Orchid Orthopedic Solutions Sheffield Ltd

Annual Report and Financial Statements

For the year ended 31 December 2022

Company Registration No. 01090667

CONTENTS

Strategic Report

For the year ended 31 December 2022

The directors present their Strategic Report for the Company for the year ended 31 December 2022.

Business review and principal activities

The Company's principal activity during the year continues to be the manufacture of orthopaedic implants and instruments for the medical industry.

The directors are pleased with the performance of the Company in the year. They have presented the key performance indicators ("KPIs") that the directors use to monitor the business activities of the Company:

	2022	2021	Movement
	£000	£000	£000
Revenue	35,955	22,627	13,328
Gross profit	8,263	5,486	2,777
Operating profit	3,813	1,142	2,671
Cash and cash equivalents	1,413	1,988	(575)
Total assets	47,688	37,940	9,748
Net assets	10,223	8,843	1,380

The Company experienced an increase in revenue of 59% for 2022 compared to the prior year (2021: 4% increase). The large increase was due to an accelerating recovery from the COVID-19 pandemic including higher levels of orthopaedic procedures in the end market.

Gross profit was £8,263k (2021: £5,486k) and operating profit increased to £3,813k (2021: £1,142k). These increases are due to increased operating leverage on the company's fixed costs due to higher sales levels. Cash is a KPI that the Company monitors and the Company has a cash inflow from operating activities of £487k (2021: £1,209k). Net cash for the financial year decreased by £575k (2021: increased by £78k). Assets increased to £47,688k (2021: £37,940k) largely due to higher levels of receivables and inventory as business started to recover toward the end of 2022. The directors consider that growth of revenues and profit will continue to be strong in 2023 as the company has been able to pass through increased costs and inputs to protect profit margins.

The directors do not have any significant plans to change the business model of the Company in the foreseeable future.

Strategic Report (continued)

For the year ended 31 December 2022

Principal risks and uncertainties

The Company's business may be at risk due to sales marketing strategies from key competitors and future healthcare spending levels, resulting in lost revenue, or the liquidity of customers.

The financial risk management objectives of the Company have been set out in note 16 to the financial statements.

This report was approved by the board of directors and signed on its behalf by:

DocuSigned by:
Warren O'Brien
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W O'Brien

Director

19 October 2023

Directors' Report

For the year ended 31 December 2022

The directors present their report and audited financial statements for the year ended 31 December 2022.

The registered office of the Company is Parkway Close, Parkway Industrial Estate, Sheffield, South Yorkshire, S9 4WH.

Dividend

No dividend was paid in the year (2021: £nil).

Directors

The directors who held office during the year and subsequent to the year end were as follows:

W O'Brien
S Hollingworth (appointed 12 June 2023)
D Beighton (resigned 16 August 2022)

Going concern

The financial statements have been prepared on a going concern basis. With the support of its parent companies, where necessary, the directors have considered expected events and sensitivity to negative risks to the company over the year following the signing date of the financial statements and have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. The parent company, Femur Buyer, Inc., has confirmed that it will provide financial support to the Company to enable it to meet its liabilities as they fall due through the one-year period following the issuance of these financial statements. Thus, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

Financial risk management

The financial risk management objectives and policies of the Company together with an indication of exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk have been set out in note 16 to the financial statements.

Future developments

The directors do not have any significant plans to change the business model of the Company in the foreseeable future.

Research and development

The directors are committed to providing a high quality service and product to their clients, and will invest in research activities in order to support the needs of their client base.

Environment

The Company recognises the importance of its environmental responsibilities, it monitors its impact on the environment and designs and implements policies to mitigate any adverse impact that might be caused by its activities. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

Directors' Report (continued)

For the year ended 31 December 2022

Employee consultation

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Section 172 (1) Statement

The Directors of the Company consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to Section 172 (a)-(f) of the Companies Act 2006.

Stakeholder engagement

Our success relies upon good relations with a range of different stakeholder groups, both internal (employees) and external (including customers, suppliers, and shareholders), all of whom have an interest in our business and may be impacted by the decisions we take. The manner of our engagement with them is described below.

Employees

The Directors consider that the Company's dedicated and skilled workforce is a key part of our success. Continuing to invest in our workforce, ensuring their safety, and regular engagement with them is a key part of our management approach. The Company has a relatively flat management structure with the General Manager reporting directly to the Directors of the Company. Regular information sharing and safety updates are provided to the workforce.

Customers

Providing a quality service to the Company's customers is at the heart of what we do and we seek regular customer feedback to ensure that our standards meet their needs. Our companies engage continually with their customers to build strong working relationships for the long term.

