# IFG Drake Limited

**Annual report and financial statements**

for the year ended 30 June 2020

Registered number 00395431

# Contents

## Company information

| | |
|---|---|
| The board of directors | S O'Neil<br>J O Hager |
| Company Secretary | K A Davenport |
| Registered office | Old Mills<br>Drighlington<br>Bradford<br>West Yorkshire<br>BD11 1BY |
| Independent Auditors | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>Central Square<br>29 Wellington Street<br>Leeds<br>LS1 4DL |

# Strategic Report

**Strategic report for the year ended 30 June 2020**

The directors present the strategic report on the Company for the year ended 30 June 2020.

**Business Review**

The principal activity of the Company is the production and sale of synthetic fibre and yarn, operating from two sites in the UK.

Revenue for the year was £28,111,000 (2019: £33,782,000) and profit before taxation amounted to £215,000 (2019: profit of £43,000). The operating profit for the year amounted to £67,000 (2019: loss of £96,000).

Sales volumes for the first three quarters of the year were on budget but the outbreak of the COVID-19 pandemic impacted the fourth quarter significantly. Market conditions and customer preparation for Brexit also impacted volumes and margins. The automotive market was impacted by the downturn at several OEMs across Europe even before the pandemic, but our technical fibres and geotextile markets remained robust.

The exchange rate, raw material prices, energy costs and Brexit continue to be the key business risks affecting the company.

The equity of the Company increased in the year, ending at £13,773,000 (2019: £13,604,000)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for the understanding of the development, performance or position of the Company.

**Principal risks and uncertainties**

The principal risks and uncertainties of Duroc AB (publ), which includes those of the Company, are discussed within the business and finance review of the Group's annual report, which does not form part of this report. The principal risks for the Fibres segment of Duroc AB (publ) are the competitive nature of the markets which is mitigated by investment in new machinery and facilities and coordination with research facilities to develop biologically degradable fibres.

The key operational risk continues to be the competitive nature of the markets for the Company's products. To mitigate this risk the group seeks to improve existing products, diversify the product offerings, introduce new products and provide high levels of customer service.

Other risks include exchange rate movements, fluctuating raw material prices, changing energy costs and the unknown consequences in relation to importing and exporting of goods within the EU due to Brexit. The COVID-19 outbreak in early 2020 has also presented risks to the Company due to reduced demand along with trading restrictions due to the production ceasing temporarily to ensure the safety of employees was maintained.

Signed on behalf of the Board by

**S O'Neil**
**Director**
12 November **2020**

# Directors' report

The directors present their annual report and the audited financial statements of the Company for the year ended 30 June 2020.

### Future developments

The Company will continue with its principal activity of the production and sale of synthetic fibre.

### Dividends

A dividend of £nil was declared and paid during the year (2019: £nil).

### Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

S O'Neil
J O Hager

None of the directors have any interest in the shares of the Company.

### Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity 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. International Fibres Group (Holdings) Limited purchased and maintained throughout the financial year a Group policy for Directors' and Officers' liability insurance that covers the Company and its Directors.

### Research and development costs

The Company continues to invest in new product development and such costs in the year amounted to £32,000 (2019: £59,000).

### Financial risk management

Borrowing requirements are monitored on a Group basis to ensure that funding requirements minimise commercial risk and are adequate to support the on-going requirements of the operation.

The COVID-19 outbreak in 2020 developed rapidly with a significant number of infections both in the UK and throughout the World. Measures to prevent transmission of the virus were taken by individual governments which impacted the Company itself along with both its suppliers and customers. Measures were introduced by the Company which included temporary closure of its production facilities and additional measures were introduced to ensure the safety of employees whilst adhering to government guidelines and continuing to service customers' requirements. Consequently, trading was restricted, and revenue reduced particularly during the peak periods of April and May 2020. The Company has prepared severe, but plausible, downside forecasts for future trading and are satisfied that the Company will continue as a going concern. As at the date of signing the Directors are confident of a sustained recovery as trading levels have returned to reasonable levels.

## Directors' report (continued)

**Statement of directors' responsibilities**

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.

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.

**Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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**

PricewaterhouseCoopers LLP are deemed to be re-appointed under Section 487(2) of the Companies Act 2006.

