

Thompson Aero Seating Limited
Annual report and financial statements

31 December 2021

Registered number NI032654

COMPANIES HOUSE
30 SEP 2022
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Company information

Directors

Z Lin
J Guo
N Taggart

Independent Auditors

PricewaterhouseCoopers LLP
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Bank

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Solicitors

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Elliot Duffy Garrett
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Registered Office

51 Seagoe Industrial Estate
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Strategic report

Results

The Company's results for the year ending 31 December 2021 and 31 December 2020 are summarised below:

	Year ended 31 Dec 2021	Year ended 31 Dec 2020
	£m	£m
Revenue	55	132
Management EBITDA ¹	(4)	(43)
Operating loss	(7)	(50)
Firm orderbook	382	324

¹ (Loss) for the year before amortisation and impairment of intangible assets, depreciation and impairment of tangible assets, finance costs, taxation expense and non-operating items (defined as items that are relevant to an understanding of the Company's performance). Refer to note 4 for further details.

Principal activities

The principal activity of Thompson Aero Seating Limited is the design and manufacture of premium business-class and first-class aircraft seats.

The Company is a leading supplier of aircraft seats for the commercial airline industry, and the Company's capabilities extend to a number of related design, test, certification, repair and distribution services.

Business review and key performance indicators

The Company's loss for the year ended 31 December 2021 was £25m (year ended 31 December 2020: £61m loss).

The Company's key performance indicators are revenue, management EBITDA, operating profit and order book and these are disclosed in the results section above.

The Company has continued to adapt to the impacts of the COVID-19 pandemic which have had a significant impact since March 2020. While revenues fell from £132m to £55m, due primarily to continuing deferrals of some orders by customers, the Company achieved a significant improvement in management EBITDA of £39m. This was achieved through careful cost control including in a further reduction in the Company's headcount. A reconciliation to the loss for the year is set out in note 4 to the financial statements.

Whilst the Company was still impacted by the pandemic's effect on the commercial aerospace industry, a number of key orders were won resulting in a net increase in firm orderbook of £58m, representing newly-awarded programmes by airline customers. The Company also invested in research and development activities to maintain its position as an innovative leader in its chosen markets.

The Company's aggressive transformation programme, 'Project Phoenix', continued during the year. This was designed to ensure that the business was able to react swiftly to the changing industry and economic environment. This transformation programme continued to progress successfully and is helping to position the Company into the future; one key example programme was the introduction of an integrated business planning process to ensure that the Company's strong recent delivery process is maintained.

During the year the Company further strengthened its partnership with Invest Northern Ireland, continuing to focus on working together to build operational excellence, research & development capability and skills development. The Company is already seeing significant progress in the Company's strategic position and competencies and this will develop going forward. The Company also benefited from government assistance from the U.K. Government under the Coronavirus Job Retention Scheme as a result of the COVID-19 pandemic – details of this support are included in note 4.

Strategic report (continued)

Section 172 (1) statement

Section 172 of the Companies Act 2006 ('s.172') requires the directors to promote the success of the Company for the benefit of the members and in doing so have regard to the interests of stakeholders including customers, employees, suppliers, and the wider community in which it operates. The directors are focused on their responsibilities under s.172, and the impact of the business on key stakeholder groups is considered on a regular basis. The directors believe that by having regard to the following key matters, amongst others, that these are most likely to promote the success of the Company for the benefit of its members as a whole:

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

As referenced in the business review, the Company is continuing with its transformation program. During these phases of transformation, the Company has included key stakeholders at each stage.

Shareholders

The Company continues to have a strong working relationship with its shareholders with transparent lines of communication and support. The directors spend a considerable amount of time engaging with our shareholders to understand their interests and any concerns they may have. The directors continue to engage with our shareholders when decisions are to be made that will materially impact the Company. Several notable shareholder engagements have resulted in the following:

- The shareholders continued to support the Company through its transformation processes undertaken in 2021, including additional activities directly as a result of the impact of the COVID-19 pandemic. This is critical for the long-term growth and success of the Company.
- One specific improvement initiative which was supported by the shareholders was the investment in the development of a comprehensive integrated business planning process. This has had a positive impact on balancing all aspects of demand and supply to ensure that the Company is able to meet its obligations to customers. The Company continued to invest in its facilities to improve the employee and customer experience and to drive further production efficiencies.
- It is the shareholders' aim to have an integrated product offering for aircraft cabin interiors, and the Company is an integral part in this objective. The Company is excited to be part of this journey and this long-term vision will be beneficial to all stakeholders of the Company.
- The above demonstrates the long-term commitment of our shareholders and places the Company in a good position for future well supported growth.

Customers

The Company has continued its close working relationships with its customers and is encouraged that we are still our customers' first choice when it comes to premium business-class and first-class aircraft seats. This is further evidenced through the geographical location of our customers and represents all the hard work from our employees to design and build these high-quality products. Our new seating range, VantageSOLO, was launched by JetBlue on its new A321 aircraft during the year and has been well received by passengers. The long-term impact of this new product means that the Company is in a good position to meet our customers changing product offering as we see the airlines move to retire their wide body aircraft and focus on extended range single aisle aircraft.

Employees

The directors have referenced their commitment to their employees in the Directors' Report. The directors confirm that they have engaged employees and taken account of their interests – this was of significant importance as the Company continued through its continued transformation in 2021.

In 2021 there were several specific employee initiatives introduced with the aim of placing the needs of the employees in the forefront:

- The Company continued with its staff consultative forum as well as with its recognised trade union during 2021. These communications provided the management team and employees a platform to encourage transparency, support and ongoing improvements in relation to employee views. Each meeting has minutes produced and where applicable, relevant actions are assigned to the management team. This level of accountability and transparency has continued to be well received by employees as the Company continues with its transformation processes.

Strategic report (continued)

- As a Company focused on the health, safety and wellbeing of its employees, in 2021 the Company continued with its "Vision zero" initiative to drive an excellent health and safety culture throughout the Company.

