

SPECIALITY FIBRES AND MATERIALS LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018

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SPECIALITY FIBRES AND MATERIALS LIMITED

COMPANY INFORMATION

Directors	H Mägdefrau T Menitz M Stratton W Süßle T Thomas
Company number	00267936
Registered office	The Broadgate Tower Third Floor 20 Primrose Street London EC2A 2RS
Auditors	RSM UK Audit LLP Chartered Accountants Suite A, 7th Floor City Gate East Tollhouse Hill Nottingham NG1 5FS
Business address	Galaxy House 31 Herald Way Binley Industrial Estate Coventry CV3 2RQ

SPECIALITY FIBRES AND MATERIALS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report and financial statements for the year ended 31 December 2018.

Fair review of the business

The key financial performance indicators are those that communicate the financial performance of the company as a whole, these being turnover and profit for the year as well as the liquidity position of the company.

Turnover for the financial year was slightly higher than in the previous year at £6,705,000 (2017: £6,475,000) with sales of a recently developed product making a significant contribution. Profit for the financial year was lower than the previous year at £390,000 (2017: £494,000). Delays in gaining regulatory approval for new products impacted both turnover and profit. A lower requirement for investment in research and development also impacted profit as did increased depreciation due to the capitalisation of Phase 1 of a renovation project which will enable the company to secure a long term manufacturing location compliant with regulatory requirements.

A key performance indicator for the company's long term success is the launch of new products. It is the intention to launch at least one new product per year. The 510K for the company's silver nanoparticle technology was granted during 2018 and the company is working on launch plans with customers.

The renovation and relocation project continued throughout 2018 and is expected to continue beyond 2019. This will secure the company's long-term ability to produce medical devices in a compliant and efficient manner. The renovation and relocation requires significant further investment and, as planned, an intragroup loan was taken during 2018 and has been extended post year end. The company remains liquid with £1,818,000 (2017: £1,544,000) of cash, £675,000 (2017: £2,256,000) of net assets and sufficient cash to meet all liabilities as they fall due. Group have indicated their willingness to continue to support the renovation and relocation project as necessary.

Alongside turnover and profit for the year being lower than expected, the gross profit margin was lower than in previous years due to changes in product mix. Based on the progress made on the site relocation and the progress made towards launching new products the directors consider the company's performance towards long-term objectives to be encouraging.

Principal risks and uncertainties

The company recognises the risk of increased competition and its potential impact on wound care markets as overseas competitors seek to provide similar materials to those used in the company's traditional portfolio of products. The company is addressing this risk by developing new products and gaining international regulatory approvals.

The company's future success is dependent on the ability to deliver quality product and maintain compliance to relevant international medical device standards. These aims are achieved through the development and management of and conformance to the company's certified quality management system.

The UK government's ongoing negotiations in relation to leaving the European Union has caused uncertainty for all UK businesses purchasing from, employing people from or selling products to the EU. The company plans to continue to sell to customers in the EU so is planning to continue to comply with relevant EU medical device regulations. The outcome of these negotiations is also likely to have some impact on the company's plans for preparation for the implementation of the new Medical Device Regulation (MDR), the company is satisfied that our Notified Body (NB) has adequate plans to mitigate for either potentially disruptive disorderly or hard Brexit and will continue to work with our NB and customers to ensure that this transition is as smooth as possible.

The directors are watching developments in this area to ensure the company is well prepared for any changes that come as a consequence. The arrangements for EU citizens already living and working in the UK is of particular interest as a number of the company's employees are able to work in the UK due to their citizenship of the EU.

