FARID Hillend Engineering Limited

Annual report

for the year ended

31 December 2018

Registered no: SC053003

COMPANIES HOUSE
EDINBURGH

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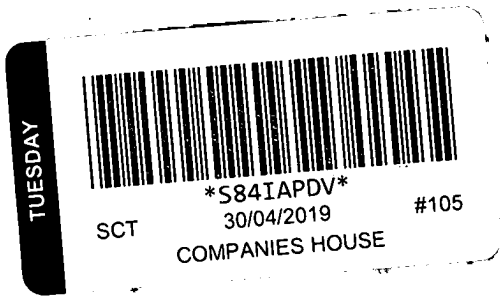

FARID Hillend Engineering Limited

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FARID Hillend Engineering Limited

Directors and advisors

Directors
Marco Orecchia
Charles Clinch

Registered office
Taxi Way
Hillend Industrial Estate
Dunfermline
Fife
KY11 9ES

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Lawyers
Burness Paull
50 Lothian Road
Edinburgh
EH3 9WJ

Bankers
NatWest
No 1 Hatton Gardens
London
EC1P 1DU

Barclays
11 Melville Crescent
Edinburgh
EH3 7LU

Intesa SanPaolo London Branch
90 Queen Street
London
EC4N 1SA

FARID Hillend Engineering Limited

Strategic report for the year ended 31 December 2018
Company registration number SC053003

Business review, principal activities and future developments
The principal activity of FARID Hillend Engineering Limited (the "company") is the manufacture and service of refuse collection equipment. The principal activity of the company remained unchanged throughout the year and the directors do not anticipate any change in the principal activity in the foreseeable future.

The results for the company show a loss on ordinary activities before taxation of £449,955 (2017: Loss £400,837) for the year and turnover of £29,047,428 (2017: £24,396,007). At the balance sheet date the company had net assets of £1,829,877 (2017:£2,225,908)

Principal risks and uncertainties

The directors see the main risks and uncertainties that will or may impact on the business now and in the future being increased by Brexit.

Uncertainties in the European and global environment continue to cause exchange rate fluctuations. This is partly caused by the uncertainties being created around the UK's vote to leave the EU. These currency uncertainties may be exacerbated as the UK agrees its trading relationship with the EU as part of the Brexit negotiations.

Price risk
The company operates in a competitive market which is a continuing risk and could result in the loss of sales to key customers. The company seeks to reduce this risk by building strong relationships with customers and offering tailor made options to vehicles at customer request.

The company is also susceptible to fluctuations in steel prices which are dependent on global demand as well as Brexit impacts which will have a particular impact in the event of No deal with the EU. Management seeks to reduce the impact of commodity price risk by negotiating fixed prices in supplier contracts over a fixed term where possible.

Credit risk
The company's core debtors are local authorities and UK Corporates. Due to the size and stability of the debtors, management do not believe that credit risk to the company is significant.

Liquidity risk
The company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets and by the use of bank facilities and loans.

Appropriate trade terms are negotiated with suppliers and customers. Management review these terms and the relationships with suppliers and customers on a regular basis and manage any exposure on normal trade terms.

FARID Hillend Engineering Limited

Strategic report for the year ended 31 December 2018 (continued)

Interest rate risk
The company had debt at 31 December 2018 of £395,000 (2017: £90,374) consisting of an inter- company loan which is at a fixed rate of interest. The directors believe that debt can be repaid from future cash flows arising from operations without any significant exposure risk to the company but review any movements to interest rates on a regular basis.

The company monitors cash flow on an ongoing basis to ensure that interest costs on the utilisation of an arranged bank overdraft are kept to a minimum level.

Development and performance of the company
Turnover of manufactured components and services increased by £3.0m from £19.0m in 2017 to £22.0m in 2018.

The turnover from third party products has increased by £1.1.m from £5.4m in 2017 to £6.5m in 2018. This will fluctuate from year to year due to the customer decision on whether to purchase a chassis from the Company or independently.

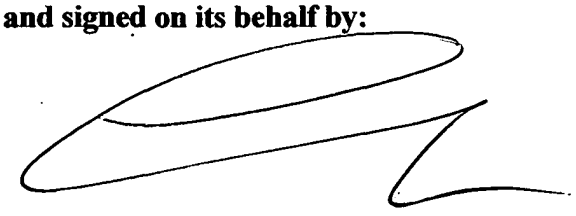
Sales to overseas markets increased by 10.0% from £3.9m in 2017 to £4.3m in 2018.

