

Kostal UK Limited

Annual report and financial statements

Registered number 2481321

For the year ended 31 December 2016

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Contents

Strategic Report	3
Directors' report	5
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	6
Independent auditor's report to the members of Kostal UK Limited	7
Profit and loss account and Other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes	12

Strategic Report

The directors present their strategic report on the company for the year ended 31 December 2016.

Review of the business and future developments

The business showed an expected decrease in turnover due to certain contracts undertaken by the Company coming to the end of manufacture and not currently being replaced by equivalent volumes.

After the stabilization exercise in 2015, the focus has been on the alignment of headcount and cost structures to the reduced business volume but still retaining the required skills and capabilities for the future growth.

The company's profit after tax for the year was £7,558,000 (2015: profit after tax £6,796,000). The directors do not recommend payment of a dividend (2015: nil).

For 2017, the main objective is to drive quality and efficiency improvements through staff development, supplier development and enhancing our production systems whilst continuing to invest in new product development and new technologies.

The outlook for 2017 is considered satisfactory.

Strategy

The company's overriding goal is to achieve "Profitable growth through satisfied customers". The key elements to achieving this are:

- Pursue performance and quality leadership in all areas;
- Enhance customer satisfaction and win new business;
- Flawless launch of all new products into production;
- Empower all employees with confidence and trust;
- Deploy actions to meet growth plan and long term strategy;
- Achieve our goals with due regard for the environment;
- Reduce product costs and stay competitive; and;
- Maintain liquidity and achieve or exceed 2017 profit targets;

The company uses the following financial key performance indicators to assess its performance:

<u>Key Performance Indicators (KPIs)</u>	<u>2016</u>	<u>2015</u>
Growth in sales (%)	(8.5)	1.4
Gross Margin (%)	13.3	13.7
Stock Days	51	51
Days sales outstanding	50	48
Creditor days	66	60

Strategic Report *(continued)*

Principle risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to competition from other manufacturers and the economic outlook with regard to foreign exchange rates, interest rates, cost based inflation and potential trade and market barriers in particular due to the decision of the UK to withdraw from the EU.

Financial risk management

The company's operations expose it to a variety of financial risks including the effects of credit risk, liquidity risk and interest rates on debt. The company has risk management procedures which identify and monitor market, fiscal, operational, regulatory, environmental and product led risks. These processes are also used to identify performance and business development opportunities.

Credit risk

~~The company's principle financial assets are bank balances and trade debtors' which represent the company's maximum exposure to credit risk in relation to financial assets. The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the company's management based on prior experience and their assessment of the current economic climate.~~

Liquidity risk

The company's security with regards to liquidity is achieved through management of working capital, and where necessary borrowings from other group companies. The amount of these facilities is renegotiated from time to time as required.

Interest rate risk

Interest bearing assets comprise cash and bank deposits, all of which earn interest at a fixed rate. Interest bearing liabilities comprise intercompany loans with fixed interest and repayment terms. The directors monitor the overall level of borrowing and interest costs to limit any adverse effect on the financial performance of the company.

By order of the board

16.06.17 

Harald Zender
Director

Unit 16
Goldthorpe Industrial Estate
Goldthorpe
Rotherham
South Yorkshire
S63 9BL
2017

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

Principle activity

The principle activity of the company is the manufacture of electromechanical components for the automotive industry.

Directors

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

A.Kostal (Germany)
Dr L Laufenberg (Germany)
C.Sanders (Germany)
U.Zimmermann (Germany)
H.Zender (UK)

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through internal newsletters and electronic communications.

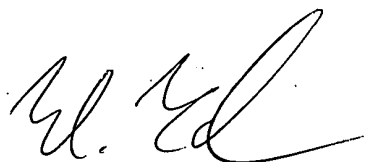
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each 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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

16.06.17 

Harald Zender
Director

Unit 16
Goldthorpe Industrial Estate
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Rotherham
South Yorkshire
S63 9BL
2017

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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 that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 judgments and estimates that are reasonable and prudent;~~
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Kostal UK Limited

We have audited the financial statements of Kostal UK Limited for the year ended 31 December 2016 set out on pages 9 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Kostal UK Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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; or
-

Matthew Wilcox (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

22 JUNE 2017

Profit and loss account and Other comprehensive income
for the year ended 31 December 2016

	<i>Note</i>	2016	2015
		£000	£000
Turnover	2	93,601	100,411
Cost of sales		(81,414)	(86,701)
Gross profit		12,187	13,710
Distribution costs		(1,893)	(2,306)
Administrative expenses		(1,304)	(4,229)
Operating profit		8,990	7,175
Interest payable and similar charges	6	(355)	(1,049)
Interest receivable and similar income		308	1
Profit on ordinary activities before taxation		8,943	6,127
Tax on profit on ordinary activities	7	(1,385)	669
Profit for the financial year		7,558	6,796
Total comprehensive income for the year		7,558	6,796

All of the activities of the company are classed as continuing.