Signed on behalf of the board of directors:

**S O'Neil**
**Director**
12 November **2020**

# Independent auditors' report to the members of IFG Drake Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, IFG Drake Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2020 and of its profit 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 statement of financial position as at 30 June 2020; 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

### 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.

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.

# Independent auditors' report to the members of IFG Drake Limited (continued)

**Reporting on other information (continued)**

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

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

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 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 set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. 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.

## Independent auditors' report to the members of IFG Drake Limited (continued)

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

We have no exceptions to report arising from this responsibility.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
12 November 2020

## Income statement
*for the year ended 30 June 2020*

| | Note | **Year ended 30 June 2020** | Year ended 30 June 2019 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **Revenue** | 3 | **28,111** | 33,782 |
| Cost of sales | | **(26,538)** | (31,420) |
| **Gross profit** | | **1,573** | 2,362 |
| Distribution costs | | **(1,565)** | (1,708) |
| Other administrative expenses | | **(278)** | (408) |
| Exceptional administrative expenses | 4 | **—** | (342) |
| Administrative expenses | | **(278)** | (750) |
| Other operating income | 5 | **337** | — |
| **Operating profit/(loss)** | 6 | **67** | (96) |
| Finance income | 9 | **162** | 139 |
| Finance expense | 9 | **(14)** | — |
| **Profit before taxation** | | **215** | 43 |
| Income tax expense | 10 | **(66)** | (67) |
| **Profit/(loss) for the financial year** | | **149** | (24) |

The results for the current and prior year derive from continuing activities.

## Statement of comprehensive income
*for the year ended 30 June 2020*

| | **Year ended 30 June 2020** | Year ended 30 June 2019 |
|---|---|---|
| | **£'000** | £'000 |
| **Profit/(loss) for the financial year** | **149** | (24) |
| **Other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met** | | |
| Changes in fair value of hedging derivative | **20** | 52 |
| **Total other comprehensive income** | **20** | 52 |
| **Total comprehensive income for the year** | **169** | 28 |

## Statement of financial position

*as at 30 June 2020*

| | Note | 30 June 2020 | | 30 June 2019 | |
|---|---|---|---|---|---|
| | | **£'000** | **£'000** | £'000 | £'000 |
| **Fixed assets** | | | | | |
| Property, plant and equipment | *11* | | **2,218** | | 2,273 |
| Right of use asset | *12* | | **250** | | – |
| **Current assets** | | | | | |
| Inventories | *13* | **2,128** | | 2,856 | |
| Trade and other receivables | *14* | **11,188** | | 11,185 | |
| Other financial assets | *17* | **21** | | – | |
| Cash and cash equivalents | | **1,018** | | 644 | |
| | | **14,355** | | 14,685 | |
| **Creditors:** amounts falling due within one year | *15* | **(2,348)** | | (2,671) | |
| Other financial liabilities | *17* | **–** | | (75) | |
| Provision for liabilities and charges | *18* | **(78)** | | – | |
| **Net current assets** | | | **11,929** | | 11,939 |
| **Total assets less current liabilities** | | | **14,397** | | 14,212 |
| **Creditors:** amounts falling due after more than one year | *16* | | **(57)** | | – |
| Provision for liabilities and charges | *18* | | **(313)** | | (391) |
| Deferred taxation | *19* | | **(254)** | | (217) |
| **Net assets** | | | **13,773** | | 13,604 |
| **Equity** | | | | | |
| Called up share capital | *21* | | **–** | | – |
| Cash flow hedging reserve | | | **98** | | 78 |
| Profit and loss account | | | **13,675** | | 13,526 |
| **Total equity** | | | **13,773** | | 13,604 |

The financial statements on pages 8 to 25 were approved by the board of directors on 12 November 2020 and were signed on its behalf by:

**S O'Neil**
**Director**

The notes on pages 11 to 25 form part of these financial statements.

