

Gardner Aerospace Holdings Limited

**Annual report and consolidated
financial statements**

Registered number 07978111

Year ended 31 December 2020



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Officials and professional advisers

Directors	AJ Upton LT Ford L Wang Y Wei
Secretary	JA Storer
Registered office	Unit 9 Victory Park Victory Road Derby Derbyshire DE24 8ZF
Company registration number	07978111
Bankers	National Westminster Bank 1 Princes Street London EC2R 8BP
Solicitors	BHW Solicitors 5 Grove Court Grove Park Enderby Leicestershire LE19 1SA
Auditor	RSM UK Audit LLP Chartered Accountants Rivermead House 7 Lewis Court Grove Park Leicester LE19 1SD

Strategic report

Chief Executive's Review

Overview of the Year

The Gardner Aerospace Holdings Limited Group of companies ("the Group" or "Gardner"), is one of Europe's largest suppliers of metallic aerospace detail parts and sub-assemblies to the aerospace industry with manufacturing facilities in the UK, France, Poland and India, and a facility now preparing for customer production certification in China.

The Group's customers include Airbus, Eaton, GKN, Gulfstream, Pilatus, RUAG, Safran, Spirit, and other international companies in the aerospace sector, producing detailed parts for all major Airbus aircraft as well as some Boeing commercial aircraft. The Group has a broad detailed part manufacturing and long-bed machining capability, consisting of machining, sheet metal fabrication and a range of surface treatments. It also provides assembly, kitting, logistic and fast turnaround "late definition" services to the aerospace industry.

2020 has been an extraordinary year as the Group faced significant implications from the downturn in aircraft passenger traffic and reduced commercial aerospace sector production as a consequence of the Covid-19 pandemic. The company has received excellent support from its key stakeholders, including shareholder, lenders and employees and has therefore been able to focus on not only planning for the recovery of global air travel and aircraft build rates but also ensuring that Gardner is better placed to achieve its ambitious growth goals in the coming decade and beyond.

Rapid Response to Commercial Aerospace Downturn

Our business needed to act quickly and robustly to reshape our manufacturing base to meet an undefined shortfall in demand that reduced turnover by 46% in 2020.

Gardner has been impacted as follows:-

- Airbus, Boeing and the other aerospace primes typically supply long range forecasts to support business planning in the supply chain. These were withdrawn in Q2 FY20 as the initial impacts of the pandemic began to be understood. Faced with this increased uncertainty, the Board undertook a comprehensive planning exercise in April 2020 using newly published industry analyst reports at this time. The Group based its revised forecast and Strategic Plan on a worst-case scenario at the time which foresaw a recovery to 2019 levels of air travel in 2024/5.
- This conservative and prudent demand forecast resulted in the Group undertaking a significant restructuring program, accelerating our long-term strategic planning actions, with the aim of reducing capacity in UK and France and increasing the percentage of manufacturing being undertaken in Poland and India, thereby lowering future manufacturing costs and reducing the break-even point for Gardner to below FY20 exit production volumes.
- Apart from our site in Bengaluru, India, we were able to maintain manufacturing activity during the various government lockdown measures. Bengaluru was closed for a number of weeks in April and May 2020 due to the Indian government's strict lockdown.
- Unfortunately, due to reduced demand we took the decision to close our sites at Hull and Broughton in the UK, moving production to other sites within the Group.
- Government guidelines have been followed at all locations and the Group enabled significant levels of remote working prior to government guidance to do so, as well as adapting operations to increase physical distancing between employees.
- Due to the significant reduction in customer demand seen across all customers, Gardner utilised all available employment support schemes such as the Job Retention Scheme in UK and the Partial Employment scheme in France.
- Additional commercial loans were secured in Poland.
- Prudent steps were taken to mitigate and manage the Group's cash flow. This included a recruitment freeze, a salary freeze and adoption of available deferrals for government tax payments such as PAYE and VAT.
- Delay of some planned capital expenditure, particularly where this was planned to support future increases in build rates.

Strategic report *(continued)*

Gardner's response to Covid-19 was as follows :-

- A Covid-19 Committee was set up to oversee and coordinate the Group's response to the pandemic;
- Government guidelines and best practices were followed wherever we do business;
- New working practices were quickly embedded and the Group enabled significant levels of remote working, prior to government guidance to do so, as well as adapting operations to increase physical distancing between employees and enhanced cleaning protocols;
- We worked closely with our suppliers and customers to ensure business continuity;
- We were able to engage with a medical device manufacturer to manufacture and assemble devices to aid the treatment of Covid patients in UK hospitals;
- Our highest priority is the health, safety and welfare of our employees and we worked to support and respond to their needs during a difficult and changing environment.

Business Continuity

As part of the restructuring of our manufacturing base we have sought not only to maintain pre-pandemic machining capacity and capability but also to enhance our capabilities in Poland and India through equipment transfers and new investment. Our focus on improved operational efficiency has not wavered and we are well placed to address the growth in demand driven by proposed increases in aircraft build rates as air traffic returns to normalised levels.

The company continues to prioritise investments in automated manufacturing capabilities to facilitate the expected build rate increases that our customers are forecasting over the next 3-5 years. Having protected resource levels in Poland and India, Gardner has approached the recovery in FY21 with renewed confidence that it has enhanced capability and resources to enable the significant ramp in demand that is now forecast.

Lower H2 FY20 demand assisted in preparations for the various Brexit scenarios that were under negotiation. The main risk to Gardner would be logistical issues and delays caused by customs administration, resulting in risk of late delivery to customers. We mitigated this by carrying additional stocks close to the customer to provide a buffer against any delays. The impact seen in Q1 FY21 was less significant than the scenario that we prepared for.

Significant Contractual Awards and Growth Opportunities

Making progress on Gardner's ambitious growth plans has been slowed by the industry's focus on the response to the pandemic. Our focus on the development of new customers and market diversification continues, with first orders under frame agreements being won with customers in the Aircraft Equipment Sector. We expect this sector to provide the fuel for organic growth, over and above build rate increases, in the next 5 year period.

The company was again recognised by Airbus as a Global Partner for detailed parts production in 2020, highlighting that the company remains well-positioned to support Airbus and other primes in the consolidation of detailed parts production. We expect this sector consolidation to be accelerated as we move into the initial phases of recovery in late 2021 and early 2022.

Gardner continues to assess its ability to diversify away from the Aerospace sector to de-risk its business model should another commercial aerospace downturn be experienced. The Board believe that Gardner has the capability to be successful in other industries but that the loss of focus on the aerospace sector at this phase of the recovery would be operationally challenging and would not necessarily create the long term value growth that is sought.

Strategic report (continued)

Financial Review and Key Performance Indicators

The key performance indicators on continuing activities are:

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Annual Sales Growth %	-46.4%	30.8%	9.2%
Gross Margin % sales	10.1%	20.7%	20.4%
Profit before tax % on sales	-23.5%	3.8%	4.9%
EBITDA pre exceptional items	£1.1 million	£24.7 million	£19.4 million
Current Liquidity	1.42	1.03	1.08
Average net debt to EBITDA ratio	70.78	3.11	2.57
Return on Capital Employed	11.7%	8.7%	9.4%

The Covid-19 outbreak and the Group's response to this are the key features in the result for the year:

- Sales were down 46% as a consequence of the Pandemic causing a reduced level of overhead recovery and a fall in gross profit % by 10.6%;
- Restructuring costs of £9.5 million were incurred;
- Government support to maintain jobs of £5.3 million was received;
- A higher average USD rate of 1.2885 in the year compared to a rate of 1.277 for the period to 31 December 2019 although, this is largely mitigated by the currency hedges the Group had in place;
- Invoice discounting facilities reduced by £32.2 million as a result of trading and early payment of debt in December 2020 that would normally be paid in 2021;
- Drawn borrowing increased £47.6 million as a result of funding requirements caused by Covid-19;
- Whilst Capital expenditure has been restricted, investment in growth programmes has continued particularly in Tczew, Poland to support the award of Gardner's single largest contract by total value for wing components during 2020;

EBITDA pre exceptional costs on continuing activities (Earnings before interest, tax, depreciation, amortisation and investment income) decreased to £1.1 million from £24.7 million.

The exceptional cost in the year was a net expense contributing to losses of £11.0 million (*Period ended 31 December 2019: net credit £0.8 million*). This predominantly related to £9.5 million of site closure costs, asset impairment and redundancies as part of the groupwide reorganisation action taken as a result of COVID-19. Exceptional costs also include the impact of the successful recovery of costs associated with the fire at Consett with a net credit of £0.2 million (*Period ended 31 December 2019: net credit £2.4 million*) as well as £0.7 million of contract impairment and £0.9 million of one off IT costs.