Suppliers

Our relationships with our supply chain, in particular our product suppliers, are an important part of our ability to deliver outstanding service to the Company's customer base. We engage with our suppliers as part of day-to-day operations to ensure they maintain the quality and availability of supplies.

Shareholders

The Directors engage with our shareholders through a number of channels including the Annual Report and regular informal communication including one-on-one meetings, telephone conversations, and emails. We note shareholder interest in both strategy and capital allocation decisions, including acquisitions, our balance sheet position, and the level of any dividend paid. We discuss these matters on a regular basis with our shareholders.

Communities and environment

The Directors are aware of the Company's responsibilities to the communities in which it operates and take this very seriously. As a significant employer in our communities we support local employment and seek to operate safely and ethically while monitoring our environmental impact.

Principal decisions

No material principal decisions were taken in 2022 that impact either the strategic direction of the business or the major stakeholders of the business.

Directors' Report (continued)

For the year ended 31 December 2022

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Political donations

The Company made no political contributions during the year (2021: £nil).

Disclosure of information to auditor

Each director who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Energy and Carbon Reporting

The Company is required to report its UK energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The data detailed below represents the emissions and energy used:

	2022	2021
Emissions resulting from the purchase of electricity, heat, steam or cooling (location based) (tCO2e)	1,448	1,434
Emissions resulting from the purchase of transportation fuels (tCO2e)	23	18
Total gross emissions (tCO2e)	1,471	1,452
Intensity ratio (tCO2e per employee)	5.7	6.4
Energy consumptions used to calculate above emissions (mWh)	7,535	6,888

We have followed the 2019 UK Government Environmental Reporting Guidelines and have used the 2022 UK Government's Conversion Factors for Company Reporting.

COVID-19 restrictions have meant a reliance on home working for many of our head office staff and vehicle use was reduced to virtually nothing. During this enforced closure, we analysed our energy consumption using monthly gas and electricity invoices. Moving forward we would expect our emissions to increase as travel activity returns to a normal level.

The Company is committed to improving its sustainability and efficiency. We are continuously seeking to improve operational efficiency and have considered alternative energy suppliers producing energy from renewable sources.

Directors' Report (continued)

For the year ended 31 December 2022

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law they have elected to prepare the financial statements in accordance with IFRS in conformity with the requirements of the Companies Act 2006.

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 estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the UK; 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.

Auditor

Ernst & Young LLP will seek re-appointment at the forthcoming Annual General Meeting.

This report was approved by the board of directors and signed on its behalf by:

DocuSigned by:
Warren O'Brien
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W O'Brien

Director

19 October 2023

Independent auditor's report to the members of Orchid Orthopedic Solutions Sheffield Ltd

Opinion

We have audited the financial statements of Orchid Orthopedic Solutions Sheffield Ltd for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. 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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Independent auditor's report to the members of Orchid Orthopedic Solutions Sheffield Ltd (continued)

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 contained within the annual report.

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent auditor's report to the members of Orchid Orthopedic Solutions Sheffield Ltd (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework, International Accounting Standards in conformity with the requirements of the Companies Act 2006, the Companies Act 2006 and the relevant tax laws and regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements relating to the medical industry, health and safety, employee matters and data protection.

- We understood how the company is complying with those frameworks by making enquiries of management and those charged with governance. We corroborated our enquiries through our review of board minutes and consideration of the results of our audit procedures across the company.

Independent auditor's report to the members of Orchid Orthopedic Solutions Sheffield Ltd (continued)

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where they considered there was susceptibility to fraud and reviewed the entity level controls in place. We also considered the existence of performance targets and their potential influence on management to manage earnings. We considered the controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management and those charged with governance monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. We concluded that both the posting of manual journals to revenue and revenue cut-off were fraud risks. We reviewed manual journals to revenue and considered the nature of these transactions. For those that we did not consider to be in the normal course of business and are not of a trivial value we obtained evidence to support the validity of such adjustments. We tested revenue cut off, through selecting a sample of items and validated these to invoice and proof of delivery or other evidence to demonstrate the accounting was appropriate. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with the laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions; enquiries of company management; and challenging the assumptions and judgements made by management by reviewing third party evidence wherever possible. We also leveraged our data analytics platform in performing our work to assist in identifying higher risk transactions for testing.