Strategy and future developments

The directors believe the future prospects of the company to be encouraging and continue to investigate opportunities to grow the turnover and profitability of the business. The directors anticipate no change to the business model of selling wound care products to business customers. Strategic increase in turnover is planned both by further enhancement to the functionality of products for patient benefit and by seeking additional sales to international markets. Investment in research and development will continue in order to facilitate growth. Cost reductions will be sought by optimising production processes while maintaining an effective quality system

SPECIALITY FIBRES AND MATERIALS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Strategy and future developments (continued)

During 2017 renovations were started on freehold land and buildings. Phase 1 of the renovations was completed in early 2018 and Phase 2 was substantially completed towards the end of the year. An additional £136,000 (2017: £73,000) of depreciation has been charged to reflect the shortened estimated useful economic life of those assets that are not expected to be relocated. During 2019 further renovation will continue with the long-term aim of moving production to the new site.

Financial risk management

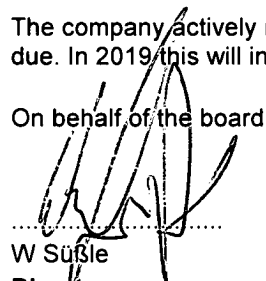
The company's operations expose it to financial risks primarily credit risk, foreign currency risk and liquidity risk.

Credit risk is minimised by the use of credit insurance combined with a credit control policy. The company maintains strong customer relationships and frequent contact.

A large part of the company's trade with customers and a smaller number of suppliers is carried out in euros and US dollars. The company operates bank accounts in sterling, euros and US dollars, and where possible foreign currency payments are offset against receipts.

The company actively manages working capital to ensure sufficient funds are available to meet debts when they fall due. In 2019 this will include increasing the value of the intragroup loan as described above.

On behalf of the board



W Suñe

Director

17 July 2019



M Stratton

Director

17 July 2019

SPECIALITY FIBRES AND MATERIALS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the company is the development, manufacture and sale of wound care products.

Directors

The directors who held office during the year were as follows:

H Mägdefrau
T Menitz
M Stratton
W Süßle
T Thomas

Results and dividends

The results for the year are set out on page 7. During the year no interim dividend was paid on ordinary shares (2017: £nil). The directors recommend no final dividend (2017: £nil).

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions are provided by a third party for the benefit of the company as at 31 December 2018. Qualifying third party indemnity provisions were in force during the financial year and also at the date of approval of the financial statements.

Research and development

As outlined in the strategic report, investment in research and development is expected to facilitate future growth. The cost invested in research and development in the year was £806,000 (2017: £1,033,000). The change in investment reflects the different levels of expense required at different stages of the projects. The projects being undertaken are focused on the development of new wound care products.

Auditor

RSM UK Audit LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

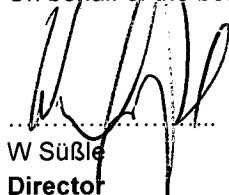
Matters of strategic importance

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of future developments and financial risk management.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



W Süßle
Director

17 July 2019



M Stratton
Director
17 July 2019

SPECIALITY FIBRES AND MATERIALS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

- select suitable accounting policies and then apply them consistently;
- make 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 responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALITY FIBRES AND MATERIALS LIMITED

Opinion

We have audited the financial statements of Speciality Fibres and Materials Limited (the 'company') for the year ended 31 December 2018 which comprise the Statement of Total Comprehensive Income, the Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALITY FIBRES AND MATERIALS LIMITED (CONTINUED)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Neil Stephenson (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham
NG1 5FS

17 July 2019

SPECIALITY FIBRES AND MATERIALS LIMITED

STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Turnover	3	6,705	6,475
Cost of sales		(3,526)	(3,255)
Gross profit		3,179	3,220
Distribution costs		(199)	(204)
Administrative expenses		(2,347)	(2,464)
Operating profit	4	633	552
Interest receivable and similar income	7	6	8
Interest payable and similar charges	8	(30)	-
Profit on ordinary activities before taxation		609	560
Taxation	9	(219)	(66)
Profit for the financial year		390	494
Total comprehensive income for the year		390	494

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

SPECIALITY FIBRES AND MATERIALS LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2018**