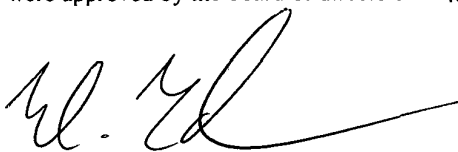
The company has no other comprehensive income other than the results for the year as set out above, and therefore no separate statement of total comprehensive income has been presented.

The notes on pages 12 to 24 form an integral part of these financial statements.

Balance sheet
at 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Fixed assets			
Intangible assets	8	24	23
Tangible assets	9	5,993	7,983
		<u>6,017</u>	<u>8,006</u>
Current assets			
Stocks	10	9,286	11,560
Debtors (including £448,377 (2015: £235,871) due after more than one year)	11	26,746	14,136
Cash at bank and in hand		1,971	4,221
		<u>38,003</u>	<u>29,917</u>
Creditors: amounts falling due within one year	12	(22,241)	(23,702)
Net current assets/(liabilities)		<u>15,762</u>	<u>6,215</u>
Total assets less current liabilities		<u>21,779</u>	<u>14,221</u>
Net assets		<u>21,779</u>	<u>14,221</u>
Capital and reserves			
Called up share capital	15	5,850	5,850
Capital contribution reserve	16	7,790	7,790
Profit and loss account		8,139	581
Shareholders' funds		<u>21,779</u>	<u>14,221</u>

These financial statements were approved by the board of directors on 16th June 2017 and were signed on its behalf by:

16.06.17 

Harald Zender
Director

Company registered number: 2481321

The notes on pages 12 to 24 form an integral part of these financial statements

Statement of changes in equity

	Called up Share capital	Capital Contribution reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
Balance at 1 January 2015	5,850	7,790	(6,215)	7,425
Total comprehensive income for the period				
Profit for the period	-	-	6,796	6,796
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	6,796	6,796
Transactions with owners, recorded directly in equity	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2015	5,850	7,790	581	14,221

	Called up Share capital	Capital Contribution Reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2016	5,850	7,790	581	14,221
Total comprehensive income for the period				
Profit for the period	-	-	7,558	7,558
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	7,558	7,558
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2016	5,850	7,790	8,139	21,779

The notes on pages 12 to 24 form an integral part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

Kostal UK Ltd (the "Company") is a company limited by shares and registered incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Leopold Kostal GmbH & Co. KG includes the Company in its consolidated financial statements. The consolidated financial statements of Leopold Kostal GmbH & Co. KG are available to the public and may be obtained from Wiesenstrasse 47, 55805 Ludenscheid. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Leopold Kostal GmbH include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The company is a subsidiary of Leopold Kostal GmbH & Co. KG and is financed by cash from trading activities and funding provided by the group. Annual forecasts are produced to assess the future trading of the company and to determine whether there is sufficient funds to continue in business. The directors, having assessed these forecasts have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency 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 retranslated to the functional currency at the foreign exchange rate ruling at that date. 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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 cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold land and capital work in progress are not depreciated. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings 25 years
- Plant and equipment 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits. The company assesses at each reporting date whether tangible fixed assets are impaired.

1.7 Intangible assets

Other intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Licences 3 years

The basis for choosing these useful lives is the length of the license.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.10 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.11 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, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.12 Turnover and accounting for long term contracts

Turnover represents the invoiced amount of goods and services supplied during the year, exclusive of value added tax. Other than in respect of long-term contracts, revenue is recognised on despatch which is the point at which substantially all of the risks and rewards of ownership are transferred. Profit from long-term contract tooling and development projects, the outcome of which can be foreseen with a reasonable degree of certainty, is recognised on the completion of the project when the risks and rewards of ownership are transferred. Full provision is made for any losses on tooling and development projects as soon as they are anticipated. Invoiced turnover recognised to date, less amounts received on account, is included in work in progress debtors. To the extent that amounts received from customers exceed related work in progress, such excess is included in creditors.

