meet bi-monthly to review key business decisions. Additional meetings are scheduled as required and, since spring of 2020, the board has met monthly given the impacts of the COVID-19 pandemic on the business. The executive directors have daily contact with the senior management team to ensure operational matters are addressed speedily. When taking decisions, in particular with regard to investment opportunities in both assets and development activities, the directors consider the long term plans for the business.

The directors review the impacts of key decisions on all stakeholders of the business to ensure the interests of customers, suppliers, employees, and shareholders as well as the wider community are considered. The directors aim to treat all parties fairly in their dealings with them. Notably, the impacts of the COVID-19 pandemic have required some significant changes to operational activities. The directors and senior management team focused on maintaining a safe operating environment for employees; ensuring their pay was protected, whilst adhering to customer delivery schedules where possible and ensuring suppliers continued to be paid in accordance with normal payment terms.

Group strategic report

For the year ended 31 December 2021

The investment in new premises provided the business with an opportunity to reduce the impacts of operational activities on the environment. It is also hoped that this investment will also provide more employment opportunities for the local community when activity in aviation recovers from the current conditions.

The business receives regular accolades from its business partners for exceptional service levels, adherence to delivery schedules and quality standards. All three are focal points for operational management and are reviewed weekly by the senior management team. The directors believe focus in these areas, combined with investment in its relationships with customers and suppliers, is the basis for the business's reputation for high standards.

This report was approved by the board on **24 MAY 2022** and signed on its behalf.

S Nash
Director



Directors' report

For the year ended 31 December 2021

The directors present their report and the financial statements of Ipeco Holdings Limited (Registered company number 00672443) for the year ended 31 December 2021.

PRINCIPAL ACTIVITY

The group's principal activities are the provision of crew seating, executive passenger seating and electrical galley insert equipment for commercial, business and military aircraft. This is supported by an established global aftermarket business consisting of retrofit, refurbishment and spares. Our customer base includes major aircraft manufacturers and the world's leading airlines.

RESULTS AND DIVIDEND

The loss for the year, after taxation, amounted to £743,000 (2020 - £1,053,000 profit).

Dividends paid for the year totalled £nil (2020 - £nil).

DIRECTORS

The directors who served during the year were:

C Johnson
S Johnson
E Johnson
S Nash
A Johnson
S Hair
R Hamlin

HEALTH AND SAFETY AND THE ENVIRONMENT

The group recognises its responsibilities on all matters relating to health, safety and the environment. During the year the business has continued to update its health and safety policy and provide advice and support to staff, as well as provide education and training on health and safety matters.

The group aims to manage its activities in such a way that adverse effects on the environment are minimised. A policy statement has been produced which reaffirms the group's commitment to environmental, social and economic sustainability. This has been discussed within the organisation to raise awareness and agree practical ways of completion.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group made no political contributions during the year (£nil 2020). Donations to UK charities amounted to £4,000 (2020 - £22,000).

Directors' report

For the year ended 31 December 2021

EMPLOYEE INVOLVEMENT

It is the management's policy to encourage employees to participate in the group's affairs. The directors seek to keep staff informed and involved in the progress of the group through training programmes and a broadsheet for internal distribution. Since the business made some significant changes to operational activities following the outbreak of the COVID-19 pandemic in early 2020, more regular communications and business updates have been shared with employees. Employees and managers were surveyed on how the business was handling its response to the pandemic. Pleasingly, a significant majority of employees agreed with the approach of the business. The survey also provided some suggested changes which were actioned by local management.

FINANCIAL INSTRUMENTS

The group operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the group's activities.

The group's principal foreign currency exposures arise from trading operations in overseas jurisdictions. Group policy permits, but does not demand, these exposures to be hedged to fix the price in sterling. This hedging activity involves the use of foreign exchange forward contracts.

The group's principal financial instruments include derivative financial instruments, the purpose of which is to manage currency risks arising from the group's trading activities. The group has various other financial assets and liabilities, such as trade receivables and trade payables, arising directly from its operations. Derivative transactions into which the group enters are mainly forward exchange contracts.

Details of the financial instruments are provided in notes 17, 20, 21 and 23 to the financial statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

The group is committed to a policy of future investment both by acquisition of capital equipment and by expenditure on product development and improvement.

COVID-19

The effects of the COVID-19 pandemic continue to be significant on the aerospace industry and its supply chain. Industry experts suggest recovery to 2019 activity levels could take some years. The majority of customers have reduced production rates and in some instances, new product introduction has been delayed. During the latter part of 2021, the group noted signs of recovery in some of its markets, principally those that are US-based or related to business aircraft. It is anticipated that this growth in demand will continue in 2022.

The adverse impact of COVID-19 on the global supply chain, including the availability of raw materials and freight has become more evident throughout the year creating a much more challenging environment for manufacturing operations.

The group's ability to meet future increases in demand will depend very much on the ongoing health of its workforce and its ability to find creative solutions to supply chain issues.

Directors' report

For the year ended 31 December 2021

EMISSIONS AND ENERGY CONSUMPTION

The group is fully committed to protecting the environment by continually improving our environmental performance, through product design, manufacturing methods, recycling and the minimisation of waste, in particular any pollutants which may cause environmental damage.

