

Company Registration No. 5137829 (England and Wales)

# PARADIGM PRECISION BURNLEY LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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# PARADIGM PRECISION BURNLEY LTD

## COMPANY INFORMATION

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<b>Directors</b>	Mr S Croke Mr R B Grochowski Mr M C Pemrick Mr A J Searle
<b>Secretary</b>	7Side Secretarial Limited
<b>Company number</b>	5137829
<b>Registered office</b>	1 Bentley Wood Way Network 65 Business Park Hapton Burnley Lancashire BB11 5TG
<b>Independent auditors</b>	PricewaterhouseCoopers LLP 1 Hardman Square Spinningfields Manchester M3 3EB

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# PARADIGM PRECISION BURNLEY LTD

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# PARADIGM PRECISION BURNLEY LTD

## STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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The directors present the strategic report for the year ended 31 December 2019.

### Business Review

The company continues to operate in the Aerospace and Industrial Gas Turbine markets.

The results of the operations of the company show an operating profit of £739,000 (2018: Loss of £2,993,000 on turnover of £34,628,000 (2018: £31,295,000).

As at 31 December 2019 the company held net assets of £7,954,000 (2018: £7,547,000).

The increased performance on Sales and Operating profit followed restructuring activity in December 2018 and execution on new sales programs such as Leap alongside enhanced performances on long standing programs such as C130 and the MRO business.

### Principal risks and uncertainties and financial risk management

A key risk identified by management is the cash flow; the risk is mitigated by the preparation and review of a 26-week cashflow forecast, updated weekly and measures needed, actioned. The company also have access to Group funds, if required.

Another key risk remains some uncertainty caused by Brexit, which has led to volatility in foreign exchange. To minimise this, we have entered into foreign exchange contracts that ensure key US dollar contracts are protected.

Management believe a key risk is orderbook volatility as a result of involvement with legacy engine programmes and repair and overhaul. The issues with the Boeing 737 Max program that was grounded during Q2 due to concerns over aircraft safety have also created wild fluctuations in the order book and factory plans. The company mitigates the risks by regular customer interface discussions, carried out routinely, and rigorous adherence to its contractual agreements which negate un-agreed schedule changes.

Credit is another risk facing the company through non payment of debt. This is mitigated through Customer engagement and contractual agreements. All new customers are credit checked and alerts set up for existing customer changes. A robust procedure for chasing & escalating overdues is in place.

The company recognises liquidity risk however this is minimal due to the debt being payable to the parent company.

### COVID 19

The COVID 19 outbreak in 2020 has impacted the business – further information on this is included under the post balance sheet events headed COVID19 contained within the Directors' report.

### Financial and other key performance indicators

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

	2019	2018	Change
	£000	£000	
Turnover	34,628	31,295	10.65%
Gross profit %	34.3%	28.65%	5.65%
Profit/(loss) before taxation	450	(3,007)	(114.97)%
Profit/(loss) before taxation %	1.30%	(9.61)%	10.91%
Cash at bank & in hand	185	1,001	(81.52)%
Net assets	7,954	7,547	5.39%
Average number of employees	278	297	(6.40)%

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# PARADIGM PRECISION BURNLEY LTD

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### Governance and strategy

The company recognises the contribution made by good governance to the Company's success and deliverance of strategy.

Section 172 of the Companies Act 2006 requires directors to act in a way they consider in good faith to be most likely to promote the success of the company for the benefit of all stakeholders. In doing so a director of a company must have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and the environment;
- The desirability of the company maintaining a reputation for high standards of business conduct;
- The need to act fairly as between members of the company.

The following disclosure describes how the directors have had regard to the matters set out in section 172(1a) to (f) and forms the directors statement required under section 414CZA of the Companies Act 2006.

### Parent Company

The parent company has a responsibility to deliver wealth to Dynamic Precision Group, Inc. which then allows the group to fulfil its commitments to investors. The group has the following core values: Health and safety, Quality, Customer Service, Development, Integrity, Corporate citizenship, Continuous improvement and Respect. These underpin everything we do across the business.

### Customers

Our customers are our priority, we have dedicated customer key account managers and are measured against monthly customer scorecards for delivery and quality and strive for continuous improvement.

### Employees

The workforce is the company's most valuable asset and it is important to retain key skills to secure the future resourcing requirements of the company.

The company implements development and succession plans for employees (where applicable) and has created Standard Operating Procedures (SOP's) for the majority of the shopfloor work to ensure quality, consistency and continuation. Any necessary training and coaching required is either facilitated internally (whereby the skillset prevails) or by external service providers when required.

It is company policy to keep employees as fully informed as possible on matters which affect them. This is achieved through regular briefings and updates. Shop Floor employees are represented by a Trade Union and any decisions impacting this group of people will be subject to a consultation with the union where required by law to do so. Employees also have access to an Employee Assistance Programme and an Ethics hotline where they can receive confidential help and support.