Net finance charges in the year was a net payable of £3.3 million which is 8% less than in 2019. The resulting loss before tax for 2020 was £27.4 million compared to a profit before tax of £8.2 million in the previous year. The loss generated a tax credit in the year of £0.5 million compared to a charge against profits of £1.2 million in 2019. The resulting loss of earnings at £26.9 million was £33.9 million lower than the retained profit for 2019 of £7.0 million.

Strategic report *(continued)*

Financial Review and Key Performance Indicators *(continued)*

The Current Liquidity ratio improved to 1.44 (*Period ended December 2019: 1.03*) as net current assets increased from £2.4 million to £20.4 million. The movement in net current assets of £18.1 million is influenced by:

- Improved working capital;
- Additional borrowing increasing cash;
- A reduction in trade debtors and the associated invoice discounting facility as a consequence of COVID-19;
- A reduction in trade creditors.

Net assets decreased from £64.2 million to £37.2 million during the year. Return on Capital Employed (*Defined as: Earnings before interest and tax / Average (Net Assets + Net Debt)*) has fallen from 8.7% to -11.7% which is the result of lost earnings.

Principal risks and uncertainties

The Group's long term objectives are to support increased profitability, improve returns to shareholders and continue investment in people, facilities, production capability and efficiency. In pursuing these objectives the Group intends to maintain sound financial management and avoid excessive risks. The Group seeks to manage its financial risks relating to interest rates, foreign currency, liquidity and credit control.

The main risks and uncertainties the Group is exposed to are:

Currency risk

A significant proportion of both sales and purchases are in foreign currency, particularly US Dollar. The Group's approach to controlling this risk is set out in the financial risk management section below.

Civil Aviation growth rates

A significant proportion of the Group's turnover is related to leading manufacturers' aircraft production levels. To control this risk the Group will review its forward order book, manufacturers' forecasts and market data on passenger growth rates.

Geopolitical Risk

The global geopolitical situation with worsening China – USA relations, does result in the Group's ownership structure complicating relationships with certain stakeholders. The company maintains clear governance and data firewalls with its shareholder to mitigate against stakeholder concerns.

Financial risk management

Funding and liquidity management of the Group are managed on a centralised basis by the Gardner Group Limited. The objectives are to protect the assets of the Group and the Company and to identify and then manage financial risk. These risks are described further below:

Interest rate risk

The Group finances its operations through a mixture of retained profits and borrowing facilities, including hire purchase and finance leases. For hire purchase and finance leases, the Group manages interest rate risk by fixing interest at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Board consider the risk from significant interest rate fluctuation is minimal.

Currency risk

The Group has Gardner Group loans and Bank loans in foreign currency and transactional currency exposures arising from sales and purchases in currencies other than the Group's functional currency. Where practicable such transaction exposures are hedged under the Group's foreign exchange policy. This is achieved through natural hedging of sales and purchases in such currencies as well as forward contracts.

Strategic report (continued)

Financial risk management (continued)

Liquidity risk

The Group maintains committed facilities that are designed to ensure sufficient funding for the Group's operational requirements. As at 31 December 2020 the Group had undrawn committed facilities of £16.0 million (31 December 2019: £1.1 million) in addition to cash of £10.7 million (31 December 2019: £5.8 million)

Credit risk

The Group is exposed to credit related losses in the event of non-performance by counterparties to financial instruments. Credit risk is mitigated by the Group's policy of selecting counterparties with a strong long term credit rating and assigning financial limits to individual counterparties.

Going concern and future finance

The Group meets its day to day working capital requirements from its cash resources and invoice discounting facilities. Capital expenditure and acquisition funding has been met primarily through the Group's working capital facilities, separate term loans, plant and property loans and finance leases.

The Group had available finance facilities of £16.0 million in addition to £10.7 million of cash at 31 December 2020.

The Group's UK bank facilities are subject to financial covenants which, among others, required the business to be EBITDA positive.

The COVID-19 outbreak has presented the commercial aerospace industry with the most significant challenge that the industry has faced. The impact on the Group's sales volume has been significant and the expectation is that it will take a number of years for sales volume to recover to 2019 levels.

The reduction in sales volume impacted severely on profitability and funding availability under the Group's invoice discounting facilities. In turn this resulted in breaches in compliance with the Group's UK banking covenants, although the Group worked with its lenders to waive these breaches and any forecast future breaches. The Director's obtained formal waivers on covenant breaches ahead of the formal test dates, including the covenants at the year end. This was done through obtaining new facilities in December 2020 as noted below.

With liquidity negatively impacted, the Group obtained support from the Group's banks, government backed support schemes and its shareholder and completed a successful refinancing during December 2020 with the Group obtaining the following new facilities:

- £15 million of UK government back banking facilities
- £25 million of funding from the Group's Shareholder
- €12m of government backed loans in France
- PLN 5 million of commercial borrowing in Poland

Entering 2021 the Group has continued to work closely with its primary lenders to address the on-going implications of the pandemic and delayed recovery in invoice discounting facilities.

The Group continued to execute the remainder of its restructuring plan following the impact of COVID-19 which saw the workforce headcount reduce from 2,078 to 1,441 and the continuing transfer of packages to low cost sites with the subsequent closure of the Broughthorn facility in June 2021, following the closure of Hull in 2020.

In 2021 the impact on Gardner's sales volume remains significant and the economic environment has also seen a strengthening of Sterling against the US dollar. As a consequence, the Group continues to face two of its key risks being volume and currency.

As a result of these effects, revenues in H1 2021 were only 2.5% higher than H2 2020, but on a more positive note current industry forecasts are now more defined on the route to recovery to 2019 air travel levels, with growth from Quarter 4 of 2021 through into 2022 being reflected in the Group's order book. The Group's operating results have also improved as a result of timely restructuring activities in 2020, with EBITDA profitability up 42%.

Strategic report *(continued)*

Going concern and future finance *(continued)*

To avoid further impact on its financial covenants from forecast ongoing suppressed trading in 2021 the Group obtained the following updates to its UK borrowing facilities during 2021:

- Loan capital repayments that were due in June 2021, deferred by 12 months to June 2022
- £8.0 million of funding from the Group's shareholder

In addition, the Group has agreed revised covenants in view of the further delay in recovery of air travel compared to the 2020 projections. The UK banking arrangements noted above mature in September 2023.

The directors have prepared updated profit and cash flow forecasts, taking account of reasonable possible downsides and the impact of Covid-19, to support the negotiation of the new banking facilities. These forecasts show that the Group will be able to operate within its available facilities throughout the forthcoming 12 months. The directors have reviewed the available headroom on the facility and any covenant tests in the forthcoming 12 months and are comfortable there is adequate headroom and that additional equity funding would be made available, if needed from the shareholder. There is also a £5 million parental guarantee in place with the shareholder. On this basis, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and, consequently, the directors consider it appropriate to prepare the financial statements on a going concern basis.

With the breakeven point lowered, Gardner's financial performance is well positioned to benefit from a strong recovery in aircraft build rates over the next 3-5 years.

Research and development

The Group has continued to invest in new technology and improvements to the quality of its services. During 2020 the Group was able to continue to expand its technological capability despite the circumstances and is committed to increasing the level of R&D expenditure as turnover expands. The Group are working on key industry projects for the technology solutions required for aircraft of the future included lightweight material and electric aircraft.

During the year, we have delivered solutions to customers by combining additive layer manufacturing techniques with our traditional machined or fabricated products, particularly in tooling applications. We expect this to be a source of future growth for our recently acquired subsidiary FDM and Gardner BTC Limited.

Environmental policy

The Group is committed to a responsible approach to environmental matters.

The Management of the Group seeks to minimise any adverse impact on the environment from all aspects of the Group's operations by means of environmentally sound disciplines, which take practical steps to control effectively or eliminate any known pollution risks, without entailing excessive cost. Specifically, capital expenditure is directed towards the replacement of hazardous materials with environmentally friendly alternatives, methods of minimising the environmental costs of disposal and recycling of waste and the reduction of energy consumption.

Gardner management undertook a study in 2020 to look at how manufacturing sites could maximise the use of green energy sources. This study outlined suggested investments such as solar panels which are forecast to come on line in 2021.

As the company has not consumed more than 40,000 kWh of energy in this reporting period, it qualifies as a low energy user under the SECR carbon reporting regulations and is not required to report on its emissions, energy consumption or energy efficiency activities. The wider group is not required to disclose its carbon reporting due to its size and that of its subsidiaries.

Strategic report *(continued)*

Employees

The Pandemic has highlighted the value of employee communications. The Group places considerable value on the engagement of its employees and has continued its practice of open, two-way communication on matters affecting them as employees, and on various matters affecting the performance of the Gardner Group.

This is achieved through regular meetings and briefings with all employees. To maintain communications, we have deployed video updates and enhanced our IT collaboration tools as a response to the reduction in face-to-face meetings.

In line with local or global initiatives such as mental health awareness, the Group arranges focused activities and keynote speakers to promote employee wellbeing.

