

Registration number: 05191512

Gen 2 Carbon Limited

(formerly ELG Carbon Fibre Limited)

Annual Report and Financial Statements

for the Period from 1 January 2021 to 30 December 2021

FRIDAY



ABX1AA9E

A05

10/02/2023

#7

COMPANIES HOUSE

Gen 2 Carbon Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6 to 8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Statement of Cash Flows	12 to 13
Notes to the Financial Statements	14 to 29

Gen 2 Carbon Limited

Company Information

Directors	F Barnes M Hitchmough
Registered office	Cannon Business Park Gough Road Coseley Dudley West Midlands WV14 8XR
Auditors	Hawsons Chartered Accountants Pegasus House 463a Glossop Road Sheffield South Yorkshire S10 2QD

Gen 2 Carbon Limited

Strategic Report for the Period from 1 January 2021 to 30 December 2021

The directors present their strategic report for the period from 1 January 2021 to 30 December 2021.

Principal activity

The company underwent a significant change in April 2021, when the assets related to the manufacture of products for the compounding industry were sold, and the shares of the business were purchased from ELG Haniel GmbH by Gen 2 Composites Ltd. The company was renamed Gen 2 Carbon Ltd, and its principal activity became the recycling of waste carbon fibre into products that are intended for use in composite and clean energy applications and the development of related technology.

Fair review of the business

The results for the year are detailed in the financial statements.

Turnover decreased by 17% from £1.65m to £1.38m. The decrease was driven by the sale of the compounding business and related assets in April.

Sales of carbon fibre nonwovens for the composites industry fell from £511k to £244k. This was the result of COVID-19 affecting customers' production and development plans, with the sales to the wind energy market segment being particularly affected and falling from £366k to £137k as production was halted at several manufacturing sites. This accounted for 86% of the reduction in sales.

The company incurred a loss before tax for the year of £10.3m compared to a loss of £7.1m in 2020. This was mainly due to actions taken to restructure the business following the sale of the compounding business and assets and the acquisition by Gen 2 Composites Ltd.

The Board monitors progress on the company's strategy by reference to two KPIs, being turnover and result before tax. An analysis of these KPIs for 2021 is included in the business review above.

Future developments

In the second half of 2021, there was a strong increase in activity on the principal customer development programmes that underpin the company's future plans. In particular, significant progress was made on three high volume automotive programmes that are due to start mass production in either 2022 or 2023, and Gen 2 Carbon materials, used for the cabin interior, were displayed by Boeing on its eco-Demonstrator in Glasgow ahead of COP-26. These programmes provide a strong foundation for future growth.

Designs for next-generation equipment and processes for recovering carbon fibre from waste were advanced and trials to verify these developments were successfully carried out at production representative scale. The objectives of these new technologies are to reduce energy consumption, increase yield and increase flexibility of the recycling processes. The company has started deploying these new technologies in 2022.

The company continues to engage in research and development programmes with its partners and customers. In particular, the company has focussed its R&D resources on the development of products based on recycled carbon fibre nonwovens in the clean energy market sector, with these developments leading to initial, low volume sales in 2022.

The directors continually assess the potential impact of COVID-19 on the business. Whilst the company has been able to manage its own operations without any significant impact, there are still risks of disruption to some customer operations and these are factored into the company's business plans.

The company maintained its BS EN 9100 and ISO 14001 accreditations following full audits after the change in ownership. The company will seek to further refine its Quality, Health, Safety and Environmental systems, in line with its continuous improvement philosophy.

Gen 2 Carbon Limited

Strategic Report for the Period from 1 January 2021 to 30 December 2021 (continued)

Principal risks and uncertainties

The key business risks and uncertainties affecting the company are considered to be:

- Macroeconomic risks related to the COVID-19 pandemic and its effect on global supply chains.
- Macroeconomic risks related to the cost of energy.
- Macroeconomic risks related to inflation and its impact on consumer purchasing habits.

