

Tenmat Limited

**Directors' report and financial
statements**

Registered number 03342498

Year ended 31 December 2019



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Strategic report

Principal activities

Manufacturer of high performance engineering materials and components.

Business review

Turnover in the year ended 31 December 2019 of £32.6m represented an increase of 9.6% compared to the previous year. The Company produces and sells a wide range of products to a well-diversified customer base and continues to export a high proportion of its sales (2019: 70%, 2018: 71%). The Company continued to grow sales successfully in many areas throughout 2019, most notably in Passive Fire Protection and Transportation products.

Our business strength is our extensive portfolio of products, solutions and advanced materials across a range of applications and industries. This is achieved through a combination of the effort and skill of our people, our long history and know-how. Combining this with the investment by Epiris and our geographical spread (in UK, Europe and Far East) will enable us to take advantage of our market opportunities and grow our business.

Principal risks and uncertainties

The Group would be, and is exposed, like other industrial companies, to changes in the macroeconomic climate. This would include potential changes to the business environment, and trading terms following the UK's exit from the EU and recent global recession arising from COVID-19.

The group has continued to manufacture throughout the recent global recession arising from COVID-19, with safe working practices to our factories and offices (e.g. social distancing). The group also adjusted manufacturing production in line with a lower demand from customers. We furloughed some UK employees to mitigate costs and reduced discretionary spend and capital expenditure. The directors are committed to ensuring employee safety and well-being whilst continuing production to meet customer demand.

Although there is some uncertainty of global recession on the business and it is difficult to predict the effect of the current restrictions on the supply chain and customer demand, the Group maintains a good degree of diversification in terms of the customers and markets it serves. We also supply product that is specified and tested by our customers which provides some resistance to customers changing supply. There is also some flexibility to adjust costs in response to changes in demand due to the natural mix of variable cost within the business, but a significant proportion of the Group's costs are fixed in nature. The directors are confident that the strength of the group balance sheet and cash generation will enable the group to navigate through the resulting economic uncertainty.

The Group's presentational currency is GBP, however during the year the Group had exposure to currencies of other countries in which it trades. Appropriate steps are taken to cover this risk and wherever practicable, the Group matches payments and receipts in the same currency.

The Group credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on new customers, obtaining credit insurance and reviewing existing customers' payments against contractual agreements.

In order to ensure that sufficient funds are available for on-going operations and future developments, the Group uses loan facilities which can be drawn upon on demand when needed. The Board closely monitors the amount of facilities drawn, particularly with respect to complying with all covenant restrictions.

The Group acknowledges that it faces interest rate risk, however with the level of debt sustained and the interest rates the Group could potentially face, the risk is adequately covered through the operating performance that the Board will continue to monitor.

Key performance indicators

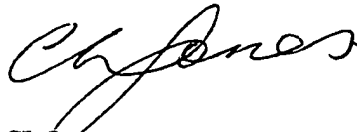
Key financial indicators include the sales growth rate (see above), gross margin %, debtor days and stock days. These are reviewed monthly by management. Gross margin % remained broadly in line with 2018 moving from 51.4% in 2018 to 51.0% in 2019. Debtor days decreased to 63 from 64 days. Stock days remained at 2018 level of 71 days.

Strategic report (continued)

Research and development

Research and development expenditure is charged to the profit and loss account as incurred. The amount charged was £729,600 (2018: £431,000).

By order of the board



CL Jones
Director

Ashburton Road West
Trafford Park
Manchester
M17 1TD
16 September 2020

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

Dividends

During the year the Company declared an interim dividend of £2,999,999 (2018: £30,000,000) to its parent company, Modular Stock Limited.

Political Contributions

The Company made no political contributions during the year (2018: £nil).

Directors

The directors who held office during the year and as at the date of this report were as follows:

G MacLeman

M A Hutchison (resigned 12 November 2019)

K Chopra

CL Jones

SK Gupta (appointed 3 February 2020)

Certain directors benefited from a Directors and Officers Liability insurance policy in place during the financial year and at the date of this report.