The Group employs a small number of disabled people and will continue to do so wherever possible, through recruitment, by retention of persons who become disabled during service and by appropriate training, career development and promotion. The Group has in place a programme for the recruitment and development of apprentices and considers this a priority for the business.

The Group seeks to ensure that all employees, job applicants and prospective job applicants, are afforded equality of job opportunity in all areas of employment.

The Group's Health & Safety Policy fully recognises the Company's responsibility for the health and safety of employees and members of the community in which they work.

2021 Outlook

The Group is focused on accelerating growth through delivering operational efficiency gains, capability investments and by securing new business. The Group's order book continues to grow in line with industry recovery. The Group's strategy is to continue to develop the business to take advantage of its customers' desire to have fewer and larger suppliers. Expansion and investment in existing facilities and new equipment will continue in 2021, particularly in Poland and India and through the development of the site in China.

More aircraft will be built in China, particularly as Comac aircraft build rates increase, and our Chengdu facility is well-positioned to support this increased demand for China sourced aerospace manufacturing capability, with initial certification of the Chengdu facility expected in Q4 2021.

Diversification of the customer base is also an important facet of the Group's growth strategy. Good progress has been made with initial contracts secured in 2021 from global Aerospace Tier One's who manufacture equipment for aircraft. The Group is pursuing further opportunities to service customers outside of its traditional aero structures market.

Following the year end, the aviation industry remains severely impacted by the global Covid-19 pandemic and the various measures continuing to be taken globally to suppress the virus. The outlook is improving with the question of air travel returning becoming a "when", not an "if". Industry forecasts and customer communications are increasingly positive about a forecast recovery in build rates in late 2021. Accordingly, Gardner is focused on preparing to ramp up its output in line with the significant forecast in build rates over the next 2-3 years.

The company therefore believes that its strategy to control its costs, become more efficient and expand its customer base and technical capability will help it to thrive as well as positioning it for a return to significant growth following the recovery from the pandemic.

Approved by the Board of Directors and signed on behalf of the Board



AJ Upton
Director

Date: 27 September 2021

Directors' report

The directors present their report on the affairs of Gardner Aerospace Holdings Limited and Subsidiary Undertakings (the "Group" or "Gardner") and its parent company, Gardner Aerospace Holdings Limited (the 'Company'), together with the financial statements and independent auditor's report, for the year ended 31 December 2020.

Share capital and control

The Company is a wholly owned subsidiary of Ligeance Aerospace Technology Co. Ltd ("LAT"), a company listed on the Shenzhen Stock Exchange.

Dividends

The directors do not recommend the payment of a dividend (*Period ended 31 December 2019: £Nil*).

Section 172 Companies Act 2006.

Section 172 of the Companies Act 2006 requires a Director of a company to act in a way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- Likely consequences of any decisions in the long term
- Interest of the company's employees
- Need to foster the company's business relationships with suppliers, customers and others
- Impact of the company's operations on the community and environment
- Desirability of the company maintaining a reputation for high standards of business standards
- Need to act fairly between members of the company

It is the directors' opinion that we have a robust business governance model and that throughout 2020, the directors had regard to the factors set out above in making the principal decisions taken by the company.

Gardner operates in a sector with a high degree of regulation and standards. The directors engage with suppliers regularly via contract review, site visits and quality and delivery information utilising an approved Aerospace governance framework. Gardner also uses tools, such as its, supplier portal, to increase the engagement and performance level of suppliers within its supply chain.

Gardner is focused on exceeding the long term expectations of our customers. As well as the regular performance review and operational interactions with customers, the Group participates in frequent strategic alignment events with its key customers, ensuring that its investments and improvement activities deliver tangible returns for customers as well as its other stakeholders.

The directors routinely engage with the ultimate shareholder, LAT, on topics of strategy, governance and performance. LAT receive monthly KPI updates, they also attend the monthly board meetings and receive minutes of these meetings.

Due to the sensitivity of its ownership structure, the company operates an audited and comprehensive governance framework to maintain data integrity and promote operational independence from its shareholder. Relevant government authorities are regularly updated on governance control effectiveness.

As a Group we are focused on environmental standards as laid out in the environmental policy on page 7 and are committed to fairness, equality and the health and wellbeing of our employees as laid out on page 8.

As a board of directors we have taken our decisions in the best interests of the company to promote its success for its members as a whole ensuring that we have looked at the consequences of our business in the long term with mind to the employees.

Directors' report *(continued)*

Directors

The directors who served during the period and subsequently were as follows:

DO Cartwright (Resigned 2 July 2021)
L Wang
AJ Upton
Y Wei
LT Ford (Appointed 2 July 2021)

The Company has in place qualifying third party indemnity provisions for the benefit of its directors.

Existence of subsidiaries outside the UK

The Company has subsidiary undertakings in France, India, Poland and China as listed in Note 11.

Political contributions

The Company made no political donations during the year *(Period ended 31 December 2019: £Nil)*.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with section 489 of Companies Act 2006 a resolution for the appointment of RSM UK Audit LLP as auditors of the Company is proposed at the forthcoming Board meeting.

Strategic matters

Information as required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the Strategic Report on Page 2.

- Principal activities and business review
- Results for the year
- Financial risk management objectives and policies
- Price risk, credit risk, liquidity risk and cash flow risk
- Employment disclosures
- Future developments

Approved by the Board of Directors and signed on behalf of the Board



AJ Upton
Director

Date: 27 September 2021

Statement of directors' responsibilities in respect of the annual report and the financial statements

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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 parent company and of their profit or loss for that year. In preparing each of the Group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the parent company to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Gardner Aerospace Holdings Limited

Opinion

We have audited the financial statements of Gardner Aerospace Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the consolidated profit and loss account, the consolidated other comprehensive (expense)/income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 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 or 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.

Independent auditor's report to the members of Gardner Aerospace 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 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; or

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the members of Gardner Aerospace 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk 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, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team and component auditors:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures and evaluating advice received from external tax advisors.

The most significant laws and regulations that have an indirect impact on the financial statements are those in relation to quality standards, health and safety and associated accreditations. We performed audit procedures to inquire of management and those charged with governance whether the group is in compliance with these law and regulations and inspected board minutes and relevant correspondence with licensing and regulatory authorities.

Independent auditor's report to the members of Gardner Aerospace Holdings Limited *(continued)*

The group audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business.

All relevant laws and regulations identified at a Group level and areas susceptible to fraud that could have a material effect on the consolidated financial statements were communicated to component auditors. Any instances of non-compliance with laws and regulations identified and communicated by a component auditor were considered in our group audit approach.

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

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.

RSM UK Audit LLP

Mitul Raja (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Rivermead House
7 Lewis Court
Grove Park
Leicester
LE19 1SD

Date: 29th September 2021

Consolidated profit and loss account
for the year ended 31 December 2020

	<i>Note</i>	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Turnover	2	116,796	217,742
Cost of sales		(105,016)	(172,775)
Gross profit		11,780	44,967
Administrative expenses		(31,542)	(34,150)
Exceptional items	7	(10,951)	767
Other operating income	7	6,550	158
Group operating (loss) / profit		(24,163)	11,742
Interest receivable and similar income	5	4	12
Interest payable and similar expenses	6	(3,263)	(3,562)
(Loss) / profit before taxation	7	(27,422)	8,192
Taxation	8	494	(1,188)
(Loss) / Profit for the financial year		(26,928)	7,004
<i>(Loss) / profit attributable to Shareholders of the parent company</i>		(26,928)	7,004
Total (loss) / profit		(26,928)	7,004

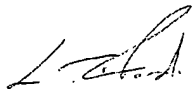
Consolidated other comprehensive (expense) / income
for the year ended 31 December 2020

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
(Loss) / profit for the year	<u>(26,928)</u>	<u>7,004</u>
Other comprehensive income / (expense)		
Foreign exchange loss on translation of foreign operations	(473)	(528)
Net gain on cash flow hedge	787	74
Gain on actuarial assumptions on pension scheme	2	43
Net loss on hedge of net investments in foreign operations	<u>(305)</u>	<u>(988)</u>
Other comprehensive income / (expense) for the year, net of income tax	<u>11</u>	<u>(1,399)</u>
Total comprehensive (expense) / income for the year	<u><u>(26,917)</u></u>	<u><u>5,605</u></u>