Approved by the Board on 6th Feb 23 and signed on its behalf by:



F Barnes
Director

Gen 2 Carbon Limited

Directors' Report for the Period from 1 January 2021 to 30 December 2021

The directors present their report and the audited financial statements for the period from 1 January 2021 to 30 December 2021.

Change of company name

The company changed its name from ELG Carbon Fibre Limited to Gen 2 Carbon Limited on 29 April 2021.

Directors of the company

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

F Barnes

M Hitchmough (appointed 21 June 2021)

I Ito (ceased 9 April 2021)

M Rist (ceased 29 April 2021)

M Ueno (ceased 9 April 2021)

Directors' liabilities

The company has made qualifying third party indemnity provisions for the benefits of its directors which were made during the year and remain in force at the date of this report.

Disclosure of information to the auditors

Each director of the company who held office at the date of the approval of this Annual Report, as set out above, confirms that:

- so far as they are aware, there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- they have taken all the steps 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 auditor is aware of that information.

Reappointment of auditors

The auditors Hawsons Chartered Accountants are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 6 Feb 23 and signed on its behalf by:



F Barnes
Director

Gen 2 Carbon Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

Gen 2 Carbon Limited

Independent Auditor's Report to the Members of Gen 2 Carbon Limited

Opinion

We have audited the financial statements of Gen 2 Carbon Limited (the 'company') for the period from 1 January 2021 to 30 December 2021, which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2021 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates that additional funding will be required to enable the company to continue in operational existence. The shareholders of the parent company have confirmed that sufficient financial support will be made available to enable the company to meet its obligations as they fall due for a period of not less than 12 months from the date of approval of the financial statements, subject to the company meeting agreed performance targets. As stated in note 1, the directors acknowledge that this support is not legally binding and is dependent on the company meeting those agreed performance targets. Additionally, the company's forecasts include cash flows from a new product line due to be launched to the market in mid-2023 which would significantly increase sales. Whilst the company expects this to happen, this cannot be guaranteed. Furthermore, as stated in note 1, the company has continued to make losses throughout 2022. These conditions, along with other matters set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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 our report, we do not express any form of assurance conclusion thereon.

Gen 2 Carbon Limited

Independent Auditor's Report to the Members of Gen 2 Carbon Limited (continued)

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter 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 Directors' Report for the financial period 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 our 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 the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, 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 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Gen 2 Carbon Limited

Independent Auditor's Report to the Members of Gen 2 Carbon Limited (continued)

The company is subject to laws and regulations that directly and indirectly affect the financial statements. Based on our understanding of the company and the environment it operates within, we determined that the laws and regulations which were most significant included FRS 102, Companies Act 2006 and Health and Safety regulations. We considered the extent to which non-compliance with these laws and regulations might have a material effect on the financial statements, including how fraud might occur. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to improve the company's result for the period, and management bias in key accounting estimates.

Audit procedures performed by the engagement team included:

- Discussions with management and those responsible for legal compliance procedures within the company to obtain an understanding of the legal and regulatory framework applicable to the company and how the company complies with that framework, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Identifying and assessing the design effectiveness of controls that management has in place to prevent and detect fraud and non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

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

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor-s-responsibilities-for. 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.


Christopher Hill (Senior Statutory Auditor)
For and on behalf of ~~Hawsons~~ Chartered Accountants, Statutory Auditor

Pegasus House
463a Glossop Road
Sheffield
South Yorkshire
S10 2QD

Date: 8/2/23

Gen 2 Carbon Limited

Statement of Comprehensive Income for the Period from 1 January 2021 to 30 December 2021