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

Use of our report

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

DS

Ernst & Young LLP

Peter Buckler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

19 October 2023

Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Revenue	2	35,955	22,627
Cost of sales		(27,692)	(17,141)
Gross profit		8,263	5,486
Distribution costs		(126)	(100)
Administrative expenses		(4,324)	(4,244)
Operating profit	4	3,813	1,142
Finance income	5	595	392
Finance expenses	5	(2,929)	(1,131)
Profit before taxation		1,479	403
Taxation	6	(99)	98
Profit for the financial year		1,380	501
Other comprehensive income for the year		-	-
Total comprehensive income for the financial year		1,380	501

All operations of the Company relate to continuing activities.

The notes on pages 15 to 38 form part of the financial statements.

Statement of Financial Position

as at 31 December 2022

Company registered number: 01090667

	Notes	2022 £000	2021 £000
Non-current assets			
Intangible assets	7	-	-
Property, plant and equipment	8	2,708	2,923
Right-of-use assets	17	2,277	2,515
Finance lease receivables	17	451	871
Deferred tax asset	9	387	487
		5,823	6,796
Current assets			
Inventories	10	6,265	3,394
Trade and other receivables	11	33,145	24,556
Finance lease receivables	17	420	398
Cash and cash equivalents		1,413	1,988
Current tax assets		622	808
		41,865	31,144
Total assets		47,688	37,940
Current liabilities			
Trade and other payables	12	33,712	24,446
Other provisions	13	211	453
Lease liabilities	17	719	656
		34,642	25,555
Non-current liabilities			
Lease liabilities	17	2,823	3,542
		2,823	3,542
Total liabilities		37,465	29,097
Net assets		10,223	8,843
Shareholder funds			
Share capital	15	1,321	1,321
Other reserves		80	80
Retained earnings		8,822	7,442
Total shareholder funds		10,223	8,843

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

DocuSigned by:
Warren O'Brien
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W O'Brien

Director

19 October 2023

The notes on pages 15 to 38 form part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2022

	Share capital £000	Other reserves £000	Retained earnings £000	Total shareholder's funds £000
Balance at 1 January 2021	1,321	80	6,941	8,342
Profit for the year	-	-	501	501
Other comprehensive income	-	-	-	-
Balance at 31 December 2021	1,321	80	7,442	8,843
Profit for the year			1,380	1,380
Other comprehensive income	-	-	-	-
Balance at 31 December 2022	1,321	80	8,822	10,223

Other reserves

Other reserves represent an immaterial historic reserves transfer that pre-dates the Company's acquisition by the Orchid Orthopedic Solutions Limited group.

Retained earnings

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

The notes on pages 15 to 38 form part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2022

	2022 £000	2021 £000
Operating activities		
Profit for the year	1,380	501
Adjustments for:		
- Depreciation	1,074	985
- Finance income	(595)	(392)
- Finance expense	2,929	1,131
- Taxation	99	(98)
Changes in working capital		
- Increase in inventories	(2,871)	(525)
- Increase in trade and other receivables	(8,589)	(3,434)
- Increase in trade and other payables	9,266	2,792
- (Decrease)/ increase in other provisions	(242)	453
Cash generated from operations	2,451	1,413
- Income tax (paid)/ received	187	370
- Interest received	528	302
- Interest paid	(2,679)	(876)
Cash generated from operating activities	487	1,209
Investing activities		
- Proceeds from lease receivables	465	465
- Purchases of plant and equipment	(621)	(713)
Cash used in investing activities	(156)	(248)
Financing activities		
- Lease payments	(906)	(883)
Cash used in financing activities	(906)	(883)
Net (decrease) / increase in cash and cash equivalents	(575)	78
Cash and cash equivalents at the start of the year	1,988	1,910
Cash and cash equivalents at the end of the year	1,413	1,988

The notes on pages 15 to 38 form part of the financial statements.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies

Orchid Orthopedic Solutions Sheffield Ltd (the "Company") is a Company incorporated and domiciled in the UK.

The Company financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRSs").

Going concern

The financial statements have been prepared on a going concern basis. With the support of its parent companies, where necessary, the directors have considered expected events and sensitivity to negative risks to the company over the year following the signing date of the financial statements and have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. The parent company, Femur Buyer, Inc., has confirmed that it will provide financial support to the Company to enable it to meet its liabilities as they fall due through the one-year period following the issuance of these financial statements. Thus, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

Measurement convention

The Company's financial statements are prepared on the historical cost basis. The Company's accounting policies have been consistently applied to the results, gains and losses, assets, liabilities and cash flows of the Company.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In accordance with IAS 36, impairment is determined by comparing the carrying amount of the asset with its recoverable amount; the higher of the asset's fair value less costs to sell and its value in use.