Our new manufacturing facility introduced in July 2020 incorporates LED motion controlled lighting in all office spaces and an extensive array of solar panels designed to generate up to 30% of the power required by the facility. In addition, remote working during 2020 has encouraged the use of electronic files and documentation with a notable reduction in the use of paper copying.

The table below details the carbon footprint of the group's UK operations for the year.

	2021	2020 (Revised)
	kWh'000	kWh'000
Electricity	5,123	5,057
Solar	424	198
Natural gas	3,692	3,026
Transport fuels	42	61
Total energy consumption	9,281	8,342

	2021	2020 (Revised)
	TCO2e	TCO2e
Emissions from purchased electricity	1,088	1,179
Emissions from combustion of gas	676	556
Emissions from combustion of fuel for transport purposes	29	26
Total TCO2e	1,793	1,761

The methodology used to calculate energy consumption and carbon emissions has been invoice data for the financial years stated. Where data was not available, estimates have been calculated using historical profiles. Prior year data has been revised where data has subsequently been available. Energy and fuel consumption has been converted to carbon (KGCO_{2e}) using 2020 DEFRA published conversion factors. Fuel for transport has been converted using statistical data sets published by the Department of Transport.

Directors' report

For the year ended 31 December 2021

DISABLED EMPLOYEES

All applications for employment from disabled persons are given full and fair consideration, due regard being given to the aptitude and ability of the individual and the requirements of the position concerned. Disabled persons are treated on equal terms with other employees as regards training, career development and promotion. In the event of an existing employee becoming disabled, every effort is made to ensure continuity of employment and that appropriate training is given where necessary.

POST BALANCE SHEET EVENTS

Since the year end, Russia has invaded Ukraine and both the UK and US governments have imposed sanctions on the group's Russian customers. This has affected sales to Russia, although the impact is not considered material to the group's overall performance.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and 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 for the group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Directors' report

For the year ended 31 December 2021

AUDITOR

The auditor, PKF Littlejohn LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 24/5/22 and signed on its behalf.



S Nash
Director

Independent auditor's report to the members of Ipeco Holdings Limited

OPINION

We have audited the financial statements of Ipeco Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS OF OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the director's 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 or 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.

Independent auditor's report to the members of Ipeco Holdings Limited - Continued

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company 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. 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 course of 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

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

In preparing the group and parent company 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.

Independent auditor's report to the members of Ipeco Holdings Limited - Continued

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research and application of cumulative audit knowledge.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from Companies Act 2006, Financial Reporting Standard 102, product safety regulations and relevant employee legislation.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
 - enquiries of management.
 - review of board minutes.
 - review of legal and regulatory correspondence.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the potential for management bias was identified in relation to stock provisioning and the allocation of labour and overheads to stock and we addressed this by challenging the assumptions and judgements made by management when auditing significant accounting estimates.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
- The Group engagement team shared the risk assessment in relation to non-compliance of laws and regulations and material misstatements of the financial statements due to fraud with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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 auditor's report.

Independent auditor's report to the members of Ipeco Holdings Limited - Continued

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 an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

PKF Littlejohn LLP

Timothy Herbert (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

24 May 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	4	62,239	69,485
Cost of sales		(54,424)	(60,633)
Gross profit		7,815	8,852
Other income	5	901	2,473
Distribution costs		(1,067)	(710)
Administrative expenses		(10,020)	(13,037)
Operating (loss)/profit	5	(2,371)	(2,422)
Financing income	9	15	3,050
Financing costs	10	(214)	-
(Loss)/profit before tax		(2,570)	628
Tax on (loss)/profit	11	1,827	425
(Loss)/profit for the year		(743)	1,053
Currency translation differences		15	(218)
Cash flow hedges – change in value of hedging instrument		(2,787)	2,422
Total tax components of other comprehensive income	11	523	(460)
Other comprehensive (expense)/income for the year		(2,249)	1,744
Total comprehensive (expense)/income for the year		(2,992)	2,797
(Loss)/profit for the year attributable to:			
Non-controlling interests		61	(6)
Owners of the parent company		(804)	1,059
		(743)	1,053
Total comprehensive income for the year attributable to:			
Non-controlling interests		49	(6)
Owners of the parent company		(3,041)	2,803
		(2,992)	2,797

The notes on pages 25 to 46 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Intangible assets	13	(337)	326
Tangible assets	14	<u>36,078</u>	<u>38,235</u>
		35,741	38,561
Current assets			
Stocks	16	24,674	25,805
Debtors: amounts falling due after more than one year	17	2,108	921
Debtors: amounts falling due within one year	17	10,860	12,639
Current asset investments	18	-	1,000
Cash at bank and in hand	19	<u>31,584</u>	<u>25,319</u>
		69,226	65,684
Creditors: amounts falling due within one year (excluding forward exchange contract financial instruments)		(7,246)	(5,871)
Forward exchange contract financial instruments		<u>(649)</u>	<u>(291)</u>
Total creditors: amounts falling due within one year	20	<u>(7,895)</u>	<u>(6,162)</u>
Net current assets		61,331	59,522
Total assets less current liabilities		97,072	98,083
Creditors: amounts falling due after more than one year (excluding forward exchange contract financial instruments)		(136)	(223)
Forward exchange contract financial instruments		<u>(4,568)</u>	<u>(2,500)</u>
Total creditors: amounts falling due after more than one year	21	<u>(4,704)</u>	<u>(2,723)</u>
Net assets		92,368	95,360
Capital and reserves			
Called up share capital	26	1,880	1,880
Share premium account	25	3,988	3,988
Cash flow hedge reserve	25	(275)	1,989
Profit and loss account	25	86,086	86,863
Equity attributable to owners of the parent company		91,679	94,720
Minority interest		689	640
Total equity		92,368	95,360

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 May 2022

S Johnson
Director



The notes on pages 25 to 46 form part of these financial statements.

