Kostal UK Limited

Annual report and financial statements

Registered number 2481321

For the year ended 31 December 2017

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Strategic Report

The directors present their strategic report on the company for the year ended 31 December 2017.

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.

Started in 2016 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 as well as improving through staff development and enhanced production systems.

The company's profit after tax for the year was £4,968,000 (*2016: profit after tax £7,558,000).* The directors do not recommend payment of a dividend *(2016: nil).*

For 2018, the main objective is to drive quality and efficiency improvements further to compensate for reduced volume and prepare for the contracted growth in 2019. Investments in new technologies and product development are embedded in our long term strategy.

The outlook for 2018 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 2018 profit targets.

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

Key Performance Indicators (KPIs)	2017	2016
Growth / (decrease) in sales (%)	(20.7)	(8.5)
Gross Margin (%)	12.7	13.0
Stock Days	60	51
Days sales outstanding	45	50
Creditor days	72	66

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

05/04/2018

Harald Zender
Director

Unit 16
Goldthorpe Industrial Estate
Goldthorpe
Rotherham
South Yorkshire
S63 9BL
2018

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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) – resigned 28/10/2017
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.

In accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the company has prepared a Strategic Report, which includes information that would have previously been included in the Directors' Report.

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
05/04/2018

Harald Zender
Director

Unit 16
Goldthorpe Industrial Estate
Goldthorpe
Rotherham
South Yorkshire
S63 9BL
2018

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 judgements 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of Kostal UK Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Matthew Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
10/4/2018

Profit and loss account and Other comprehensive income

for the year ended 31 December 2017

	Note	2017	2016
		£000	£000
Turnover	*2*	**74,277**	93,601
Cost of sales		**(64,870)**	(81,414)
Gross profit		**9,407**	12,187
Distribution costs		**(1,789)**	(1,893)
Administrative expenses		**(2,430)**	(1,304)
Operating profit		**5,188**	8,990
Interest payable and similar charges	*6*	**(313)**	(355)
Interest receivable and similar income	*7*	**479**	308
Profit on ordinary activities before taxation		**5,354**	8,943
Tax on profit on ordinary activities	*8*	**(386)**	(1,385)
Profit for the financial year		**4,968**	7,558
Total comprehensive income for the year		**4,968**	7,558

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 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	*9*	**15**	24
Tangible assets	*10*	**6,067**	5,993
		6,082	6,017
Current assets			
Stocks	*11*	**7,966**	9,286
Debtors (including £245,434 *(2016: £233,761)* due after more than one year)	*12*	**30,962**	26,746
Cash at bank and in hand		**2,299**	1,971
		41,227	38,003
Creditors: amounts falling due within one year	*13*	**(20,562)**	(22,241)
Net current assets		**20,665**	15,762
Total assets less current liabilities		**26,747**	21,779
Net assets		**26,747**	21,779
Capital and reserves			
Called up share capital	*14*	**5,850**	5,850
Capital contribution reserve	*15*	**7,790**	7,790
Profit and loss account		**13,107**	8,139
Shareholders' funds		**26,747**	21,779

These financial statements were approved by the board of directors on 05/04/2018 and were signed on its behalf by:

05/04/2018

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 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
Transactions with owners, recorded directly in equity	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2016	5,850	7,790	8,139	21,779

	Called up Share capital	Capital Contribution Reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2017	5,850	7,790	8,139	21,779
Total comprehensive income for the period				
Profit for the period	-	-	4,968	4,968
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	4,968	4,968
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2017	5,850	7,790	13,107	26,747

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 2016 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;
- Related party transactions with Leopold Kostal GmbH & Co. KG, or wholly-owned subsidiaries of Leopold Kostal GmbH &Co. KG; 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 is it 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 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. The related profit is recognised at the end of the project. 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:

	2017 £000	2016 £000
Sale of goods	68,705	83,338
Royalties	359	308
Long term contract revenue	5,213	9,955
Total turnover	74,277	93,601

3 Expenses and auditor's remuneration

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these financial statements	31	29
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	4	4
Other tax advisory services	2	13
Total fees	37	46

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	
	2017	2016
Indirect staff	**236**	251
Manufacturing staff	**264**	364
	500	615

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**12,867**	15,410
Social security costs	**1,186**	1,243
Contributions to defined contribution pension plans	**367**	449
	14,420	17,102

5 Directors' remuneration

	2017	2016
	£000	£000
Directors' remuneration	**197**	222
Company contributions to money purchase pension plans	**-**	-
	197	222

The highest paid director received £197,000 (2016: £222,000) remuneration.

Certain directors do not receive any emoluments for their services as directors of the UK Company as an allocation of any amounts in relation to this entity would be insignificant, and are remunerated through Leopold Kostal GmbH.