	Notes	£000	2018 £000	2017 £000
Fixed assets				
Intangible assets	10		61	73
Tangible assets	11		7,370	5,221
			<u>7,431</u>	<u>5,294</u>
Current assets				
Stocks	12	1,010		664
Debtors	13	1,768		1,253
Cash at bank and in hand		1,818		1,544
		<u>4,596</u>		<u>3,461</u>
Creditors: amounts falling due within one year	14	(3,921)		(1,205)
Net current assets			<u>675</u>	<u>2,256</u>
Total assets less current liabilities			<u>8,106</u>	<u>7,550</u>
Provisions for liabilities	15		(390)	(224)
Net assets			<u>7,716</u>	<u>7,326</u>
Capital and reserves				
Called up share capital	17		226	226
Share premium account			358	358
Profit and loss reserves			7,132	6,742
Total equity			<u>7,716</u>	<u>7,326</u>

The financial statements were approved by the board of directors and authorised for issue on 17 July 2019 and are signed on its behalf by:



W Süßle
Director



M Stratton
Director

SPECIALITY FIBRES AND MATERIALS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium account	Profit and loss reserves	Total
	£000	£000	£000	£000
Balance at 1 January 2017	226	358	6,248	6,832
Year ended 31 December 2017:				
Profit and total comprehensive income for the year	-	-	494	494
Balance at 31 December 2017	226	358	6,742	7,326
Year ended 31 December 2018:				
Profit and total comprehensive income for the year	-	-	390	390
Balance at 31 December 2018	<u>226</u>	<u>358</u>	<u>7,132</u>	<u>7,716</u>

The share premium account contains the consideration for shares above their nominal value net of transaction costs.

The profit and loss reserve is the cumulative profit and loss net of distributions to owners.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Speciality Fibres and Materials Limited is a private company limited by shares, domiciled and incorporated in England and Wales. The registered office is The Broadgate Tower, Third Floor, 20 Primrose Street, London, EC2A 2RS. The company's principal place of business is Galaxy House, 31 Herald Way, Binley Industrial Estate, Coventry, CV3 2RQ.

The company's principal activities are disclosed in the Directors' Report.

Accounting convention

These financial statements are prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the requirements of the Companies Act 2006, including the provision of Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2002.

The directors have taken advantage of certain exemptions from the requirements of FRS 102 permitted by FRS 102 Chapter 35 'Transition to this FRS' including electing not to apply Section 19 'Business Combinations and Goodwill' of FRS 102 to business combinations that were effected before 1 January 2015, the date of transition to FRS 102.

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 on the historical cost convention. The principal accounting policies adopted are set out below.

In accordance with FRS 102, the company has taken advantage of the exemptions from the following disclosure requirements;

- Section 7 'Statement of Cash Flows' - Presentation of a Statement of Cash Flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income / expense and net gains / losses for each category of financial instrument; and
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Lohmann & Rauscher International GmbH & Co. KG, a company incorporated in Germany. A copy of these financial statements can be obtained from www.bundesanzeiger.de by searching for Lohmann & Rauscher International.

Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Turnover is recognised when the risks and rewards of ownership pass to the customer, either on dispatch or where goods are received by the customer (depending on delivery terms for the customer).

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Goodwill

Goodwill represents the excess of the cost of acquisition of businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised over its useful life which has been determined by the company as being 20 years based on the anticipated lifespan of profitability of relevant products.

Other intangible assets

Intangible assets purchased other than in a business combination are recognised when future economic benefits are probable and the cost or value of the asset can be measured reliably. Intangible assets are initially measured at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Software	20% straight line
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Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

The gain or loss arising on the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying value of the asset, and is recognised in the income statement.

Tangible assets

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

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Buildings	3% straight line
Plant and machinery	10% - 20% straight line
Fixtures, fittings and equipment	10% - 20% straight line
Motor vehicles	33% straight line
Land is not depreciated.	