Company Balance Sheet

As at 31 December 2021

	Note	2021 £000	2020 £000
Fixed assets			
Tangible assets	14	35,066	37,528
Investments	15	<u>1,274</u>	<u>1,274</u>
		36,340	38,802
Current assets			
Stocks	16	19,714	21,951
Debtors: amounts falling due after more than one year	17	2,108	921
Debtors: amounts falling due within one year	17	12,541	13,940
Current asset investments	18	-	1,000
Cash at bank and in hand	19	<u>28,848</u>	<u>22,865</u>
		63,211	60,677
Creditors: amounts falling due within one year (excluding forward exchange contract financial instruments)		(5,062)	(4,865)
Forward exchange contract financial instruments		<u>(649)</u>	<u>(291)</u>
Total creditors: amounts falling due within one year	20	<u>(5,711)</u>	<u>(5,156)</u>
Net current assets		57,500	55,521
Total assets less current liabilities		93,840	94,323
Creditors: amounts falling due after more than one year (excluding forward exchange contract financial instruments)	21	(22)	(84)
Forward exchange contract financial instruments	21	<u>(4,568)</u>	<u>(2,500)</u>
Total creditors: amounts falling due after more than one year		<u>(4,590)</u>	<u>(2,584)</u>
Net assets		89,250	91,739
Capital and reserves			
Called up share capital	26	1,880	1,880
Share premium account	25	3,988	3,988
Cash flow hedge reserve	25	(275)	1,989
Profit and loss account	25	83,657	83,882
Total equity		89,250	91,739

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss after tax of the parent company for the year was £225,000 (2019 – profit £199,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

24 May 2022
S Johnson
Director



The notes on pages 25 to 46 form part of these financial statements.

Ipeco Holdings Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Called up share capital	Share premium account	Cash flow hedge reserve	Profit and loss account	Equity attributable to owners of parent company	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2021	1,880	3,988	1,989	86,863	94,720	640	95,360
Profit/(loss) for the year	-	-	-	(804)	(804)	61	(743)
Currency translation differences	-	-	-	27	27	(12)	15
Hedge effective portion of change in fair value of hedging instruments	-	-	(2,028)	-	(2,028)	-	(2,028)
Cash flow hedge recycled to profit or loss	-	-	(236)	-	(236)	-	(236)
Other comprehensive income for the year	-	-	(2,264)	27	(2,237)	(12)	(2,249)
Total comprehensive income for the year	-	-	(2,264)	(777)	(3,041)	49	(2,992)
Balance at 31 December 2021	1,880	3,988	(275)	86,086	91,679	689	92,368

The notes on pages 25 to 46 form part of these financial statements.

Ipeco Holdings Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital	Share premium account	Cash flow hedge reserve	Profit and loss account	Equity attributable to owners of parent company	Non- controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2020	1,880	3,988	27	86,022	91,917	646	92,563
Profit for the year	-	-	-	1,059	1,059	(6)	1,053
Currency translation differences	-	-	-	(218)	(218)	-	(218)
Hedge effective portion of change in fair value of hedging instruments	-	-	1,956	-	1,956	-	1,956
Cash flow hedge recycled to profit or loss	-	-	6	-	6	-	6
Other comprehensive income for the year	-	-	1,962	(218)	1,744	-	1,744
Total comprehensive income for the year	-	-	1,962	841	2,803	(6)	2,797
Balance at 31 December 2020	1,880	3,988	1,989	86,863	94,720	640	95,360

The notes on pages 25 to 46 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2021

	Called up share capital	Share premium account	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2020	1,880	3,988	1,989	83,882	91,739
Loss for the year	-	-	-	(225)	(225)
Hedge effective portion of change in fair value of hedging instruments	-	-	(2,028)	-	(2,028)
Cash flow hedge recycled to profit or loss	-	-	(236)	-	(236)
Balance at 31 December 2020	1,880	3,988	(275)	83,657	89,250

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital	Share premium account	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2019	1,880	3,988	27	83,683	89,578
Profit for the year	-	-	-	199	199
Hedge effective portion of change in fair value of hedging instruments	-	-	1,956	-	1,956
Cash flow hedge recycled to profit or loss	-	-	6	-	6
Balance at 31 December 2019	1,880	3,988	1,989	83,882	91,739