The company has achieved ISO45001 certification which covers occupational health and safety requirements so all employees can be confident the workplace is safe and complies with all relevant legislation.

### Suppliers

In order to satisfy customer requirements, the company needs its suppliers to meet its own high standards in quality and on time delivery. The company has dedicated procurement and supplier management functions and procedures in place which are responsible for performance and quality management, to ensure a high-quality supply chain.

Potential new suppliers are strictly vetted to ensure they hold all the required Quality approvals, whether these be related to Aerospace manufacturing or general engineering and will also cover Environmental approvals. A financial health check is also carried out. Once a supplier is approved by the business, they are subject to a weekly watchlist screening process to check for any activity that the company deems unacceptable.

## **PARADIGM PRECISION BURNLEY LTD**

### **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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#### **Environment & Community**

The company has achieved ISO14001:2015 certification for its environmental management system. Having accreditation to this standard not only commits the business to complying with environmental legislation but also to continuously improving our environmental performance. The new 2015 standard includes leadership and commitment and all our company directors are involved in constantly striving to reduce carbon emissions and waste generated in production processes.

As a key supplier to the aerospace industry the directors recognise the Company has an important role to play in protection of the environment and sensible risk management of limits natural resources. Consequently, sustainability runs through all aspects and associated impacts of our business from energy usage, waste removal and life cycle analysis of our processes. Directors ensure that sufficient resources are allocated to manage the environmental impacts effectively.

During the management review the Directors commit to the Environmental Policy statement and agree on targets to continuously improve the business environmental performance.

As part of the companys responsibility to the wider community, various events and collections occur throughout the year on behalf of local charities.

**PARADIGM PRECISION BURNLEY LTD**

**STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**Future developments**

The company continues to develop and enhance its portfolio on LEAP products. The company has also secured assembly work on Industrial products for the future. This is the assembly of parts that the company already produces as standalone items.

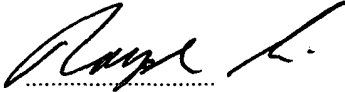
The portfolio of the Maintenance Repairs Organisation customers has expanded. The growth potential on Industrial engines is still a key opportunity as is the task of expanding beyond the current RB211 range of products.

Additional inroads are being made into Military programs and on Trent 1000 engines, with a number of quotations and RFQ's being completed and submitted.

Within the new manufacturing area, investment is geared towards high volume engine programmes with enhancements to its laser welding capabilities, whilst the repair section aims to support it's customers through repair and reassembly of engine modules as well as components and this area has increased it's capability to capture a more diverse product mix. Both areas have been upgraded in relation to work flow and lay outs, with enhanced welding areas now operable.

On 29 March 2017 Article 50 was triggered starting the two-year timer on negotiating the UK's exit, as well as the post Brexit relationship with Europe from March 2019 onwards. After a period of extension, the United Kingdom finally left the EU and negotiations are now ongoing reference trade deals with the EU and other countries.

On behalf of the board



**Mr R B Grochowski**  
Director

Date: 4 May 2021

# PARADIGM PRECISION BURNLEY LTD

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

### Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr S Croke  
Mr R B Grochowski  
Mr M C Pemrick  
Mr A J Searle

### Results and dividends

The loss after tax for the financial year amounted to £868,000 (2018: loss £2,873,000).

The directors do not recommend the payment of a dividend (2018: £Nil).

### Research and development

Investment in research and development continues to support design change requirements for LM6000 & LM9000 programmes along with exploring new innovations and technologies related to future developments and customer expectations within the aerospace segment. In particular, the main area we have focussed on in the year is on complex fabrication & design along with additive manufacturing.

### Statement of engagement with suppliers, customers and others in a business relationship with the company

Engagement with stakeholders can be seen in the strategic report in the Governance & Strategy section.

### Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of member of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is differently abled.

### Employee involvement

The company holds regular meetings with employee representatives to discuss matters affecting employees. The matters discussed include the terms and conditions of employment, health and safety and working methods. Any major changes impacting employees undergo a consultation process. In addition, copies of the financial statements are available for inspection at the company's place of business. Refer to the Governance & Strategy Employees section in the Strategic Report for further details on support provided to employees.

### Financial risk management and future developments

The financial risk management and future developments disclosures can be found in the Strategic report on pages 1 to 4.

### Post balance sheet events

The results include an impairment for the value of £601,226 in respect of an intercompany loan owed to Burnley by Paradigm Precision s.p. z.o.o, due to uncertainty around recoverability of the debt. In July 2020 the decision was taken to close the site in Poland.

## PARADIGM PRECISION BURNLEY LTD

### DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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#### COVID 19

The results of operations in 2020 for Paradigm Precision were impacted by the COVID-19 pandemic, specifically through reduced demand for many of the Company's products resulting from the rapid contraction of vast areas of the global economy. For the company, the negative impact of Covid-19 was luckily not as severe as other companies in our industry. Our sales took a drop in Q2, particularly in the Repairs business but are stabilizing on a normal level as we reach the end of the year. This is due to our product portfolio ranging across power generation as well as Aerospace.