1.13 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.14 Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss 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 timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are ~~disallowable for tax or because certain tax charges~~ or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

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

1.15 Accounting estimates and judgements

Key sources of estimation uncertainty

Valuation of stock

The company is exposed to stock obsolescence caused through changing customer requirements and the risk of over production. Provisions are recorded to reduce the value of stocks to their net realisable value as determined by production forecasts.

Warranty provisions

Products produced are subject to warranties to customers. Provisions are recorded to recognise the expected costs associated with claims made.

Critical accounting judgements in applying the Company's accounting policies

Contract revenue and profit recognition

Revenue and profit associated with contract tooling and development projects is recognised on the completion of the project stage when the risks and rewards of ownership are transferred. This is assessed on a contract by contract basis depending on the specific terms of each contract to ensure that the recognition criteria of the accounting standard continues to be met.

Notes (continued)

2 Turnover

Turnover arises entirely from the principal activity of the company, and all arose in the UK. An analysis of turnover by activity is as follows:

	2016 £000	2015 £000
Sale of goods	83,338	93,455
Royalties	308	437
Long term contract revenue	9,955	6,519
Total turnover	93,601	100,411

3 Expenses and auditor's remuneration

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	29	30
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	4	4
Other tax advisory services	13	3
Total fees	46	37

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	2016	2015
Indirect staff	251	292
Manufacturing staff	364	479
	<u>615</u>	<u>771</u>

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	15,410	16,985
Social security costs	1,243	1,450
Contributions to defined contribution pension plans	449	465
	<u>17,102</u>	<u>18,900</u>

5 Directors' remuneration

	2016	2015
	£000	£000
Directors' remuneration	222	-
Company contributions to money purchase pension plans	-	-
	<u>222</u>	<u>-</u>

The highest paid director received £222,000 (2015: £nil) remuneration.

Certain directors do not receive any emoluments for their services as directors of the UK Company and are remunerated through Leopold Kostal GmbH.

Notes (continued)

6 Interest payable and similar charges

	2016 £000	2015 £000
Interest payable to group undertaking	355	1,049
Total interest payable and similar charges	<u>355</u>	<u>1,049</u>

7 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	£000	2015 £000	£000
<i>Current tax</i>				
Current tax	1,544		(358)	
Adjustments in respect of prior periods	(288)		(99)	
Total current tax		<u>1,256</u>		<u>(457)</u>
<i>Deferred tax (see note 13)</i>				
Origination and reversal of timing differences	112		(262)	
Change in tax rate	17		50	
Assets now considered irrecoverable	-		-	
Total deferred tax		<u>129</u>		<u>(212)</u>
Total tax expense/(credit)		<u>1,385</u>		<u>(669)</u>

	£000	2016 £000	£000	£000	2015 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	1,256	129	1,385	(457)	(212)	(669)
Recognised in other comprehensive income	-	-	-	-	-	-
Total tax	<u>1,256</u>	<u>129</u>	<u>1,385</u>	<u>(457)</u>	<u>(212)</u>	<u>(669)</u>

Notes (continued)

7 Taxation (continued)

Analysis of current tax recognised in profit and loss

	2016 £000	2015 £000
Current tax credit	1,544	(358)
Adjustments in respect of prior periods	(288)	(99)
Total current tax recognised in profit and loss	<u>1,256</u>	<u>(457)</u>

Reconciliation of effective tax rate

	2016 £000	2015 £000
Loss for the year before tax	<u>8,943</u>	<u>6,127</u>
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	1,789	1,241
Adjustment relating to previous years	-	(99)
Reduction in tax rate on deferred tax balances	27	50
Non-deductible expenses	95	13
Decelerated capital allowances and other timing differences	50	77
Under / (over) provided in prior years	(117)	(91)
Research and development expenditure tax credit	(73)	(358)
Utilisation of losses brought forward	(386)	(1,500)
Total tax expense included in profit or loss	<u>1,385</u>	<u>(669)</u>

Reductions in the UK corporation tax rate from 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 December 2016 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax asset at 31 December 2016 by £32,000.