## Statement of changes in equity for the year ended 30 June 2020

| | Called up share capital £'000 | Cash flow hedging reserve £'000 | Profit and loss account £'000 | Total Equity £'000 |
|---|---|---|---|---|
| **As at 1 July 2018** | - | **26** | **13,550** | **13,576** |
| Loss for the financial year | - | - | (24) | (24) |
| Changes in fair value of hedging derivative | - | 52 | - | 52 |
| **Total other comprehensive income for the year** | - | **52** | - | **52** |
| **Total comprehensive income for the year** | - | **52** | **(24)** | **28** |
| **As at 30 June 2019** | - | **78** | **13,526** | **13,604** |
| Effect of adoption of IFRS 16: Leases (Note 12) | - | - | - | - |
| **Adjusted balance as at 1 July 2019** | - | **78** | **13,526** | **13,604** |
| Profit for the financial year | - | - | 149 | 149 |
| Changes in fair value of hedging derivative | - | 20 | - | 20 |
| **Total other comprehensive income for the year** | - | **20** | - | **20** |
| **Total comprehensive income for the year** | - | **20** | **149** | **169** |
| **As at 30 June 2020** | - | **98** | **13,675** | **13,773** |

## Notes to the financial statements for the year ended 30 June 2020

### 1. General Information

The principal activity of the Company during the year was the production and sale of synthetic fibre and yarn and is expected to remain so for the foreseeable future. The Company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Old Mills, Drighlington, Nr Bradford, Yorkshire, BD11 1BY, England.

### 2. Summary of significant accounting policies

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

***Basis of preparation***

The financial statements are presented in sterling rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention modified by revaluation of financial assets and financial liabilities measured at fair value through profit and loss. Foreign exchange contracts are re-measured at their fair value at each balance sheet date. The significant accounting policies applied in the preparation of these financial statements are set out below, and unless otherwise stated, these policies have been consistently applied to all the periods presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework ("FRS 101"), and, the Companies Act 2006 (the "Act") as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

***Going concern***

The outbreak of the COVID-19 global pandemic in 2020 has brought about a period of global economic uncertainty. At the outset of the pandemic the directors assessed its expected impact on the Company's trading performance and liquidity and put in place a number of measures to ensure the Company would be able to continue to trade. Those measures included:

- furloughing a portion of the workforce, utilising the UK Government's Coronavirus Job Retention Scheme Note 5 gives details of the amounts received;
- review of all non-essential costs;
- adherence to Government guidelines on safe working protocols within its production facilities and offices, including providing additional PPE, segregating employees to guideline distances and encouraging and supporting home working where appropriate.

Having taken the measures above, the directors have reviewed the Company's financial position and outlook for future performance in the context of the COVID-19 impact. This included preparing severe, but plausible, forecasts of future trading performance utilising different scenarios. That review has incorporated an assessment of the continuity of supplies, the availability of its workforce and the impact on its customer base to determine future cash flow projections on a prudent basis. On the basis of that review, the directors have concluded that the Company will have sufficient available liquidity to meet its liabilities as they fall due for a period of not less than 12 months from the date of approval of these financial statements.

The Company is partly dependent on the Duroc AB cash pooling arrangements for access to the cash flows necessary for the day-to-day running of the company and to support the going concern assertion. The company has received confirmation that the Group will not withdraw the facility in the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to be cash generative, and should be expected to be a net depositor into, rather than borrower from, the Duroc AB cash pooling facility.

After making enquiries, the directors have a reasonable expectation that the company has access to adequate financial and other resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

# Notes to the financial statements for the year ended 30 June 2020

## 2. Summary of significant accounting policies (continued)

***Disclosure exemptions***

The Company is a qualifying entity for the purposes of FRS 101. Note 24 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- Statement of cash flows;
- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation;
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies; and
- Roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16).

The new standards, amendments and interpretations which became effective for these financial statements are as follows:

- IFRS 16 Leases (effective 1 January 2019) see Notes 12 and 25.

***Revenue***

Revenue is recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. It applies to all contracts with customers, except those in the scope of other standards.

***Property, plant and equipment***

All fixed assets are initially recorded at cost, including those costs that were directly attributable to bringing assets into working condition.

Depreciation is provided by the Company to write off the cost less the estimate residual value of tangible assets over their estimated useful economic lives as follows:

| | | |
|---|---|---|
| Freehold buildings | - | 50 years |
| Fixtures and fittings | - | 10 years |
| Plant and equipment | - | 10 - 15 years (computers 3 years) |

Freehold land is not depreciated.