Environmental impact

The Company is committed to minimising its impact on the environment and working in partnership with our stakeholders. An example of how the Company is actioning this commitment is through our work to obtain ISO 14001 certification which was achieved in 2021. The Company hopes by obtaining this certification it can show to its stakeholders and the local community in which it operates that it is focusing on our reputation as a Company with high standards of business conduct.

Principal risks and uncertainties

Commercial relationships:

The Company has developed close working relationships with all its customers and will continue to do so. Damage to, or loss of, the relationship with key customers could have a detrimental effect upon the financial performance of the Company. In order to manage this risk, the Company is continuing to maintain on-time delivery performance and focus on its transformation plan to ensure sustainable performance. Members of the Company's management meet regularly with individual management from key customers and the aircraft original equipment manufacturers (OEMs) to keep them abreast of such plans and the progress against the corresponding targets.

Air travel:

The Company is ultimately dependent on the changes in global air travel passenger numbers, which in turn drives demand for new aircraft. International passenger air miles grew in 2018 and 2019 and prior to the COVID-19 pandemic were expected to continue to rise. Whilst historically the industry has been very resilient to crisis, driving a fleet growth doubling every 15 years, it is still expected that the market will remain significantly impacted in the short to medium term by the pandemic and resulting changes in air travel.

Material cost risk:

The Company purchases materials required to manufacture their products and these are subject to price fluctuations. The Company saw significant price pressure during the year due to wider economic factors, and this has continued into 2022. The Company aims to offset any such risks through product pricing strategy and efficiency improvements, including component cost reduction initiatives.

Sales price risk:

Management believes that the price risk is limited to foreign exchange fluctuations, because all selling prices are set at the start of the contract. As part of the Company's sales are recorded in US Dollars and Euros, there is an element of foreign currency risk relating to the element of these transactions that are not hedged through the currency policy referred to in currency risk in the Directors' Report. Profitability at the portfolio level is being addressed through ongoing transformation initiatives.

Manufacturing capacity:

In common with many manufacturing organisations, one of the principal risks facing the Company is the matching of available manufacturing capacity to forecasts and projections of order intake (load and capacity balance). The Company is working across all areas of the business to implement an integrated business planning process to provide a stable platform for future growth.

Information technology:

The Company has invested in further upgrades to its production facilities to ensure that they remain efficient and technologically advanced. The Company continues to invest in IT systems and IT security to ensure that it is as well protected from IT viruses and downtime as possible.

Cyber risk:

Vulnerability to data compromise is reviewed periodically by internal specialists in order to manage cyber-security and similar risks.

Product development:

The Company invests significant resources in the continued development of new products, including rigorous evaluation of new materials and processes, modelling and development testing to retain a differentiated offering to the market. The Company's new product introduction ('NPI') process continues to be developed and is indicating positive results in terms of customer satisfaction, full life-cycle management and profitability at the programme level via strong industrialisation.

Environmental:

The Company is focused on improving our environmental impact at all sites and the potential impact of materials used in production through to delivery to the customer, as well as the impact of its products in the wider global environment. Management are aware of their responsibilities in this regard and are committed to adopting proactive environmental practices at all Company locations. These include monitoring of power, cardboard and composite waste and implementing processes to reduce waste and carbon footprint.

Health and safety updates are provided at monthly management meetings. There were no major incidents reported during the year.

Strategic report *(continued)*

Position of the Company at the year end

The net liabilities of the Company at the balance sheet date are £183m (2020: net liabilities of £157m).

On behalf of the Board



N Taggart
Director

Date: 30 June 2022

Directors' report

The directors present their report and audited financial statements of the Company for the year ended 31 December 2021.

Thompson Aero Seating Limited is a private Company limited by shares incorporated and domiciled in the United Kingdom. The Company's registered office is detailed on page 3.

Future developments

The Company continued to achieve contractual on-dock dates for all its deliveries in 2021, allowing it to ship products via economic means such as sea freight whilst continuing to avoid late delivery penalty claims. As a result, 2022 is expected to be a further improved year operationally as the Company continues its transformation plan.

During early 2022, the Company has continued to recover from the effects of the COVID-19 pandemic, which has driven an increase in revenue compared to the same period in 2021. There have however been significant inflationary pressures on costs and difficulties as a result of global supply chain shortages. The Company expects the effects of COVID-19 to continue to impact the global aerospace industry throughout most of 2022.

As a result of the Company adjusting its capacity across the business to meet the expected demand, this leaner organisation is allowing the business to trade successfully in the new commercial environment. The Company has continued to focus on product development to address the changing market as well as leveraging already-developed products to adjust to the expected demand for smaller aircraft that achieve higher range due to fuel efficiency improvements. The continued impact of COVID-19 is expected to further delay the Company's return to operational profitability to late 2022, as management continue to drive efficiency and cost reduction measures across the enterprise.

Dividends

No dividends were paid during the year ended 31 December 2021 and none are proposed (year ended 31 December 2020: no dividends were paid or proposed).

Research and development

The Company pursues a continuing programme of research and development to maintain its position amongst the market leaders in the design and manufacture of interior equipment for the aerospace and related industries. The Company claims tax relief in respect of qualifying research and development expenditure.

Directors

The directors who have served during the year and up to the date of signing the financial statements unless otherwise stated were:

Z Lin
J Guo
N Taggart

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Financial risks and treasury management

Interest rate risk:

The Company finances its operations through loans from group undertakings. The Company does not currently hedge variable rate interest expense on its bank borrowings.

Currency risk:

The Company is aware of potential effects of currency rate fluctuations and actively manages its exposure as necessary.

Liquidity risk:

The Company's policy is to ensure that it has committed borrowing facilities in place, in excess of its peak forecast borrowings and cash flow projections. The Company's cash flows are dependent on the cash profile of its contracts. The Company's balance sheet continues to be managed conservatively and the Company monitors a rolling cash forecast to ensure there is sufficient cash to meet its operational requirements.