Notes *(continued)*

6 Interest payable and similar charges

	2017 £000	2016 £000
Interest payable to group undertaking	313	355
Total interest payable and similar charges	313	355

7 Interest receivable and similar income

	2017 £000	2016 £000
Interest receivable from group undertaking	479	308
Total interest receivable and similar income	479	308

8 Taxation

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

	2017		2016	
	£000	**£000**	£000	£000
Current tax				
Current tax	**1,098**		1,544	
Adjustments in respect of prior periods	**(770)**		(288)	
Total current tax		**328**		1,256
Deferred tax (see note 13)				
Origination and reversal of timing differences	**58**		112	
Change in tax rate	**-**		17	
Total deferred tax		**58**		129
Total tax expense		**386**		1,385

	2017			2016		
	£000	**£000**	**£000**	£000	£000	£000
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	**328**	**58**	**386**	1,256	129	1,385
Recognised in other comprehensive income	**-**	**-**	**-**	-	-	-
Total tax	**328**	**58**	**386**	1,256	129	1,385

Notes *(continued)*

8 Taxation (continued)

Analysis of current tax recognised in profit and loss

	2017 £000	2016 £000
Current tax credit	1,098	1,544
Adjustments in respect of prior periods	(770)	(288)
Total current tax recognised in profit and loss	328	1,256

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year before tax	5,354	8,943
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	1,031	1,789
Adjustment relating to previous years	288	-
Reduction in tax rate on deferred tax balances	3	27
Non-deductible expenses	13	95
Decelerated capital allowances and other timing differences	27	50
Over provided in prior years	(976)	(117)
Research and development expenditure tax credit	-	(73)
Utilisation of losses brought forward	-	(386)
Total tax expense included in profit or loss	386	1,385

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1st April 2017) and to 18% (effective 1st April 2020) were substantively enacted on 26th October 2015, and an additional reduction to 17% (effective from 1st April 2020) was substantively enacted on 6th September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability and asset at 31st December 2017 have been calculated on this basis.

Notes *(continued)*

9 Intangible assets

	Licences £000
Cost	
Balance at 1 January 2017	91
Transfers from assets under construction	4
Disposals	-
Balance at 31 December 2016	95
Amortisation and impairment	
Balance at 1 January 2017	67
Amortisation for the year	13
Disposals	-
Balance at 31 December 2016	80
Net book value	
At 1 January 2017	24
At 31 December 2017	**15**

10 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Assets under construction £000	Total £000
Cost				
Balance at 1 January 2017	6,569	24,416	225	31,210
Additions	-	97	2,034	2,131
Transfers	-	985	(985)	-
Disposals	-	(368)	(3)	(371)
Balance at 31 December 2017	6,569	25,130	1,271	32,970
Depreciation				
Balance at 1 January 2017	5,176	20,041	-	25,217
Depreciation charge for the year	216	1,838	-	2,054
Disposals	-	(368)	-	(368)
Balance at 31 December 2017	5,392	21,511	-	26,903
Net book value				
At 1 January 2017	**1,393**	**4,375**	**225**	**5,993**
At 31 December 2017	**1,177**	**3,619**	**1,271**	**6,067**

Assets under construction includes new project manufacturing equipment.

Notes *(continued)*

11 Stocks

	2017 £000	2016 £000
Raw materials and consumables	5,470	4,884
Work in progress	227	186
Contract work in progress	802	2,299
Finished goods	1,467	1,917
	7,966	9,286

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*(2016: £55,780,104)*. The write-down of stocks to net realisable value amounted to £778,370 *(2016: £1,504,838)*. The write-down is included in cost of sales.

12 Debtors

	2017 £000	2016 £000
Trade debtors	9,054	11,022
Amounts owed by group undertakings	20,906	14,715
Other debtors	612	561
Deferred tax assets (see note 13)	390	448
	30,962	26,746
Due within one year	30,717	26,512
Due after more than one year	245	234
	30,962	26,746

Amounts owed by group undertakings include a balance of £19,342,878 (2016: £11,800,713) on which interest is receivable at 3% (2016: 7%), the remaining amounts are repayable on demand. Of the deferred tax asset £245,434 (2016: £233,761) 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.

13 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	4,441	5,696
Amounts owed to group undertakings	7,995	7,274
Loan from group undertaking	2,800	2,800
Taxation and social security	614	1,171
Other creditors and accruals	4,712	5,300
	20,562	22,241

No interest is charged on the amounts owed to group undertakings and all amounts are repayable on demand.

Notes *(continued)*

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**245**	234	**-**	-	**245**	234
Other	**145**	214	**-**	-	**145**	214
Tax assets	**390**	448	**-**	-	**390**	448

15 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 £366,682 (2016: £448,742). There was a pension creditor at the year-end amounting to £60,650 (2016: £67,091).

16 Share capital

	2017	2016
	£000	£000
Allotted, called up and fully paid		
58,500 ordinary shares of £100 each	**5,850**	5,850
	5,850	5,850

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.

17 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/€.

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	£000	£000
Less than one year	**76**	**70**
Between one and five years	**112**	**118**
More than five years	**-**	**-**
	188	**188**

During the year £86,143 was recognised as an expense in the profit and loss account in respect of operating leases (2016: £94,700).

Notes *(continued)*

19 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.