The annual depreciation charge for the property, plant and equipment is sensitive to changes in the estimates useful economic lives and residual values of the assets. The useful economic lives and residual values of the assets are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 11 for the carrying amount of the property, plant and equipment.

***Impairments***

The carrying value of property, plant and equipment on the balance sheet are reviewed annually, in order to consider whether any provision for impairment is necessary. Impairment provisions are calculated by comparing the higher of net realisable value and value in use of the asset, using forecast cash flows discounted at the Company's pre-tax weighted average cost of capital, with its carrying value.

# Notes to the financial statements for the year ended 30 June 2020

## 2. Summary of significant accounting policies (continued)

***Inventories***

Inventories are valued at the lower of cost and estimated net realisable value. Cost where appropriate includes a proportion of overhead expenses, which are directly related to production, which are absorbed on the basis of normal activity levels. Provision is made, taking into account age and potential obsolescence, in order to reduce gross stock valuations to their estimated recoverable amounts.

***Trade receivables***

Under IFRS 9 an impairment provision calculation was prepared on an expected credit loss model based on historical losses, after taking into account credit insurance recoveries, where applicable. This resulted in the inclusion of an impairment provision of £7k (2019 £19k).

***Financial instruments***

The Company applies IFRS 9 related to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. .

Derivative financial instruments, namely foreign exchange contracts, are used as hedges in the financing and financial risk management of the Company and are initially measured at cost on the date a derivative contract is entered into and subsequently re-measured at their fair value at each balance sheet date. The foreign exchange contracts are designated as a cash flow hedge (hedge of highly probably forecast transactions).

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income, with any ineffective portion recognised in the income statement. The gains or losses that are recognised in other comprehensive income are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

***Leases***

The Company leases premises, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 15 years but may have break and / or extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. For accounting periods commencing after 1 January 2019, so 1 July 2019 for the Company, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company, in line with IFRS 16: Leases.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

## Notes to the financial statements for the year ended 30 June 2020

### 2. Summary of significant accounting policies (continued)

***Leases (continued)***

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build up approach that starts with a risk free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g term and security.

The Company used incremental borrowing rates specific to each lease translating to an average rate of 3.8%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability at the date of initial application;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise small items of office equipment.

As explained above, the Company has changed its accounting policy for leases where the company is the lessee. The impact of the change is included in Note 25. Prior to this change, leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

***Taxation***

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been substantially enacted at the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

***Foreign currencies***

Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the year end. Transactions in foreign currency are converted into sterling at the rate ruling at the date of the transaction. Gains and losses from foreign currency transactions are included in the operating profit.

## Notes to the financial statements for the year ended 30 June 2020

### 2. Summary of significant accounting policies (continued)

***Research and development***

Research expenditure is charged to the income statement in the year in which it is incurred, as is development expenditure other than development expenditure meeting the recognition criteria of IAS 38.

***Pensions***

Contributions in respect of defined contribution schemes are charged to the income statement in the year in which they arise.

The Company participates in a multi-employer defined benefit pension plan. This plan is operated on a Group basis that does not enable individual companies to identify their share of the underlying assets and liabilities and in accordance with International Accounting Standard No. 19 "Employee Benefits" the Company accounts for its contributions to the plan as if they were a defined contribution plan. Note 23 gives further details regarding this plan.

***Provisions***

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of the money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

***Government grants***

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it becomes receivable.

***Critical accounting estimates and assumptions***

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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Inventories: certain items of inventory are not expected to sell at prices which cover cost, either because they are below the required quality standard or are obsolete products. The inventory is carried at a value which reflects the directors' best estimates of achievable selling prices, with provisions being made for inventory obsolescence where applicable. See Note 13 for the net carrying amount of inventories and associated impairment provision.

Trade receivables: These are reviewed for indicators of impairment, taking into account any insurance in place, the age of the debt, any known disputes and credit rating information. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. See Note 14 for the net carrying amount of the receivables and associated impairment provision.