The notes on pages 25 to 46 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 £000	2020 £000
Cash flows from operating activities		
(Loss)/profit for the financial year	(743)	1,053
Adjustments for:		
Depreciation of tangible assets	3,230	2,823
Write down of intangible assets	(3)	45
(Profit)/Loss on disposal of tangible assets	(2,281)	145
Foreign exchange movement	(481)	187
Financing costs/(income)	199	(3,050)
Taxation (credit)	(1,827)	(425)
Decrease in stock	2,007	2,257
Decrease in debtors	2,897	9,146
Increase/(decrease) in creditors	103	(5,258)
Corporation tax received/(paid)	2	(101)
Net cash generated from operating activities	3,103	6,822
Cash flows from investing activities		
Purchase of tangible fixed assets	(2,393)	(17,708)
Sale of tangible fixed assets	4,037	-
Movement on current asset investments	1,000	13,450
Interest received	7	166
Net cash generated by/(used in) investing activities	2,651	(4,092)
Cash flows from financing activities		
Dividends paid	-	-
Interest paid	-	-
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	5,754	2,730
Cash and cash equivalents at the beginning of year	25,319	22,747
Foreign exchange on retranslation	511	(158)
Cash and cash equivalents at the end of year	31,584	25,319
Cash at bank and in hand	31,584	22,313
Current asset investments maturing within 3 months	-	3,006
	31,584	25,319

The notes on pages 25 to 46 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

The principal activity of the group during the year was the design, development and manufacture of specialised equipment for the aerospace industry.

Ipeco Holdings Limited is a private company, limited by share capital, incorporated in England. The registered office of the company is Aviation Way, Southend-on-Sea, Essex SS2 6UN.

The group and individual financial statements of Ipeco Holdings Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland", and the Companies Act 2006.

The financial statements have been prepared in sterling which is the functional currency of the group and rounded to the nearest £000.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group's accounting policies (see note 3).

2.2 Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its financial statements.

2.3 Basis of consolidation

The consolidated financial statements present the results of Ipeco Holdings Limited and its subsidiaries ('the group') as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

No statement of comprehensive income is presented for Ipeco Holdings Limited as a company as permitted by section 408 of the Companies Act 2006.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the group has transferred the significant risks and rewards of ownership to the buyer;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5 Government grants

Government grants are recognised in other income when there is reasonable assurance that the entity will comply with the conditions attached to the grant and that the grant will be received.

2.6 Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Goodwill	- 10 years
Negative goodwill	- 3 years
Order Book	- 1 year

Amortisation is charged to administrative expenses in the consolidated statement of comprehensive income.

Assets are assessed for impairment when there are indicators of impairment and any impairment is charged to the consolidated statement of comprehensive income.

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.7 Tangible fixed assets - Continued

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the consolidated statement of comprehensive income during the period in which they are incurred.

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

Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 50 years
Long term leasehold property	- Over the shorter of the outstanding lease period and 50 years
Plant and machinery	- 3-10 years
Motor vehicles	- 4-5 years

Depreciation is charged to administrative expenses and cost of sales in the consolidated statement of comprehensive income.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.8 Business combinations and goodwill

Business combinations are accounted for by applying the purchase method. On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the group's interest in the identifiable net assets, liabilities and contingent liabilities acquired. Goodwill is amortised over its expected useful life which is estimated to be ten years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the consolidated statement of comprehensive income.

Where the fair values of assets acquired exceed the purchase consideration, the excess is recognised as negative goodwill which is amortised over three years.

2.9 Operating leases

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

2.10 Research and development

Expenditure on design, research and development is charged to the consolidated statement of comprehensive income as it is incurred.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.11 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

2.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Standard unit cost is used as an approximation of cost and regular adjustments made if the standard cost is significantly different to actual cost. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the consolidated statement of comprehensive income.

2.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.15 Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other amounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short term instrument constitute a financing transaction, such as the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument, and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the consolidated statement of comprehensive income.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.15 Financial instruments - Continued

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group uses forward currency contracts to reduce exposure to foreign exchange rates.

Forward currency contracts are initially measured at fair value on the date on which the contract is entered into. Where forward currency contracts are designated as a hedge of the exposure to variability in cash flows relating to highly probable forecast revenues, the effective portion of any movement in the fair value is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity along with any related tax effect. Movements in the ineffective portion, together with the movements relating to forward currency contracts that are not designated as a hedge, are measured at fair value through profit and loss. Forward exchange contracts are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised, or the hedging instrument is terminated.

2.16 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.17 Foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the group's entities are measured using the entity's functional currency. The consolidated financial statements are presented in 'sterling', which is the company's functional and the group's presentation currency.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.17 Foreign currency translation - Continued

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date, including any goodwill in relation to that entity. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

Transactions and balances

Foreign currency transactions are translated into the functional currency using an average rate which is updated on a monthly basis. All exchange gains or losses on transactions are included as part of the operating result of the group.

At each period end foreign currency monetary items are translated using the closing rate. Non monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'financing income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within cost of sales and administrative expenses.

2.18 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.19 Pensions

The group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the group has no further payment obligations.

The contributions are recognised as an expense in the consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the group in independently administered funds.

2.20 Interest income

Interest income is recognised in the consolidated statement of comprehensive income using the effective interest method.