Employee consultation

It is the Company's policy to encourage employee involvement as the directors consider that this is essential for the successful running of the business. The Company keeps employees informed of performance, developments and progress by way of regular team briefing sessions.

Disabled employees

It is the Company's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities to the career development of disabled employees.

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 2. Note 1 describes the going concern assessments made by the Board.

By order of the board



CL Jones
Director

Ashburton Road West
Trafford Park
Manchester
M17 1TD
16 September 2020

Statement of directors' responsibilities in respect of the Strategic report, the Directors' 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TENMAT LIMITED

Opinion

We have audited the financial statements of Tenmat Limited for the year ended 31 December 2019 which comprise the Profit and loss account, the Statement of other comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis 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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 1 and note 25 of the financial statements which describes the potential economic disruption the company may face as a result of COVID-19 which is impacting consumer demand. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The 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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TENMAT LIMITED (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://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.

Ernst & Young LLP

Anne Wong (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
16 September 2020

Profit and loss account
for the year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Turnover	2	32,566	29,704
Cost of sales		<u>(15,947)</u>	<u>(14,448)</u>
Gross profit		16,619	15,256
Distribution costs		(996)	(714)
Administrative expenses		<u>(5,545)</u>	<u>(4,652)</u>
Operating profit before exceptional items		10,078	9,890
Exceptional items	4	<u>(1,206)</u>	<u>(761)</u>
Operating profit	3	8,872	9,129
Interest receivable & similar income	7	975	883
Interest payable & similar charges	8	<u>(1,180)</u>	<u>(872)</u>
Profit on ordinary activities before taxation		8,667	9,140
Taxation on profit on ordinary activities	9	<u>(63)</u>	<u>(467)</u>
Profit for the year		<u>8,604</u>	<u>8,673</u>

The turnover and profit for the year arise wholly from continuing operations.

The notes on pages 11 to 33 form part of these financial statements.

Statement of other comprehensive income
for the year ended 31 December 2019

	2019	2018
	£000	£000
Profit for financial year	8,604	8,673
<i>Items that will not be reclassified to profit or loss:</i>		
Actuarial gain/(loss) recognised in the pension scheme	1,249	(488)
Deferred tax arising on actuarial gains or losses in the pension scheme	(237)	(561)
Other comprehensive income/(expense) for the year, net of income tax	1,012	(1,049)
Total comprehensive income for the year	9,616	7,624

Balance sheet
 at 31 December 2019

	<i>Note</i>	2019		2018	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	10	2,120		1,689	
Tangible assets	11	5,150		4,889	
Right-of-use assets	12	145		-	
Investments	13	1		1	
			7,416		6,579
Current assets					
Stocks	14	3,125		2,827	
Debtors	15	29,569		28,214	
Cash at bank and in hand		8,172		634	
		40,866		31,675	
Creditors: amounts falling due within one year	16	(9,872)		(5,781)	
Net current assets			30,994		25,894
Total assets less current liabilities			38,410		32,473
Creditors: amounts falling due more than one year	17		(83)		-
Provisions for liabilities and charges	18		(2,462)		(2,887)
Pension surplus/(deficit)	23		3,054		(283)
Net assets			38,919		29,303
Capital and reserves					
Called up share capital	20		3,000		-
Profit and loss account			35,919		29,303
Shareholder's funds			38,919		29,303

The notes on pages 11 to 33 form part of these financial statements.

These financial statements were approved by the board of directors on 16 September 2020 and were signed on its behalf by:



CL Jones
 Director

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000	Profit and loss account £000	Total Equity £000
Balance at 1 January 2018	-	51,621	51,621
Total comprehensive income for the period			
Profit or loss	-	8,673	8,673
Other comprehensive income	-	(1,049)	(1,049)
Total comprehensive income for the period	-	7,624	7,624
Transactions with owners recorded directly in equity:			
Share-based payments	-	58	58
Dividends paid	-	(30,000)	(30,000)
Total contributions by and distributions to owners	-	(29,942)	(29,942)
Balance at 31 December 2018	-	29,303	29,303
Balance at 1 January 2019	-	29,303	29,303
Total comprehensive income for the period			
Profit or loss	-	8,604	8,604
Other comprehensive expense	-	1,012	1,012
Total comprehensive income for the period	-	9,616	9,616
Transactions with owners recorded directly in equity:			
Issue of ordinary shares	3,000	-	3,000
Dividends paid	-	(3,000)	(3,000)
Total contributions by and distributions to owners	3,000	(3,000)	-
Balance at 31 December 2019	3,000	35,919	38,919