Directors' report (continued)

Credit risk:

Credit risk arises on financial instruments such as trade debtors and short-term bank deposits. Policies and procedures exist to ensure that customers have an appropriate credit history, or that credit risk is reduced to an acceptable level.

Employees

The Company is an equal opportunities employer and recognises its obligations towards disabled persons and applications from them for employment are given full and fair consideration. Training and career progression are available for all members of staff. Whenever possible every endeavour is made to assist existing employees who have become disabled to continue their employment.

Communications with employees take place through a variety of channels including newsletters, site management briefings, all-hands briefings, employee satisfaction surveys and regular management shop floor walks. The employee briefing meetings also provide an opportunity to share the performance of the business including an update on the latest market conditions.

The Company consults employees on a regular basis so that the views of the employees can be taken into account when making decisions that are likely to affect their interests.

The Company encourages the involvement of employees in the Company's performance and aims to ensure that all employees are aware of the financial and economic factors that affect the performance of the Company.

Health and safety

It is the objective of the Company to ensure the health and safety of its employees and of any other persons who could be affected by its operations. It is the Company's policy to provide working environments which are safe and without risk to health and to provide information, instruction, training and supervision to ensure the health and safety of its employees. The Company is focussing on improving employee wellbeing with various initiatives such as stop smoking programmes and providing affordable on-site eating options for staff.

Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. For this reason, the directors continue to adopt the going concern basis in preparing these financial statements.

In making an assessment as to whether the going concern principle should be adopted, the directors have considered the period starting with the date these financial statements were approved by the Board and ending on 31 December 2023.

The impact of COVID-19, which started to have an impact on the Company's operations in March 2020, has continued to affect the Company's employees, customers and suppliers. Whilst Company revenue has been significantly lower than pre COVID-19 levels, results and cash flow have improved. The Company does not have any external credit facilities and has continued to be supported by its shareholders. During 2021 the Company received support totalling £22.5m to provide additional liquidity. Since the year ending 31 December 2021, an additional £9m was provided to further support the Company's operations.

A forecast model has been prepared to assess the most likely impact on the Company's revenue, profit or loss and cash flow out to 2026, taking into account cost saving and other efficiency measures implemented or planned. The output from this model covering the period to 31 December 2023 has been used to assess whether the going concern principle should continue to be adopted. The model has been subject to stress testing to understand plausible downside scenarios.

The base case and downside risk models indicate that some further shareholder support is required to meet minimum liquidity requirements. This information has been shared with the Company's ultimate parent undertaking, AVIC Cabin Systems Co. Limited, which has indicated that bank facilities are in place to provide further financial support for the base case or downside scenarios, that funds will be available as required and that existing loans would not need to be repaid within 12 months of the date these financial statements were approved. This support however is not legally binding and accordingly, there can be no certainty that the funds required by the Company or Group will in fact be made available when required.

Based on these indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

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 101 "Reduced Disclosure Framework", 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 101, 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 (refer to note 1).

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.

Statement of disclosure of information to auditors

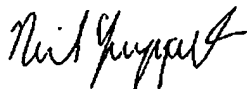
In the case of each of the persons who are directors at the time when the report is approved:

- (a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting.

On behalf of the Board



N Taggart
Director

Date: 30 June 2022

Independent auditors' report to the members of Thompson Aero Seating Limited

Report on the audit of the financial statements

Opinion

In our opinion, Thompson Aero Seating Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 2021; the Income statement, the Statement of comprehensive income and 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.

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.

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. The impact of COVID-19 has affected the company's customers, employees and suppliers. The company has prepared a forecast model to assess the most likely impact on the company's revenue, profit or loss and cash flow. The base case and downside risk model scenarios indicate that further shareholder support is required to meet minimum liquidity requirements. The Company's ultimate parent undertaking, AVIC Cabin Systems Co. Limited, has indicated that bank facilities are in place to provide further financial support for the base case or downside scenarios, that funds will be available as required and that existing loans will not need to be repaid within 12 months of the date these financial statements were approved. This support however is not legally binding and accordingly there can be no certainty that the funds required by the Company or Group will in fact be made available when required.

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 were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

Independent auditors' report to the members of Thompson Aero Seating Limited (Continued)

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to failure to comply with UK tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates or significant judgements.

Independent auditors' report to the members of Thompson Aero Seating Limited (Continued)

Auditors' responsibilities for the audit of the financial statements (continued)

Audit procedures performed by the engagement team included:

- discussions with management in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- detailed testing on specific areas that include significant management judgement and assumptions including late delivery provision, warranty provision and inventory provision;
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by unexpected users; and
- review of minutes from board meetings.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. 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.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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.



Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

3 August 2022

Income statement
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	3	54,893	132,240
Operating costs	4	(62,253)	(182,602)
Operating loss		(7,360)	(50,362)
Finance income	5	41	583
Finance expenses	6	(9,000)	(7,223)
Loss before tax		(16,319)	(57,002)
Tax charge	8	(9,162)	(4,258)
Loss for the financial year		(25,481)	(61,260)

Statement of comprehensive income
for the year ended 31 December 2021

	2021 £'000	2020 £'000
Loss for the financial year	(25,481)	(61,260)
Total other comprehensive income for the year (net of tax)	-	-
Total comprehensive loss for the year	(25,481)	(61,260)

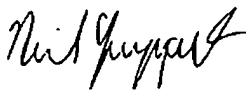
The notes on pages 17 to 37 form part of the financial statements.

The results for 2021 and 2020 arise from continuing activities.