The business experienced operational issues which have now been addressed and additionally, it is expected that the full benefit of the new ERP system will start to show through from the second half of 2019.

The company ended 2018 with a strong order book.

Key performance indicators
The company's key performance measurement is the gross margin percentage by product stream. The company achieved a gross margin percentage of 8.5% in 2018 compared to 7.8% in 2017.

Approved by the Board
and signed on its behalf by:



Charles Clinch
Director Dated: 30th April 2019

FARID Hillend Engineering Limited

Directors' report for the year ended 31 December 2018

Results and Dividends

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

The Directors do not propose a dividend (2017: Nil)

The company's business activities, together with the factors likely to affect its future development and position are included in the strategic report on pages 3 to 4. The company's financial risk management policies for managing price, credit, liquidity and interest rate risk are set out in the strategic report.

Going Concern

The directors acknowledge that the company's borrowings are all due and payable upon demand. To address this liquidity risk, the directors have obtained written assurance from its ultimate parent company that borrowings will not be called, and liquidity support will continue to be provided, for a period of at least 12 months from the date of the approval of these finance statements. As a result, the directors have a reasonable expectation that the company has adequate resources to meet its obligations and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

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

Marco Orecchia
Charles Clinch
Brian Kennedy (resigned on 15th March 2019)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report and 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 the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).*

FARID Hillend Engineering Limited

Directors' report for the year ended 31 December 2018 (continued)

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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 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.

Disclosure of information to Auditors

Each of the persons who are a director at the date of approval of this report confirms that:

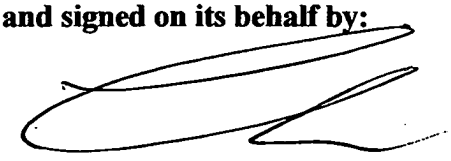
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Approved by the Board
and signed on its behalf by:



Charles Clinch
Director

Dated: 30th April 2019

FARID Hillend Engineering Limited

Independent auditors' report to the members of FARID Hillend Engineering Limited

Report on the audit of the financial statements

Opinion

In our opinion, FARID Hillend Engineering Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2018; the Statement of income and retained earnings for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of

FARID Hillend Engineering Limited

Independent auditors' report to the members of FARID Hillend Engineering Limited (continued)

the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

FARID Hillend Engineering Limited

Independent auditors' report to the members of FARID Hillend Engineering Limited (continued)

Other Required Reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Mark Hoskyns-Abrahall (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 April 2019

FARID Hillend Engineering Limited

Statement of income and retained earnings for the year ended 31 December 2018

	Note	2018	2017 Restated
		£	£
Turnover	2	**29,047,428**	24,396,007
Cost of sales		**(26,605,402)**	(22,492,211)
Gross profit		**2,442,026**	1,903,796
Administrative expenses		**(2,895,250)**	(2,354,480)
Other operating income		**44,863**	82,169
Operating loss		**(408,361)**	(368,515)
Interest payable and similar expenses	6	**(41,594)**	(32,322)
Loss before taxation		**(449,955)**	(400,837)
Tax on loss	8	**53,924**	87,466
Loss for the financial year		**(396,031)**	(313,371)
Retained earnings at the beginning of the year		**2,210,908**	2,524,279
Dividends paid		**-**	
		1,814,877	2,210,908

All the above figures relate to continuing activities.

FARID Hillend Engineering Limited

Balance Sheet as at 31 December

	Note	2018	2017
		£	£
Fixed assets			
Tangible assets	9	**647,682**	752,262
Intangible Assets		**2,310**	1,155
		649,992	753,417
Current assets			
Stocks	10	**6,443,411**	4,984,277
Debtors	11	**4,128,619**	5,560,195
Cash at bank and in hand		**53,435**	291,836
		10,625,465	10,836,308
Creditors: amounts falling due within one year	12	**(8,340,694)**	(8,224,483)
Net current assets		**2,284,771**	2,611,825
Total assets less current liabilities		**2,934,764**	3,364,087
Creditors: amounts falling due after more than one year.	13	-	-
Provisions for liabilities	14	**(1,104,887)**	(1,138,179)
Net assets		**1,829,877**	2,225,908
Capital and reserves			
Called up share capital	16	**15,000**	15,000
Retained earnings		**1,814,877**	2,210,908
Total shareholders' funds		**1,829,877**	2,225,908