Notes

(forming part of the financial statements)

1 Accounting policies

Tenmat Limited (the "Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

The Company's ultimate parent undertaking at December 2019, Diamorph Group Holdings Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Diamorph Group Holdings Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Diamorph Group Holdings Limited by writing to Aztec Group House 11-15 Seaton Place St Helier Jersey JE4 0QH.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Diamorph Group Holdings Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

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

Measurement convention

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 2.

The Company is part of the Diamorph Group Holdings Limited trading group ('the Group'). The Company has net current assets of £31.0m at the balance sheet date, however it is party to the loan agreements entered into by other group companies and is therefore appropriate to consider the ability of the Group as a whole to meet its liabilities as they fall due when assessing the going concern status of the company.

Notes (continued)

1 Accounting policies (continued)

Going concern (continued)

The Board has considered the impact of the ongoing COVID-19 situation. The Group has continued production throughout the pandemic and manufactures materials for a number of sectors. To date the group has not experienced any significant disruption as a result of employee absence, supply chain or distribution networks and none is foreseen at present. However, social distancing and other modifications have been required to our factories and offices to comply with the working practices mandated by the government. The Group also adjusted manufacturing production in line with a lower demand from customers. We furloughed some UK employees to mitigate costs and reduced discretionary spend during April and May. From June we started to bring back furloughed staff in line with increased demand from the building sector as sites reopened. Recent demand has been positive albeit not yet back to last year's levels. The group has remained profitable and generated net cash throughout the recent COVID-19 affected period. It remains too early to ascertain the overall impact on our full year 2020 revenue and profitability.

The Board has performed a number of stress tests to assess the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements, with a focus on 1) the sufficiency of liquidity to fund operations, and 2) whether the Group is forecast to be in compliance with its loan covenants.

The Directors have prepared forecasts for the Group covering a period through to 30 September 2021. These forecasts reflect an assessment of current and future market conditions and their impact on the Group's future profitability and cashflows. The forecasts have been sensitised for a reduction in for the remainder of the current financial year with the impact on profitability and cash flow considered, net of certain expected cost savings given the reduced volumes. The forecasts have also been reverse stress tested with some further cost mitigations, each within the control of the business. The Board has already introduced a reduction in overhead spending and short-term capital investment in order to conserve cash.

In the most severe but plausible scenario forecasted, the Group would still meet its bank covenant requirements and would retain sufficient liquidity to fund operations.

In the reverse stress tested scenario, the Group would need further mitigating action such as reducing overhead spend permanently, delaying capital expenditure or using surplus funds to repay debt in order to avoid breaching its loan covenants.

Having considered all the above, the directors remain confident that the Group will continue as a going concern for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

New and amended standards and interpretations

The Company has started to apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers with effect as of 1 January 2018. The effects of the transition are immaterial and, as such, the opening balance of 2018 has not been affected. Further details on the accounting policies can be found below.

Tangible fixed assets and depreciation

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

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. Land is not depreciated. The estimated useful lives are as follows:

Computer equipment	-	3 years
Motor vehicles	-	4 years
Office equipment	-	4 years
Plant and equipment	-	5 - 10 years
Freehold buildings	-	15 - 40 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Notes (continued)

1 Accounting policies (continued)

Intangible assets

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets where the following criteria are met:

- It is technically feasible to complete the software products so that it will be available for use;
- Management intends to complete the software products and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Goodwill

Subject to the transitional relief in IFRS 1, all unincorporated business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company.