Consolidated balance sheet
at 31 December 2020

	Note	31 December 2020		31 December 2019	
		£000	£000	£000	£000
Fixed assets					
<i>Intangible assets</i>					
Goodwill	9	7,150		8,094	
Other intangibles	9	30,731		32,280	
			37,881		40,374
Tangible assets	10		54,214		56,995
			92,095		97,369
Current assets					
Stocks	12	26,040		30,376	
Debtors (including £8,786,000 (31 December 2019: £9,022,000) due after more than one year)	13	32,979		60,357	
Cash at bank and in hand	14	10,659		5,772	
			69,678		96,505
Creditors: amounts falling due within one year	15	(49,197)		(94,104)	
Net current assets			20,481		2,401
Total assets less current liabilities			112,576		99,770
Creditors: amounts falling due after more than one year	16		(70,630)		(33,513)
Provisions for liabilities					
Other provisions	21	(3,692)		(1,090)	
Pensions and similar obligations	22	(1,012)		(1,008)	
			(4,704)		(2,098)
Net assets			37,242		64,159
Capital and reserves					
Called up share capital	24		1		1
Share premium account			38,101		38,101
Merger reserve			8,645		8,645
Foreign currency hedge reserve			747		(40)
Profit and loss account			(10,252)		17,452
Shareholder's funds			37,242		64,159

These financial statements were approved by the board of directors and authorised for issue on 27 September 2021 and were signed on its behalf by:



LT Ford
Director

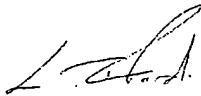
Company registered number: 07978111

Company balance sheet
at 31 December 2020

	<i>Note</i>	31 December 2020		31 December 2019	
		£000	£000	£000	£000
Fixed assets					
Investments	<i>11</i>		7,274		7,274
Current assets					
Debtors (including £25,272,000 (<i>31 December 2019: Nil</i>) due after more than one year)	<i>13</i>		56,272	31,000	
Creditors: amounts falling due within one year	<i>15</i>		(487)	(487)	
Net current assets			<u>55,785</u>	<u>30,513</u>	
Total assets less current liabilities			<u>63,059</u>	<u>37,787</u>	
Creditors: amounts falling due after more than one year	<i>16</i>		(25,272)		-
Net assets			<u>37,787</u>	<u>37,787</u>	
Capital and reserves					
Called up share capital	<i>24</i>		1	1	
Share premium account			38,101	38,101	
Profit and loss account			(315)	(315)	
Shareholder's funds			<u>37,787</u>	<u>37,787</u>	

The Company's profit for the year and the other comprehensive income for the year was £Nil (*31 December 2019: £Nil*) and £Nil (*Year ended 31 December 2019: £Nil*) respectively.

These financial statements were approved by the board of directors and authorised for issue on 27 September 2021 and were signed on its behalf by:



LT Ford
Director

Company registered number: 07978111

Consolidated statement of changes in equity

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency hedge reserve £000	Profit and loss account £000	Total share holder's funds £000
Balance at 1 January 2019	1	38,101	8,645	(114)	11,921	58,554
Total comprehensive income / (expense) for the year						
Profit for the year	-	-	-	-	7,004	7,004
<i>Other comprehensive income / (expense)</i>						
Foreign exchange loss on translation of foreign operations	-	-	-	-	(528)	(528)
Net loss on hedge of net investments in foreign operations	-	-	-	-	(988)	(988)
Net gain on cash flow hedge	-	-	-	74	-	74
Gain on actuarial assumptions on pension scheme	-	-	-	-	43	43
Balance at 31 December 2019	1	38,101	8,645	(40)	17,452	64,159

	Called up share capital £000	Share premium account £000	Merger reserve £000	Foreign currency hedge reserve £000	Profit and loss account £000	Total Share holder's funds £000
Balance at 1 January 2020	1	38,101	8,645	(40)	17,452	64,159
Total comprehensive income / (expense) for the year						
Loss for the year	-	-	-	-	(26,928)	(26,928)
<i>Other comprehensive income / (expense)</i>						
Foreign exchange loss on translation of foreign operations	-	-	-	-	(473)	(473)
Net loss on hedge of net investments in foreign operations	-	-	-	-	(305)	(305)
Net gain on cash flow hedge	-	-	-	787	-	787
Gain on actuarial assumptions on pension scheme	-	-	-	-	2	2
Balance at 31 December 2020	1	38,101	8,645	747	(10,252)	37,242

Consolidated statement of changes in equity (continued)

Share premium account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Merger reserve

The merger reserve was created from the capital reserves of Gardner Group Limited as part of the business combination with Gardner Aerospace Holdings Limited in 2012.

Foreign currency hedge reserve

The foreign currency hedge reserve represents the cumulative portion of gains and losses on foreign exchange contracts which have been designated as hedges for hedge accounting purposes.

Profit and loss account

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

Company statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total share holder's funds £000
Balance at 1 January 2019	1	38,101	(315)	37,787
Total comprehensive income for the year				
Profit for the year	-	-	-	-
Balance at 31 December 2019	1	38,101	(315)	37,787
	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total share holder's funds £000
Balance at 1 January 2020	1	38,101	(315)	37,787
Total comprehensive income for the year				
Profit for the year	-	-	-	-
Balance at 31 December 2020	1	38,101	(315)	37,787

Consolidated cash flow statement
for year ended 31 December 2020

	<i>Note</i>	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
(Loss) / profit for the year		(26,928)	7,004
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		14,286	13,759
Foreign exchange gains		(1,313)	(197)
Interest receivable and similar income		(4)	(12)
Interest payable and similar charges		3,263	3,562
Loss / (gain) on sale of tangible and intangible fixed assets		265	(9,840)
Taxation		(494)	1,188
		<hr/>	<hr/>
		(10,925)	15,464
Decrease / (increase) in trade and other debtors		26,837	(2,200)
Decrease in stocks		4,336	1,669
Decrease in trade and other creditors		(9,262)	(3,606)
Increase / (decrease) in provisions and employee benefits		2,608	(2,028)
		<hr/>	<hr/>
		24,519	(6,165)
Tax paid		(77)	(750)
		<hr/>	<hr/>
Net cash inflow from operating activities		13,517	8,549
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		1,463	13,850
Interest received		-	-
Payments to acquire tangible fixed assets		(4,334)	(7,978)
Payments to acquire intangible fixed assets		(2,830)	(4,135)
Payments to acquire trade and other business (net of cash at acquisition)		-	(92)
		<hr/>	<hr/>
Net cash (outflow)/ inflow from investing activities		(5,701)	1,645
Cash flows from financing activities			
Interest paid		(3,259)	(3,321)
Proceeds of shareholder loan		25,272	-
Proceeds of other borrowings (net of fees)		20,930	4,870
Repayment of borrowings		(39,786)	(14,452)
Payment of finance lease liabilities		(4,437)	(3,013)
		<hr/>	<hr/>
Net cash outflow from financing activities		(1,280)	(15,916)
Net increase / (decrease) in cash and cash equivalents		6,536	(5,722)
Effects of exchange rate fluctuations on cash held		25	(228)
Cash and cash equivalents at the beginning of the year		3,998	9,948
		<hr/>	<hr/>
Cash and cash equivalents at end of year	<i>14</i>	10,559	3,998
		<hr/> <hr/>	<hr/> <hr/>

Notes

1 Accounting policies

Gardner Aerospace Holdings Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the UK.

The Group's and Company's principal activities and the nature of the Group's operations are given in the Strategic Report.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 and the requirements of the Companies Act 2006, including the provisions of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, except where otherwise stated.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the year has not been included;
- No separate parent company Cash Flow Statement with related notes is included;
- Certain disclosures required by FRS 102.26 Share-Based Payments; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

1.2 Going concern

The Group meets its day to day working capital requirements from its cash resources and invoice discounting facilities. Capital expenditure and acquisition funding has been met primarily through the Group's working capital facilities, separate term loans, plant and property loans and finance leases.

The Group had available finance facilities as detailed of £16.0 million in addition to £10.7 million of cash at 31 December 2020.

The Group's UK bank facilities are subject to financial covenants which, among others, required the business to be EBITDA positive.

The COVID-19 outbreak has presented the commercial aerospace industry with the most significant challenge that the industry has faced. The impact on the Group's sales volume has been significant and the expectation is that it will take a number of years for sales volume to recover to 2019 levels.

The reduction in sales volume impacted severely on profitability and funding availability under the Group's invoice discounting facilities. In turn this resulted in breaches in compliance with the Group's UK banking covenants, although the Group worked with its lenders to waive these breaches and any forecast future breaches. The Director's obtained formal waivers on covenant breaches ahead of the formal test dates, including the covenants at the year end. This was done through obtaining new facilities in December 2020 as noted below.

Notes (continued)

1 Accounting policies (continued)

1.2 Going concern (continued)

With liquidity negatively impacted, the Group obtained support from the Group's banks, government backed support schemes and its shareholder and completed a successful refinancing during December 2020 with the Group obtaining the following new facilities:

- £15 million of UK government back banking facilities
- £25 million of funding from the Group's Shareholder
- €12m of government backed loans in France
- PLN 5 million of commercial borrowing in Poland

Entering 2021 the Group has continued to work closely with its primary lenders to address the on-going implications of the pandemic and delayed recovery in invoice discounting facilities.