Notes to the financial statements - Continued

For the year ended 31 December 2021

2.21 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.22 Warranty costs

Provisions are made for the costs of warranty work when it is known that there is an obligation to complete the work and the amount is material.

2.23 Related party transactions

The group discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the group financial statements.

Notes to the financial statements - Continued

For the year ended 31 December 2021

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following items are the judgements that have had the most significant effect on amounts recognised in the financial statements and the key sources of estimation uncertainty.

Stock provisions

The group makes a provision against slow-moving stock to reduce the value of stock to its net realisable value. Provisions are based on the expected future usage of raw materials and the likelihood of sale of finished goods and therefore are subject to estimates and judgements made by management.

Allocation of labour and overheads

The group allocates labour and overheads to stock, the rates used are subject to levels of both estimates and judgements by management. The absorption rates used are calculated based on expected costs, these are reviewed and updated on a quarterly basis.

4. TURNOVER

The whole of the turnover is attributable to the principal activity of the group.

Analysis of turnover by country of destination:

	2021 £000	2020 £000
United Kingdom	5,932	5,619
Rest of Europe	11,042	11,718
United States	33,317	37,161
Rest of the world	11,948	14,987
	62,239	69,485

5. OPERATING LOSS

The operating loss is stated after (crediting)/charging:

	2021 £000	2020 £000
Government grant income	(901)	(2,473)
Research and development expenditure	5,926	5,685
Operating lease rentals	672	658
(Profit)/Loss on disposal of fixed assets	(2,281)	145
Depreciation of tangible fixed assets	3,230	2,823
Exchange differences	(860)	4,001
Defined contribution pension cost	1,677	1,512

Notes to the financial statements - Continued

For the year ended 31 December 2021

6. AUDITOR'S REMUNERATION

	2021 £000	2020 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	88	84

7. EMPLOYEES

Staff costs were as follows:

	2021 £000	2020 £000
Wages and salaries	23,066	25,463
Social security costs	1,920	2,166
Cost of defined contribution pension scheme	1,677	1,512
	26,663	29,141

Total key management remuneration for the year was £805,000 (2020 - £821,000).

During the year the parent company incurred staff costs of £21,637,000 (2020 - £24,880,000).

The average monthly number of employees, including the directors, during the year was as follows:

	2021 No.	2020 No.
Production	587	662
Selling and distribution	26	26
Administration	122	116
	735	804

During the year the average monthly number of employees (including directors) employed by the parent company was 645 (2020 - 717).

8. DIRECTORS' REMUNERATION

	2021 £000	2020 £000
Directors' emoluments	623	627
Company contributions to defined contribution pension schemes	26	26
	649	653

The highest paid director received remuneration of £277,300 (2020 - £277,059).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2020 - £nil).

During the year retirement benefits were accruing to three directors (2020 - three) in respect of defined contribution pension schemes.

Notes to the financial statements - Continued

For the year ended 31 December 2021

9. FINANCING INCOME

	2021	2020
	£000	£000
Fair value gains on foreign currency contracts	-	2,884
Other interest receivable	15	166
	<u>15</u>	<u>3,050</u>

10. FINANCING COSTS

	2021	2020
	£000	£000
Fair value losses on foreign currency contracts	206	-
Other interest payable	8	-
	<u>214</u>	<u>-</u>

11. TAXATION

	2021	2020
	£000	£000
Corporation tax		
Current tax on losses for the year	(632)	(1,136)
Adjustments in respect of previous periods	485	(68)
	<u>(147)</u>	<u>(1,204)</u>

Foreign tax

Foreign tax on income for the year	(18)	41
Total current tax	(165)	(1,163)

Deferred tax

Origination and reversal of timing differences	(1,367)	191
Deferred tax on financial instruments	(295)	547
Total deferred tax	(1,662)	738

Taxation on loss on ordinary activities	(1,827)	(425)
--	----------------	--------------

	2021	2020
	£000	£000

Deferred tax included in other comprehensive income

Deferred tax (credit)/charge on movement in cash flow hedge reserve	(523)	460
Total deferred tax included in other comprehensive income	(523)	460

Notes to the financial statements - Continued

For the year ended 31 December 2021

11. TAXATION - Continued

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £000	2020 £000
Profit/(Loss) on ordinary activities before tax	(2,570)	628
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(488)	119
Effects of:		
(Income)/expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(365)	59
Impact of enhanced relief on development expenditure	(512)	(462)
Differences between capital allowances and depreciation	211	(98)
Higher rate taxes on overseas earnings	(121)	-
Adjustments in respect of prior periods	(270)	(68)
Changes in provisions leading to an increase in the tax charge	-	12
Differences arising from changes in tax rates	(423)	-
Losses not utilised	141	13
Total tax (credit) for the year	(1,827)	(425)

12. PARENT COMPANY PROFIT FOR THE YEAR

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss (2020: profit) after tax of the parent company for the year was £225,000 (2020 - £199,000).