Balance sheet
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Intangible assets	9	2,082	1,459
Property, plant and equipment	10	11,545	12,649
Deferred tax assets	18	15,897	23,596
Right of use assets	12	1,671	67
		31,195	37,771
Current assets			
Inventories	13	41,641	38,434
Assets held for sale	11	216	-
Trade and other receivables	14	29,097	29,184
Corporation tax recoverable		1,293	1,703
Cash and cash equivalents	15	6,373	9,025
		78,620	78,346
Total assets		109,815	116,117
Non-current liabilities			
Lease liabilities	12	(1,240)	-
Provisions	17	(3,765)	(6,456)
		(5,005)	(6,456)
Current liabilities			
Trade and other payables	19	(52,984)	(63,998)
Lease liabilities	12	(431)	(69)
Borrowings	16	(234,010)	(202,661)
Provisions	17	(92)	(159)
		(287,517)	(266,887)
Total liabilities		(292,522)	(273,343)
Net liabilities		(182,707)	(157,226)
Capital and reserves			
Issued share capital	20	442	442
Other reserves	21	501	501
Accumulated losses		(183,650)	(158,169)
Total equity		(182,707)	(157,226)

The financial statements on pages 14 to 37 were approved by the Board of Directors on 30 June 2022 and signed on its behalf by.



N Taggart
Director

Registered number: NI032654

Thompson Aero Seating Limited
Annual report and financial statements
31 December 2021

Statement of changes in equity
for the year ended 31 December 2021

	Issued share capital	Share premium account	Accumulated Losses	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2020	442	501	(96,909)	(95,966)
Loss for the year and total comprehensive loss for the year	-	-	(61,260)	(61,260)
At 31 December 2020	442	501	(158,169)	(157,226)
Loss for the year and total comprehensive loss for the year	-	-	(25,481)	(25,481)
At 31 December 2021	442	501	(183,650)	(182,707)

The notes on pages 17 to 37 form part of the financial statements.

Notes to the financial statements

1 Summary of significant accounting policies

The Company is a private limited Company limited by shares which is incorporated and domiciled in the UK. The address of the registered office and its principal place of business is 51 Seagoe Industrial Estate, Portadown, Craigavon, County Armagh. BT63 5QE.

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

Basis of preparation

These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' and the Companies Act 2006. The financial statements have been prepared under the historical cost convention, except in the cases specifically mentioned in these notes. The financial statements are also prepared on the going concern basis.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 2.

As permitted by FRS 101, the Company has taken advantage of the following exemptions from the requirements of IFRS in preparing these financial statements:

- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- IAS 7, 'Statement of cash flows';
- IFRS 7, 'Financial instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation); and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. For this reason, the directors continue to adopt the going concern basis in preparing these financial statements.

In making an assessment as to whether the going concern principle should be adopted, the directors have considered the period starting with the date these financial statements were approved by the Board and ending on 31 December 2023.

The impact of COVID-19, which started to have an impact on the Company's operations in March 2020, has continued to affect the Company's employees, customers and suppliers. Whilst Company revenue has been significantly lower than pre COVID-19 levels, results and cash flow have improved. The Company does not have any external credit facilities and has continued to be supported by its shareholders. During 2021 the Company received support totalling £22.5m to provide additional liquidity. Since the year ending 31 December 2021, an additional £9m was provided to further support the Company's operations.

A forecast model has been prepared to assess the most likely impact on the Company's revenue, profit or loss and cash flow out to 2026, taking into account cost saving and other efficiency measures implemented or planned. The output from this model covering the period to 31 December 2023 has been used to assess whether the going concern principle should continue to be adopted. The model has been subject to stress testing to understand plausible downside scenarios.

The base case and downside risk models indicate that some further shareholder support is required to meet minimum liquidity requirements. This information has been shared with the Company's ultimate parent undertaking, AVIC Cabin Systems Co. Limited, which has indicated that bank facilities are in place to provide further financial support for the base case or downside scenarios, that funds will be available as required and that existing loans would not need to be repaid within 12 months of the date these financial statements were approved. This support however is not legally binding and accordingly, there can be no certainty that the funds required by the Company or Group will in fact be made available when required.

Based on these indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern.

Notes to the financial statements (continued)

1 Summary of significant accounting policies (continued)

Foreign currency translation

Functional currency and presentation

The financial statements are presented in Pounds Sterling and, unless stated otherwise, rounded to the nearest one thousand.

Transactions and balances

Transactions in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

Revenue from contracts with customers

The standard requires the identification of performance obligations in contracts with customers and allocation of the total contractual value to each of the performance obligations identified. Revenue is recognised as each performance obligation is satisfied either at a point in time or over time.

Performance obligations

Each contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of each contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are estimated based on expected costs plus contract margin consistent with the Company's pricing principles.

Revenue and profit recognition

The Company has two material revenue streams, seat sales (production) and design and engineering sales. The Company's performance obligations and revenue recognition policy for each revenue stream is noted below.

Production revenue

Production revenue represents the sale of seats to a customer and is a single performance obligation, revenue is recognised when control of the goods is transferred to the customer at a point in time.

Design and engineering

Design and engineering revenue is treated as a separate performance obligation as the customer can benefit from this separately. The Company has determined that the non-recurring design element of a contract usually satisfies the overtime criteria, either because the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs or the Company's performance does not create an asset with an alternative use to the Company and it has an enforceable right to payment for performance completed to date.

For the sale of services

For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks.

Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Company has determined that this method faithfully represents the Company's performance in transferring control of the goods and services to the customer.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense with a corresponding provision in inventory.

Notes to the financial statements (*continued*)

1 Summary of significant accounting policies (*continued*)

Financial Instruments

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

For trade and other receivables and contract receivables the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. 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 ownership of the asset are transferred to another party.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies, are initially recognised at transaction price and subsequently at amortised cost. Financial liabilities are derecognised when the liability is extinguished; that is when the contractual obligation is discharged, cancelled or expires.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in the profit or loss in finance costs or finance income as appropriate. The Company does not apply hedge accounting in respect of forward foreign exchange contracts or transactions entered into to manage the foreign exchange exposures of cash flows.

Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

The fair values of forward exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates. Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Company would expect to realise in the current market environment.