The extent of the COVID-19 impact on the Company's future operations will depend on the time period and degree to which the COVID-19 pandemic persists in the global economy thereby reducing customer demand for certain of the Company's products, including the timing and extent to which customer operations continue to be impacted, customer perception as to when consumer demand for their products will return to pre-pandemic levels and on any future disruptions in the Company's operations or the operations of suppliers to the Company, all of which are difficult to predict.

#### Independent auditors

The auditors, PricewaterhouseCoopers LLP, will not be reappointed for 2020. Deloitte LLP will be appointed as auditors going forward.

#### Statement of disclosure to auditors

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

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

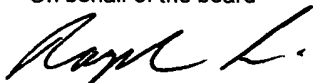
#### Going concern

Forward looking cashflows have been prepared & reviewed. These have been based on both a realistic outlook for 2021 and also a severe but plausible downside case, which was based on the 2020 Quarter 2 performance following the COVID-19 outbreak. These cash flows are prepared on the basis that the entity is not required to repay the intercompany payable to its parent company, Dynamic Precision Group, Inc that is repayable on demand and that the parent company continues to provide support. If Dynamic Precision Group, Inc demanded repayment, the entity would not have sufficient funds to settle this liability. The directors have therefore obtained a letter of support from Dynamic Precision Group, Inc indicating the parent entity's intent to continue to support the company and not demand repayment for a period of 12 months from the date of the signed financial statements. However the Directors have not been provided with the forecast cash flows of the group and parent in order to evidence the parent's ability to provide this support to the company. This therefore presents a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

#### Directors liabilities

The company has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force during the financial year and also as at the date of approving the directors report.

On behalf of the board



Mr R B Grochowski

Director

Date: 4 May 2021

**PARADIGM PRECISION BURNLEY LTD**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 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.

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.

On behalf of the board



Mr R B Grochowski  
Director

Date: 4 May 2021

# PARADIGM PRECISION BURNLEY LTD

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF PARADIGM PRECISION BURNLEY LTD

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## Report on the audit of the financial statements

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### Opinion

In our opinion, Paradigm Precision Burnley Ltd's financial statements:

give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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

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### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. Management's forecast cash flows are prepared on the basis that the parent entity Dynamic Precision Group, Inc has provided a letter of support demonstrating its intent to continue to support the company and not demand repayment of intercompany loans with the company for a period of 12 months from the date of the signed financial statements. In addition, if Dynamic Precision Group, Inc demanded repayment of these loans, the entity would not have sufficient funds to settle this liability. The Directors have not been provided with the forecast cash flows of the group and parent in order to evidence the parent's ability to provide this support to the company. This therefore presents a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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## **PARADIGM PRECISION BURNLEY LTD**

### **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

#### **TO THE MEMBERS OF PARADIGM PRECISION BURNLEY LTD**

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#### **Reporting on other information (continued)**

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

##### *Strategic Report and Directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

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#### **Responsibilities for the financial statements and the audit**

##### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

##### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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**PARADIGM PRECISION BURNLEY LTD**  
**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**  
**TO THE MEMBERS OF PARADIGM PRECISION BURNLEY LTD**

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**Other required reporting**

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**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Robert Halfpenny (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
5 May 2021

## PARADIGM PRECISION BURNLEY LTD

### STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

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	Note	2019 £000	2018 £000
Turnover	3	34,628	31,295
Cost of sales		(22,740)	(22,329)
<b>Gross profit</b>		<b>11,888</b>	<b>8,966</b>
Administrative expenses		(11,149)	(11,959)
<b>Operating profit/(loss)</b>	4	<b>739</b>	<b>(2,993)</b>
Interest payable and similar expenses	8	(289)	(14)
<b>Profit/(loss) before taxation</b>		<b>450</b>	<b>(3,007)</b>
Tax on profit/(loss)	9	(1,318)	134
<b>Loss for the financial year</b>		<b>(868)</b>	<b>(2,873)</b>
<b>Other comprehensive income/(expense)</b>			
Changes in value of hedging instruments	15	1,688	(2,020)
Movement on deferred tax on hedging	9	(413)	343
<b>Total comprehensive income/(expense) for the year</b>		<b>407</b>	<b>(4,550)</b>

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The Statement of comprehensive income has been prepared on the basis that all operations are continuing