Goodwill is stated at cost less any accumulated impairment losses. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations, goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Foreign currencies

Transactions in foreign currencies are translated to the Company's 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 the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and equipment 3 to 5 years
- Motor vehicles 3 to 5 years

Notes (continued)

1 Accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company 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 periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit (liability)/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit (liability)/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Notes (continued)

1 Accounting policies (continued)

Employee benefits (continued)

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

Following approval of a long-term incentive programme at the Diamorph AB (publ) AGM in 2016, certain employees of the Group have been issued with warrants. These are accounted for as a form of share-based payment transaction, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted and then expensed on a straight-line basis over the vesting period based on an estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

The share-based payments scheme was dissolved on 14 March 2019 following the sale of its ultimate parent company, Diamorph AB (publ).

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Research and development expenditure

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

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out 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.

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.

Notes (continued)

1 Accounting policies (continued)

Taxation (continued)

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Turnover

Turnover is generated from the sale of products developed and manufactured within the Company. Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

The performance obligation in a contract mainly consists of providing goods and the revenues from sales of products are recognised when the performance obligation is fulfilled and control over the product is transferred to the customer. In most circumstances, this date coincides with the delivery of the goods to the customer.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. Income from investments is recognised when the Company's right to receive payment is established.

Exceptional items

The Company presents as exceptional items 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 understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Critical accounting judgements and estimates

Inventory provisioning

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions about anticipated saleability of finished goods and future usage of raw materials.

Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors utilising the expected credit loss (ECL) model. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debts, historical experience and future economic factors.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, inflation, asset valuations and projected returns on assets. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Notes (continued)

1 Accounting policies (continued)

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

New and amended standards and interpretations

The Company has started to apply IFRS 16 Leases which is effective from 1 January 2019. The effects of the transition are immaterial and, as such, the opening balance of 2019 has not been affected. Further details on the accounting policies can be found below.

2 Analysis of turnover

The directors have elected not to disclose turnover by class of business in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as it would be seriously prejudicial to the interest of the company.

3 Operating profit

	2019	2018
	£000	£000
Operating profit is stated after charging		
Depreciation	499	506
Operating leases – hire of plant and machinery	66	135
Net exchange losses/(gains)	360	(51)
Research and development expenditure	730	431
Auditor's remuneration		
Audit of these financial statements	43	43

Notes (continued)

4 Exceptional items

	2019 £000	2018 £000
Expenses relating to the sale of Diamorph AB (publ)	410	49
Pension past service cost	-	712
Expenses relating to implementation of new software and site move	549	-
Environmental review	247	-
	1,206	761

In May 2018 it was announced that, based on the request of Diamorph AB (publ)'s shareholders, advisers had been appointed to initiate a trade sale of the shares of Diamorph AB (publ), the Company's ultimate parent company. The exceptional amount of £410,000 recorded in 2019 relates to additional expenditure incurred for the purpose of the sale of Diamorph AB (publ), in particular advice on the impact of the sale on the defined benefit pension scheme.

During the year, the Company commenced the implementation of a new enterprise resource planning ("ERP") system and an assessment of moving to a new site. The exceptional amount of £549,000 relates to consultancy fees and additional employees to support the business during these two projects.

For further details on the Company's environmental review, please see note 18.

5 Remuneration of directors

In the prior period, the directors were remunerated through its immediate parent company, Modular Stock Limited. In the current year, the directors were transferred onto the Company's payroll from 1 April 2019.

	2019 £000	2018 £000
Directors' emoluments	1,032	497

The aggregate emoluments of the highest paid director were £434,000 (2018: £197,000).

	Number of directors 2019	Number of directors 2018
--	--------------------------------	--------------------------------

Retirement benefits accruing for the current financial year to the following number of directors under final salary (defined benefit) schemes	-	-
---	---	---

The Company is a member of a pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by IAS 19(R), the scheme has been accounted for, in these financial statements, as if the scheme was a defined contribution scheme. Tenmat Limited's financial statements, as the sponsoring company disclose the information required about the plan.