Patents and trademarks

Patents and trademarks acquired are amortised using the straight-line method over the estimated useful economic life, but limited to ten years. The directors perform a review of the assets of the Company where there is evidence of a change in circumstance that may indicate a possible impairment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and machinery – 3 to 12 years
- Other items of property, plant and equipment – 2.5 to 7 years

Depreciation of assets under the course of construction commences when the assets are ready for their intended use.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

Financial instruments

Financial assets

Financial assets comprise trade and other receivables (excluding prepaid commissions and prepaid expenses) and cash and cash equivalents. Financial assets are initially recognised at fair value plus directly attributable transaction costs.

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument and are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and reward are transferred.

Financial assets are also derecognised (written-off) when the Company has no reasonable expectation of recovering the financial asset. Indicators of where there is no reasonable expectation of recovery include indicators of a customer's inability to pay or losses arising in relation to contract disputes.

The Company classifies all of its financial assets as assets measured at amortised cost. Financial assets are measured at amortised cost when both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest rate method.

At each reporting date the Company recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. In establishing the appropriate amount of loss allowance to be recognised, the Company applies the simplified approach to its financial assets. Under the simplified approach the Company always recognises a loss allowance for a financial asset at an amount equal to the lifetime expected credit losses. Further details in respect of application of the simplified approach are set out in note 11.

Credit losses on related party financial asset amounts are not considered to be an area of critical judgement as management has full access to the accounts of related party entities and those entities have shown an intent and ability to extend increasing amounts of credit to the Company. The ability of related parties to meet their credit obligations is an integral component of the support previously referred to in the going concern subsection of note 1.

Financial liabilities

Financial liabilities include trade and other payables (excluding deferred income).

Financial liabilities are obligations to pay cash or other financial assets and are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment of non-financial assets

Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is measured as the higher of fair value less cost of disposal and value in use. The value in use is calculated as being net projected cash flows based on financial forecasts discounted back to present value.

The impairment loss is allocated to reduce the carrying amount of the asset, first against the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

Revenue

Revenue from contracts with customers comprises revenue from the sale of goods. Revenue is measured at the transaction price excluding value added tax and other sales taxes.

Revenue is recognised when the Company's performance obligations have been satisfied and the following criteria have been met:

- the parties to the contract have approved the contract;
- the Company can identify each party's rights regarding the services to be transferred;
- the Company can identify the payment terms for the services to be transferred;
- the contract has commercial substance; and
- it is probable that the Company will collect the consideration for the services transferred.

In satisfying the Company's performance obligations, revenue is recognised over time in arrangements where the company has an enforceable right to payment for performance completed to date, and at a point in time for all other arrangements.

For arrangements for which revenue is recognised over time, progress is measured using the input method.

For arrangements for which revenue is recognised at a point in time, that point in time is the date at which title of the goods is transferred to the customer.

Contract liabilities consists of billings or payments received in advance of revenue recognition.

Contract assets consists of revenue recognised in advance of billings or payments.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

The Company as a lessee

Leases are recognised as a right-of-use assets and a lease liability at the date that the leased asset became available for use by the Company.

Lease liabilities

Lease liabilities are initially measured at net present value. At the commencement of a lease the net present value measurement includes the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend 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 group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payment of penalties for terminating the lease, if the lease term reflects the Company exercising the option.

Lease payments made under an extension option are included in measuring the liability where the Company is reasonably certain to exercise the option.

The lease payments are discounted using the interest rate implicit in the lease. Where that rate cannot be readily determined the Company's incremental borrowing rate is used, being the rate of interest the Company would have to pay to borrow over a similar term, with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset of in a similar economic environment. Where possible the incremental borrowing rate is determined using recent third party financing received adjusted for conditions specific to the lease.

Interest on the lease liability is recognised in profit or loss over the lease period to produce a constant periodic rate of interest on the liability outstanding for the period.

Right-of-use assets

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

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- an estimate of restoration costs to be incurred.

Right-of-use assets arc depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The right-of-use asset is depreciated over the underlying asset's useful life if the Company is reasonably certain to exercise an option to purchase. Right-to-use buildings held within property, plant and equipment are not revalued.

The Company leases office premises, equipment and vehicles. Lease contracts are usually made for fixed periods of 1 to 10 years, but can include extension clauses as described below. Typically the lease terms do not impose any covenants other than the security interests held in the leased asset held by the lessor. There are restrictions placed on the use of leased assets as security for borrowing purposes.

The Company is using the available exemptions to not measure short-term leases and low value asset leases in accordance with IFRS 16. The costs in respect of these leases are recognised on an accruals basis, as incurred.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

The Company as a lessor

The Company enters into sub-lease arrangements with respect to certain property leases. Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect the leases.