Leases

Definition

A lease is a contract, or a part of a contract, that conveys the right to use an asset or a physically distinct part of an asset ("the underlying asset") for a period of time in exchange for consideration. Further, the contract must convey the right to the Company to control the asset or a physically distinct portion thereof. A contract is deemed to convey the right to control the underlying asset if, throughout the period of use, the Company has the right to:

- Obtain substantially all the economic benefits from the use of the underlying asset, and;
- Direct the use of the underlying asset (e.g. direct how and for what purpose the asset is used)

Notes to the financial statements (continued)

1 Summary of significant accounting policies (continued)

Leases (continued)

The Company predominantly engages in leases for land and buildings, specifically for use in manufacturing and administration offices.

Initial recognition and measurement

The Company initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Company's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs.

Subsequent measurement

After the commencement date, the Company measures the lease liability by:

- a) Increasing the carrying amount to reflect interest on the lease liability;
- b) Reducing the carrying amount to reflect the lease payments made; and
- c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in finance cost in the income statement, unless the costs are included in the carrying amount of another asset applying other applicable standards. Variable lease payments not included in the measurement of the lease liability, are included in operating expenses in the period in which the event or condition that triggers them arises. The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above. Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

Lease modifications

If a lease is modified, the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, the lease modification will result in either a separate lease or a change in the accounting for the existing lease.

The modification is accounted for as a separate lease if both:

- a) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If both of these conditions are met, the lease modification results in two separate leases, the unmodified original lease and a separate lease. The Company then accounts for these in line with the accounting policy for new leases. If either of the conditions are not met, the modified lease is not accounted for as a separate lease and the consideration is allocated to the contract and the lease liability is re-measured using the lease term of the modified lease and the discount rate as determined at the effective date of the modification.

For a modification that fully or partially decreases the scope of the lease (e.g., reduces the square footage of leased space), IFRS 16 requires a lessee to decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognised in profit or loss at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, IFRS 16 requires the lessee to recognise the amount of the re-measurement of the lease liability as an adjustment to the corresponding right-of use asset without affecting profit or loss.

Notes to the financial statements (continued)

1 Summary of significant accounting policies (continued)

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 has been reliably estimated.

Property, plant and equipment

Items of property, plant and equipment are stated at original cost, less accumulated depreciation. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment in value is charged as applicable to the income statement.

Depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives as follows:

Freehold buildings	50 years straight line
Leasehold land and buildings	Amortised over term of lease
Plant and machinery	Between 6 and 7 years straight line
Fixtures and fittings	5 years straight line

Freehold land and buildings and assets under construction are not depreciated.

Assets are classified as held for sale when the following conditions have been met:

- Management is committed to a plan to sell
- The asset is available for immediate use
- The sale is highly probable, within 12 months
- The asset is being actively marketed and an active programme to locate a buyer is initiated

Intangible assets - software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of five years, on a straight-line basis.

Research and development

Costs associated with maintaining seat designs are recognised as an expense when incurred.

Development costs that are directly attributable to new or substantially improved seats are recognised as intangible assets in accordance with IAS 38 'Intangible Assets' when the following criteria are met:

- how the intangible asset will generate probably future economic benefits;
- intention to complete the intangible asset so that it will be available for use or sale;
- availability of adequate technical, financial and other resources to complete the development;
- ability to use or sell the intangible asset;
- technical feasibility of completing the intangible asset so that it will be available for use or sale; and
- ability to reliably measure the expenditure attributable to the intangible asset during its development.

The above accounting policy represents a change from previous years where all research and development costs were expensed. The change in the current year has been adopted as the directors believe the change better reflects the nature of the underlying costs and it is consistent with similar organisations in the aerospace industry. For the year ended 31 December 2020 the amount of development costs expensed was not material and therefore the prior year has not been adjusted.

Amortisation

Research and development costs are amortised over the expected useful life of the programme. This has been determined to be 5 years from the date the R&D engineering design work begins on the first customer order.

Inventories

Inventory and work in progress are valued on a 'first in, first out' basis at the lower of cost and net realisable value. Provision is made for obsolescence and for slow-moving items. The cost of work in progress and finished goods comprises materials, production labour and production overheads appropriate to the state of manufacture. Long-term contract work in progress is stated at total cost incurred net of amounts transferred to the profit and loss account in respect of work carried out to date, less foreseeable losses and applicable payments on account.

Notes to the financial statements *(continued)*

1 Summary of significant accounting policies *(continued)*

Dividends

Dividends proposed are recognised at the point when they are approved by the shareholders.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangements and a defined contribution pension plan.

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.

The Company operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds.

The amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Differences between contributions payable and actually paid are shown as either accruals or prepayments in the balance sheet.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and, call and term deposits.

Taxation

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Capital management

The Company's objectives, when managing capital, are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders.

In order to maintain or adjust the capital structure, the Company can adjust the amount of dividends paid to shareholders, return capital to shareholders and sell assets to reduce debt.

The Company monitors a rolling cash forecast to ensure there is sufficient cash to meet its operational requirements.

Notes to the financial statements (continued)

1 Summary of significant accounting policies (continued)

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. The Company has recognised government grants receivable in the period in the income statement as "other income" as highlighted in note 4. If conditions are attached to the grant which must be satisfied before the Company is eligible to receive the contribution, the recognition of the grant as other income will be deferred until those conditions are satisfied.

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the Company

The following new standards, new interpretations, and amendments to standards and interpretations that are not yet effective and have not been adopted early by the Company:

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Fulfilling a Contract (applicable for annual periods beginning on or after 1 January 2022)
- Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (applicable for annual periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018–2020 (applicable for annual periods beginning on or after 1 January 2022)
- IFRS 17 Insurance Contracts (applicable for annual periods beginning on or after 1 January 2023)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable for annual periods beginning on or after 1 January 2023, but not yet endorsed in the EU)

2 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Provisions

Provisions are for future warranty costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements.

Provision is made for obsolete and slow-moving inventory, based on management's best estimate of the likely recovery value of the inventory through future sale.