The Group continued to execute the remainder of its restructuring plan following the impact of COVID-19 which saw the workforce headcount reduce from 2,078 to 1,441 and the continuing transfer of packages to low cost sites with the subsequent closure of the Broughton facility in June 2021, following the closure of Hull in 2020.

In 2021 the impact on Gardner's sales volume remains significant and the economic environment has also seen a strengthening of Sterling against the US dollar. As a consequence, the Group continues to face two of its key risks being volume and currency.

As a result of these effects, revenues in H1 2021 were only 2.5% higher than H2 2020, but on a more positive note current industry forecasts are now more defined on the route to recovery to 2019 air travel levels, with growth from Quarter 4 of 2021 through into 2022 being reflected in the Group's order book. The Group's operating results have also improved as a result of timely restructuring activities in 2020, with EBITDA profitability up 42%.

To avoid further impact on its financial covenants from forecast ongoing suppressed trading in 2021 the Group obtained the following updates to its UK borrowing facilities during 2021:

- Loan capital repayments that were due in June 2021, deferred by 12 months to June 2022
- £8.0 million of funding from the Group's shareholder

In addition, the Group has agreed revised covenants in view of the further delay in recovery of air travel compared to the 2020 projections. The UK banking arrangements noted above mature in September 2023.

The directors have prepared updated profit and cash flow forecasts, taking account of reasonable possible downsides and the impact of Covid-19, to support the negotiation of the new banking facilities. These forecasts show that the Group will be able to operate within its available facilities throughout the forthcoming 12 months. The directors have reviewed the available headroom on the facility and any covenant tests in the forthcoming 12 months and are comfortable there is adequate headroom and that additional equity funding would be made available, if needed from the shareholder. There is also a £5 million parental guarantee in place with the shareholder. On this basis, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and, consequently, the directors consider it appropriate to prepare the financial statements on a going concern basis.

With the breakeven point lowered, Gardner's financial performance is well positioned to benefit from a strong recovery in aircraft build rates over the next 3-5 years.

Notes (continued)

1 Accounting policies (continued)

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2020. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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

The cost of a business combination is the fair value at the date of acquisition date, of the assets given, and liabilities incurred or assumed, plus directly attributable costs. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably and is adjusted for changes in contingent consideration after the acquisition date. Contingent consideration is discounted, if material.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates that fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

1.5 Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1 Accounting policies (continued)

1.6. Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7. Other financial instruments

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, other than where designated as a cash flow hedge.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit or loss immediately.

1.8. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The Group assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8. Tangible fixed assets *(continued)*

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Freehold improvements	5 to 20 years
Short leasehold property	Straight line over the term of the lease
Plant, fixtures and equipment	5 to 20 years
Computer software	2 to 5 years
Motor vehicles	3 to 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Group expects to consume an asset's future economic benefits.

1.9. Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on the development of certain major new projects or programmes, where the outcome of these programmes and recoverability of costs is assessed as being reasonably certain, where they are capable of production and where their duration is expected to be substantial, is capitalised.

Other intangible assets

Intangible assets arising on a business combination are recognised separately from goodwill if the intangible asset is both separable and arises from legal or contractual rights. The group has also elected to recognise non-contractual customer relationships separately from goodwill.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Expenditure on the development of certain major new projects or programmes is amortised over its useful economic life. This is the shorter of the life of the relevant contract or ten years, with amortisation commencing in the year sales of the product are first made to the immediate customer of the Group. For certain programmes, amortisation is applied to reduce the assets to their residual values over a defined production schedule, based on the unit of production method.

The basis for choosing these useful lives is linked to the length of the contract.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be up to 10 years.

Contractual customer relationships are amortised over 10 years on the basis of normal contractual periods and expectation of renewal.

The Group reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with FRS 102.27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Notes (continued)

1 Accounting policies (continued)

1.10. Discontinued operations

Discontinued operations are components of the Group that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation or were subsidiaries acquired exclusively with a view to resale.

They are included in the profit and loss account in a separate column for the current and comparative years, including the gain or loss on sale or impairment loss on abandonment.

1.11. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

At each reporting date, the Group assesses whether stocks are impaired or if an impairment loss recognised in prior years has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in the profit and loss.

Reversals of impairment losses are recognised in the profit and loss.

1.12. Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12. Impairment excluding stocks and deferred tax assets *(continued)*

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13. Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the years during which services are rendered by employees.

Defined benefit plans

The Group operates a scheme that is defined benefit in nature, whereby the employee receives a lump sum payment on reaching retirement age. The amount charged to the profit and loss account in respect of these pension costs is based on actuarial valuations.

Share-Based Payments

Equity-settled share-based payment arrangements have been granted to certain employees in earlier years. Such share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting year, based on the estimate of the number of shares which will eventually vest. A corresponding adjustment is made to equity.

Cancellations or settlements are treated as an acceleration of vesting and the amount which would have been recognised over the remaining vesting year is recognised immediately.

1.14. Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

1.15. Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes and is recognised when goods are despatched and all the risks and rewards have been transferred to the customer. Income from service contracts is recognised over the life of the contracts.

1.16. Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes (continued)

1. Accounting policies (continued)

1.16. Expenses (continued)

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the years in which they are incurred.

Interest receivable and interest payable and other similar income and charges

Interest payable and similar charges include interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.17. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.18. Exceptional items

The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior years.

Notes (continued)

2 Turnover

All continuing turnover originates from activity in the United Kingdom except for £34,704,000 (Year ended 31 December 2019: £60,061,000) turnover arising in France, Poland and India.

An analysis of turnover by geographical destination is given below:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
United Kingdom	54,266	102,782
Rest of Europe	54,637	102,023
Other	7,893	12,937
	<u>116,796</u>	<u>217,742</u>

3 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 31 December 2020	Year ended 31 December 2019
Production	1,657	1,944
Administration	192	198
	<u>1,849</u>	<u>2,142</u>

At the year end the Group had 1,441 persons (Year-ended 31 December 2019: 2,078).

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Wages and salaries	35,967	51,355
Social security costs	4,438	7,687
Contributions to defined contribution plans (note 22)	1,380	1,406
	<u>41,785</u>	<u>60,448</u>

The Company does not have any staff.

Notes (continued)

4 Directors' remuneration

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Directors' remuneration	647	1,119
Company contributions to money purchase pension plans	23	40
	670	1,159

The aggregate of remuneration of the highest paid director was £324,000 (*Year ended 31 December 2019: £307,000*), and Company pension contributions of £13,000 (*Year ended 31 December 2019: £13,000*) were made to a money purchase scheme on his behalf. Compensation for loss of office paid to directors during the period totalled £Nil (2019: £150,000)

	Number of directors	
	Year ended 31 December 2020	Year ended 31 December 2019
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	4
	2	4

A long-term management incentive plan was established in 2018 in which two of the directors are enrolled. This plan covers financial performance over the periods 2018-2020, with payments on the achievement of targets in 2021. The targets were not achieved, and no incentive plan payments are being made to the directors.

5 Interest receivable and similar income

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Interest receivable	4	12
	4	12
Total interest receivable and similar income	4	12

6 Interest payable and similar expenses

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Finance lease interest	615	260
Bank loans and invoice discounting facilities	1,893	3,299
Interest on shareholder loan	749	-
Other interest payable	6	3
	3,263	3,562
Total other interest payable and similar charges	3,263	3,562

Notes (continued)

7 (Loss) / profit before taxation

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
<i>The loss before taxation is stated after charging / (crediting):</i>		
Depreciation - owned assets (note 10)	6,676	5,492
- held under finance leases and hire purchase contracts (note 10)	1,927	1,751
Amortisation - goodwill (note 9)	944	978
- customer relationships (note 9)	2,525	2,530
- other intangible fixed assets (note 9)	2,214	3,008
Profit on sale of intangible and tangible fixed assets	265	(1,049)
Fair value of foreign exchange contracts (gains) / losses	(480)	201
Foreign exchange losses	1,755	500
Stock impairment losses recognised in cost of sales (note 12)	182	689
Exceptional income	(1,399)	(10,145)
Exceptional costs	12,350	9,378
Operating lease rentals (note 25)	2,693	3,234
Other operating income - Research and Development Expenditure Credit	(1,277)	(158)
Other operating income - Government Grants (Coronavirus)	(5,273)	-
	10,951	(767)
<i>Exceptional (credit) / expense:</i>		
Provision and cost of reorganisation	9,463	1,419
Business interruption and recovery costs and inventory insurance losses arising from Consett fire	1,236	6,571
Gain from insurance proceeds relating to fixed assets arising from Consett fire	(1,399)	(8,791)
Airbus A380 contract impairment	729	-
Provision and cost of global IT improvements	922	-
Costs associated with the closure of Belestá	-	1,388
Refund of retirement indemnities for Sorop SAS and S'Industries SARL	-	(22)
Release of surplus onerous contract provisions	-	(1,332)
	10,951	(767)

The majority of non-recurring costs are the costs of the site closures, asset impairment and redundancy programme as part of the groupwide reorganisation action taken as a result of COVID-19. The insurance proceeds were for the replacement of assets that had a lower net book value than replacement cost and business interruption claims. The other non-recurring items are the costs incurred to maintain and recover from the Consett fire in 2018 that were not fully recoverable under the insurance policy as well as provision for the cost of recovery from a one-off IT failure during the period. The impairment of irrecoverable debtors associated with the discontinuation of the Airbus A380 build programme contract is referred to in note 30.