## Notes to the financial statements for the year ended 30 June 2020

### 3. Revenue

The Company's revenue and profit before taxation arise from its principal activity of the production and sale of synthetic fibre and yarn.

| **Geographical analysis** | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| United Kingdom | **14,707** | 15,360 |
| Europe | **10,506** | 15,634 |
| Australasia and Far East | **2,651** | 2,586 |
| Africa and Middle East | **155** | 170 |
| U.S.A. / Mexico | **92** | 32 |
| | **28,111** | 33,782 |

### 4. Exceptional administrative expenses

The Company incurred exceptional administration expenses of £nil (2019: £342k) in relation to a fatal accident at a production site during the year ended 30 June 2017 as disclosed in the Strategic report in the prior year.

### 5. Other operating income

The Company received other operating income of £337k (2019: nil) in Government grants, specifically being the Coronavirus Job Retention Scheme in relation to members of staff furloughed during the Covid-19 pandemic period.

### 6. Operating profit/(loss)

| | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| ***The operating profit is stated after charging / (crediting):*** | | |
| Net depreciation - owned assets | **339** | 324 |
| Fees payable to the Company's auditors in respect of: | | |
| - the audit of the Company's financial statements | **20** | 20 |
| - quarterly reporting | **5** | 6 |
| Operating lease rentals | | |
| - plant and machinery | **—** | 46 |
| - other | **1** | 280 |
| Research and development | **32** | 59 |
| Exchange gains | **(84)** | (21) |
| Inventory recognised as an expense in the year | **19,886** | 24,858 |

## Notes to the financial statements for the year ended 30 June 2020

### 7. Remuneration of directors

| | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| Directors' emoluments – as executives | **121** | 134 |
| Pension costs – defined contribution schemes | **8** | 12 |

The number of directors who are accruing benefits under defined benefit pension schemes at 30 June 2020 was nil (2019: nil). The number of directors who are accruing benefits under defined contribution pension schemes at 30 June 2020 was 1 (2019: 1).

The remuneration of the highest paid director was:

| | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| Emoluments | **121** | 114 |
| Pension costs – defined contribution schemes | **8** | 8 |

### 8. Staff numbers and costs

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

| | **Year ended 30 June 2020 Number** | Year ended 30 June 2019 Number |
|---|---|---|
| Management and administration | **36** | 39 |
| *Manufacturing and distribution* | **67** | 66 |
| Selling | **7** | 7 |
| | **110** | 112 |

The aggregate payroll costs of these persons were as follows:

| | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| Wages and salaries | **3,370** | 3,383 |
| Social security costs | **334** | 315 |
| Other pension costs (note 23) | **222** | 216 |
| | **3,926** | 3,914 |

## Notes to the financial statements for the year ended 30 June 2020

### 9. Finance income/(expense)

| | Year ended 30 June 2020 £'000 | Year ended 30 June 2019 £'000 |
|---|---|---|
| *Finance expense:* | | |
| Interest on leases (note 12) | (14) | — |
| *Finance income:* | | |
| Other interest | 162 | 139 |
| | 148 | 139 |

### 10. Income tax expense

| | Year ended 30 June 2020 £'000 | Year ended 30 June 2019 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax on the profit for the year at 19% (2019: 19%) | 29 | 32 |
| Total current tax | 29 | 32 |
| **Deferred tax:** | | |
| Current year | 37 | 35 |
| Total deferred taxation (Note 19) | 37 | 35 |
| Total tax charge | 66 | 67 |

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2019: 19%). The actual tax charge for the year is higher (2019: higher) than the standard rate for the reasons set out in the following reconciliation:

| | Year ended 30 June 2020 £'000 | Year ended 30 June 2019 £'000 |
|---|---|---|
| Profit before taxation | 215 | 43 |
| Tax on profit before taxation at UK standard rate of 19% (2019: 19%) | 41 | 8 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 2 | 82 |
| Adjustment in respect of provisions | — | (13) |
| Income not taxable | (3) | (7) |
| Change in tax rates | 26 | (3) |
| Total tax charge | 66 | 67 |

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and as part of Finance Bill 2016 on 6 September 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. In March 2020, a further change to the UK Corporation Tax rate was substantively enacted such that it would remain at 19% from 1 April 2020. 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 for the year ended 30 June 2020