13. INTANGIBLE FIXED ASSETS

Cost or valuation	Order Book £000	Goodwill £000	Negative Goodwill £000	Total £000
At 1 January 2021	44	444	-	488
Acquisition in the year	-	-	(666)	(666)
At 31 December 2021	44	444	(666)	(178)
Amortisation				
At 1 January 2021	44	118	-	162
Charge/(Credit) for the year	-	43	(46)	(3)
At 31 December 2020	44	161	(46)	159
Net book value				
At 31 December 2021	-	283	(620)	(337)
At 31 December 2020	-	326	-	326

Notes to the financial statements - Continued

For the year ended 31 December 2021

14. TANGIBLE FIXED ASSETS

Group	Freehold property £000	Long term leasehold property £000	Plant and machinery £000	Motor vehicles £000	Assets under construction £000	Total £000
Cost or valuation						
At 1 January 2021	28,245	331	34,336	246	1,721	64,879
Additions	1,123	15	1,255	-	-	2,393
Acquisition of subsidiary	-	-	432	1	-	433
Disposals	(3,031)	(20)	(3,424)	(8)	-	(6,483)
Transfers	-	-	1,721	-	(1,721)	-
Exchange adjustments	-	3	16	1	-	20
At 31 December 2021	26,337	329	34,336	240	-	61,242
Depreciation						
At 1 January 2021	4,142	201	22,109	192	-	26,644
Charge for the year	489	44	2,667	30	-	3,230
Disposals	(1,460)	(9)	(3,250)	(8)	-	(4,727)
Exchange adjustments	-	4	12	1	-	17
At 31 December 2021	3,171	240	21,538	215	-	25,164
Net book value						
At 31 December 2021	23,166	89	12,798	25	-	36,078
At 31 December 2020	24,103	130	12,227	54	1,721	38,235

Notes to the financial statements - Continued

For the year ended 31 December 2021

14. TANGIBLE FIXED ASSETS - Continued

Company	Freehold property £000	Plant and machinery £000	Motor vehicles £000	Assets under construction £000	Total £000
Cost or valuation					
At 1 January 2021	28,245	32,462	152	1,721	62,580
Additions	1,123	1,114	-	-	2,237
Disposals	(3,031)	(3,406)	(8)	-	(6,445)
Transfers	-	1,721	-	(1,721)	-
At 31 December 2021	26,337	31,891	144	-	58,372
Depreciation					
At 1 January 2021	4,142	20,793	117	-	25,052
Charge for the year	489	2,450	16	-	2,955
Disposals	(1,460)	(3,233)	(8)	-	(4,701)
At 31 December 2021	3,171	20,010	125	-	23,306
Net book value					
At 31 December 2021	23,166	11,881	19	-	35,066
At 31 December 2020	24,103	11,669	35	1,721	37,528

Freehold property includes property which was revalued at open market value by Watson Temple (Chartered Surveyors) at 1 September 1991 at £2,360,000 and was included in the accounts at this amount until it's disposal in the year.

In respect of assets stated at valuations, the comparable historical cost values are £Nil (2020 - £750,000) and the comparable historical depreciation is £Nil (2020 - £564,000) giving a historical net book value of £Nil (2020 - £186,000).

15. FIXED ASSET INVESTMENTS

Company	Investments in subsidiary companies £000
Cost or valuation at 31 December 2021	1,274
Cost or valuation at 31 December 2020	1,274

On 13 October 2021, the group acquired a 100% shareholding in O.T.M. Servo Mechanism Limited for consideration of £1 paid in cash. Management estimate the useful life of the goodwill to be three years. Three years is an estimate of the period where financial support will be required and results will be lower than expected in the longer term once the business is up to capacity. The following table summarises the consideration paid by the group, the fair value of the assets acquired and liabilities assumed at the balance sheet date:

Notes to the financial statements - Continued

For the year ended 31 December 2021

15. FIXED ASSET INVESTMENTS - Continued

	Carrying amount £000	Fair Value £000
Tangible assets	433	433
Inventories	818	818
Trade and other debtors	340	330
Cash	222	222
Trade and other creditors	(1,230)	(1,230)
Deferred taxation	93	93
Total identifiable net assets	676	666
Negative goodwill		(666)
Total		Nil

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Share Holding	Place of business
Ipeco Inc.	100% Ordinary	2275 Jefferson St. Torrance, CA 90501 USA
Ipeco Service Centre Hong Kong Ltd	51% Ordinary	21/F Nan Dao Building, 359-361 Queens Road Central, Hong Kong
Ipeco Singapore PTE Ltd	100% Ordinary	690 West Camp Road, JTC Aviation Two, #08-01/02/03/04 Singapore 797523
hs2 Engineering GmbH	100% Ordinary	Boschstr. 8/1, 89079 Ulm, Germany
Pulse Electronics (Avionics) Ltd	100% Ordinary	Dormant
Aviation Marketing Consultants Industries Ltd	100% Ordinary	Non-trading holding company

Indirect subsidiary undertakings

The following were an indirect subsidiary undertakings of the company:

Name	Share Holding	Place of business
Ipeco Service Centre Beijing Ltd	51% Ordinary	Room 509 Sth Building, 18 JiuXianQiao Zhong Rd ChaoYang District, Beijing, China
O.T.M. Servo Mechanism Limited	100% Ordinary	The Avenue, Egham, Surrey TW20 9AL

Notes to the financial statements - Continued

For the year ended 31 December 2021

16. STOCKS

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Raw materials	12,279	11,478	8,663	9,731
Work in progress	4,440	3,355	3,000	2,695
Finished goods and goods for resale	7,955	10,972	8,051	9,525
	24,674	25,805	19,714	21,951

The difference between purchase price or production cost of stocks and their replacement cost is not material. Stock recognised in cost of sales during the year as an expense was £48,748,000 (2020 - £50,250,000).