Auditor's remuneration:

Audit services – statutory audit of parent and consolidated accounts	38	46
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	112	147
Taxation compliance services	22	26
Taxation advisory service	72	19
All other non-audit services	4	44
	116	236

Notes (continued)

8 Taxation

Total tax (credit) / expense recognised in the profit and loss account and other comprehensive income

	Year ended 31 December 2020		Year ended 31 December 2019	
	£000	£000	£000	£000
<i>Current tax</i>				
Current tax on income for the year		34		324
Adjustments in respect of prior years		(861)		(1,067)
Foreign tax		310		1,409
Total current tax		(517)		666
<i>Deferred tax (note 20)</i>				
Origination and reversal of timing differences	606		1,035	
Amortisation on intangibles	-		(430)	
Deferred tax not previously recognised	-		(459)	
Adjustments in respect of prior years	303		376	
Change in tax rate	(886)		-	
Total deferred tax		23		522
Total tax		(494)		1,188

Reconciliation of effective tax rate

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
(Loss) / profit for the year	(26,928)	7,004
Total tax (credit) / expense	(494)	1,188
Profit excluding taxation	(27,422)	8,192
Tax using the UK corporation tax rate of 19.00% (Year ended 31 December 2019: 19.00%)	(5,210)	1,556
Effect of tax rates in foreign jurisdictions	163	132
Deferred tax balance rate differences	(886)	32
Non-deductible expenses and income not taxable	490	618
Deferred tax previously recognised (net) / (unrecognised)	5,346	(459)
R&D expenditure credit	161	-
Adjustments for prior years	(558)	(691)
Total tax (credit) / charge included in profit or loss	(494)	1,188

The rate of UK corporation tax reduced from 20% to 19% with effect from 1 April 2017 and with an additional reduction to 17% (effective 1 April 2020) substantively enacted on 15 September 2017, the Group has measured its deferred tax assets and liabilities at the end of the reporting period at 19% (Year ended 31 December 2019: 17%). This will reduce the Group's future tax charge accordingly.

In the budget on 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. Deferred tax has been calculated at 19% which was the tax rate substantively enacted at 31 December 2020.

Notes (continued)

9 Intangible assets and goodwill

Group	Goodwill £000	Development costs £000	Software and other costs £000	Customer relationships £000	Total £000
Cost					
Balance at 1 January 2020	16,860	20,176	2,760	25,250	65,046
Additions	-	1,309	1,521	-	2,830
Effect of movements in foreign exchange	385	874	(3)	-	1,256
Balance at 31 December 2020	17,245	22,359	4,278	25,250	69,132
Amortisation and impairment					
Balance at 1 January 2020	8,766	10,542	1,736	3,628	24,672
Amortisation for the year	944	1,502	712	2,525	5,683
Effect of movements in foreign exchange	385	507	4	-	896
Balance at 31 December 2020	10,095	12,551	2,452	6,153	31,251
Net book value					
At 31 December 2020	7,150	9,808	1,826	19,097	37,881
At 31 December 2019	8,094	9,634	1,024	21,622	40,374

The net book value of development costs includes £3.5 million (31 December 2019: £3.7 million) of principally A350 XWB work package assets. These costs are amortised in line with production rates over future periods. Amortisation charges are recognised in administrative expenses in the profit and loss account.

Additionally, the net book value of development costs includes £5.5 million (2019: £5.1 million) of other work package assets where no amortisation has been recognised. The development costs for these work packages will be amortised in line with production rates over future periods once production has started.

Software pledged as security for loans held by the Group are detailed in note 18.

Notes (continued)

10 Tangible fixed assets

<i>Group</i>	Short leasehold property £000	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost				
Balance at 1 January 2020	8,675	12,543	92,039	113,257
Additions	373	111	6,775	7,259
Disposals	(142)	(721)	(8,113)	(8,976)
Effect of movements in foreign exchange	148	6	(279)	(125)
Balance at 31 December 2020	9,054	11,939	90,422	111,415
Depreciation and impairment				
Balance at 1 January 2020	4,612	4,467	47,183	56,262
Depreciation charge for the year	1,005	408	7,190	8,603
Disposals	(133)	(61)	(7,584)	(7,778)
Effect of movements in foreign exchange	92	8	14	114
Balance at 31 December 2020	5,576	4,822	46,803	57,201
Net book value				
At 31 December 2020	3,478	7,117	43,619	54,214
At 31 December 2019	4,063	8,076	44,856	56,995

Included within plant and equipment are assets under construction of £2,850,000 (31 December 2019: £13,879,000).

Assets pledged as security for loans held by the Group are detailed in note 18.

Leased plant and machinery

At the year end the net carrying amount of plant and machinery leased under a finance lease was £16,722,000 (31 December 2019: £17,273,000), and the depreciation charged during the year in respect of these assets was £1,927,000 (Year ended 31 December 2019: £1,751,000). The leased equipment secures lease obligations (note 17).

11 Fixed asset investments

	Company £000
Cost and net book value:	
At 31 December 2019 and 31 December 2020	7,274

The investments comprise a £5,923,000 investment in Gardner Airia Holdings SAS and its subsidiaries and a £1,351,000 investment in Gardner Group Limited and its subsidiaries.

Notes (continued)

11 Fixed asset investments (continued)

Principal Group investments

The Company has investments in the following subsidiary undertakings:

	Country of Incorporation/ registered office	Proportion held		Nature of business
		Direct	Indirect	
Gardner Group Limited	Note (a) below	100%		Holding company
Gardner Airia Holding SAS (“Airia”)	Note (f) below	100%		Holding company
Gardner Gardner Aerospace Chengdu Company Limited	Note (g) below	100%		Precision machining
Gardner Aerospace – Basildon Limited	Note (a) below		100%	Precision machining
Gardner Aerospace – Broughton Limited	Note (a) below		100%	Precision machining
Gardner Aerospace – Derby Limited	Note (a) below		100%	Precision machining
Gardner Aerospace – Hull Limited	Note (a) below		100%	Precision machining
Gardner BTC Limited	Note (a) below		100%	Precision tooling
Gardner Aerospace – Burnley Limited	Note (a) below		100%	Non-trading
Gardner Aerospace – Consett Limited	Note (a) below		100%	Precision machining
FDM Digital Solutions Limited	Note (a) below		100%	Polymer additive layer manufacturing
Gardner Aerospace – Nuneaton Limited	Note (a) below		100%	Dormant
Gardner Aerospace – Wales Limited	Note (a) below		100%	Dormant
Gardner Aerospace – Tczew Spółka z.o.o.	Note (b) below		100%	Precision machining
Gardner Aerospace – Mielec Spółka z.o.o.	Note (c) below		100%	Precision machining
Gardner Aerospace – Nowa Dęba z.o.o.	Note (d) below		100%	Precision machining
Gardner Aerospace Bengaluru Private Limited	Note (e) below		100%	Precision machining
Gardner Aerospace – Mazerès SAS	Note (f) below		100%	Precision machining and assembly

In June 2019 the shareholders of Gardner Aerospace – Belesta SAS approved the anticipated dissolution of Gardner Aerospace – Belesta SAS. The voluntary liquidation is ongoing.

During 2020 and in response to COVID-19 the Group undertook a restructuring programme which saw the shareholders of Gardner Group Limited approve the closure of Gardner Aerospace – Hull Limited which ceased trading in September 2020 and announce the closure of Gardner Aerospace – Broughton Limited which ceased trading June 2021.

Note	Country of Incorporation	Registered Office
a	England and Wales	Unit 9 Victory Park, Victory Road, Derby, England, DE24 8ZF
b	Poland	UL. Skarszewska 21, Tczew 83-110, Poland
c	Poland	COP-U Str. 7, Mielec 39-300, Poland
d	Poland	Szypowskiego nr1, Nowa Deba, Poland
e	India	Plot no.25 (New Municipal No.5), 3 rd Main Road, Phase 1, Peenya Industrial Area, Bengaluru - 560058
f	France	Zone Industrielle, BP 19 Route de Belpech, 09270, Mazères, France
g	China	3299 West Airport Avenue, South West Airport Economic Development Zone, Shuangliu, Chengdu, Sichuan, China

All subsidiary undertakings have a year end of 31 December apart from Gardner Aerospace Bengaluru Private Limited and Gardner Aerospace – Nowa Dęba z.o.o. where the year ends are 31 March and 30 June respectively. The subsidiaries incorporated in England and Wales, apart from Gardner Group Limited, have taken exemption under section 479A of the Companies Act 2006 (the “Act”) from the requirement in the Act for their individual accounts to be audited. The guarantee given by Gardner Group Limited under Section 479A of the Act is disclosed in Note 26.