### 11. Property, plant and equipment

| | Freehold land and buildings £'000 | Plant and equipment £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 July 2019 | 1,797 | 20,473 | 78 | 22,348 |
| Additions | 12 | 272 | — | 284 |
| Disposals | — | (107) | — | (107) |
| At 30 June 2020 | 1,809 | 20,638 | 78 | 22,525 |
| **Accumulated Depreciation** | | | | |
| At 1 July 2019 | 1,018 | 18,478 | 75 | 19,571 |
| Charge for year | 35 | 304 | — | 339 |
| Disposals | — | (107) | — | (107) |
| At 30 June 2020 | 1,053 | 18,675 | 75 | 19,803 |
| **Impairment provisions** | | | | |
| At 1 July 2019 | — | 504 | — | 504 |
| At 30 June 2020 | — | 504 | — | 504 |
| **Net book value at 30 June 2020** | **756** | **1,459** | **3** | **2,218** |
| Net book value at 30 June 2019 | 779 | 1,491 | 3 | 2,273 |

### 12. Leases

The Company has lease contracts for premises, equipment and vehicles used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

**(i) Amounts recognised in the statement of financial position**

The statement of financial position shows the following amounts relating to leases:

| | 30 June 2020 £'000 | 1 July 2019 £'000 |
|---|---|---|
| **Right of use assets** | | |
| Buildings | **162** | 437 |
| Property, plant and equipment | **88** | 127 |
| | **250** | 564 |
| ***Lease liabilities*** | | |
| Current | **200** | 366 |
| Non-current | **57** | 198 |
| | **257** | 564 |

## Notes to the financial statements for the year ended 30 June 2020

### 12. Leases (continued)

Additions to the right of use assets during the year to 30 June 2020 were £nil.

For adjustments recognised on adoption of IFRS 16 on 1 July 2019, please refer to Note 25.

### (ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

| | **Year ended 30 June 2020 £'000** | Year ended 30 June 2019 £'000 |
|---|---|---|
| **Depreciation charge of right of use assets** | | |
| Buildings | **(276)** | — |
| Property, plant and equipment | **(38)** | — |
| | **(314)** | — |
| Interest expense (included in finance cost) see Note 8 | **(14)** | — |
| Expense relating to leases of low value assets that are not shown above (included in administrative expenses | **(1)** | — |

### (iii) Maturity profile of lease liabilities

| | | |
|---|---|---|
| Future minimum lease payments as at 30 June are as follows: | | |
| Not later than one year | **202** | — |
| Later than one year but not later than five years | **62** | — |
| Total gross payments | **264** | — |
| Impact of future finance expenses | **(7)** | — |
| Carrying amount of liability | **257** | — |

The Company initially adopted IFRS 16 at 1 July 2019, using the simplified approach. Under this approach, comparative information is not restated and there is no impact of initially applying IFRS 16 on retained earnings at the date of initial application as the right of use assets are set equal to the lease liability (see note 25). Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year is based on IFRS 16.

The total cash outflow for leases in the year to 30 June 2020 was £322,000 (2019: £326,000).

### 13. Inventories

| | **30 June 2020 £'000** | 30 June 2019 £'000 |
|---|---|---|
| Raw materials and consumables | **1,110** | 1,256 |
| Finished goods | **1,018** | 1,600 |
| | **2,128** | 2,856 |

## Notes to the financial statements for the year ended 30 June 2020

### 13. Inventories (continued)

Inventories are stated net of provision of £210k (2019 £189k). *In the opinion of the directors there is no significant* difference between the replacement cost of stocks and their value above. Included within finished goods is consignment stock valued at £nil (2019: £nil).

### 14. Trade and other receivables

| | **30 June 2020 £'000** | 30 June 2019 £'000 |
|---|---|---|
| Trade debtors | **3,918** | 6,745 |
| Amounts owed by Group undertakings | **6,933** | 3,871 |
| Other debtors | **172** | 377 |
| Prepayments and accrued income | **165** | 192 |
| | **11,188** | 11,185 |

Trade debtors are stated net of an expected credit loss provision of £7k (2019: £19k).

Amounts owed by Group undertakings include a loan of £2,795k to International Fibres Group (Holdings) Limited, which bears interest at 5% per annum and is repayable on 30 June 2021. This balance was repaid on 1st July 2020. Also included is a loan of £4,138k to Duroc AB which bears interest at 50 bps above LIBOR rate and is calculated daily. This loan is part of a Group cash pool arrangement and is unsecured.