		Continuing operations 2021 £	Discontinued operations 2021 £	Total 2021 £	Continuing operations 2020 £	Discontinued operations 2020 £	Total 2020 £
	Note						
Turnover	2	352,232	1,028,342	1,380,574	454,663	1,197,572	1,652,235
Cost of sales		(1,502,096)	(3,678,501)	(5,180,597)	(2,184,965)	(1,257,055)	(3,442,020)
Gross loss		(1,149,864)	(2,650,159)	(3,800,023)	(1,730,302)	(59,483)	(1,789,785)
Administrative expenses	5	(2,480,175)	(4,141,794)	(6,621,969)	(1,741,637)	(3,653,426)	(5,395,063)
Other operating income	3	178,071	14,078	192,149	-	192,295	192,295
Operating loss	4	(3,451,968)	(6,777,875)	(10,229,843)	(3,471,939)	(3,520,614)	(6,992,553)
Interest payable and similar expenses	6	(58)	(53,535)	(53,593)	(42,803)	(110,065)	(152,868)
Loss before tax		(3,452,026)	(6,831,410)	(10,283,436)	(3,514,742)	(3,630,679)	(7,145,421)
Tax on loss	9	-	(838,394)	(838,394)	27,612	-	27,612
Loss for the financial period and total comprehensive income for the period		<u>(3,452,026)</u>	<u>(7,669,804)</u>	<u>(11,121,830)</u>	<u>(3,487,130)</u>	<u>(3,630,679)</u>	<u>(7,117,809)</u>

The notes on pages 14 to 29 form an integral part of these financial statements.

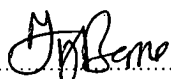
Gen 2 Carbon Limited

(Registration number: 05191512)

Balance Sheet as at 30 December 2021

	Note	2021 £	2020 £
Fixed assets			
Intangible assets	10	12,724	698,646
Tangible assets	11	<u>1,040,825</u>	<u>4,672,903</u>
		<u>1,053,549</u>	<u>5,371,549</u>
Current assets			
Stocks	12	940,429	4,360,367
Debtors	13	572,240	2,040,423
Cash at bank and in hand		<u>988,605</u>	<u>491,187</u>
		2,501,274	6,891,977
Creditors: Amounts falling due within one year	14	<u>(1,169,195)</u>	<u>(11,656,790)</u>
Net current assets/(liabilities)		<u>1,332,079</u>	<u>(4,764,813)</u>
Net assets		<u>2,385,628</u>	<u>606,736</u>
Capital and reserves			
Called up share capital	16	1,417	1,417
Profit and loss account		<u>2,384,211</u>	<u>605,319</u>
Shareholders' funds		<u>2,385,628</u>	<u>606,736</u>

Approved and authorised for issue by the Board on 6th Feb 23 and signed on its behalf by:



F Barnes
Director

Gen 2 Carbon Limited

Statement of Changes in Equity for the Period from 1 January 2021 to 30 December 2021

	Share capital £	Profit and loss account £	Total £
At 1 January 2021	1,417	605,319	606,736
Loss for the period	<u>-</u>	<u>(11,121,830)</u>	<u>(11,121,830)</u>
Total comprehensive income	-	(11,121,830)	(11,121,830)
Capital contributions	<u>-</u>	<u>12,900,722</u>	<u>12,900,722</u>
At 30 December 2021	<u><u>1,417</u></u>	<u><u>2,384,211</u></u>	<u><u>2,385,628</u></u>

	Share capital £	Profit and loss account £	Total £
At 1 January 2020	1,417	7,723,128	7,724,545
Loss for the period	<u>-</u>	<u>(7,117,809)</u>	<u>(7,117,809)</u>
Total comprehensive income	-	(7,117,809)	(7,117,809)
At 31 December 2020	<u><u>1,417</u></u>	<u><u>605,319</u></u>	<u><u>606,736</u></u>