Where the expected useful life of an asset is reduced, the rate of depreciation attributed to that asset is increased so that its remaining net book value (at the point that the reduction in useful life is identified) is reduced to nil over the estimated remaining useful life. Where appropriate, a check is made on the carrying value of that asset at the same point.

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life.

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 recognised in the income statement.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Tangible assets (Continued)

Assets in the course of construction are carried at purchase cost less any identified impairment losses. Once ready for use they are transferred into the appropriate tangible fixed asset category and depreciated per the relevant policy above.

Impairment of tangible and intangible assets

At each reporting 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 and an impairment loss is recognised immediately in profit or loss.

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

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Raw materials are stated at the lower of cost and net realisable value on a first in, first out basis. Work in progress and finished goods are stated at the lower of costs, which includes an appropriate element of production overheads cost and other directly attributable overheads, apportioned on the basis of normal activity levels, and net realisable value on a first in, first out basis.

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument, and are offset only when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Trade debtors and other receivables

Trade debtors and other receivables which are due within one year and which do not constitute a financing transaction are initially measured at the transaction price. They are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of trade debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit or loss.

Financial liabilities and equity

Trade creditors and other payables

Trade creditors and other payables due within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Derecognition of financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Equity instruments

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

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

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

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as finance cost in profit or loss in the period it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

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.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Foreign exchange

Transactions in currencies other than the functional currency which is UK Sterling are initially recorded at the exchange rate prevailing on the date of the transaction. Where forward contracts are put in place to cover anticipated customer receipts in foreign currency, the gain or loss on the forward contract is matched to the appropriate portion of the gain or loss on the receipt rather than being shown as a separate line in the income statement. This reflects the commercial reality of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

Research and development

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

2 Critical accounting estimates and judgements

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, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical accounting estimates

Provisions for liabilities

The company has provided for dilapidations costs on its leasehold premises. This provision requires management's best estimate of the costs that will be incurred when it vacates under the terms of its lease. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management judgement.

Accrued income

Within accrued income is an estimated amount relating to amounts recoverable as a result of contractual arrangements with customers.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty

Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the business. The value in use calculation requires the entity to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate present value.

The assessment of the useful lives and the method of amortising goodwill requires judgement. Amortisation is charged to the income statement based on the useful economic life selected, which requires an estimation of the period and profile over which the company expects to consume the future economic benefits embodied in the goodwill.

Tangible fixed asset depreciation and intangible asset amortisation

The assessment of the useful lives and the method of depreciating tangible fixed assets and amortising intangible assets requires judgement. Depreciation and amortisation are charged to profit or loss based on the useful life selected, which requires an estimation of the period and profile over which the company expects to consume the future economic benefits embodied in the assets.

A significant area of judgement in this financial year has been the estimation of the depreciation to be charged to reflect the shortened estimated useful economic life of those assets that are not expected to be relocated. This has required judgement relating to which assets will be impacted and the estimate of their useful economic lives.

Impairment of debtors

Debtors are stated at recoverable amounts after appropriate provision for bad and doubtful debts. Calculation of the bad debt provision requires judgement from the management team based on the creditworthiness of the debtor and historical experience.

3 Turnover analysed by geographical market

	2018	2017
	£000	£000
United Kingdom	3,113	2,062
Rest of Europe	2,009	2,065
Other	1,583	2,348
	<u>6,705</u>	<u>6,475</u>

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4	Operating profit	2018	2017
		£000	£000
	Operating profit for the year is stated after charging:		
	Exchange losses	29	41
	Research and development expenditure	806	1,033
	Depreciation of owned tangible fixed assets	595	439
	Amortisation of intangible assets	18	16
	Cost of stocks recognised as an expense	3,470	3,182
	Operating lease charges	168	234
	Fees payable to the company's auditor and its associates:		
	• Audit of the company's financial statements	18	18
	• Taxation compliance services	9	3
	• All other non-audit services	12	5
		<u> </u>	<u> </u>