The notes on pages 15 to 34 form part of these financial statements

# PARADIGM PRECISION BURNLEY LTD

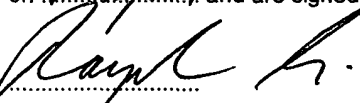
## BALANCE SHEET

AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
<b>Fixed assets</b>			
Intangible assets	10	-	5
Tangible assets	11	3,642	3,819
		<u>3,642</u>	<u>3,824</u>
<b>Current assets</b>			
Stocks	12	8,810	7,852
Debtors: amounts falling due after more than one year	13	-	1,731
Debtors: amounts falling due within one year	13	6,816	7,723
Cash at bank and in hand		185	1,001
		<u>15,811</u>	<u>18,307</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(10,289)</u>	<u>(12,240)</u>
<b>Net current assets</b>		<u>5,522</u>	<u>6,067</u>
<b>Total assets less current liabilities</b>		<u>9,164</u>	<u>9,891</u>
<b>Provisions for liabilities</b>	16	<u>(1,210)</u>	<u>(2,344)</u>
<b>Net assets</b>		<u>7,954</u>	<u>7,547</u>
<b>Capital and reserves</b>			
Called up share capital	20	654	654
Share premium account		6,652	6,652
Cash flow hedge reserve		(742)	(2,017)
Other reserves		70	70
Retained earnings		1,320	2,188
<b>Total equity</b>		<u>7,954</u>	<u>7,547</u>

The notes on pages 15 to 34 form part of these financial statements.

The financial statements on pages 11 to 34 were approved by the board of directors and authorised for issue on 4 May 2021 and are signed on its behalf by:



Mr R B Grochowski  
Director

Company Registration No. 5137829

**PARADIGM PRECISION BURNLEY LTD**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £000	Share premium account £000	Cash flow hedge reserve £000	Other reserves £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2018</b>	654	6,652	(340)	89	5,061	12,116
<b>Year ended 31 December 2018:</b>						
Loss for the year	-	-	-	-	(2,873)	(2,873)
Other comprehensive income:						
Changes in value of hedging instrument	-	-	(2,020)	-	-	(2,020)
Tax relating to other comprehensive income	-	-	343	-	-	343
Total comprehensive income for the year	-	-	(1,677)	-	(2,873)	(4,550)
Share based payment transactions	-	-	-	(19)	-	(19)
<b>Balance at 31 December 2018</b>	654	6,652	(2,017)	70	2,188	7,547
<b>Year ended 31 December 2019:</b>						
Loss for the year	-	-	-	-	(868)	(868)
Other comprehensive income:						
Changes in value of hedging instrument	-	-	1,688	-	-	1,688
Movement on deferred tax on hedging instrument	-	-	(413)	-	-	(413)
Total comprehensive income for the year	-	-	1,275	-	(868)	407
<b>Balance at 31 December 2019</b>	654	6,652	(742)	70	1,320	7,954

The notes on pages 15 to 34 form part of the financial statements.

# PARADIGM PRECISION BURNLEY LTD

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

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		2019		2018	
	Note	£000	£000	£000	£000
<b>Cash flows from operating activities</b>					
Cash generated from operations	25		48		214
Interest paid			(289)		(14)
Income taxes refunded			105		45
			<u>          </u>		<u>          </u>
<b>Net cash (outflow)/inflow from operating activities</b>			(136)		245
<b>Investing activities</b>					
Purchase of intangible assets		-		(5)	
Purchase of tangible fixed assets		(686)		(355)	
Proceeds on disposal of tangible fixed assets		6		5	
		<u>          </u>		<u>          </u>	
<b>Net cash used in investing activities</b>			(680)		(355)
			<u>          </u>		<u>          </u>
<b>Net decrease in cash and cash equivalents</b>	26		(816)		(110)
Cash and cash equivalents at beginning of year			1,001		1,111
			<u>          </u>		<u>          </u>
<b>Cash and cash equivalents at end of year</b>			185		1,001
			<u>          </u>		<u>          </u>

The notes on pages 15 to 34 form part of these financial statements.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

#### Company information

Paradigm Precision Burnley Ltd is a private company limited by shares incorporated in England and Wales. The registered office is 1 Bentley Wood Way, Network 65 Business Park, Hapton, Burnley, BB11 5TG.

#### 1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

#### 1.2 Going concern

Forward looking cashflows have been prepared & reviewed. These have been based on both a realistic outlook for 2021 and also a severe but plausible downside case, which was based on the 2020 Quarter 2 performance following the COVID-19 outbreak. These cash flows are prepared on the basis that the entity is not required to repay the intercompany payable to its parent company, Dynamic Precision Group, Inc that is repayable on demand and that the parent company continues to provide support. If Dynamic Precision Group, Inc demanded repayment, the entity would not have sufficient funds to settle this liability. The directors have therefore obtained a letter of support from Dynamic Precision Group, Inc indicating the parent entity's intent to continue to support the company and not demand repayment for a period of 12 months from the date of the signed financial statements. However the Directors have not been provided with the forecast cash flows of the group and parent in order to evidence the parent's ability to provide this support to the company. This therefore presents a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