The financial statements on pages 9 to 26 were approved by the board of directors on 30th April 2019 and were signed on its behalf by:

Charles Clinch
Director

FARID Hillend Engineering Limited

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies

General information
FARID Hillend Engineering Limited is a private company incorporated in Scotland limited by shares. The address of its registered office is Taxi Way, Hillend Industrial Estate, Dunfermline, Fife, KY11 9ES.

The principal activity of FARID Hillend Engineering Limited (the "company") is the manufacture and service of refuse collection equipment.

Statement of compliance
The individual financial statements of FARID Hillend Engineering Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Summary of significant accounting policies
The principal accounting policies, which have been applied consistently throughout the year, are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Reclassification of certain payroll costs has been made in the 2017 columns of these financial statements to ensure consistency between periods. An amount of £1.7m has been reclassified from administrative expenses to cost of sales, of which £1.4m was attributable to a reallocation of payroll costs. There was no impact on the loss for the year.

Basis of Preparation
These financial statements are prepared under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The financial statements have been prepared under FRS 102.

Going concern
The company's business activities, together with the factors likely to affect its future development and position are included in the strategic report. The company's financial risk management policies for managing price, credit, liquidity and interest rate risk are set out in the strategic report.

The directors acknowledge that the company's borrowings are all due and payable upon demand. To address this liquidity risk, the directors have obtained written assurance from its ultimate parent company that borrowings will not be called, and liquidity support will continue to be provided, for a period of at least 12 months from the date of the approval of these finance statements. As a result, the directors have a reasonable expectation that the company has adequate resources to meet its obligations and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

FARID Hillend Engineering Limited

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. FARID Hillend Engineering Limited is a qualifying entity as its results are consolidated into the financial statements of FEG Brivio Spa which are publicly available.

As a qualifying entity, the company has taken advantage of the following exemptions:

i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Turnover
Turnover represents the net invoiced value of units, spares and services sold including, where applicable, chassis, hoists and other third party supplied goods. Turnover is recognised when the goods are dispatched to the contracted point of delivery.

Employee benefits
The company provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension scheme.

i) Short-term benefits
Short-term benefits including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension scheme
The company operate a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the statement of income and retained earnings represents the company contributions payable to the scheme in respect of the accounting period.

Research and development expenditure
Expenditure in respect of research and development is charged against profits in the year in which it is incurred.

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of income and retained earnings, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Current tax is provided at amounts expected to be paid or (recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

ii) Deferred taxation
Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which future reversal of underlying timing differences can be deducted.

Foreign currencies
i) *Functional and presentation currency*
The company's functional and presentation currency is GBP Sterling.

ii) *Transactions and balances*
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Gains and losses arising from foreign currency transactions are taken to the statement of income and retained earnings in the year in which they arise.

Tangible fixed assets
The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Tangible fixed assets (continued)
Freehold land is not depreciated.

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets, less their estimated residual values over the expected useful economic lives of the assets concerned.

The principal annual rates used for this purpose are:

Buildings - freehold	Straight line over 50 years
Buildings - improvements	Straight line over 3 to 10 years
Plant and machinery	Straight line over 5 to 10 years
Computer equipment	Straight line over 3 to 5 years
Fixtures, Fittings & equipment	Straight line over 3 years

Operating leases
i) Operating leases
Operating lease payments are charged against profits in the year in which they are incurred on a straight line basis over the lease term.

ii*) Lease incentives*
Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.
The company has taken advantage of the exemption under paragraph 35.10(p) of FRS 102 in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the statement of income and retained earnings over the period to the first review date on which the rent is adjusted to market rates.

Impairment of non-financial assets
At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication, the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell, and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Impairment of non-financial assets (continued)

the statement of income and retained earnings.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of income and retained earnings.

Stocks
Finished goods are valued at cost of labour and materials plus an addition for factory overheads, or at estimated selling price less cost to complete and sell, if lower.

Raw materials are valued at the lower of cost and estimated selling price less cost to complete and sell.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity).