5 Employees

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

	2018	2017
	Number	Number
Production	37	39
Administrative and office staff	28	30
	<u> </u>	<u> </u>
	65	69
	<u> </u>	<u> </u>

Their aggregate remuneration comprised:

	2018	2017
	£000	£000
Wages and salaries	2,005	1,978
Social security costs	197	190
Pension costs	118	104
	<u> </u>	<u> </u>
	2,320	2,272
	<u> </u>	<u> </u>

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6	Directors' remuneration	2018	2017
		£000	£000
	Remuneration for qualifying services	179	166
	Company pension contributions to defined contribution schemes	15	14
		<u>194</u>	<u>180</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2017 - 2).

The directors W Süßle, T Menitz and H Mägdefrau devoted substantially all of their time to Lohmann & Rauscher International GmbH & Co. KG and received no remuneration in respect of all qualifying services to Speciality Fibres and Materials Limited (2017: £nil).

7	Interest receivable and similar income	2018	2017
		£000	£000
	Interest income		
	Interest on bank deposits	<u>6</u>	<u>8</u>

8	Interest payable and similar charges	2018	2017
		£000	£000
	Interest payable		
	Interest on group loans	9	-
	Other interest	<u>21</u>	<u>-</u>
		<u>30</u>	<u>-</u>

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Taxation

	2018	2017
	£000	£000
Current tax		
UK corporation tax on profits for the current period	109	140
Adjustments in respect of prior periods	(65)	(16)
	<u>43</u>	<u>124</u>
Deferred tax		
Origination and reversal of timing differences	9	(58)
Adjustments in respect of prior periods	167	-
	<u>176</u>	<u>(58)</u>
Total tax charge	<u>219</u>	<u>66</u>

The charge for the year can be reconciled to the standard effective rate of corporation tax as follows:

	2018	2017
	£000	£000
Profit before taxation	<u>609</u>	<u>560</u>
Expected tax charge based on a corporation tax rate of 19% (2017: 19.25%)	116	108
Tax expenses that are not deductible	1	39
Adjustments in respect of prior years	102	(16)
Patent box	-	(7)
Other items	-	(58)
Tax expense for the year	<u>219</u>	<u>66</u>

Legislation was enacted in September 2016 to reduce the rate of corporation tax from 19% to 17% from 1 April 2020 and hence the deferred tax balances in these accounts have been calculated to reflect the rate in the period the related timing difference is expected to reverse.

SPECIALITY FIBRES AND MATERIALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

10 Intangible assets

	Software £000	Goodwill £000	Total £000
Cost			
At 1 January 2018	33	199	232
Additions	6	-	6
At 31 December 2018	39	199	238
Amortisation and impairment			
At 1 January 2018	22	137	159
Amortisation charged in the year	8	10	18
At 31 December 2018	30	147	177
Carrying amount			
At 31 December 2018	9	52	61
At 31 December 2017	11	62	73

The amortisation charge for the year is recognised within administrative expenses.

11 Tangible assets	Assets in the course of construction £000	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2018	163	3,351	3,327	952	4	7,797
Additions	2,756	-	-	-	-	2,756
Disposals	(6)	-	-	(18)	-	(24)
Transfers	(173)	(64)	-	237	-	-
At 31 December 2018	2,740	3,287	3,327	1,171	4	10,529
Depreciation and impairment						
At 1 January 2018	-	3	2,132	437	4	2,576
Depreciation charged in the year	-	62	428	105	-	595
Disposals	-	-	-	(12)	-	(12)
At 31 December 2018	-	65	2,560	530	4	3,159
Carrying amounts						
At 31 December 2018	2,740	3,222	767	641	-	7,370
At 31 December 2017	163	3,348	1,195	515	-	5,221

An adjustment has been made in 2018 to reflect the final actual cost and categorisation of costs of Phase 1. Included in assets in the course of construction is £2,740,000 (2017: £156,000) related to the purchase and renovation of the new site. Included in depreciation for the year is £137,000 (2017: £73,000) of an accelerated charge relating to assets for which the estimate of expected useful economic life has been reduced.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Stocks	2018 £000	2017 £000
Raw materials and consumables	240	171
Work in progress	574	168
Finished goods and goods for resale	196	325
	<u>1,010</u>	<u>664</u>

Finished goods stock with a carrying value of £22,000 (2017: £26,000) has been written down to £nil (2017: £nil) in the year. No earlier stock write down has been reversed during the current, or preceding period. The replacement cost of stock is not materially different to the carrying amount.