#### 1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of turnover can be measured reliably and (d) it is probable that future economic benefits will flow to the entity. This is usually on despatch of the goods to the customer, with the exception of services (Repairs). The revenue on services is recognised in the period in which the service is completed.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

---

### 1 Accounting policies

#### 1.4 Intangible assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	20% - 33.3% straight line
----------	---------------------------

#### 1.5 Tangible assets

Tangible assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following basis:

Leasehold land and buildings	2% straight line
Plant and equipment	10-25% straight line
Motor vehicles	33.33% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

#### 1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

#### 1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Stocks are recognised as an expense in the period in which the related turnover is recognised.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

#### 1.8 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.9 Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### *Basic financial assets*

Basic financial assets, including trade debtors, amounts owed by group undertakings and cash at bank and in hand balances are initially recognised at transaction price.

##### *Impairment of financial assets*

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

##### *Derecognition of financial assets*

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another part of (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### *Basic financial liabilities*

Basic financial liabilities, including trade and other creditors, amounts owed to group undertakings and other taxation and social security are classed as debt and are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market value.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

##### **Offsetting**

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

##### **Hedging arrangements**

The company applies hedge accounting for transactions entered into to manage its cash flow exposures of exchange rate movements. Forward foreign exchange contracts are held to manage foreign current exposure.

Changes in the fair values of derivative designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness of the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

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

##### **Derecognition of financial liabilities**

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### 1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

#### 1.11 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets and liabilities are not discounted.

##### **Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the current or prior year. Tax is calculated on the basis of tax rates and laws that have not been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

#### **Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. *Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.*

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

#### 1.12 Provisions

##### (i) 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 of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

##### (ii) Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

#### 1.13 Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and a defined contribution pension scheme.

##### (i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

##### (ii) Defined contribution pension scheme

The company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension scheme under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the scheme are held separately from the company in independently administered funds.

#### 1.14 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

#### 1.15 Share-based payments

##### 2011 Equity Incentive Plan

Share options over the shares of Dynamic Precision Group, Inc., the ultimate parent undertaking, are granted to selected executives, directors, officers and other key employees of the company. The fair value of options granted are recognised as an expense in the statement of comprehensive income with a corresponding increase in the 'other reserves' as the cost of these options is not recharged to the company by group.

The fair value of options is measured at grant date using the Black-Scholes option pricing model.

Options consist of two types of options:

##### (i) Time options

Time options vest and become exercisable in five equal annual instalments.

##### (ii) Performance options

Performance options vest and become exercisable in five equal annual instalments based on the company's achievement against the established earnings before interest, taxes, depreciation and amortisation and net debt targets, subject to the board of directors' discretion.

The fair value of each performance option is estimated on the date of grant assuming the performance goals will be achieved. If such goals are not met, no compensation cost is recognised and any recognised compensation cost is reversed.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 1 Accounting policies

#### 1.16 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

#### 1.17 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

#### 1.18 Research and development

All expenditure on research incurred in the year is charged to the statement of comprehensive income.

#### 1.19 Share capital

Ordinary shares are classified as equity.

#### 1.20 Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

## PARADIGM PRECISION BURNLEY LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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#### **2 Judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

#### ***Provisions***

The company makes an estimate of the present value of the dilapidation provision which relates to estimated costs to be incurred to return the currently occupied leased premises to a condition equivalent to that prior to occupation. The company assesses the valuation at each reporting date.

The company also has a provision in place for Loss Making Contracts. This provision is based on the estimated losses for particular programmes in which we have agreed a contract price & quantity.

See note 16 for further information on these provisions.

#### ***Stock provisioning***

When calculating the stock provision, management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for further information.

#### ***Fair value measurement of derivatives***

The company estimates fair value using valuation techniques that utilise observable inputs. The determination of what constitutes 'observable' requires significant judgement by the company. The company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. See note 15 for further information.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

<b>3 Turnover</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Turnover analysed by class of business</b>		
Sales of goods	27,137	25,713
Sales of services	7,491	5,582
	<u>34,628</u>	<u>31,295</u>
	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Turnover analysed by geographical market</b>		
United Kingdom	14,374	12,996
Rest of European Union	7,492	7,040
Rest of World	12,762	11,259
	<u>34,628</u>	<u>31,295</u>
<b>4 Operating profit/(loss)</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Operating profit/(loss) for the year is stated after charging/(crediting):		
Foreign exchange losses	540	587
Depreciation of owned tangible fixed assets	831	876
Loss/(profit) on disposal of tangible fixed assets	26	(5)
Management fee	1,685	691
Loss on disposal of intangible assets	5	-
Cost of stocks recognised as an expense	32,585	26,648
Operating lease charges	450	286
	<u></u>	<u></u>
The management fee represents a recharge from Dynamic Precision Group, Inc., the ultimate parent undertaking and controlling party.		
<b>5 Auditors' remuneration</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Fees payable to the company's auditors:		
<b>For audit services</b>		
Audit of the financial statements of the company	71	42
	<u></u>	<u></u>
<b>For other services</b>		
Taxation compliance services	13	10
All other non-audit services	8	8
	<u>21</u>	<u>18</u>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019 Number	2018 Number
Manufacturing	248	265
Engineering	19	20
Sales and administrative	11	12
	<u>278</u>	<u>297</u>

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	9,935	11,248
Social security costs	910	944
Pension costs	763	831
	<u>11,608</u>	<u>13,023</u>

The company recognised a share-based compensation credit of £19,000 for the year ended 31 December 2018 as two of the directors left the scheme in 2018 and their options expired.