Finance income and expenses

Finance income and expenses comprise interest payable, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the income statement.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical cxpcricncc and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Judgements

The following significant management judgements have been made in applying the accounting policies of the Company which have the most effect on the financial statements.

Recognition of a deferred tax asset

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Key sources of estimation uncertainty

The cost of inventory includes those costs directly related to the unit of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads incurred to each item of inventory produced. Because these costs are allocated to items of inventory based on the normal capacity of the production facilities this management are required to estimate the average capacity of the facilities operating under normal conditions. The carrying amount of inventories at 31 December 2022 was £6,265k, which includes £2,223k of absorbed labour, fixed overheads and variable overheads.

Notes to the financial statements

for the year ended 31 December 2022

1. Summary of significant accounting policies (continued)

Amendments to IFRSs that are mandatorily effective for the current year

The adoption of the following standards, amendments and interpretations in the current year have not had a material impact on the Company's financial statements.

	UK effective date – periods beginning on or after
IAS 16 *Amendment: Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022 *
IAS 37 *Amendment: Onerous Contracts: Cost of Fulfilling a Contract*	1 January 2022 *
IFRS 3 *Amendment: Reference to the Conceptual Framework*	1 January 2022 *
Annual Improvements Cycle 2018 to 2020	1 January 2022 *

Standards, amendments and interpretations in issue but not yet adopted

The adoptions of the following standards, amendments and interpretations in future years are not expected to have a material impact on the Group's financial statements.

	UK effective date – periods beginning on or after
IFRS 17 *Insurance Contracts* and Amendments to IFRS 17	1 January 2023*
IFRS 17 *Insurance Contracts* (Amendment): Initial Application of IFRS 17 and IFRS 9 – Comparative information	1 January 2023**
IAS *1 Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (Amendment): Disclosure of Accounting Policies	1 January 2023 **
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment): Definition of Accounting Estimates	1 January 2023 **
IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023 **
IAS 1 *Presentation of Financial Statements* (Amendment): Classification of Liabilities as Current or Non-current and classification of Non-current Liabilities with covenants	1 January 2024 **
IFRS 16 *Leases* (Amendment): Lease Liability in a Sale and Leaseback	1 January 2024**

* UK- adopted

** Not UK-adopted

Notes to the financial statements

for the year ended 31 December 2022

2. Revenue

Revenue is analysed by geographical destination as follows:

	2022 £000	2021 £000
UK	7,300	5,413
Germany	4,774	3,627
Rest of Europe	6,541	4,342
USA	1,762	775
Rest of World	15,578	8,470
	35,955	22,627

Revenue is disaggregated as follows:

	2022 £000	2021 £000
Revenue recognised at a point in time	32,428	20,855
Revenue recognised over time	3,527	1,772
	35,955	22,627

All of the Company's revenue is derived from the sale of goods.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward balances of contract liabilities:

	2022 £000	2021 £000
Revenue recognised that was included in contract liabilities at the beginning of the year	-	-

The following table shows how much of the revenue recognised in the current reporting period relates to performance obligations that were satisfied (or partially satisfied) in a prior year:

	2022 £000	2021 £000
Revenue recognised during the current year that relates to performance obligations satisfied (or partially satisfied) in a prior year	124	-

Notes to the financial statements

for the year ended 31 December 2022

3. Staff numbers and costs

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

	Number of employees 2022	2021
Administration and sales	12	10
Production	245	217
	257	227

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	7,497	6,879
Social security costs	896	696
Other pension costs	620	619
	9,013	8,194

Directors' remuneration

	2022 £000	2021 £000
Emoluments	500	373
Pension contributions	25	20
	525	393

During the year, two directors (2021: two) were remunerated directly by Orchid Orthopedic Solutions Sheffield Ltd. The directors are also directors of fellow companies within the wider Femur Buyer, Inc. group, and all of their remuneration is paid by those other companies. These directors have assessed that the proportion of their salary attributable to this company is £59,000 (2021: £17,000). During the year there were no directors accruing benefits in respect of money purchase pension schemes (2021: None).

The highest paid director in the year received total remuneration of £302,000 (2021: £241,000).

Key management personnel compensation

	2022 £000	2021 £000
Short-term bcnefits	691	361
	691	361

Key management personnel comprises the directors of the Company and certain members of senior management.