A debit of £68,000 (2020 - £779,000) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock, in respect of the stock provision.

17. DEBTORS

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Due after more than one year				
Financial instruments	115	446	115	446
Deferred tax asset	1,993	475	1,993	475
	2,108	921	2,108	921

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Due within one year				
Financial instruments	(14)	216	(14)	216
Trade debtors	4,805	7,414	3,158	6,180
Amounts owed by group undertakings	-	-	5,456	4,147
Other debtors	927	1,243	826	1,234
Prepayments and accrued income	1,611	1,233	1,198	972
Deferred tax asset	2,189	1,354	633	55
Corporation tax	1,284	1,136	1,284	1,136
Overseas corporation tax	58	43	-	-
	10,860	12,639	12,541	13,940

Notes to the financial statements - Continued

For the year ended 31 December 2021

18. CURRENT ASSET INVESTMENTS

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Bank deposit accounts	-	1,000	-	1,000

19. CASH AND CASH EQUIVALENTS

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Cash at bank and in hand	31,584	25,319	28,848	22,865

20. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Other loans	-	185	-	-
Trade creditors	3,727	2,583	2,826	2,279
Amounts owed to group undertakings	-	-	91	61
Overseas corporation tax	6	-	-	-
Other taxation and social security	553	530	445	452
Obligations under finance lease and hire purchase contracts	55	-	-	-
Accruals and deferred income	2,194	1,999	989	1,499
Deferred tax liability	711	574	711	574
Financial instruments	649	291	649	291
	7,895	6,162	5,711	5,156

Certain banking arrangements and financial instruments are secured by a legal charge over the assets of the group.

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Other loans	-	139	-	-
Deferred tax liability	22	84	22	84
Financial instruments	4,568	2,500	4,568	2,500
Obligations under finance lease and hire purchase contracts	114	-	-	-
	4,704	2,723	4,590	2,584

The above financial instruments are taken out by the group to reduce volatility in underlying profit.

Notes to the financial statements - Continued

For the year ended 31 December 2021

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - Continued

Certain banking arrangements and financial instruments are secured by a legal charge over the assets of the group.

22. LOANS

Loans constitute unsecured other loans which bear no interest.

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Amounts falling due within 1 year				
Other loans	-	185	-	-
Amounts falling due 1-2 years				
Other loans	-	139	-	-
	-	324	-	-

23. FINANCIAL INSTRUMENTS

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Financial assets				
Derivative financial instruments measured at fair value through the statement of comprehensive income	(114)	(336)	(114)	(336)
Derivative financial instruments designated as cash flow hedges	214	998	214	998
Financial assets that are debt instruments measured at amortised cost	37,316	34,976	38,288	35,426
Total	37,416	35,638	38,388	36,088
Financial liabilities				
Derivative financial instruments measured at fair value through the statement of comprehensive income	(4,672)	(4,248)	(4,671)	(4,248)
Derivative financial instruments designated as cash flow hedges	(545)	1,457	(545)	1,457
Financial liabilities measured at amortised cost	(6,090)	(4,906)	(3,906)	(3,839)
Total	(11,307)	(7,697)	(9,122)	(6,630)

Notes to the financial statements - Continued

For the year ended 31 December 2021

23. FINANCIAL INSTRUMENTS - Continued

Financial assets that are debt instruments measured at amortised cost comprise cash and cash equivalents, current asset investments, trade debtors, amounts owed by group undertakings and other debtors.

Derivative financial instruments measured at fair value through the statement of comprehensive income comprise forward foreign currency contracts. The group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables. The total amount committed is variable due to the nature of some contracts. 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 forward exchange rates for GBP:USD of 1.3516 (2020 - 1.3658). At 31 December 2021, the mark to market value of outstanding contracts matures as detailed in the table below.

Financial liabilities measured at amortised cost comprise loans, trade creditors, amounts owed to group undertakings, other creditors and accruals.

Forward contract financial obligations fall due as follows:

	Debtor	Creditor	Net Liability	Debtor	Creditor	Net Liability
	2021	2021	2021	2020	2020	2020
	£000	£000	£000	£000	£000	£000
Due within one year	(14)	649	663	216	291	75
Due within 1-2 years	8	1,092	1,084	12	870	858
Due within 2-3 years	82	1,286	1,204	180	774	594
Due within 3-4 years	24	1,297	1,273	202	715	513
Due within 4-5 years	-	556	556	52	387	335
Due after 5 years	-	337	337	-	(246)	(246)
Total	100	5,217	5,117	662	2,791	2,129