### 15. Creditors: amounts falling due within one year

| | **30 June 2020 £'000** | 30 June 2019 £'000 |
|---|---|---|
| Trade creditors | **1,599** | 1,940 |
| Corporation tax | **29** | 6 |
| Other taxes and social security | **88** | 90 |
| Lease liabilities (Note 12) | **200** | — |
| Other creditors | — | 96 |
| Accruals and deferred income | **432** | 539 |
| | **2,348** | 2,671 |

### 16. Creditors: amounts falling due after more than one year

Amounts falling due after more than one year and less than five years:

| | **30 June 2020 £'000** | 30 June 2019 £'000 |
|---|---|---|
| Lease liabilities (Note 12) | **57** | — |
| | **57** | — |

### 17. Other financial assets and liabilities

#### Derivative financial instruments

The Company uses various financial instruments to manage its exposure to movements in foreign exchange rates. Foreign exchange contracts mature over the period to 14 October 2020.
The foreign currency transaction exposure in the Company is protected with forward currency purchases and sales. All contracts are placed by the UK head office function.

## Notes to the financial statements for the year ended 30 June 2020

### 17. Other financial assets and liabilities (continued)

At 30 June 2020 the Company had hedged 1,860,500 (2019: 3,390,000) of its EUR denominated currency sales and 158,000 (2019: 269,000) of its AUD denominated currency sales.

| | **30 June 2020 Book and fair value £'000** | 30 June 2019 Book and fair value £'000 |
|---|---|---|
| **Current assets** | | |
| Foreign exchange contracts | **21** | — |
| **Current liabilities** | | |
| Foreign exchange contracts | — | (75) |
| | **21** | (75) |

At the year end the fair value of the currency derivatives are determined by market price as advised by the third-party banks with whom the instruments are held.

### 18. Provisions for liabilities and charges

A Health and Safety Executive prosecution relating back to 2017 was concluded in June 2020 with a penalty imposed of £367k plus prosecution costs of £24k. The Company was granted a repayment period of five years to repay the amount in full. The annual commitment is £78k per year, commencing June 2021. The provision has not been discounted as the discounting effect is not material.

**Movements during the year:**

| | **Due within one year £'000** | **Due after more than one year £'000** | **Total £'000** |
|---|---|---|---|
| **Provision for penalty and costs** | | | |
| At 1 July 2019 | — | 391 | 391 |
| Reclassification | 78 | (78) | — |
| Charged to income statement | — | — | — |
| **At 30 June 2020** | **78** | **313** | **391** |

### 19. Deferred taxation

| **Movements during the year:** | **Deferred taxation £'000** |
|---|---|
| At 1 July 2019 | (217) |
| Charged to income statement | (37) |
| **At 30 June 2020** | **(254)** |

| Deferred taxation | **Potential liability 30 June 2020 £'000** | **Amount provided 30 June 2020 £'000** | Potential liability 30 June 2019 £'000 | Amount provided 30 June 2019 £'000 |
|---|---|---|---|---|
| Accelerated tax allowances on plant, equipment and buildings | **257** | **257** | 220 | 220 |
| Other timing differences | **(3)** | **(3)** | (3) | (3) |
| | **254** | **254** | 217 | 217 |

# Notes to the financial statements for the year ended 30 June 2020

## 20. Commitments

### a. Operating lease commitments

The future minimum operating lease commitments are as follows:

| | **30 June 2020** | 30 June 2019 | **30 June 2020** | 30 June 2019 | **30 June 2020** | 30 June 2019 |
|---|---|---|---|---|---|---|
| | **Land & Buildings** | Land & Buildings | **Other** | Other | **Total** | Total |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Operating leases which expire: | | | | | | |
| Within 1 year | — | 280 | — | 41 | — | 321 |
| Within 2 to 5 years | — | 169 | — | 96 | — | 265 |
| After 5 years | — | -- | — | — | — | — |
| | — | 449 | — | 137 | — | 586 |

### b. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred was £nil (2019: £nil) in relation to plant and equipment.

## 21. Called up share capital

| | **30 June 2020** | 30 June 2019 |
|---|---|---|
| | **£** | £ |
| ***Allotted, called up and fully paid*** | | |
| 1 ordinary shares of £1 each (2019: 1) | **1** | 1 |

## 22. Contingent liabilities

Under the terms of the UK banking facilities the Company has guaranteed the net indebtedness of the following Group companies: International Fibres Group (Holdings) Limited, Speciality Coatings Group Limited and International Fibres Group Limited. The net indebtedness at 30 June 2020 amounted to £nil (2019: £nil).