Warranties
The company has made a provision in respect of the estimated warranty costs which will be incurred over the standard warranty period. Where extended warranty cover has been purchased by customers the revenue is deferred and recognised over the extended warranty period.

The non-specific warranty provision is calculated using estimated cost rates that are based on historical trends and by applying judgement that this rate will prevail for the current year. The rate is applied to all vehicle sales using appropriate rates for the age of the vehicle from year one to year three when the warranty expires.

The specific warranty is calculated using estimated costs for known issues when they become known and are able to be estimated. The costs are then posted to the provision and over/under provisions are released once the actual costs crystallise.

Financial instruments
The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Financial instruments (continued)

i) *Financial Assets*
Basic financial assets, including trade debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.
At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference

between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the statement of income and retained earnings, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii) *Financial liabilities*
Basic financial liabilities, including trade creditors and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Financial instruments (continued)
Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is

probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) *Offsetting*
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Related party disclosures
As a wholly-owned member of FEG Brivio Spa, the ultimate parent company, the company has taken advantage of the exemptions as provided by paragraph 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The company discloses transactions with related parties which are not wholly owned within the same group. The company is included in the consolidated financial statements of FEG Brivio Spa, which are publicly available.

Critical accounting judgements and key source of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Notes to the financial statements for the year ended 31 December 2018 (continued)

1 Accounting policies (continued)

Financial instruments (continued)
Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

i) Useful economic lives of tangible fixed assets
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 of significant value assets are re-assessed annually. See note 9 for the carrying amount of the tangible fixed assets, and note 1 for the useful economic lives for each class of assets.

ii) Warranty provision
The non-specific warranty provision is calculated using estimated cost rates that are based on historical trends and by applying judgement that this rate will prevail for the current year. The rate is applied to all vehicle sales using appropriate rates for the age of the vehicle from year one to year three when the warranty expires. The specific warranty is calculated using estimated costs for known issues when they become known and are able to be estimated. The costs are then posted to the provision and over/under provisions are released once the actual costs crystallise. See note 14 for the carrying amount of the warranty provision.

Notes to the financial statements for the year ended 31 December 2018 (continued)

2 Turnover

	2018	2017
	£	£
UK	**24,728,842**	20,478,065
Other	**4,318,586**	3,917,942
	29,047,428	24,396,007

Turnover was entirely attributable to the manufacture, sale and service of refuse collection equipment.

3 Operating profit

	2018	2017
	£	£
Operating profit is stated after charging:		
Auditors' remuneration - the company and immediate parent	**26,000**	26,250
Auditors' remuneration – non-audit services (taxation)	**7,000**	6,825
Depreciation	**153,767**	157,902
Hire of plant and machinery	**136,769**	194,518
Foreign exchange losses	**21,061**	14,720
Operating lease rentals	**147,643**	246,956

4 Directors' remuneration

	2018	2017
	£	£
Aggregate remuneration	**139,740**	137,000

Two directors received remuneration in respect of their services to the company (2017: two). Contributions of £21,012 were paid under the defined contribution scheme (2017: £20,600). No retirement benefits are accruing to directors under a defined benefit scheme (2017: £nil).

Notes to the financial statements for the year ended 31 December 2018 (continued)

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2018	2017
	Number	Number
Production	162	136
Selling & distribution	28	26
Administration	18	22
	208	184

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£	£
Wages and salaries	6,325,384	5,405,422
Social security costs	561,669	494,958
Other pension costs (note 19)	269,201	244,026
	7,156,254	6,144,406

6 Interest payable and similar expenses

	2018	2017
	£	£
Interest payable to related group companies	4,079	10,229
Bank loan interest	197	524
Bank overdraft interest	37,318	21,569
	41,594	32,322

7 Dividends

No dividends were declared or paid in the current or previous years.