Gen 2 Carbon Limited

Statement of Cash Flows for the Period from 1 January 2021 to 30 December 2021

	2021 £	2020 £
Cash flows from operating activities		
Loss for the period	(11,121,830)	(7,117,809)
Adjustments to cash flows from non-cash items		
Depreciation and amortisation	556,335	1,156,786
Loss on disposal of tangible assets	2,165,865	-
Loss on disposal of intangible assets	679,896	-
Impairment of fixed assets	81,203	-
Finance costs	53,593	152,868
Income tax expense	838,394	(27,612)
	<u>(6,746,544)</u>	<u>(5,835,767)</u>
Working capital adjustments		
(Increase)/decrease in stocks	3,419,938	146,856
(Increase)/decrease in debtors	629,789	(487,779)
Increase/(decrease) in creditors	<u>(358,985)</u>	<u>(105,547)</u>
Cash generated from operations	(3,055,802)	(6,282,237)
Income taxes received	<u>-</u>	<u>64,034</u>
Net cash flow from operating activities	<u>(3,055,802)</u>	<u>(6,218,203)</u>
Cash flows from investing activities		
Acquisitions of tangible assets	(24,301)	(269,499)
Proceeds from sale of tangible assets	871,942	-
Acquisition of intangible assets	<u>(12,940)</u>	<u>-</u>
Net cash flows from investing activities	<u>834,701</u>	<u>(269,499)</u>
Cash flows from financing activities		
Interest paid	(231)	-
Loans from shareholders	918,750	6,351,250
Capital contribution	<u>1,800,000</u>	<u>-</u>
Net cash flows from financing activities	<u>2,718,519</u>	<u>6,351,250</u>
Net increase/(decrease) in cash and cash equivalents	497,418	(136,452)
Cash and cash equivalents at 1 January	<u>491,187</u>	<u>627,639</u>
Cash and cash equivalents at 30 December	<u><u>988,605</u></u>	<u><u>491,187</u></u>

The notes on pages 14 to 29 form an integral part of these financial statements.

Gen 2 Carbon Limited

Statement of Cash Flows for the Period from 1 January 2021 to 30 December 2021 (continued)

Reconciliation of movement in net debt

	At 1 January 2021	Cash flows	Other non-cash changes	At 30 December 2021
	£	£	£	£
Cash and cash equivalents				
Cash at bank and in hand	491,187	497,418	-	988,605
Borrowings				
Other borrowings	(9,951,250)	(918,750)	10,870,000	-
Total net funds/(debt)	<u>(9,460,063)</u>	<u>(421,332)</u>	<u>10,870,000</u>	<u>988,605</u>

Other non-cash changes are capital contributions made by shareholders in the form of loan waivers.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021

1 Accounting policies

Statutory information

Gen 2 Carbon Limited is a private company, limited by shares, domiciled in England and Wales, company number 05191512. The registered office is at Cannon Business Park, Gough Road, Coseley, Dudley, WV14 8XR.

Summary of significant accounting policies and key accounting estimates

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

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value. The presentation currency is United Kingdom pounds sterling, which is the functional currency of the company. The financial statements are those of an individual entity.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

1 Accounting policies (continued)

Going concern

The company's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report. The company has continued to be loss-making throughout 2022.

In considering the appropriateness of the going concern basis for the preparation of the financial statements, the directors have considered the working capital requirements of the company for the next 12 months. Through careful cost and cash management, the company has so far maintained a positive cash position. However, the need to relocate and upgrade key production equipment means that the company needs additional funding to continue in operational existence. The shareholders of the parent company have confirmed that sufficient financial support will be made available to enable the company to meet its obligations as they fall due for a period of not less than 12 months from the date of approval of the financial statements, subject to the company meeting agreed performance targets. The directors acknowledge that this support is not legally binding and is dependent on the company meeting those agreed performance targets. In particular, in considering the funding requirements of the company, the directors' assessment of going concern is reliant on the expectation that sales from a new product line that will be launched to market in mid-2023 will contribute significantly to increased sales revenue, which will lead to positive operational cashflows. Therefore, a material uncertainty exists which may cast doubt over the company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after considering the funding requirements of the company, the directors are confident that sufficient funding will be made available and have a reasonable expectation that the company will therefore have adequate resources to continue in operational existence for the foreseeable future. Not considered in the cashflow forecast, the company has provisionally secured grant funding to assist with its expansion and is seeking to secure additional investment with a number of interested parties.

Accordingly, the directors continue to adopt the going concern basis in the preparation of the financial statements.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts. Sales of goods are recognised when control of the goods has passed to the customer. In the case of UK sales, this is when goods are delivered to the customer. In the case of overseas sales, this is when the shipping documents are passed to the customer.