Included within accruals are provisions for late delivery penalties. These penalties are based on management's best estimate of the costs that are expected to be borne by the Company.

ii) Recognition of deferred tax assets

Management review financial projections for future performance of the Company to consider the extent to which deferred tax assets relating to tax losses are to be recognised in the balance sheet.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Significant judgment is required in concluding on the recoverability of recognised deferred tax assets as this involves estimating future taxable profit and the timing of reversal of the deferred tax asset.

In applying judgement in recognising deferred tax assets, management has critically assessed all available information, including future business profit projections. Key assumptions are:

- The group will generate sufficient taxable profits over a 7 year period in line with the expected recovery in the aerospace industry supported by new program wins in the period; and
- Forecasts for future taxable profits are consistent with those utilized in the impairment of goodwill (11.5% discount rate, 2.0% growth rate in revenue and margins, and 25% corporation tax rate) over the same period.

Notes to the financial statements (continued)

3 Revenue

Revenue by customer location

	2021	2020
	£'000	£'000
United Kingdom	1,739	2,394
Rest of Europe	10,276	20,093
Middle East	2,084	3,158
USA and Canada	18,887	33,016
Asia and Pacific	18,538	65,161
Other	3,369	8,418
	54,893	132,240

Revenue from contracts with customers

	2021	2020
	£'000	£'000
Revenue from contracts with customers	54,893	132,240
	54,893	132,240

Revenue by category and timing of revenue recognition

	2021	2020
	£'000	£'000
At a point in time:		
Production	51,516	128,648
Over time:		
Design & engineering	3,377	3,592
	54,893	132,240

The corresponding contract assets and liabilities have been disclosed in note 14 and 19 respectively.

Notes to the financial statements (continued)

4 Operating costs

	2021	2020
	£'000	£'000
Raw materials and other bought-in items	25,532	92,147
Change in inventories of finished goods and work in progress	823	2,250
Cost of inventories expensed	26,355	94,397
Staff costs (note 7)	25,998	41,766
Depreciation, amortisation and impairment	3,457	6,025
(Profit)/Loss on disposal of machinery	-	10
Other income ¹	(2,367)	(647)
Other operating costs	8,810	41,051
Operating costs	62,253	182,602
Included within the above analysis are the following expenses:		
Lease and sublease expense	376	123
Research and development expenditure	4,389	6,283

¹ Other income includes government assistance from the U.K. Government under the Coronavirus Job Retention Scheme as a result of the COVID-19 pandemic of £1,039,000 (2020: £424,000) and Invest NI income of £1,256,000 (2020: £223,000). There are no unfulfilled conditions or other contingencies attached to these grants. Government grant income is offset by the cost of retaining staff.

Fees payable to the Company's auditors included in operating costs

	2021	2020
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's annual report and financial statements	32	25
Tax advisory services	4	9
Total fees payable to the Company's auditors	36	34

Reconciliation to Management EBITDA¹

	2021	2020
	£'000	£'000
Operating loss	(7,360)	(50,362)
Add back Depreciation, amortisation and impairment	3,457	6,025
EBITDA	(3,903)	(44,337)
Add back Non-operating items:		
Other non-operating expenses ¹	(97)	1,108
Management EBITDA	(4,000)	(43,229)

¹ Other non-operating expenses includes unrealised foreign exchange movements on working capital balances.

Notes to the financial statements *(continued)*

5 Finance income

	2021	2020
	£'000	£'000
Interest	-	1
Foreign exchange gains	-	564
Other	41	18
Finance income	41	583

6 Finance expenses

	2021	2020
	£'000	£'000
Interest on bank loans and overdrafts	-	3
Interest under IFRS 16 and hire purchase contracts	76	20
Interest on amounts due to group undertakings (note 16)	8,766	7,200
Foreign exchange losses	159	-
Finance expense	9,000	7,223

Notes to the financial statements (continued)

7 Employees

The average monthly number of full-time equivalent employees (including executive directors) by activity employed during the year were as follows:

	2021	2020
	No.	No.
Management, engineering, administration and sales	464	715
Production	159	372
Total	623	1,087

The aggregate payroll costs in the year were as follows:

	2021	2020
	£'000	£'000
Wages and salaries	22,981	37,022
Social security costs	2,112	3,626
Other pension costs	905	1,118
Total	25,998	41,766

Directors' emoluments

	2021	2020
	£'000	£'000
Aggregate emoluments	340	482
Pension contributions	21	14
Total	361	496

Highest paid director

	2021	2020
	£'000	£'000
Aggregate emoluments	226	246
Pension contributions	21	-
Total	247	246

There were benefits accruing to one director under a money purchase scheme at the year-end.

The following directors received remuneration from the Company during the year ended 31 December 2021: Z Lin, and N Taggart.

The following directors were not remunerated by the Company during the year ended 31 December 2021: J Guo.

Notes to the financial statements (continued)

8 Tax charge

Tax charge included in loss	Note	2021 £'000	2020 £'000
Current tax			
- Adjustments in respect of prior years		1,463	(345)
Total current tax		1,463	(345)
Deferred tax			
- Origination and reversal of timing differences		(773)	(166)
- Tax losses not recognised		15,023	8,086
- Impact of changes in tax rate on tax losses		(6,551)	(3,317)
Total deferred tax	18	7,699	4,603
Tax charge		9,162	4,258

Reconciliation of tax expense

The following table reconciles the theoretical income tax credit to the reported tax expense:

	2021 £'000	2020 £'000
Loss before tax	(16,319)	(57,002)
Applying standard rate of UK corporation tax of 19% (2020:19%)	(3,101)	(10,830)
Effects of:		
- Expenses not deductible for tax purposes	1,860	1,278
- Effect of capital allowances and depreciation	(606)	179
- Unused tax losses	1,074	9,207
- Changes in tax laws and rates	(6,551)	(3,317)
- Derecognition of previously recognised deferred tax asset relating to tax losses	15,023	8,086
- Adjustments in respect of prior years	1,463	(345)
Tax expense	9,162	4,258

Tax rate changes

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The Government made a number of budget announcements on 3 March 2021. These include confirming that the rate of corporation tax will increase to 25% from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the financial statements (continued)