Notes to the financial statements

for the year ended 31 December 2022

4. Operating profit

Operating profit is stated after charging:

	2022 £000	2021 £000
Depreciation of property, plant and equipment	836	790
Depreciation of right-of-use assets	238	195
Auditor's remuneration		
- Audit of these financial statements	52	52
- Taxation services	25	25

During the year, the Company claimed £Nil (2021: £363k) from the UK Government in respect of the Coronavirus Job Retention Scheme. All performance conditions have been met and the amount is presented as a deduction from the related expense.

5. Finance income and finance expense

	2022 £000	2021 £000
Finance income		
- Interest receivable from group undertakings	528	301
- Interest on finance leases receivables	67	91
	595	392

	2022 £000	2021 £000
Finance expense		
- Interest payable to group undertakings	1,138	696
- Difference on foreign exchange	1,437	131
- Other finance costs	104	49
- Interest on lease liabilities	250	255
	2,929	1,131

Notes to the financial statements

for the year ended 31 December 2022

6. Taxation

Recognised in the statement of comprehensive income:

	2022 £000	2021 £000
Current tax charge		
- Current year	22	21
- Adjustment in respect to prior periods	(23)	(298)
Current tax charge / (credit)	(1)	(277)
Deferred tax		
- Origination and reversal of temporary differences	15	105
- Adjustments in respect of prior periods	85	214
- Effect of rate change	-	(140)
Deferred tax charge	100	179
Tax charge / (credit) in income statement	99	(98)

Reconciliation of effective tax rate:

	2022 £000	2021 £000
Profit before tax	1,479	403
Tax using the UK corporation tax rate of 19% (2021: 19%)	281	85
Non-deductible expenses	32	18
Adjustments in respect of prior periods	62	(84)
Effect of rate change	-	(140)
Utilisation of group losses (not paid for)	(281)	-
Other tax adjustments	5	23
Total tax in income statement	99	(98)

Notes to the financial statements

for the year ended 31 December 2022

7. Intangible assets

	Patents and trademarks £000	Goodwill £000	Total £000
Cost			
At 1 January 2021, 31 December 2021 and 31 December 2022	110	34,492	34,602
Amortisation and impairment			
At 1 January 2021, 31 December 2021 and 31 December 2022	(110)	(34,492)	(34,602)
Net book value			
At 1 January 2021, 31 December 2021 and 31 December 2022	-	-	-

Notes to the financial statements

for the year ended 31 December 2022

8. Property, plant and equipment

	Construction in progress £000	Plant and machinery £000	Other £000	Total £000
Cost				
At 1 January 2021	277	16,838	1,350	18,465
Additions	713	-	-	713
Disposals	-	(43)	-	(43)
Transfers	(430)	362	68	-
At 31 December 2021	560	17,157	1,418	19,135
Additions	575	-	46	621
Transfers	(507)	507	-	-
At 31 December 2022	628	17,664	1,464	19,756
Depreciation and impairment				
At 1 January 2021	-	14,279	1,186	15,465
Depreciation for the year	-	688	102	790
Disposals		(43)	-	(43)
At 31 December 2021	-	14,924	1,288	16,212
Depreciation for the year	-	784	52	836
At 31 December 2022	-	15,708	1,340	17,048
Net book value				
At 31 December 2022	628	1,956	124	2,708
At 31 December 2021	560	2,233	130	2,923

Notes to the financial statements

for the year ended 31 December 2022

9. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. The offset amounts are as follows:

	2022 £000	2021 £000
Deferred tax assets	403	545
Deferred tax liabilities	(16)	(58)
Deferred tax asset - net	387	487

Movement in deferred tax:

	Property, plant and equipment £000	Other temporary differences £000	Total £000
At 1 January 2021	667	-	667
Recognised in income	(180)	-	(180)
At 31 December 2021	487	-	487
Recognised in income	(34)	(66)	(100)
At 31 December 2022	453	(66)	387

Deferred tax is calculated on temporary differences using a tax rate of 25% (2021: 25%).

The Finance Act 2021 was substantively enacted on 24 May 2021 and has increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. Under IAS 12, deferred tax is required to be calculated using rates that have been substantively enacted at the balance sheet date, hence 25% has been used. The increase in the tax rate to 25% will impact the rate at which deferred tax balances reversing on or after that date are recognised in the financial statements.

The Company's potential deferred tax asset as at 31 December 2022 is recognised in full, relating primarily to fixed asset temporary differences (2021: recognised in full).

Notes to the financial statements

for the year ended 31 December 2022

10. Inventories

	2022 £000	2021 £000
Raw materials and consumables	2,070	899
Work in progress	3,467	2,116
Finished goods	728	379
	6,265	3,394

The cost of inventories recognised as expenses in the year was £16.8 million (2021: £10.9 million). In addition, the carrying value of inventories was written down by £319k (2021: £351k).