## 23. Pension costs

The Company and other subsidiaries of International Fibres Group (Holdings) Limited are participants in the Chapelthorpe plc Pension Fund, a multi–employer, funded defined benefit scheme and the main scheme operated by the Group. The Company also operates a defined contribution scheme. The assets of both schemes are held in separate trustee administered funds.

With effect from 5 September 2008 the Chapelthorpe plc Pension Fund was closed to future accrual. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities and in accordance with International Accounting Standard No.19 "Employee Benefits" the Company accounts for its contributions to the plan as if it were a defined contribution scheme. Further details in relation to the funding arrangements and liability in relation to this plan can be found in the International Fibres Group (Holdings) Limited Annual Report and Financial Statements 2020.

During the year ended 30 June 2020 total pension contributions amounted to £221,725 (2019: £215,853) all of which related to the defined contribution scheme. The balance due to the Fund at 30 June 2020 was £7,521 (2019: £29,246).

# Notes to the financial statements for the year ended 30 June 2020

## 24. Ultimate holding company

International Fibres Group Limited, a company incorporated in the United Kingdom, is the immediate parent company of IFG Drake Limited. International Fibres Group AB, a company incorporated in Sweden, is the parent company of International Fibres Group (Holdings) Limited. However, these companies have not prepared consolidated financial statements at 30 June 2020.

Duroc AB (publ), a public company incorporated in Sweden (registration number 556446-4286) is the parent company of International Fibres Group AB and is the smallest and largest group to consolidate these financial statements. Duroc AB (publ) is listed on Nasdaq OMX Stockholm, small cap. Copies of the Group financial statements for Duroc AB (publ) may be obtained from Bolagsverket, 851 81 Sundsvall, Sweden.

Gyllenhammar Holding AB, a company incorporated and registered in Sweden, is the ultimate holding company. Copies of consolidated financial statements for Gyllenhammar Holding AB may be obtained from Bolagsverket, 851 81 Sundsvall, Sweden. P J P V Gyllenhammar is the ultimate controlling party of all companies noted above at the date of signing of the financial statements.

## 25. Effects of adoption of IFRS 16 Leases

As indicated in Notes 2 and 12, the company has adopted IFRS 16 Leases retrospectively from 1 July 2019 but has not restated comparatives for the 30 June 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at 1 July 2019. The new accounting policies are disclosed in note 2.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.8%.

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases for assets with a value less than £4000 as low value leases.
- Elected to not apply the recognition and measurement requirements of IFRS16 to short term leases (i.e. lease terms of 12 months or less).

### Measurement of lease liabilities

| | **£'000** |
|---|---|
| Operating lease commitments disclosed at 30 June 2019 | 586 |
| Discounted using the lessee's incremental borrowing rate of 3.8% at the date of initial application | (21) |
| (Less): low value leases not recognised as a liability | (1) |
| **Lease liability recognised as at 1 July 2019** | **564** |

### Measurement of right of use assets

The right of use assets for all leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

### Adjustments recognised in the statement of financial position as at 1 July 2019

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

- Right of use assets – increase by £564,000
- Lease liabilities – increase by £564,000

The net impact on retained earnings on 1 July 2019 was £nil.

## Notes to the financial statements for the year ended 30 June 2020

**_26. Post balance sheet events_**

On 1st July 2020 a dividend of £2,795,103.90 was proposed, declared and paid.

As included in Note 14 Trade and Other Receivables an amount oof £2,795,103.90 owed by International Fibres Group (Holdings) Ltd was repaid on 1st July 2020.

As the decision for the dividend and the Group balance repayment were both made after the balance sheet date and represent non-adjusting balance sheet events these will be reflected in the accounts to 30 June 2021.