Government grants

Grants relating to the financing of projects to expand operations of the business are amortised over the expected useful economic lives of the assets or projects concerned. Grants relating to revenue expenditure are credited to the profit and loss account when receivable.

Foreign currency transactions and balances

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. These differences on exchange are recognised in profit or loss.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

1 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, less any estimated residual value, over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Improvements to property	Over the lease term
Assets under construction	Not depreciated
Plant and machinery	10% - 20% straight line
Motor vehicles	20% straight line
Office equipment	20% straight line

Intangible assets

Intangible assets are stated in the balance sheet at cost, less any subsequent accumulated amortisation and subsequent impairment losses. Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Intellectual property	5% straight line
Website costs	20% straight line

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the average weighted cost method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Defined contribution pension obligation

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expense in profit or loss.

Key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values 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 tangible assets.

The company makes an estimate of the recoverable value of stock. When assessing impairment of stock, management considers factors including the current market environment, the ageing profile of the stock and historical experience. See note 12 for the net carrying amount of stock.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

2 Revenue

The analysis of the company's revenue for the period from continuing operations is as follows:

	2021 £	2020 £
Sale of goods	<u>1,380,574</u>	<u>1,652,235</u>

The analysis of the company's turnover for the period by market is as follows:

	2021 £	2020 £
UK	49,838	39,383
Europe	603,676	577,565
Rest of the World	<u>727,060</u>	<u>1,035,287</u>
	<u>1,380,574</u>	<u>1,652,235</u>

3 Other operating income

The analysis of the company's other operating income for the period is as follows:

	2021 £	2020 £
Grants and similar funding	189,669	178,592
Group recharges	<u>2,480</u>	<u>13,703</u>
	<u>192,149</u>	<u>192,295</u>

4 Operating loss

Arrived at after charging/(crediting)

	2021 £	2020 £
Depreciation expense	537,369	1,081,786
Amortisation expense	18,966	75,000
Impairment loss	81,203	-
Research and development cost	140,358	163,536
Foreign exchange losses	5,881	35,172
Loss on disposal of property, plant and equipment	2,165,865	-
Loss on disposal of intangible assets	679,896	-
Auditor's remuneration - audit of the accounts	<u>10,000</u>	<u>9,500</u>

5 Exceptional items

Included within administrative expenses is £2,926,964 (2020 - £nil) relating to exceptional impairment charges and losses on disposal of tangible and intangible fixed assets. This amount is wholly related to discontinued operations.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

6 Interest payable and similar expenses

	2021 £	2020 £
Loan interest payable	<u>53,593</u>	<u>152,868</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2021 £	2020 £
Wages and salaries	2,095,116	3,149,943
Social security costs	203,374	287,534
Pension costs, defined contribution scheme	<u>81,286</u>	<u>106,260</u>
	<u>2,379,776</u>	<u>3,543,737</u>

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

	2021 No.	2020 No.
Production	30	70
Administration and support	<u>17</u>	<u>27</u>
	<u>47</u>	<u>97</u>

8 Directors' remuneration

The directors' remuneration for the period was as follows:

	2021 £	2020 £
Remuneration	230,393	290,597
Contributions paid to money purchase schemes	<u>8,988</u>	<u>7,595</u>
	<u>239,381</u>	<u>298,192</u>

During the period the number of directors who were receiving benefits and share incentives was as follows:

	2021 No.	2020 No.
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>1</u>

In respect of the highest paid director:

	2021 £	2020 £
Remuneration	156,355	188,597
Company contributions to money purchase pension schemes	<u>7,170</u>	<u>7,595</u>

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

9 Taxation

Tax charged/(credited) in the income statement

	2021 £	2020 £
Current taxation		
Adjustment in respect of prior years	-	(27,612)
Deferred taxation		
Arising from origination and reversal of timing differences	838,394	-
Tax expense/(credit)	<u>838,394</u>	<u>(27,612)</u>