Notes (continued)

6 Staff numbers and costs

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

	Number of employees	
	2019	2018
Production	167	170
Administration	17	15
Distribution	12	11
Sales	37	29
	233	225

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	7,745	7,683
Social security costs	800	780
Other pension costs (see note 23)	346	380
Equity-settled share-based payment expense	-	58
	8,891	8,901

7 Interest receivable and similar income

	2019	2018
	£000	£000
Interest receivable on treasury deposits	7	2
Expected return on pension scheme assets	968	881
	975	883

8 Interest payable and similar charges

	2019	2018
	£000	£000
Interest on lease liabilities	12	-
Interest on intercompany loans	222	-
Interest on pension scheme liabilities	946	872
	1,180	872

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the company has elected to measure the right-of-use amount equal to the lease liability as at 1 January 2019 as permitted under IFRS 16. In 2019, the interest expense is for lease liabilities under IFRS 16.

Notes (continued)

9 Taxation on profit on ordinary activities

Recognised in the profit and loss account

	2019		2018	
	£000	£000	£000	£000
<i>UK Corporation Tax</i>				
Current tax on income for the year	99		519	
Adjustment in respect of previous years	74		(171)	
	<hr/>		<hr/>	
Total current tax charge		173		348
<i>Deferred tax (see note 19)</i>				
Reversal/(origination) of temporary differences	493		123	
Adjustment in respect of previous years	(603)		(4)	
	<hr/>		<hr/>	
Total deferred tax charge/(credit)		(110)		119
		<hr/>		<hr/>
Tax charge on profit on ordinary activities		63		467
		<hr/>		<hr/>

Income tax recognised in other comprehensive income

	2019	2018
	£000	£000
<i>Deferred tax charge</i>		
Remeasurements of defined benefit pension scheme	237	561
	<hr/>	<hr/>

Notes *(continued)*

9 Taxation on profit on ordinary activities *(continued)*

	2019 £000	2018 £000
<i>Reconciliation of total taxation</i>		
<i>Total tax reconciliation</i>		
Profit on ordinary activities before tax	8,667	9,140
Tax at 19.00% (2018: 19%)	1,647	1,737
<i>Effects of:</i>		
Expenses not deductible for tax purposes	4	19
Group relief not paid for	(912)	(985)
Additional deduction for Research & Development expenditure	(9)	(163)
Additional deduction for pension spreading from prior year	(82)	-
Adjustment in respect of previous years – current tax	74	(171)
Adjustment in respect of previous years – deferred tax	(603)	(4)
Other	(56)	34
Total current tax charge/(credit)	63	467

Factors affecting the tax charge for the current and future periods

The UK Government has set the Corporation Tax main rate at 19% for the years starting 1 April 2017, 2018 and 2019. The UK Government had previously announced a reduction in the Corporation Tax rate to 17% which would have been effective from 1 April 2020. However, at Budget 2020, the government announced that the Corporation Tax main rate for the year starting 1 April 2020, would remain at 19%. The Company has recognised certain deferred tax balances relating to fixed asset timing differences and short term timing differences based on the expected timeframe for unwind.

Notes (continued)

10 Intangible fixed assets

	Goodwill £000	Software £000	Total £000
<i>Cost</i>			
At beginning of year	1,689	-	1,689
Additions	-	431	431
At end of year	<u>1,689</u>	<u>431</u>	<u>2,120</u>
<i>Accumulated amortisation and impairment</i>			
At beginning of year	-	-	-
Amortisation	-	-	-
At end of year	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net book value</i>			
As at 31 December 2019	<u>1,689</u>	<u>431</u>	<u>2,120</u>
As at 31 December 2018	<u>1,689</u>	<u>-</u>	<u>1,689</u>

The software intangible assets includes capitalised development costs of £129,000 relating to consultancy fees that are directly attributable to bringing the ERP system into working condition for its intended use within the business. No amortisation has been charged during the year as the software intangible asset was not available for commercial use.