9 Intangible assets

	Computer Software £'000	Intangible- other £'000	Capitalised Development £'000	Total £'000
Cost				
At 1 January 2020	2,472	1,000	-	3,472
Additions	64	-	-	64
At 31 December 2020	2,536	1,000		3,536
Additions	191	50	925	1,166
At 31 December 2021	2,727	1,050	925	4,702
Accumulated Amortisation				
At 1 January 2020	(1,507)	-	-	(1,507)
Amortisation charge	(430)	(140)	-	(570)
At 31 December 2020	(1,937)	(140)		(2,077)
Amortisation charge	(351)	(192)	-	(543)
At 31 December 2021	(2,288)	(332)		(2,620)
Net book value				
At 31 December 2021	440	718	925	2,082
At 31 December 2020	599	860		1,459

10 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Assets under construction £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 1 January 2020	2,249	5,200	1,192	17,478	4,242	30,361
Additions	-	-	244	164	1,424	1,832
Transfers	-	255	(511)	53	203	-
Disposals	-	-	-	(68)	-	(68)
At 31 December 2020	2,249	5,455	925	17,627	5,869	32,125
Additions	-	176	160	117	1,099	1,552
Asset classified as held for sale	-	-	-	(3,591)	-	(3,591)
At 31 December 2021	2,249	5,631	1,085	14,153	6,968	30,086
Accumulated depreciation and impairment						
At 1 January 2020	(171)	(1,456)	(863)	(9,963)	(1,900)	(14,353)
Depreciation charge	(103)	(583)	-	(2,299)	(924)	(3,909)
Depreciation on Disposals	-	-	-	43	-	43
Impairment	-	(341)	-	(718)	(198)	(1,257)
At 31 December 2020	(274)	(2,380)	(863)	(12,937)	(3,022)	(19,476)
Depreciation charge	(103)	(326)	-	(1,202)	(1,138)	(2,769)
Depreciation on transfer to asset held for sale	-	-	-	3,375	-	3,375
Impairment	-	89	-	188	52	329
At 31 December 2021	(377)	(2,617)	(863)	(10,576)	(4,108)	(18,541)
Net book value						
At 31 December 2021	1,872	3,014	222	3,577	2,860	11,545
At 31 December 2020	1,975	3,075	62	4,690	2,847	12,649

Notes to the financial statements (continued)

11 Assets held for sale

	2021	2020
	£'000	£'000
Plant and equipment	216	-
Total	216	-

The Company has agreed to consolidate the footprint of its manufacturing facilities. As a result, a number of plant and machinery items were deemed surplus to requirement and offers were sought from the market. Sale was agreed with a third party with settlement received in March 2022.

12 Right of use assets and lease liabilities

	Buildings £'000
Cost	
At 1 January 2020	729
At 31 December 2020	729
Additions	2,077
At 31 December 2021	2,806
Accumulated depreciation and impairment	
At 1 January 2020	(331)
Depreciation charge	(331)
At 31 December 2020	(662)
Depreciation charge	(473)
At 31 December 2021	(1,135)
Net book value	
At 31 December 2021	1,671
At 31 December 2020	67

The balance sheet shows the following amounts relating to leases:

	2021	2020
	£'000	£'000
Buildings	1,671	67
Total	1,671	67
Lease liabilities		
Current	431	69
Non-current	1,240	-
Total	1,671	69

The statement of profit or loss shows the following amounts relating to leases:

	2021	2020
	£'000	£'000
Depreciation charge of right of use assets		
Buildings	(473)	(331)
Total	(473)	(331)

Notes to the financial statements (continued)

12 Right of use assets and lease liabilities (continued)

	2021 £'000	2020 £'000
Interest expense	(75)	(18)
Total	(75)	(18)

The total cash outflow for leases was £478,000 (2020: £354,000).

13 Inventories

	2021 £'000	2020 £'000
Raw materials and consumables	24,918	22,534
Work in progress	16,338	15,668
Finished goods	385	232
Total	41,641	38,434

Movement in inventory provision	2021 £'000	2020 £'000
As at 1 January	24,989	12,783
Provision for impairment	-	12,206
Unused amounts released	(3,529)	-
As at 31 December	21,460	24,989

The cost of inventories recognised as stock write offs and included in operating costs amounted to £502,000 (2020: expense of £20,140,000).

Unused amounts released in 2021 relate to release of provisions no longer required as a result of usage and commercial developments.

14 Trade and other receivables

	2021 £'000	2020 £'000
Current		
Trade receivables	17,163	18,798
Amounts owed by group undertakings	1,561	1,194
Prepayments and accrued income	6,194	2,601
Contract assets	3,358	5,465
Other receivables	821	1,126
	29,097	29,184

The Company's trade receivables are stated after provisions for impairment of £1,216,000 (2020: £1,803,000). The fair values of trade and other receivables are not materially different from their carrying values. For the purposes of IFRS 9 "Financial instrument" all of the Company's financial assets are classified as measured at amortised cost.

Movements in the provision for bad debts are as follows:	2021 £'000	2020 £'000
At 1 January	1,803	5
Utilised	(697)	-
Created	110	1,798
At 31 December	1,216	1,803

Notes to the financial statements (continued)

14 Trade and other receivables (continued)

The Company has recognised the following assets relating to contracts with customers (these are all included with contract assets):

	2021	2020
	£'000	£'000
Contract assets recognised at start of the year	5,465	6,522
Revenue recognised in prior years that was invoiced in the current year	(3,377)	(3,592)
Amounts recognised in revenue in the current year that will be invoiced in future years	1,270	2,535
Balance at the end of the year	3,358	5,465

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 December and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The Company applies the practical expedient in IFRS 9 (which allows the Company to measure impairment using the 12 month Expected Credit Loss model) in respect of amounts owed by group undertakings, for those balances that meet the following requirements:

- it has a low risk of default;
- the counterparty is considered, in the short term, to have a strong capacity to meet its obligations in the near term; and
- the Company expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the counterparty to fulfil its obligations.