The tax on loss before tax for the period is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £	2020 £
Loss before tax	<u>(10,283,436)</u>	<u>(7,145,421)</u>
Corporation tax at standard rate	(1,953,853)	(1,357,630)
Effect of expense not deductible for tax purposes	62,767	35,519
Deferred tax asset not recognised	2,732,126	1,322,111
Other tax effects	<u>(2,646)</u>	<u>(27,612)</u>
Total tax charge/(credit)	<u>838,394</u>	<u>(27,612)</u>

Deferred tax

Deferred tax assets and liabilities

	Asset in respect of tax losses £
At 1 January 2021	838,394
Charged to profit or loss	<u>(838,394)</u>
At 30 December 2021	<u>-</u>

At the balance sheet date, the company had unused tax losses of £11,471,475 available for offset against future profits. No deferred tax asset has been recognised at the balance sheet date due to the uncertainty of future profits.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

10 Intangible assets

	Intellectual property £	Website £	Total £
Cost or valuation			
At 1 January 2021	1,500,000	9,300	1,509,300
Additions	-	12,940	12,940
Disposals	(1,500,000)	(9,300)	(1,509,300)
At 30 December 2021	-	12,940	12,940
Amortisation			
At 1 January 2021	801,354	9,300	810,654
Amortisation charge	18,750	216	18,966
Disposals	(820,104)	(9,300)	(829,404)
At 30 December 2021	-	216	216
Carrying amount			
At 30 December 2021	-	12,724	12,724
At 31 December 2020	698,646	-	698,646

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

11 Tangible assets

	Improvements to property £	Assets under construction £	Plant and machinery £	Office equipment £	Motor vehicles £	Total £
Cost or valuation						
At 1 January 2021	3,145,963	55,292	8,424,850	638,812	5,995	12,270,912
Additions	-	-	-	24,301	-	24,301
Disposals	(2,693,595)	-	(6,240,043)	(340,162)	-	(9,273,800)
Impairment	-	(55,292)	(3,362)	(31,826)	(5,995)	(96,475)
At 30 December 2021	<u>452,368</u>	<u>-</u>	<u>2,181,445</u>	<u>291,125</u>	<u>-</u>	<u>2,924,938</u>
Depreciation						
At 1 January 2021	2,326,731	-	4,823,227	442,056	5,995	7,598,009
Charge for the period	169,562	-	305,390	62,417	-	537,369
Eliminated on disposal	(2,167,056)	-	(3,753,292)	(315,645)	-	(6,235,993)
Impairment	-	-	(1,723)	(7,554)	(5,995)	(15,272)
At 30 December 2021	<u>329,237</u>	<u>-</u>	<u>1,373,602</u>	<u>181,274</u>	<u>-</u>	<u>1,884,113</u>
Carrying amount						
At 30 December 2021	<u>123,131</u>	<u>-</u>	<u>807,843</u>	<u>109,851</u>	<u>-</u>	<u>1,040,825</u>
At 31 December 2020	<u>819,232</u>	<u>55,292</u>	<u>3,601,623</u>	<u>196,756</u>	<u>-</u>	<u>4,672,903</u>

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

12 Stocks

	2021 £	2020 £
Raw materials and consumables	561,078	1,989,045
Work in progress	42,099	61,189
Finished goods and goods for resale	337,252	2,310,133
	<u>940,429</u>	<u>4,360,367</u>

13 Debtors

	2021 £	2020 £
Trade debtors	95,432	462,616
Other debtors	73,710	184,328
Prepayments	403,098	555,085
Deferred tax assets	-	838,394
	<u>572,240</u>	<u>2,040,423</u>

14 Creditors

	Note	2021 £	2020 £
Due within one year			
Trade creditors		230,567	454,828
Amounts due to related parties	18	-	10,219,173
Social security and other taxes		28,128	79,523
Other payables		9,982	9,969
Accruals and deferred income		900,518	893,297
		<u>1,169,195</u>	<u>11,656,790</u>

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

15 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2021 £	2020 £
Not later than one year	567,046	618,716
Later than one year and not later than five years	167,552	747,118
	<u>734,598</u>	<u>1,365,834</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was £611,450 (2020 - £534,570).