11 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Construction in progress £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
<i>Cost</i>						
At beginning of year	3,984	7,718	125	6	739	12,572
Additions	8	603	163	-	-	774
Disposals	-	(119)	-	(6)	(130)	(255)
At end of year	<u>3,992</u>	<u>8,202</u>	<u>288</u>	<u>-</u>	<u>609</u>	<u>13,091</u>
<i>Depreciation and diminution in value</i>						
At beginning of year	1,234	5,763	-	6	680	7,683
Charge for the year	101	387	-	-	13	501
Disposals	-	(107)	-	(6)	(130)	(243)
At end of year	<u>1,335</u>	<u>6,043</u>	<u>-</u>	<u>-</u>	<u>563</u>	<u>7,941</u>
<i>Net book value</i>						
As at 31 December 2019	<u>2,657</u>	<u>2,159</u>	<u>288</u>	<u>-</u>	<u>46</u>	<u>5,150</u>
As at 31 December 2018	<u>2,750</u>	<u>1,955</u>	<u>125</u>	<u>-</u>	<u>59</u>	<u>4,889</u>

Depreciation was not charged on land with a cost of £1,348,000 (2018: £1,348,000).

Notes (continued)

12 Leases

The company has lease contracts for plant and equipment and motor vehicles. The amounts recognised in the financial statements in relation to the leases are as follows:

Amount recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2019 £000	1 January 2019 £000
<i>Right-of-use assets</i>		
Motor vehicle	87	109
Plant and equipment	57	78
	144	187
<i>Lease liabilities</i>		
Amount due in less than one year	65	69
Amount due in more than one year	83	118
	148	187

Additions to the right-of-use assets during the 2019 financial year were £39,000.

Amount recognised in the profit and loss account

The profit and loss account shows the following amounts relating to leases:

	2019 £000	2018 £000
<i>Depreciation charge of right-of-use</i>		
Motor vehicle	(48)	-
Plant and equipment	(21)	-
	(69)	-
Interest payable	(12)	-
Expense relating to short-term leases (included in administrative expenses)	(10)	-
Expenses relating to service rental lease payments not included in lease liabilities (included in administrative expenses)	(7)	-
Future minimum lease payments as at 31 December 2019 are as follows:		
Not later than one year	72	-
Later than one year and not later than five years	89	-
	161	-
Impact of interest payable	(13)	-
Carrying amount of liability	148	-

Notes (continued)

12 Leases (continued)

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the company has elected to measure the right-of-use amount equal to the lease liability as at 1 January 2019 as permitted under IFRS 16. In 2019, the interest expense is for lease liabilities under IFRS 16.

The total cash outflow for leases in 2019 was £77,000.

13 Investments

	Shares in group undertakings £000
<i>Cost</i>	
At beginning of and end of year	1

Details of the principal operating subsidiary, which is unlisted, are set out below. This subsidiary undertaking is included in the consolidated Group financial statements of the ultimate parent undertaking, Diamorph Group Holdings Limited.

	Class of share capital held	Proportion of share capital owned/voting rights
<i>Subsidiary undertakings</i>		
Railko Limited*	Ordinary	100%

* Manufacturer of synthetic bearing and anti-friction materials incorporated in England & Wales.

14 Stocks

	2019 £000	2018 £000
Raw materials and consumables	1,109	1,008
Work in progress	465	322
Finished goods and goods for resale	1,551	1,497
	3,125	2,827

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £5,399,000 (2018: £4,938,000). Inventories are stated after provisions for impairment of £412,000 (2018: £297,000). There is no significant difference between the replacement cost of inventory and its carrying amount.

Notes (continued)

15 Debtors

	2019 £000	2018 £000
Trade debtors	4,513	4,444
Amounts owed by parent undertakings	22,421	22,267
Amounts owed by subsidiary undertaking	1,254	733
Amounts owed by fellow subsidiary undertakings	993	444
Other debtors	56	45
Prepayments and accrued income	332	281
	29,569	28,214

16 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	1,012	1,173
Amounts owed to parent	2,239	-
Amounts owed to subsidiary undertaking	2,581	2,218
Amounts owed to fellow subsidiary	898	73
Lease liabilities (note 12)	65	-
Taxation and social security	285	231
Corporation tax	74	-
Deferred tax liability (see note 19)	351	224
Accruals and deferred income	2,367	1,862
	9,872	5,781

17 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Lease liabilities (note 12)	83	-

Notes (continued)

18 Provisions

	Site related costs £000
At beginning of year	2,887
Amounts utilised during the year	(425)
	2,462
At end of year	2,462
Analysed as:	
Current	1,231
Non-current	1,231

In early 2018 specialist consultants were engaged to undertake an environmental review at the Company's manufacturing site. Based on the findings of the review certain remedial actions were deemed necessary and a provision of £3,000,000 was recognised in 2017. During 2019, £425,000 (2018: £113,000) of this provision was utilised on the first phase of management's remediation plan.