### 7 Directors' remuneration

	2019 £000	2018 £000
Remuneration for qualifying services	164	349
Company pension contributions to defined contribution schemes	11	18
Compensation for loss of office	-	272
	<u>175</u>	<u>639</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2018: 3).

During the year no (2018: no) directors exercised share options.

The number of directors who are entitled to receive shares under long term incentive schemes during the year was nil (2018: 3).

**PARADIGM PRECISION BURNLEY LTD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**7 Directors' remuneration**

Remuneration disclosed above include the following amounts paid to the highest paid director:

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Total emoluments and amounts (excluding shares) receivable under long-term incentive schemes	<u>175</u>	<u>401</u>

At 31 December 2018 the highest paid director was paid £187,000 as compensation for loss of office.

The directors consider key management personnel to comprise of only the statutory directors, whose emoluments are included above. Therefore, no further details regarding key management compensation has been disclosed.

**8 Interest payable and similar expenses**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest payable to group undertakings	<u>289</u>	<u>14</u>

The interest payable has increased YoY due to the increase in borrowings from group undertakings.

**9 Tax on profit/(loss)**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
Adjustments in respect of prior periods	<u>-</u>	<u>52</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	1,479	(153)
Effect of changes in tax rates	(150)	16
Adjustment in respect of prior periods	<u>(11)</u>	<u>(49)</u>
Total deferred tax	<u>1,318</u>	<u>(186)</u>
Total tax charge/(credit)	<u>1,318</u>	<u>(134)</u>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 9 Tax on profit/(loss) (continued)

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £000	2018 £000
Profit/(loss) before taxation	450	(3,007)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	86	(571)
Tax effect of expenses that are not deductible in determining taxable profit	123	18
Tax effect of income not taxable in determining taxable profit	-	20
Adjustments in respect of prior years	(11)	3
Effect of change in corporation tax rate	(150)	16
Unprovided deferred tax asset	1,270	380
Taxation charge/(credit) for the year	1,318	(134)

In addition to the amount charged/(credited) to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £000	2018 £000
Movement on deferred tax arising on:		
Changes in value of hedging instrument	413	(343)

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. In the budget in March 2020, the Chancellor announced that the future reduction in the corporate tax rate from 19.0% to 17.0% would not be going ahead. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17.0%. This is deemed a non-adjusting post balance sheet subsequent event. The impact to the measurement deferred tax assets at 19% a has been quantified and is not deemed material to the accounts.

**PARADIGM PRECISION BURNLEY LTD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**10 Intangible fixed assets**

	<b>Software £000</b>
<b>Cost</b>	
At 1 January 2019	652
Disposals	(406)
	<hr/>
At 31 December 2019	246
	<hr/>
<b>Amortisation and impairment</b>	
At 1 January 2019	647
Disposals	(401)
	<hr/>
At 31 December 2019	246
	<hr/>
<b>Carrying amount</b>	
At 31 December 2019	-
	<hr/>
At 31 December 2018	5
	<hr/> <hr/>

**11 Tangible fixed assets**

	<b>Leasehold land and buildings £000</b>	<b>Plant and equipment £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
<b>Cost</b>				
At 1 January 2019	1,659	18,762	59	20,480
Additions	-	684	2	686
Disposals	-	(609)	-	(609)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,659	18,837	61	20,557
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation and impairment</b>				
At 1 January 2019	1,659	14,962	40	16,661
Depreciation charged in the year	-	824	7	831
Disposals	-	(577)	-	(577)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,659	15,209	47	16,915
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>				
At 31 December 2019	-	3,628	14	3,642
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	-	3,800	19	3,819
	<hr/>	<hr/>	<hr/>	<hr/>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 12 Stocks

	2019 £000	2018 £000
Raw materials and consumables	4,256	3,630
Work in progress	4,554	4,213
Finished goods and goods for resale	-	9
	<u>8,810</u>	<u>7,852</u>

There is no material difference between the replacement cost of stocks and their carrying amount.

Stocks are stated after provisions for impairment of £1,376,000 (2018: £1,273,000).