13 Debtors	2018 £000	2017 £000
Amounts falling due within one year:	£000	£000
Trade debtors	721	603
Amounts due from fellow group undertakings	142	154
Corporation tax	48	-
VAT recoverable	404	240
Other debtors	24	13
Prepayments and accrued income	429	243
	<u>1,768</u>	<u>1,253</u>

14 Creditors	2018 £000	2017 £000
Amounts falling due within one year:	£000	£000
Trade creditors	805	805
Corporation tax payable	-	35
Other taxation and social security	49	49
Amounts due to fellow group undertakings	2,013	29
Other creditors	914	134
Accruals and deferred income	140	153
	<u>3,921</u>	<u>1,205</u>

Amounts due to fellow group undertakings include a £2,000,000 loan (2017:£nil). The interest rate for this loan is set at the Bank of England base rate plus 0.35%. The loan is for an initial period of one year. No security has been given for the loan.

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Provisions for liabilities

	Leasehold dilapidation £000	Deferred Tax £000	Total £000
At 1 January 2018	98	126	224
Charged in the year	-	176	176
Utilised in the year	(10)	-	(10)
At 31 December 2018	<u>88</u>	<u>302</u>	<u>390</u>

Leasehold dilapidations – the company has provided for dilapidation costs which it expects will be incurred when the premises are vacated.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £000	2017 £000
Accelerated capital allowances	319	144
Other timing differences	(17)	(18)
	<u>302</u>	<u>126</u>

16 Retirement benefits

Defined contribution schemes

The company operates a defined contribution scheme with the assets held in a separately administered fund. The cost of contributions to the scheme in the financial year charged to profit or loss amounts to £118,000 (2017: £104,000). Contributions of £10,000 (2017: £9,000) remain outstanding on 31 December 2018 and are included in creditors.

17 Share capital

	2018 £000	2017 £000
Ordinary share capital		
Issued and fully paid		
1,127,500 Ordinary of 20p each	<u>226</u>	<u>226</u>

SPECIALITY FIBRES AND MATERIALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18 Operating lease commitments

Lessee

The total future minimum lease payments under non-cancellable operating leases, were as follows:

	2018 £000	2017 £000
Within one year	172	168
Between one and five years	20	184
	<u>192</u>	<u>352</u>

19 Capital commitments

2018 £000	2017 £000
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At 31 December 2018 the company had capital commitments as follows:

Contracted for but not provided in the financial statements:

Acquisition of tangible assets	<u>1,140</u>	<u>268</u>
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20 Related party disclosure

Transactions with the ultimate parent company and other companies that are wholly owned members of the group are not separately disclosed.

21 Controlling party

Speciality Fibres and Materials Limited is a wholly owned subsidiary of Rau-Be Beteiligungen GmbH a company incorporated in Austria. Rau-Be Beteiligungen GmbH is a wholly owned subsidiary of Lohmann & Rauscher International GmbH & Co. KG a company incorporated in Germany, which is regarded as the ultimate parent undertaking and controlling party.

The parent of the smallest group to consolidate the results of Speciality Fibres and Materials Limited is Rau-Be Beteiligungen GmbH, Johann-Schorsch-Gasse 4, Vienna, Austria, A-1141. The parent of the largest group is Lohmann & Rauscher International GmbH & Co. KG Westerwaldstrasse 4, Rengsdorf, Germany, D56579.