24. DEFERRED TAXATION

	2021	2020
Group	£000	£000
At beginning of year	1,171	2,380
Charged to the statement of comprehensive income	1,662	(738)
Charged to cash flow hedge reserve	523	(460)
Deferred tax on acquisition of subsidiary undertaking	93	-
Impact of foreign exchange on retranslation of opening balance	-	(11)
At end of year	3,449	1,171
Company	2021	2020
	£000	£000
At beginning of year	(128)	863
Charged to the statement of comprehensive income	1,498	(531)
Charged to cash flow hedge reserve	523	(460)
At end of year	1,893	(128)

Notes to the financial statements - Continued

For the year ended 31 December 2021

24. DEFERRED TAXATION - Continued

	Group 2021 £000	Group 2020 £000
The deferred tax asset is made up as follows:		
Accelerated capital allowances	1	(1)
Elimination of unrealised intragroup profits on consolidation	668	851
Tax losses	1,737	-
Other timing differences	534	449
Deferred tax on financial instruments	1,242	530
	4,182	1,829

	Group 2021 £000	Group 2020 £000
The deferred tax liability is made up as follows:		
Accelerated capital allowances	631	486
Other timing differences	83	47
Deferred tax on financial instruments	19	125
	733	658

	Company 2021 £000	Company 2020 £000
The deferred tax asset is made up as follows:		
Tax losses	1,384	-
Deferred tax on financial instruments	1,242	530
	2,626	530

	Company 2021 £000	Company 2020 £000
The deferred tax liability is made up as follows:		
Accelerated capital allowances	631	486
Other timing differences	83	47
Deferred tax on financial instruments	19	125
	733	658

25. RESERVES

Share premium

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account

This reserve comprises all the current and prior-years' retained profits and losses.

Notes to the financial statements - Continued

For the year ended 31 December 2021

25. RESERVES - Continued

Cash flow hedge reserve

The cash flow hedge reserve is used to record transactions arising from the group's hedging arrangements.

	2021 £000	2020 £000
At 1 January 2021	(1,989)	(27)
Hedging gain	2,787	(2,422)
Deferred tax charge	(523)	460
At 31 December 2021	275	(1,989)

26. SHARE CAPITAL

	2021 £000	2020 £000
Allotted, called up and fully paid		
18,797,465 – Ordinary shares of £0.10 each	1,880	1,880

Share capital represents the nominal value of shares that have been issued. The shares carry voting rights and an entitlement to dividends.

27. CAPITAL COMMITMENTS

At 31 December 2021 the group had capital commitments of £2,030,000 (2020 - £477,000) which were contracted but not provided for in the financial statements.

28. PENSION COMMITMENTS

The group and company operate defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the company in independently administered funds. The unpaid contributions at the year end, included in accruals and deferred income (note 21) are £409,000 (2020 - £241,000).

29. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2021 the group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Land and buildings				
Not later than 1 year	674	795	220	294
Later than 1 year and not later than 5 years	1,981	2,480	880	1,174
Later than 5 years	871	5,670	138	4,675
	3,526	8,945	1,238	6,143

Notes to the financial statements - Continued

For the year ended 31 December 2021

29. COMMITMENTS UNDER OPERATING LEASES - Continued

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Other				
Not later than 1 year	15	5	-	3
Later than 1 year and not later than 5 years	12	4	-	-
	27	9	-	3

30. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under paragraph 33.1A of FRS 102 from disclosing transactions with wholly owned subsidiaries and the parent company Castledon Limited. Balances with group companies are disclosed in the debtors and creditors notes.

During the year the company made sales of £1,423,000 (2020 - £2,076,000) to Ipeco Service Centre Hong Kong Limited, a subsidiary company, and made purchases of £166,000 (2020 - £9,000) from Ipeco Service Centre Hong Kong Limited.

During the year the company made sales of £201,000 (2020 - £155,000) to Ipeco Service Centre Beijing Limited, a subsidiary company, and made purchases of £24,000 (2020 - £18,000) from Ipeco Service Centre Beijing Limited.

During the year, the company received ground rent from, and made payments of rent to, Industrial Precision Equipment (Southend) Pension Fund, a small self-administered scheme, in respect of property leases. The pension fund members comprise Mr C Johnson and other family members. Rents are set on an arm's length basis and the net total amount due for the year was £102,000 per annum (2020 - £122,000). The company also paid £2,400,000 to the pension fund in respect of its interest of the property leases.

The outstanding balances with related parties were as follows:

	Company 2021 £000	Company 2020 £000
Balances with group undertakings		
Ipeco Inc.	1,821	1,245
Ipeco Singapore (PTE) Limited	2,218	2,035
hs2 Engineering GmbH	29	91
Ipeco Service Centre Hong Kong Limited	64	452
Ipeco Service Centre Beijing Limited	460	278
O.T.M Servo Mechanism Limited	789	-
Balances with dormant subsidiaries	(15)	(15)
	5,366	4,086

There were no balances with other related parties at 31 December 2021 (2020 - Nil).

Notes to the financial statements - Continued

For the year ended 31 December 2021

31. CONTROLLING PARTY

In the opinion of the directors, the ultimate parent undertaking is Castledon Limited, a company registered in England.

The directors consider the ultimate controlling party to be the Johnson family.

The consolidated accounts of the parent company Castledon Limited can be obtained from Companies House, Cardiff, CF14 3UZ.