The deferred tax assets at 31 December 2016 have been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Notes (continued)

8 Intangible assets

	Licences £000
Cost	
Balance at 1 January 2016	76
Transfers from assets under construction	15
Disposals	
Balance at 31 December 2016	91
Amortisation and impairment	
Balance at 1 January 2016	53
Amortisation for the year	14
Disposals	
Balance at 31 December 2016	67
Net book value	
At 1 January 2016	23
At 31 December 2016	24

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2016	6,291	23,528	1,129	30,948
Additions	(53)	(87)	989	849
Transfers	331	1,066	(1,412)	(15)
Disposals	-	(91)	(481)	(572)
Balance at 31 December 2016	6,569	24,416	225	31,210
Depreciation				
Balance at 1 January 2016	4,959	18,006	-	22,965
Depreciation charge for the year	217	2,121	-	2,338
Disposals	-	(86)	-	(86)
Balance at 31 December 2016	5,176	20,041	-	25,217
Net book value				
At 1 January 2016	1,332	5,522	1,129	7,983
At 31 December 2016	1,393	4,375	225	5,993

Notes (continued)

10 Stocks

	2016 £000	2015 £000
Raw materials and consumables	4,884	5,349
Work in progress	186	110
Contract work in progress	2,299	3,822
Finished goods	1,917	2,279
	<u>9,286</u>	<u>11,560</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £50,257,267 (2015: £55,780,104). The write-down of stocks to net realisable value amounted to £778,370 (2015: £1,504,838). The write-down is included in cost of sales.

11 Debtors

	2016 £000	2015 £000
Trade debtors	11,022	12,600
Amounts owed by group undertakings	14,715	388
Other debtors	561	571
Deferred tax assets (see note 13)	448	577
	<u>26,746</u>	<u>14,136</u>
Due within one year	26,512	13,900
Due after more than one year	234	236
	<u>26,746</u>	<u>14,136</u>

Amounts owed by group undertakings include a balance of £11,800,713 (2015: nil) on which interest is receivable at 7% (2015: 7%). Of the deferred tax asset £233,761 (2015: £235,871) relates to timing differences on tangible fixed asset and therefore will unwind in a period greater than one year. The remaining deferred tax asset is expected to unwind within the next 12 months.

12 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	5,696	4,162
Amounts owed to group undertakings	7,274	12,606
Loan from group undertaking	2,800	2,800
Taxation and social security	1,171	939
Other creditors and accruals	5,300	3,195
	<u>22,241</u>	<u>23,702</u>

Amounts owed to group undertakings include a balance of £nil (2015: £4,812,000) on which interest is charged at 7% (2015: 7%). No interest is charged on the remaining amounts and all amounts are repayable on demand.

Notes (continued)

13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Accelerated capital allowances	234	236	-	-	234	236
Other	214	341	-	-	214	341
	<u>448</u>	<u>577</u>	<u>-</u>	<u>-</u>	<u>448</u>	<u>577</u>
Tax assets						

14 Employee benefits

Defined contribution plans

The company contributes to the defined contribution pension schemes of certain employees. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge for the year amounted to £448,742 (2015: £464,798). There was a pension creditor at the year-end amounting to £67,091 (2015: £74,068).

15 Share capital

	2016 £000	2015 £000
<i>Allotted, called up and fully paid</i>		
5,850,000 ordinary shares of £1 each	5,850	5,850
	<u>5,850</u>	<u>5,850</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

16 Capital contribution reserve

In respect of losses incurred, the principle shareholder sought to restore the financial position of the Company through a €10m loan waiver on 31st December 2014. This capital contribution equated to £7,790,000 translated at an exchange rate of £0.779/€.

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	70	95
Between one and five years	118	63
More than five years	-	-
	<u>188</u>	<u>158</u>

During the year £94,700 was recognised as an expense in the profit and loss account in respect of operating leases (2015: £87,965).

Notes *(continued)*

18 Ultimate parent company and parent company of larger group

The ultimate controlling party is Leopold Kostal GmbH & Co. KG, incorporated in Germany.

The largest group in which the results of the Company are consolidated is that headed by Leopold Kostal GmbH & Co. KG, incorporated in Germany. The consolidated financial statements of these groups are available to the public and may be obtained from their registered address, Wiesentrasse 47, 55805 Ludenscheid, Germany.