For those balances where there is a higher risk of default the Company follows the 3-stage approach within IFRS 9 to determine lifetime expected credit losses.

15 Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash	6,373	9,025
Total cash and cash equivalents	6,373	9,025

Notes to the financial statements (continued)

16 Borrowings

	2021	2020
	£'000	£'000
Current		
Amounts due to group undertakings	234,010	202,586
Obligations under hire purchase agreements	-	75
	234,010	202,661
Total borrowings	234,010	202,661

Amounts due to group undertakings

The amounts due to group undertakings are designated in Pounds Sterling and US Dollars and total £234,010,000 in Pound Sterling equivalent (2020: £202,586,000). The amounts due to group undertakings bear interest at a number of rates between 4.1% and 5.0% per annum and are repayable between 0-12 months.

Although these amounts fall due within one year, the entities have confirmed that they will not be called for at least 12 months from the date of the financial statements.

The fair value of current and non-current borrowings equals their carrying amount as the impact of discounting is not significant. For the purposes of IFRS 9 "Financial instruments" the financial liabilities noted above are classified as measured at amortised cost.

Amounts due to group undertakings at 31 December

	2021	2020
	£'000	£'000
AVIC Cabin Systems Co. Limited	234,010	202,586
Total	234,010	202,586

Notes to the financial statements (continued)

16 Borrowings (continued)

The associated annual interest charge in relation to amounts owed to group undertakings was:

	2021	2020
	£'000	£'000
AVIC Cabin Systems Co. Limited	8,766	7,200
Total	8,766	7,200

Obligations under hire purchase agreements

	2021	2020
	£'000	£'000
Not later than one year	-	75
Hire purchase agreements	-	75

17 Provisions

	Warranty £'000
At 1 January 2020	5,137
Created	2,386
Released	(780)
Utilised	(128)
At 31 December 2020	6,615
Created	780
Released	(3,378)
Utilised	(160)
At 31 December 2021	3,857
Represented by:	
Current	92
Non-current	3,765
	3,857

Warranty and after-sales service costs are generally incurred over a number of years from delivery. Whilst actual events could result in differences to the quantum and timing of the outflows, management has reflected current knowledge in assessing the provision levels.

Notes to the financial statements (continued)

18 Deferred tax

Deferred tax assets

	2021 £'000	2020 £'000
Tax losses	14,487	22,960
Other	1,410	636
Deferred tax assets	15,897	23,596

In applying judgement in recognising deferred tax assets, management has critically assessed all available information, including future business profit projections.

The Company expects to be profitable in the coming years and plans to carry forward tax losses to utilise against these future projected profits. Management have determined the deferred tax asset to be £15,897,000 (2020: £23,596,000) and have forecasted that deferred tax asset will be realised in the next seven financial years.

Movement in temporary differences

	At 1 January 2021 £'000	Recognised in income £'000	At 31 December 2021 £'000
Property, plant and equipment	636	774	1,410
Tax losses	22,960	(8,473)	14,487
	23,596	(7,699)	15,897

	At 1 January 2020 £'000	Recognised in income £'000	At 31 December 2020 £'000
Property, plant and equipment	469	167	636
Tax losses	27,729	(4,769)	22,960
	28,198	(4,602)	23,596

19 Trade and other payables

	2021 £'000	2020 £'000
Current		
Trade payables	14,253	9,672
Other taxes and social security costs	1,105	1,838
Accruals and deferred income	37,626	52,488
	52,984	63,998

The fair values of trade and other payables are not materially different from their carrying value as the impact of discounting is not significant.

For the purposes of IFRS 9 "Financial instruments" the financial liabilities noted above are classified as measured at amortised cost.

There is no difference between the amounts shown above and the total contractual undiscounted cash flows of trade and other payables.

Notes to the financial statements (continued)

19 Trade and other payables (continued)

The Company has recognised the following liabilities relating to contracts with customers (these are all included with deferred income):

	2021	2020
	£'000	£'000
Contract liabilities recognised at start of the year	919	3,177
Amounts invoiced in prior years recognised as revenue in the current year	(80)	(2,258)
Amounts invoiced in the current year which will be recognised as revenue in later years	667	-
Balance at the end of the year	1,506	919

20 Issued share capital

	Number	Number	Value (£)	Value (£)
	2021	2020	2021	2020
Ordinary £1 shares	442,007	442,007	442,007	442,007

All classes of share rank pari-passu, except that directors can vary the distributions paid by class of share. All shares are owned by the immediate parent undertaking, Symphony Bidco Limited.

Equity dividends

No dividend has been paid during the current financial year, and none is proposed (2020: £nil).

21 Reserves

Share premium account - this reserve represents the amount above the nominal value received for shares sold, less transaction costs.

22 Related party transactions

The Company has a related party relationship with its directors and key management personnel.

The Company considers key management personnel as defined under IAS24, Related Party Disclosures, to be members of the Company's board of directors. Total emoluments for directors are detailed in Note 7 to the financial statements.

Symphony Bidco Limited is the immediate parent of the Company in the United Kingdom. Amounts due to related parties are disclosed in note 16.

23 Pensions

The Company operates a defined contribution scheme, the assets of which are held in independently administered funds. Contributions to these schemes over the year were £905,000 (2020: £1,118,000). At the end of the year contributions of £116,000 (2020: £136,000) were outstanding.

24 Contingent liabilities

The Company has no significant contingent liabilities.

Notes to the financial statements (continued)

25 Commitments

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £nil (2020: £4,000).

26 Controlling parties

The immediate parent undertaking and immediate controlling party of the Company at 31 December 2021 is Symphony Bidco Limited, a Company registered in the United Kingdom.

The ultimate parent undertaking and ultimate controlling party at 31 December 2021 is the Aviation Industry Corporation of China, Limited. This is the largest Group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member.

Symphony Bidco Limited is the smallest group to consolidate these results.