19 Deferred taxation

	2019 £000	2018 £000
<i>Liability/(asset)</i>		
At beginning of year	224	(456)
Charge/(credit) to the profit and loss for the year (see note 9)	(110)	119
Recognised in other comprehensive income	237	561
	351	224
At end of year	351	224

The elements of deferred taxation are as follows:

	2019 £000	2018 £000
<i>Liability/(asset)</i>		
Difference between accumulated depreciation and capital allowances	275	192
Provisions for liabilities	(468)	(527)
On pension scheme deficit	544	559
	351	224
Deferred tax liability	351	224

Notes (continued)

20 Called up share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
3,000,000 Ordinary shares of £1 each (2018: 1 Ordinary share)	3,000	-
	3,000	-

On 20 May 2019, the authorised share capital of the Company was increased from £1 to £3,000,000.

21 Dividends

	2019 £000	2018 £000
<i>Equity – ordinary</i>		
Final paid £nil per ordinary share (2018: £30,000,000)	-	30,000
	-	30,000

22 Pledged assets, contingent liabilities and capital commitments

During 2019, the Group entered into a new senior secured bank facility agreement. The bank facility contains a number of commitments and guarantees, to which the Company is a party, and is secured against the shares of certain companies within the Group.

Notes (continued)

23 Pension scheme

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £346,000 (2018: £380,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

Defined benefit pension scheme

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2019 £000	2018 £000
Present value of funded defined benefit obligations	(34,554)	(33,054)
Fair value of plan assets	37,608	32,771
	3,054	(283)

The pension scheme assets include no assets from the Company's own financial instruments. The pension scheme assets include no property occupied by, or other assets used by, the Company.

The plan ceased all future service benefit accrual with effect from 31 January 2010. The 3 August 2019 triennial valuation resulted in a surplus to the scheme. The Group expects to pay contributions in the region of £950,000 to the plan in the next financial year. In addition, the Group will reimburse the pension scheme trustees for all asset management and administrative charges associated with the running of the pension scheme.

Movements in present value of defined benefit obligation

	2019 £000	2018 £000
Opening defined benefit obligation	33,054	34,194
Interest cost	946	872
Actuarial losses/(gains)	1,394	(1,419)
Past service cost	-	712
Benefits paid	(840)	(1,305)
	34,554	33,054

Movements in fair value of plan assets

	2019 £000	2018 £000
Opening fair value of scheme assets	32,771	33,984
Expected return on plan assets	968	881
Actuarial gains/(losses)	2,643	(1,907)
Contribution from employer	2,066	1,118
Benefits paid	(840)	(1,305)
	37,608	32,771

Notes (continued)

23 Pension scheme (continued)

Charge/(credit) recognised in the profit and loss account

	2019	2018
	£000	£000
Interest on defined benefit pension plan obligation	946	872
Expected return on defined benefit pension plan assets	(968)	(881)
Past service cost	-	712
Total (credit)/charge	(22)	703

The expense is recognised in the following line items in the profit and loss account:

	2019	2018
	£000	£000
Interest receivable & similar income	(968)	(881)
Interest payable and similar charges	946	872
Exceptional items	-	712

The total amount recognised in other comprehensive income in respect of actuarial gains and losses is an actuarial gain of £1,249,000 (2018: loss of £488,000).

Cumulative actuarial losses reported in other comprehensive income for accounting periods ending on or after 22 June 2002 are £6,091,000 (2018: £7,340,000).