Notes (continued)

12 Stocks

	Group	
	31 December	31 December
	2020	2019
	£000	£000
Raw materials and consumables	6,008	8,838
Work in progress	11,534	14,445
Finished goods	8,498	7,093
	26,040	30,376
	26,040	30,376

The write-down of stocks to net realisable value amounted to £985,000 (Year ended 31 December 2019: £1,357,000). The reversal of write-downs amounted to £803,000 (Year ended 31 December 2019: £668,000). The write-down and reversal are included in cost of sales.

Stocks pledged as security for loans held by the Group are detailed in note 18.

13 Debtors

	Group		Company	
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade debtors	16,206	42,864	-	-
Amounts owed by group undertakings	-	-	56,272	31,000
Deferred tax assets (note 20)	9,326	9,349	-	-
Corporation tax	832	-	-	-
Prepayments and accrued income	5,645	8,144	-	-
Other financial assets (note 19)	970	-	-	-
	32,979	60,357	56,272	31,000
	32,979	60,357	56,272	31,000
Due within one year	24,193	51,335	31,000	31,000
Due after more than one year	8,786	9,022	25,272	-
	32,979	60,357	56,272	31,000
	32,979	60,357	56,272	31,000

Debtors pledged as security for loans held by the Group are detailed in note 18.

Notes (continued)

14 Cash and cash equivalents/bank overdrafts

	31 December 2020 £000	31 December 2019 £000
Cash at bank and in hand	10,659	5,772
Bank overdrafts (note 15)	(100)	(1,774)
	10,559	3,998
Cash and cash equivalents per cash flow statements	10,559	3,998

Cash pledged as security for loans held by the Group are detailed in note 18.

15 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2020 £000	31 December 2019 £000	31 December 2020 £000	31 December 2019 £000
Bank overdrafts (note 17)	100	1,774	-	-
Bank loans (note 17)	7,396	7,616	-	-
Invoice discounting facility (note 17)	3,525	35,744	-	-
Other loans (note 17)	848	271	-	-
Prepaid facility costs (note 17)	(739)	(229)	-	-
Obligations under finance leases (note 17)	3,646	4,127	-	-
Trade creditors	14,600	25,860	-	-
Amounts owed to group undertakings	-	-	487	487
Corporation tax	-	1,112	-	-
Taxation and social security	8,732	3,634	-	-
Other creditors	2,424	1,292	-	-
Accruals and deferred income	8,665	12,606	-	-
Other financial liabilities (note 19)	-	297	-	-
	49,197	94,104	487	487
	49,197	94,104	487	487

16 Creditors: amounts falling after more than one year

	Group		Company	
	31 December 2020 £000	31 December 2019 £000	31 December 2020 £000	31 December 2019 £000
Bank loans (note 17)	34,954	17,906	-	-
Other loans (note 17)	570	2,610	-	-
Shareholder loans (note 17)	25,272	-	25,272	-
Prepaid facility costs (note 17)	(1,254)	(342)	-	-
Obligations under finance leases (note 17)	9,719	10,709	-	-
Accruals and deferred income	1,369	2,630	-	-
	70,630	33,513	25,272	-
	70,630	33,513	25,272	-
Due between one and five years	70,630	33,513	25,272	-
Due after more than five years	-	-	-	-
	70,630	33,513	25,272	-
	70,630	33,513	25,272	-

Notes (continued)

17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	Group	
	31 December	31 December
	2020	2019
	£000	£000
Creditors falling due after more than one year		
Secured bank loans	34,954	17,906
Other loans	570	2,610
Shareholder loans	25,272	-
Prepaid facility costs	(1,254)	(342)
Obligations under finance leases	9,719	10,709
	69,261	30,883

	Group	
	31 December	31 December
	2020	2019
	£000	£000
Creditors falling due in less than one year		
Secured bank overdrafts	100	1,774
Secured bank loans	7,396	7,616
Invoice discounting facility	3,525	35,744
Other loans	848	271
Prepaid facility costs	(739)	(229)
Obligations under finance leases	3,646	4,127
	14,776	49,303

Loan terms and debt repayment schedule

Group	Loan	Currency	Nominal interest rate	Year of	Repayment	31 December	31 December
Facility	Classification			Maturity	schedule	2020	2019
						£000	£000
Term Loan (CLBILS)	Bank Loan	Sterling	ICE Libor + 3.61%	2023	Quarterly	7,510	-
Term Loan	Bank Loan	Sterling	ICE Libor + 2.25% -3.75%	2022	Quarterly	11,250	11,250
Term Loan	Bank Loan	US Dollars	ICE Libor + 2.25% -3.75%	2022	Quarterly	1,392	3,761
Plant Loan	Bank Loan	Sterling	ICE Libor + 2.00%	2022	Monthly	5,420	6,062
Property Loan	Bank Loan	Sterling	ICE Libor + 2.00%	2022	Monthly	3,973	4,449
Manufacturing	Other Loan	Euro	2.45%	2024	6 Monthly	624	2,610
Development Loan							
Plant Loan	Other Loan	Euro	0.76%	2024	Monthly	793	271
Term Loan (COVID-19)	Bank Loan	Euro	0.5% + Warranty	2026	Monthly	4,333	-
Term Loan (COVID-19)	Bank Loan	Euro	0.3% + Warranty	2026	Monthly	6,499	-
Term Loan	Bank Loan	Zloty	2.2%	2022	Quarterly	884	-
Plant Loan	Bank Loan	Rupee	REPO + 3.6%	2025	Quarterly	1,090	-
Term Loan	Shareholder Loan	Sterling	7%	2023	On Maturity	25,272	-
						69,040	28,403

Notes (continued)

17 Interest-bearing loans and borrowings (continued)

On 17 December 2020 new bank borrowing facilities were arranged to support the ongoing working capital position of the Group impacted by COVID-19. This included securing £15.0 million of UK government backed CLBILS facilities and extending repayment periods more recently agreed to 2023, alongside a revised covenant tests and timetable in lieu of adverse market conditions. Of the new £15.0 million CLBILS facility £7.5 million was undrawn at the year end.

During 2020 the multi-currency invoice discounting facility arrangements in the UK were reduced from £46.7 million to £30.0 million based on invoicing against approved customers and funding of inventory. The inventory facility has a sub limit of £8.0 million. The UK facilities are secured by fixed and floating charges over the property and assets of companies within Gardner Group Limited that are obligated as guarantors and carry a nominal interest rate of 1.75% above Libor on the invoice discounting facility and 2% above Libor on the inventory facility.

The invoice discounting facilities in France are multi-currency arrangements based on invoicing against approved customers. These facilities are secured on the trade debtors and carry a nominal interest rate of 1.1% above 3 month Euribor.

The manufacturing development loan is repaid twice a year with a repayment of €8,602 per aircraft set delivered by Gardner Aerospace Mazeris SAS on the A350 XWB work package. At the end of the agreement in 2024 there is a bullet repayment of any outstanding amount.

During 2020 Gardner Aerospace Mazeris SAS secured €12 million in French government backed Coronavirus support facilities. The French facilities are secured by way of a fixed and floating charge of the subsidiaries business assets. Additional loans of PLN 5 million in Gardner Tczew and INR 120 million in term loan and INR 30 million undrawn working capital loan in Gardner Bengaluru were agreed during the period and are secured by the businesses assets.

Other loans are held at commercial interest rates and repayable within three years.

During 2020 the Directors welcomed the sustained support of the parent Company who provided Gardner with £25.0 million working capital funding to support the Company during the Coronavirus Pandemic. During 2021 a further £8.0 million funding was provided.

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 31 December 2020 £000	Minimum lease payments 31 December 2019 £000
Less than one year	3,646	4,127
Between one and five years	9,719	10,709
	<u>13,365</u>	<u>14,836</u>

Finance lease payments represent rentals payable by the Group for certain items of plant and machinery. Leases include purchase options at the end of the lease year, and no restrictions are placed on the use of the assets. The average lease term is 4 years (31 December 2019: 4 years). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The finance leases are secured by the related fixed assets. The nominal interest rate on the finance leases ranges from 2% to 7% above local bank rates. During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £2,925,000 (31 December 2019: £10,132,000).