16 Share capital

Allotted, called up and fully paid shares

	No.	2021 £	No.	2020 £
Ordinary A Shares of £0.01 each	106,302	1,063.02	106,302	1,063.02
Ordinary B Shares of £0.01 each	35,434	354.34	35,434	354.34
	<u>141,736</u>	<u>1,417</u>	<u>141,736</u>	<u>1,417</u>

The different classes of shares rank equally for all purposes. There are no restrictions on the distribution of dividends and the repayment of capital.

17 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £81,286 (2020 - £106,260).

Contributions totalling £9,983 (2020 - £4,706) were payable to the scheme at the end of the period and are included in creditors.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

18 Related party transactions

Ultimate controlling party

At the start of the financial period, ELG Carbon Fibre International GmbH and Franz Haniel & Cie GmbH, companies incorporated in Germany, were the company's immediate and ultimate parent undertaking and controlling party respectively.

On 29 April 2021, the entire share capital of Gen 2 Carbon Limited, formerly ELG Carbon Fibre Limited, was purchased by Gen 2 Composites Limited, a company incorporated in England and Wales. Gen 2 Composites Limited is now the company's immediate and ultimate parent undertaking. The ultimate controlling party is F Barnes, a director of the company.

Expenditure with and payables to related parties

During the period, the company purchased goods and services from ELG group companies of £13,564 (2020 - £687,219).

At the balance sheet date, amounts payable to ELG group companies in relation to the purchase of goods and services were £nil (2020 - £90,563).

Loans from related parties

	Parent £	Entities with significant influence £	Total £
2021			
At start of period	7,730,447	2,398,163	10,128,610
Loans received in the year	730,000	188,750	918,750
Interest charged on loans	38,033	15,329	53,362
Capital contribution	(8,498,480)	(2,602,242)	(11,100,722)
At end of period	<u>-</u>	<u>-</u>	<u>-</u>
		Entities with significant influence	
	Parent	£	Total
2020			
At start of period	2,718,341	906,459	3,624,800
Loans received in the year	4,905,000	1,446,250	6,351,250
Interest charged on loans	107,106	45,454	152,560
At end of period	<u>7,730,447</u>	<u>2,398,163</u>	<u>10,128,610</u>

Terms of loans from related parties

The loans were unsecured and repayable on demand. Interest was charged on outstanding loans at 2% plus LIBOR.

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

19 Transition to FRS 102

Prior to 2019, the company prepared financial statements in accordance with FRS 102. However, at the instruction of its Germany parent company, the company stopped applying FRS 102 and instead applied EU-adopted IFRS in the preparation of its financial statements for 2019 and 2020. Following the change in parent undertaking detailed in note 18, the company has resumed the application of FRS 102 in the preparation of its financial statements.

The company has applied Section 35 of FRS 102 on transition to FRS 102.

The effective date of the transition to FRS 102 is 1 January 2020.

On transition, the company has changed its accounting policy for the treatment of operating leases. Under EU-adopted IFRS, the company recognised a lease liability and a right-of-use asset for the present value of the contractual lease payments over the lease term, and subsequently recognised an interest charge through profit and loss for the unwinding of the discount and a depreciation charge on the right-of-use asset. Under FRS 102, the company now charges lease rentals to profit and loss on a straight line basis over the lease term.

The following tables give the reconciliations required by Section 35 of FRS 102 and show how the transition to FRS 102 affects the previously reported financial position and financial performance:

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

19 Transition to FRS 102 (continued)

Balance Sheet at 1 January 2020

	As originally reported £	Reclassification £	Remeasurement £	As restated £
Fixed assets				
Intangible assets	773,646	-	-	773,646
Tangible assets	5,485,190	-	-	5,485,190
Right-of-use assets	1,205,824	-	(1,205,824)	-
	<u>7,464,660</u>	<u>-</u>	<u>(1,205,824)</u>	<u>6,258,836</u>
Current assets				
Stocks	4,507,223	-	-	4,507,223
Debtors	1,589,066	-	-	1,589,066
Cash at bank and in hand	627,639	-	-	627,639
	<u>6,723,928</u>	<u>-</u>	<u>-</u>	<u>6,723,928</u>
Creditors: Amounts falling due within one year	(5,707,271)	-	449,052	(5,258,219)
Net current assets	<u>1,016,657</u>	<u>-</u>	<u>449,052</u>	<u>1,465,709</u>
Total assets less current liabilities	8,481,317	-	(756,772)	7,724,545
Creditors: Amounts falling due after more than one year	(769,213)	-	769,213	-
Net assets	<u>7,712,104</u>	<u>-</u>	<u>12,441</u>	<u>7,724,545</u>
Capital and reserves				
Called up share capital	1,417	-	-	1,417
Profit and loss account	7,710,687	-	12,441	7,723,128
Total equity	<u>7,712,104</u>	<u>-</u>	<u>12,441</u>	<u>7,724,545</u>

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

19 Transition to FRS 102 (continued)

Balance Sheet at 31 December 2020

	As originally reported £	Reclassification £	Remeasurement £	As restated £
Fixed assets				
Intangible assets	698,646	-	-	698,646
Tangible assets	4,672,903	-	-	4,672,903
Right-of-use assets	1,259,277	-	(1,259,277)	-
	<u>6,630,826</u>	<u>-</u>	<u>(1,259,277)</u>	<u>5,371,549</u>
Current assets				
Stocks	4,360,367	-	-	4,360,367
Debtors	2,040,423	-	-	2,040,423
Cash at bank and in hand	491,187	-	-	491,187
	<u>6,891,977</u>	<u>-</u>	<u>-</u>	<u>6,891,977</u>
Creditors: Amounts falling due within one year	(12,275,506)	-	618,716	(11,656,790)
Net current (liabilities)/assets	<u>(5,383,529)</u>	<u>-</u>	<u>618,716</u>	<u>(4,764,813)</u>
Total assets less current liabilities	1,247,297	-	(640,561)	606,736
Creditors: Amounts falling due after more than one year	(626,637)	-	626,637	-
Net assets/(liabilities)	<u>620,660</u>	<u>-</u>	<u>(13,924)</u>	<u>606,736</u>
Capital and reserves				
Called up share capital	1,417	-	-	1,417
Profit and loss account	619,243	-	(13,924)	605,319
Total equity	<u>620,660</u>	<u>-</u>	<u>(13,924)</u>	<u>606,736</u>

Gen 2 Carbon Limited

Notes to the Financial Statements for the Period from 1 January 2021 to 30 December 2021 (continued)

19 Transition to FRS 102 (continued)

Profit and Loss Account for the year ended 31 December 2020

	As originally reported £	Reclassification £	Remeasurement £	As restated £
Turnover	1,652,235	-	-	1,652,235
Cost of sales	<u>(3,442,020)</u>	<u>-</u>	<u>-</u>	<u>(3,442,020)</u>
Gross loss	(1,789,785)	-	-	(1,789,785)
Administrative expenses	(5,329,490)	-	(65,573)	(5,395,063)
Other operating income	<u>192,295</u>	<u>-</u>	<u>-</u>	<u>192,295</u>
Operating loss	<u>(6,926,980)</u>	<u>-</u>	<u>(65,573)</u>	<u>(6,992,553)</u>
Interest payable	<u>(192,076)</u>	<u>-</u>	<u>39,208</u>	<u>(152,868)</u>
	<u>(192,076)</u>	<u>-</u>	<u>39,208</u>	<u>(152,868)</u>
Loss before tax	(7,119,056)	-	(26,365)	(7,145,421)
Taxation	<u>27,612</u>	<u>-</u>	<u>-</u>	<u>27,612</u>
Loss for the financial period	<u><u>(7,091,444)</u></u>	<u><u>-</u></u>	<u><u>(26,365)</u></u>	<u><u>(7,117,809)</u></u>