### 13 Debtors

	2019 £000	2018 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	5,623	5,324
Corporation tax recoverable	-	105
Amounts owed by group undertakings	132	710
Other debtors	469	862
Prepayments and accrued income	592	722
	<u>6,816</u>	<u>7,723</u>

Trade debtors are stated after provisions for impairment of £93,000 (2018: £nil).

Amounts owed by group undertakings due within one year are unsecured, interest free and repayable on demand.

	2019 £000	2018 £000
<b>Amounts falling due after more than one year:</b>		
Deferred tax asset (note 17)	-	1,731
	<u>-</u>	<u>1,731</u>
<b>Total debtors</b>	<u>6,816</u>	<u>9,454</u>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Trade creditors	4,437	3,863
Amounts owed to group undertakings	3,655	4,326
Other tax & social security	283	309
Derivative financial instruments	741	2,429
Accruals & deferred income	1,173	1,313
	<u>10,289</u>	<u>12,240</u>

Amounts owed to group undertakings are unsecured and repayable on demand. £2,419,000 (2018: £3,046,000) of amounts owed to group undertakings bear interest at 6%. All other amounts are interest free.

Derivative financial instruments are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The instrument is used to hedge the company's exposure to foreign exchange movements. During the year, a fair value gain of £1,688,000 (2018: loss of £2,020,000) was recognised in other comprehensive income for changes in value of the forward currency contract.

### 15 Financial instruments

	2019	2018
	£000	£000
<b>Financial assets that are debt instruments measured at amortised cost</b>		
Trade debtors	5,623	5,324
Amounts owed by group undertakings	132	710
Cash and bank in hand	185	1,001
	<u>5,940</u>	<u>7,035</u>
<b>Financial liabilities measured at amortised cost</b>		
Trade creditors	4,437	3,863
Amounts owed to group companies	3,655	4,326
	<u>8,092</u>	<u>8,189</u>
<b>Financial liabilities measured at fair value through other comprehensive income</b>		
Derivative financial instruments	<u>741</u>	<u>2,429</u>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 Financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 31 December 2019, the outstanding contracts mature within 12 months (2018: 12, 24 and 36 months) of the year end. The company is committed to buying US\$13,184,990 and pay a fixed sterling amount (2018: US\$28,180,000).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD. The fair value of the forward foreign currency contracts is a liability of £741,000 (2018: £2,429,000).

During the year, a hedging gain of £1,688,000 (2018: loss of £2,020,000) was recognised in other comprehensive income for changes in the fair value of the forward foreign currency contract.

### 16 Provisions for liabilities

	2019 £000	2018 £000
Loss making contract	432	1,741
Dilapidations	603	603
Legal Expense	175	-
	<u>1,210</u>	<u>2,344</u>

	Loss Making Contract £000	Dilapidations £000	Legal Expense £000	Total £000
Movements on provisions:				
As at January 2019	1,741	603	-	2,344
Provision booked	-	-	175	175
Reversal of provision	(1,309)	-	-	(1,309)
At 31 December 2019	<u>432</u>	<u>603</u>	<u>175</u>	<u>1,210</u>

#### Loss making contract

The company has undertaken a review of future costs of a significant program it won in 2015, and as a result has now deemed that the program cannot be produced for the hours that were originally quoted due to unforeseen circumstances in the production process. As such a provision has been recognised. The loss making contracts are expected to be used by 2020. The significant reduction in the year is mainly driven by a reversal of the provision for Support Flanges due to a reduction in the demand for this programme.

#### Dilapidations

In the year ended 31 December 2011, and independent review of both leased properties was undertaken by a firm of chartered surveyors. On their recommendation a dilapidation provision was booked for the remaining life of the leases.

#### Legal expense

The legal expense booked in the year relates to an outstanding employment tribunal claim which was settled in April 2020.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 17 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	<b>Assets 2019 £000</b>	<b>Assets 2018 £000</b>
<b>Balances:</b>		
Fixed asset timing differences	-	1,267
Short term timing differences	-	413
R&D expenditure credit	-	51
	<u>-</u>	<u>1,731</u>
		<b>2019 £000</b>
<b>Movements in the year:</b>		
Asset at 1 January 2019		(1,731)
Charge to profit or loss account		1,318
Charge to other comprehensive income		413
		<u>-</u>
Asset at 31 December 2019		-

The deferred tax asset was written off during the year given there are no taxable income forecasts to suggest the asset would be realised in future years.

A potential deferred tax asset for losses of £5,460,000 (2018: £4,325,000) has not been recognised on the grounds that there is insufficient evidence that the asset will be recoverable. The asset would be recoverable if there are sufficient and suitable taxable profits in the future.