Notes (continued)

17 Interest-bearing loans and borrowings (continued)

Analysis of changes in Net debt

Group	31 December 2019	Cash flow	Non-Cash movements	31 December 2020
	£000	£000	£000	£000
Net cash – cash at bank	3,998	1,431	(173)	10,559
Debt				
Finance Leases	14,836	(1,513)	42	13,365
Debts falling due within one year	45,405	(34,090)	554	11,869
Debts falling due after more than one year	20,516	40,280	-	60,796
	<u>80,757</u>	<u>4,677</u>	<u>596</u>	<u>86,030</u>

18 Secured assets

	Group 31 December 2020 £000	31 December 2019 £000
Software (note 9)	1,814	998
Tangible fixed assets (note 10)	49,010	52,012
Stock (note 12)	25,150	23,400
Trade debtors (note 13)	16,206	42,581
Prepayments and accrued income (note 13)	5,645	4,398
Cash (note 14)	9,206	3,899
	<u>107,031</u>	<u>127,288</u>

The assets are secured through a fixed and floating charge of the assets of subsidiary companies registered in the UK, through charges on assets held under finance leases and through trade debtors under invoice discounting arrangements in France.

19 Other financial assets/(liabilities)

	Group 31 December 2020 £000	31 December 2019 £000
Amounts receivable/(falling due) within one year		
Financial assets held for trading (including derivatives)	970	-
Financial liabilities held for trading (including derivatives)	-	(297)
	<u>970</u>	<u>(297)</u>

The fair value of the forward contracts is based on their listed market price at the year end.

Notes (continued)

20 Deferred tax assets and liabilities

The movement in deferred tax asset is set out below:

	Group £000
At 1 January 2020	9,349
Charged to profit and loss account	(23)
	9,326
At 31 December 2020	9,326

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	31 December	31 December	31 December	31 December	31 December	31 December
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	1,181	1,431	(173)	(460)	1,008	971
Unused tax losses	11,923	11,897	-	-	11,923	11,897
Other	290	179	(238)	(22)	52	157
Acquisition of intangible fixed assets	-	-	(3,657)	(3,676)	(3,657)	(3,676)
	13,394	13,507	(4,068)	(4,158)	9,326	9,349
Tax assets / (liabilities)	13,394	13,507	(4,068)	(4,158)	9,326	9,349

In addition to the deferred tax asset above, the Group has additional unrecognised net corporation tax losses of £15,170,000 (31 December 2019: £5,741,000) and capital losses of £280,000 (31 December 2019: £353,000).

Company

The Company has no material deferred tax assets or liabilities.

21 Provisions

Group	Onerous Contracts £000	Restructu - ring £000	Property £000	Other £000	Total £000
Balance at 1 January 2020	288	334	418	50	1,090
Provisions charged during the year	-	7,879	1,584	-	9,463
Provisions used during the year	(57)	(6,069)	(735)	-	(6,861)
Balance at 31 December 2020	231	2,144	1,267	50	3,692

Restructuring provisions charged during 2020 primarily relate to the restructure of the Group in response to COVID-19. The other provisions include employment liabilities.

The Company had no provisions.

Notes (continued)

22 Employee benefits

The Group has a number of defined contribution pension schemes. The total pension cost charge for the year for the schemes was £1,166,000 (Year ended 31 December 2019: £1,009,000) and the amount contributed by the Group was £1,166,000 (Year ended 31 December 2019: £1,009,000). At 31 December 2020 the Group had unpaid pension contributions in respect of defined contribution schemes totalling £152,000 (Year ended 31 December 2019: £234,000).

The Group participates in the state schemes in France and therefore makes appropriate basic and additional contractual contributions on behalf of its employees. Contributions have been processed through the payroll amounting to £214,000 (Year ended 31 December 2019: £397,000) and are defined contribution in nature.

In addition, the Group participates in a contractual arrangement in France, which is an industry sector norm for the area, whereby the employee is due a lump sum payment on reaching retirement age. The provision in respect of this scheme is as follows:

	31 December	31 December	31 December
	2020	2019	2018
	£000	£000	£000
Liabilities at beginning of the year	1,008	1,312	1,354
Currency translation differences	54	(62)	14
Current service costs	78	(199)	-
Settlements	(126)	-	(4)
Actuarial gain in statement of recognised gains and losses	(2)	(43)	(52)
	<hr/>	<hr/>	<hr/>
Liabilities at the end of the year	1,012	1,008	1,312
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

23 Financial instruments

Carrying amount of financial assets and liabilities

The carrying amounts of the financial assets and liabilities include:

	31 December	31 December
	2020	2019
	£000	£000
Financial assets:		
Instruments measured at fair value through profit or loss	970	-
Measured at amortised cost	16,206	41,864
Financial liabilities:		
Instruments measured at fair value through profit or loss	-	297
Measured at amortised cost	111,095	121,621
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

24 Capital and reserves

Share capital

Issued, called-up and fully paid (number):

Share class	Ordinary shares
Nominal value (each)	10p
At 31 December 2019 and 31 December 2020	10,136

Issued, called-up and fully paid (£):

Share class	Ordinary shares
Nominal value (each)	10p
At 31 December 2019 and 31 December 2020	1,014

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	
	31 December 2020 £000	31 December 2019 £000
Less than one year	2,818	2,878
Between one and five years	7,712	6,968
More than five years	2,641	4,968
	<u>13,171</u>	<u>14,814</u>

During the year £2,693,000 was recognised as an expense in the profit and loss account in respect of operating leases (Year ended 31 December 2019: £3,234,000).

Notes (continued)

26 Commitments

Capital commitments: Contractual commitments to purchase tangible fixed assets at 31 December 2020 were £3,573,000 (31 December 2019: £7,025,000,000). The Company had no capital commitments at the year end (31 December 2019: £Nil).

Guarantees: At 31 December 2020, National Westminster Bank had issued customs comprehensive guarantees for £450,550 (31 December 2019: £264,300) for various group undertakings registered in the United Kingdom.

In order for subsidiary companies highlighted in Note 11 to take the audit exemption in Section 479A of the Companies Act 2006, the Gardner Group Limited has guaranteed all outstanding liabilities of those subsidiary companies at 31 December 2020 until those liabilities are satisfied in full.

27 Related parties

Group

Identity of related parties with which the Group has transacted

The Company's controlling party and ultimate parent company is Ligeance Aerospace Technology Co. a company listed on the Shenzhen Stock Exchange.

Transactions with key management personnel

Key management personnel are the directors. Total compensation of key management personnel in the year amounted to £670,000 (Year ended 31 December 2019: £1,159,000).

	Administrative expenses incurred from	
	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Key management personnel of the Company and its Group	670	1,159
	670	1,159

At the year end there were no balances outstanding with related parties (31 December 2019: £Nil).

The Company has taken advantage of the exemption contained within FRS 102 and has not disclosed transaction or balances with entities which form part of the Gardner Aerospace Holdings Limited Group.

Notes (continued)

28 Ultimate parent company and parent company of larger group

The Company's controlling party and ultimate parent company is Ligeance Aerospace Technology Co. Ltd ("LAT"), a company registered in the Peoples' Republic of China and listed on the Shenzhen Stock Exchange. The consolidated accounts of LAT are available from LAT's registered office, No.55 Century Avenue, Fengxi New City, Xixian New District, Xianyang City, Shaanxi Province, China.

29 Accounting estimates and judgements

Key sources of estimation uncertainty

The preparation of the financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

Deferred tax asset: The utilisation of tax losses and reversals of accelerated capital allowances are based on management forecasts.

Development costs: Development costs on major new programmes, where the outcome of these programmes is assessed as being reasonably certain, where they are capable of production and where their duration is expected to be substantial, are capitalised and amortised over their useful economic life.

Stock provision: Management consider the recoverability of the stock at the year end by looking at the ageing analysis and also the forward order book and based on this, provide in line with the stock provisioning policy adopted by the Group. This is based on a prudent approach.

Other provisions: Management consider the likelihood of any potential outflows and make relevant provisions on this basis at the year end.

Impairment review: Management perform annual impairment reviews of tangible and intangible assets by carrying out an assessment of an assets value in use and fair value based on scenario analysis and reasonable judgements. Any excess in an assets carrying value is then impaired to its recoverable amount.

30 Post balance sheet events

Contract impairment

As a result of the discontinuation of the Airbus A380 build programme by the customer the Group has accounted for £0.7 million impairment of its debtors back to the recoverable amount. This has been treated as an adjusting post balance sheet event.

Restructuring

The Group continued to execute the remainder of its restructuring plan following the impact of COVID-19 with the continued transfer of packages to low cost sites and the subsequent closure of the Broughton facility in June 2021.

Refinancing

With the support of LAT and National Westminster Bank as primary lender to the company and its subsidiaries in July 2021 the Group has secured £8.0 million of funding from LAT as well as entering a revised repayment profile to 2023 for £8.0 million of existing UK loans. In addition, the Group has agreed revised covenants in view of adverse market conditions.

Merger

During September 2021 the Board passed a resolution to approve the merger of the two Group subsidiaries Gardner Aerospace Mielec Spółka z.o.o and Gardner Aerospace Nowa Dęba z.o.o. The full merger process is anticipated to complete by the end of 2021.