11. Trade and other receivables

		2022 £000	2021 £000
Receivables due from group undertakings	(note 20)	24,455	19,671
Trade receivables		7,908	4,466
Prepayments and accrued income		108	143
Other receivables		674	276
		33,145	24,556

Included within trade and other receivables is £nil (2021: £nil) expected to be recovered in more than 12 months.

The analysis of unsecured trade receivables that were past due but not impaired is as follows:

2022

	Total	Not past due	Past due			
			1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
	£000	£000	£000	£000	£000	£000
Gross	7,940	6,683	1,041	90	25	101
Provision	(32)	(16)	(8)	(3)	(1)	(4)
	7,908	6,667	1,033	87	24	97

2021

	Total	Not past due	Past due			
			1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
	£000	£000	£000	£000	£000	£000
Gross	4,516	3,695	667	51	12	91
Provision	(50)	(50)	-	-	-	-
	4,466	3,645	667	51	12	91

Notes to the financial statements

for the year ended 31 December 2022

11. Trade and other receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2022 £000	2021 £000
At 1 January	50	273
Increase in provision	49	-
Released during the year	(67)	(223)
At 31 December	32	50

At each reporting date the Company recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. In establishing the appropriate amount of loss allowance to be recognised, the Company applies the simplified approach to its financial assets. Under the simplified approach the Group always recognises a loss allowance for a financial asset at an amount equal to the lifetime expected credit losses.

In applying the simplified approach, the methodology for determining credit risk is based on historic loss rates (e.g. bad debt write offs) which are applied as a default probability to receivables, based on the debtor age, and adjusted for factors that are specific to the debtors, general economic conditions and an assessment of forward looking information at the reporting date. Where indicators of default risk are identified on specific exposures, the individually assessed assets will be provided in full or in accordance with the level of the cash flows expected to be recoverable. Default is defined as non-payment by a customer. There have been no expected credit losses recognised in the year.

12. Trade and other payables

	2022 £000	2021 £000
Current		
Payables due to group undertakings (note 20)	28,557	21,063
Trade payables	4,408	2,608
Other taxation and social security	199	130
Accruals and deferred income	548	645
	33,712	24,446

13. Other provisions

The Company has established a provision for expected returns of products in the amount of £211,000 (2021: £453,000).

Notes to the financial statements

for the year ended 31 December 2022

14. Employee benefits

The Company participates in a defined contribution pension plan. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund and amounted to £620,000 (2021: £619,000). At 31 December 2022 there were contributions outstanding of nil (2021: £Nil).

15. Share capital

	2022 £000	2021 £000
Authorised:		
1,320,614 shares at £1 each	1,321	1,321
Allotted, called up and fully paid		
1,320,614 shares at £1 each	1,321	1,321

16. Financial instruments

Overview

The Company has exposure to foreign currency, interest rate, credit and liquidity risk that arises in the normal course of the Company's business. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Fair value of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand.

Notes to the financial statements

for the year ended 31 December 2022

16. Financial instruments (continued)

The Directors consider that the carrying value of financial instruments approximates their fair value.

Foreign currency risk

The Company is exposed to foreign currency risk for transactions that are denominated in a currency other than Sterling (GBP). The Company's exposure to foreign currency risk, based on notional amounts, is summarised as follows:

	2022 £000	**2021 £000**
Assets		
Cash		
- EUR	23	159
- USD	517	114
Trade receivables		
- EUR	-	45
- USD	128	207
Intercompany receivable – USD	24,450	19,606
	25,118	20,131
Liabilities		
Trade payables		
- USD	315	293
Intercompany payables – USD	28,557	21,063
	28,872	21,356

Sensitivity analysis

A 10% strengthening / weakening of the Sterling against the foreign currencies at the year-end would have increased / decreased the Company's equity and profit by £465,000 (2021: £158,000). The analysis is performed on the same basis as the prior year.

Notes to the financial statements

for the year ended 31 December 2022

16. Financial instruments (continued)

Interest rate risk

The Company is not exposed to significant interest rate risk, and therefore a sensitivity analysis has not been performed.

Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade and other receivables. Management has a credit risk policy and exposure to credit risk is monitored on an ongoing basis.

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date was £33,145,000 (2021: £26,442,000) being the total of the carrying amount of the financial assets.

Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing its liquidity is to ensure, as far as possible, that it has sufficient liquidity available to meet its liabilities when due, both under normal and adverse economic conditions, without incurring unacceptable losses or risking damage to its reputation.