### 18 Retirement benefit schemes

	<b>2019 £000</b>	<b>2018 £000</b>
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	<u>763</u>	<u>831</u>

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

The pension charge in respect of the defined contribution scheme for the year was £763,000 (2018: £831,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 19 Share-based payment transactions

On 7 December 2011, Dynamic Precision Group, Inc. adopted the 2011 Equity Incentive Plan (the "Plan"). As of 31 December 2019, the Plan authorised up to 195,032 shares to be issued to encourage ownership of the Company's common stock through granting of awards to selected executives, directors, officers and other key employees in order to retain key individuals. Options granted under the Plan expire in ten years. The exercise price is determined by the Company's Board of Directors on each grant date. Options consist of two types of options: time options and performance options. Time options vest and become exercisable in five equal annual instalments. Performance options vest and become exercisable in five equal annual instalments based on the Company's achievement against the established EBITDA and net debt targets, subject to the Board of Directors' discretion.

The fair value of each option grant under the performance options was estimated on the date of grant using the same option valuation model used for time options and assumes the performance goals will be achieved. If such goals are not met, no compensation cost is recognised and any recognised compensation cost is reversed. The inputs for expected volatility, expected dividends and risk-free rate used in estimating performance options' fair value are the same as those used in time options.

The following tables summarise information relating to outstanding and exercisable options as of 31 December 2019 and 2018:

	Number of share options		Weighted average exercise price	
	2019 Number	2018 Number	2019 £	2018 £
Outstanding at 1 January 2019	3,120	8,000	65.92	67.83
Expired	(220)	(4,880)	62.87	69.05
Outstanding at 31 December 2019	<u>2,900</u>	<u>3,120</u>	<u>66.15</u>	<u>65.92</u>
Exercisable at 31 December 2019	<u>2,900</u>	<u>3,120</u>	<u>66.15</u>	<u>65.92</u>

The fair value of each share option was estimated at the date of the grant using the Black-Scholes method with following weighted-average assumptions:

	2019	2018
Weighted average share price	66.15	65.92
Weighted average exercise price	13.20	13.20
Expected volatility	33.30	33.30
Expected life	6.50	6.50
Risk free rate	<u>2.00</u>	<u>2.00</u>

# PARADIGM PRECISION BURNLEY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 19 Share-based payment transactions

The fair value of the share options was estimated by management based on historical experience and assumptions they believe to be reasonable. The risk-free interest rate assumption is based on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the expected option life. The expected volatility is an average of the historical volatility of the stock prices of comparable entities whose share prices were publicly available over a period equal to the expected option life. The expected option life is based on the simplified method, which is an average of the contractual term of the option and the weighted average vesting term.

At 31 December 2019, 2,900 (2018: 3,120) options were exercisable. The Company recognised stock-based compensation credit of £Nil (2018: £19,000) for the year ended 31 December 2019.

### 20 Called up share capital

	2019	2018
	£000	£000
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
653,816 ordinary shares of £1 each	654	654

### 21 Financial commitments, guarantees and contingent liabilities

The company has contingent liabilities at 31 December 2019 of £40,000 (2018: £40,000) in respect of bank guarantees. The directors have no reason to believe that any cash outflows will occur as no defaults have occurred nor are expected.

### 22 Operating lease commitments

#### Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£000	£000
Within one year	499	423
Between two and five years	1,485	1,810
In over five years	1,993	2,375
	<u>3,977</u>	<u>4,608</u>

### 23 Capital commitments

At 31 December, the company had the following capital commitments:

	2019	2018
	£000	£000
Acquisition of tangible fixed assets	266	198

## PARADIGM PRECISION BURNLEY LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

#### 24 Ultimate controlling party

The immediate parent undertaking is Paradigm Burnley Holdings Limited, a company incorporated in the United Kingdom. The ultimate parent undertaking and controlling party is Dynamic Precision Group, Inc., a company incorporated in the United States of America and owned by a consortium, comprising of controlled affiliates of, or funds managed by, The Carlyle Group.

The smallest and largest group in which the results of the company are consolidated is Dynamic Precision Group, Inc.

#### 25 Cash generated from operations

	2019 £000	2018 £000
Loss for the year after tax	(868)	(2,873)
<b>Adjustments for:</b>		
Taxation charged/(credited)	1,318	(134)
Finance costs	289	14
Loss/(gain) on disposal of tangible fixed assets	26	(5)
Loss on disposal of intangible assets	5	-
Depreciation and impairment of tangible fixed assets	831	876
Equity settled share based payment expense	-	(19)
Decrease in provisions	(1,134)	(70)
<b>Movements in working capital:</b>		
(Increase)/decrease in stocks	(958)	51
Decrease in debtors	2,533	5,048
Decrease in creditors	(1,994)	(2,674)
<b>Cash generated from operations</b>	<u>48</u>	<u>214</u>

#### 26 Analysis of changes in net funds

	1 January 2019 £000	Cash flows £000	Market value movements £000	31 December 2019 £000
Cash at bank and in hand	1,001	(816)	-	185
Derivatives relating to debt	-	1,688	(1,688)	-
	<u>1,001</u>	<u>872</u>	<u>(1,688)</u>	<u>185</u>