The fair value of the plan assets and the return on those assets were as follows:

	2019	2018
	Fair value	Fair value
	£000	£000
Equities & property	15,647	16,647
Gilts & bonds	21,577	15,819
Other	384	305
	37,608	32,771
Actual return on scheme assets	3,611	(1,026)

Notes (continued)

23 Pension scheme (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2019	2018
	%	%
Discount rate	2.00	2.90
Price inflation		
RPI	3.20	3.40
CPI	2.45	2.65
Future pension increases		
Inflation linked up to 5% per annum	3.10	3.25
Inflation linked up to 2.5% per annum	2.10	2.20
Inflation linked with a minimum of 3% pa and maximum of 5% per annum	3.65	3.75

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension plan.

In valuing the liabilities of the pension fund at recent rates of return, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: male – 22 (2018: 22) years; female – 23 (2018: 24) years
- Future retiree upon reaching 65: male – 23 (2018: 23) years; female – 25 (2018: 25) years

The discount rate is the assumption that has the greatest impact on pension obligations. A 1 percentage change in the discount rate changes commitments by about 20% (2018: 18%). Mortality rates also affects the calculation. If the life expectancy is extended by one year, the commitment would increase by about 4% (2018: 3%).

History of plans

The history of the plans for the current and prior periods is as follows:

	31 December 2019 £000	31 December 2018 £000	31 December 2017 £000	31 December 2016 £000	31 December 2015 £000
Present value of scheme liabilities	(34,554)	(33,054)	(34,194)	(35,398)	(27,307)
Fair value of scheme assets	37,608	32,771	33,984	32,220	27,816
Surplus/(deficit)	3,054	(283)	(210)	(3,178)	509

Notes (continued)

24 Ultimate parent company

As at December 2019, the Company was a wholly owned subsidiary undertaking of Modular Stock Limited, a company incorporated in England and Wales.

The smallest and largest group in which the results of the Company were consolidated is that headed by Diamorph Group Holdings Limited. No other group financial statements include the results of the Company. The consolidated accounts of this company are available to the public and may be obtained from Diamorph Group Holdings Limited by writing to Aztec Group House 11-15 Seaton Place St Helier Jersey JE4 0QH.

The ultimate controlling party is Epiris GB Limited, a company incorporated and registered in Jersey, and controls as general partner the following partnerships, Epiris Fund II LP, Epiris Fund II (B) LP, Epiris Fund II FFP LP and Epiris TC LP which hold the majority of shares in Diamorph Group Holdings Limited. Epiris GB Limited is an institutional private equity fund manager based in the UK.

25 Post balance sheet events

Post 31 December 2019, serious macro-economic pressures occurred as a result of the Covid-19 pandemic. It is still too early to ascertain the impact this may have on our full year 2020 revenue and profitability. The group remained profitable and generated cash throughout this period. Should a further outbreak of COVID-19 result in further restrictions on our ability to manufacture, the Directors will undertake a further review on discretionary expenditure and capital investment to protect the Group's liquidity and debt compliance position.

There is the potential should the impact of COVID-19 persist, for write down of fixed assets (goodwill, intangibles, tangible assets and investments) alongside increases in bad debt provisions and debt write offs should customers enter financial difficulty. The Group has insurance in place to mitigate the risk of bad debts and has reviewed credit limits recently to ensure credit offered is appropriate.

26 Effect of adoption of IFRS 16 – Leases

As indicated in notes 12, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The incremental borrowing rates applied to the lease liabilities on 1 January 2019 were 6.1% to 6.9%.

Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Notes (continued)

26 Effect of adoption of IFRS 16 – Leases (continued)

Measurement of lease liabilities

	£000
Operating lease commitments disclosed as at 31 December 2018	211
Discounted using the lessee's incremental borrowing rate of at the date of initial application	191
Less: Service rental on leases not recognised as a liability	(11)
Add: Adjustments as a result of different treatment of options	7
	187
Lease liability recognised as at 1 January 2019	
Amount due in less than one year	69
Amount due in more than one year	118
	187

Measurement of right-of-use asset and lease liabilities

The company has elected to measure the right-of-use amount equal to the lease liability as at 1 January 2019 as permitted under IFRS 16.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increase by £176,000
- Lease liabilities – increase by £176,000

The net impact on profit and loss account on 1 January 2019 was £nil.