The Company's financial liabilities represent its contractual cash flows.

Capital management

The Company ensures that it has sufficient cash on demand to meet its expected operational expenses for a period of 60 days, including the servicing of any financial obligations. This excludes the potential impact of extreme circumstances which cannot be reasonably predicted, for example, natural disasters.

Notes to the financial statements

for the year ended 31 December 2022

17. Leases

Lessee

The Company leases various vehicles, equipment and buildings.

Additions to the right-of-use assets in 2022 were £Nil (2021: £540k).

The total cash outflow for leases was £906k (2021: £883k).

Amounts recognised in the Statement of Financial Position:

Right of use assets	**Land and buildings £000**	**Other £000**	**Total £000**
Cost			
At 1 January 2021	2,555	20	2,575
Additions	540	-	540
At 31 December 2021	3,095	20	3,115
Additions	-	-	-
At 31 December 2022	3,095	20	3,115
Depreciation and impairment			
At 1 January 2021	389	16	405
Depreciation for the year	191	4	195
At 31 December 2021	580	20	600
Depreciation for the year	238	-	238
At 31 December 2022	818	20	838
Net book value			
At 31 December 2022	2,277	-	2,277
At 31 December 2021	2,515	-	2,515

Notes to the financial statements

for the year ended 31 December 2022

17. Leases (continued)

	2022 £000	2021 £000
Lease liabilities		
- Current	719	656
- Non-current	2,823	3,542
	3,542	4,198

Maturity analysis of lease liabilities:

The remaining contractual maturities of the undiscounted lease payments are as follows:

	2022 £000	2021 £000
Not later than a year	949	907
Later than one and not later than five	1,759	2,441
Later than five years	1,985	2,270
	4,693	5,618

Amounts recognised in the Statement of Comprehensive Income

The Statement of Comprehensive Income shows the following amounts relating to leases:

	2022 £000	2021 £000
Depreciation on right of use assets:		
- Land and buildings	238	191
- Other	-	4
Interest expense on lease liabilities	250	255

Notes to the financial statements

for the year ended 31 December 2022

17. Leases (continued)

Lessor

The Company subleases one of its properties.

The remaining contractual maturities of the undiscounted lease receivables are as follows:

	2022 £000	2021 £000
Not later than a year	465	465
Later than one year and not later than five years	465	930
	930	1,395
Less: unearned finance income	(59)	(126)
Net investment in the lease	871	1,269
Current finance lease receivables	420	398
Non-current finance lease receivables	451	871

18. Capital commitments

At the reporting date the Company had committed to capital expenditure of £71,326 that was not provided for in the statement of financial position (2021: £45,965).

19. Contingencies and guarantees

The Company does not have any contingent arrangements at 31 December 2022 and 31 December 2021.

In relation to the parent undertaking's banking arrangements with its first and second lien lenders, the Company has provided a fixed and floating charge over all property (present and future), including goodwill, book debts, uncalled capital, building, fixtures, fixed plant and machinery to holders of its first and second lien debt.

Notes to the financial statements

for the year ended 31 December 2022

20. Related parties

Transactions with key management personnel

Key management personnel compensation has been disclosed in note 3. There were no other transactions with key management personnel in either the current or the preceding year.

Other related party transactions

During the year, the Company had the following transactions and balances with its related parties:

	Sales		Purchases		Interest income	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Parent companies	-	-	94	314	528	301
Other related parties	-	-	-	-	-	-
	-	-	94	314	528	301

	Interest expense		Management fee expense		Royalty fee expense	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Parent companies	1,138	696	1,115	531	1,770	1,129
	1,138	696	1,115	531	1,770	1,129

The royalty fee was introduced in 2018 for the use of the "Orchid" trade name. It is calculated based on 5% of the Company's net sales in the year.

	Balances due from related parties		Balances due to related parties	
	2022	2021	2022	2021
	£000	£000	£000	£000
Parent companies	13,056	9,992	18,670	15,217
Other related parties	11,399	9,679	9,887	5,846
	24,455	19,671	28,557	21,063

21. Ultimate parent company and parent company of larger group

The immediate parent Company is Orchid Orthopedic Solutions Ltd, a company incorporated in the UK. Orchid Orthopedic Solutions Ltd is the smallest group which includes the Company and for which consolidated financial statements are prepared. These are publicly available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The parent undertaking of both the largest group of undertakings of which the Company is a member and in whose group accounts it is included is Nordic Capital IX Limited. The ultimate parent company and controlling party is Nordic Capital IX Limited, a company incorporated in Jersey.