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Tax on loss

	2018	2017
	£	£
Current tax:		
UK corporation tax at 19%, (2017: 19.25%), on the loss for the year	-	-
Adjustments in respect of prior years	**(28)**	(61,461)
Current tax credit for the year	**(28)**	(61,461)
Deferred tax:		
Reversal of timing differences	**(86,589)**	(86,752)
Adjustment in respect of prior years	**23,578**	50,598
Effect of changes in tax rates	**9,115**	10,149
Deferred Tax	**(53,896)**	(26,005)
Tax on Loss	**(53,924)**	(87,466)

The tax assessed for the year is lower (2017: higher), than the standard rate of corporation tax in the UK (19%) (2017: 19.25%). The differences are explained below:

	2018	2017
	£	£
Loss before tax	**(449,955)**	(400,837)
Loss before tax multiplied by standard rate in the UK 19% (2017: 19.25%)	**(85,491)**	(77,141)
Effects of:		
Income not deductible for tax purposes and other permanent differences	**(1,098)**	(9,611)
Tax rate changes	**9,115**	10,149
Adjustments in respect of prior years	**23,550**	(10,863)
Total Tax credit for the year	**(53,924)**	(87,466)

Notes to the financial statements for the year ended 31 December 2018 (continued)

8 Tax on loss (continued)

The Finance (No. 2) Act 2015, substantively enacted on the 26 October 2015, included future reductions to the corporation tax rate from 19.25% to 19% with effect from 1 April 2018 and then from 19% to 18% from 1 April 2020.

The Finance Act 2016, substantively enacted on 6 September 2016, then amended this final change so that the corporation tax rate will reduce from 19% to 17% with effect from 1 April 2020.

Notes to the financial statements for the year ended 31 December 2018 (continued)

9 Tangible assets

	Freehold land, buildings and building improvements	Plant and machinery	Computer equipment	Fixtures, fittings and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2018	1,378,354	1,298,376	371,805	51,076	3,099,611
Additions	-	11,930	36,758	-	48,688
Disposals	-	(41,390)	-	-	(41,390)
At 31 December 2018	**1,378,354**	**1,268,916**	**408,563**	**51,076**	**3,106,909**
Accumulated Depreciation					
At 1 January 2018	931,158	1,022,095	342,519	51,076	2,346,848
Charge for year	22,338	109,793	21,636	-	153,767
Depreciation on Disposals	-	(41,390)	-	-	(41,390)
At 31 December 2018	**953,496**	**1,090,498**	**364,155**	**51,076**	**2,459,225**
Net book value					
At 31 December 2018	**424,858**	**178,416**	**44,408**	**-**	**647,682**
At 31 December 2017	447,196	276,281	29,286	-	752,263

The freehold land and buildings includes the cost of freehold land £125,890, (2017: £125,890), which is not depreciated.

Barclays Bank Plc holds a legal charge over the following Freehold land, buildings and building improvements:

i) Units AF14, AF15 & AF16 of the facilities at Dalgety Bay which amount to total net book value of £96,638, (2017: £111,177); and

ii) Unit K of the site at Arundel which amounts to a net book value of £328,220, (2016: £336,019).

Notes to the financial statements for the year ended 31 December 2018 (continued)

10 Stocks

	2018	2017
	£	£
Raw materials, WIP and consumables	**6,033,591**	4,363,044
Finished goods	**409,820**	621,233
	6,443,411	4,984,277

An impairment loss of £339,043 (2017: £194,287) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

11 Debtors

	2018	2017
	£	£
Amounts falling due within one year		
Trade debtors	**3,793,856**	5,290,391
Amounts owed by group undertakings	**66,810**	50,193
Corporation and other tax	**39,673**	56,065
Deferred tax (note 15)	**172,109**	93,826
Prepayments and accrued income	**56,171**	69,720
	4,128,619	5,560,195

No provision for impairment loss (2017; Nil) was included against trade debtors.
Amounts owed by group undertakings is an unsecured, interest free, normal trading account balance with Farid Industrie S.P.A.

Notes to the financial statements for the year ended 31 December 2018 (continued)

12 Creditors: amounts falling due within one year

	2018	2017
	£	£
Bank overdraft	**1,064,905**	1,376,960
Bank loan	**-**	26,277
Trade creditors	**3,580,553**	3,395,397
Amounts owed to group undertakings	**2,251,296**	1,858,501
Other Taxation and social security	**311,024**	477,997
Accruals and deferred income	**1,132,916**	1,089,351
	8,340,694	8,224,483

Amounts owed to group undertakings include an unsecured loan of £395,000, to FEG Brivio Spa accruing a fixed interest at 1.7% repayable on 30 June 2019. The remaining balance is an unsecured, interest free, normal trading account balance with Farid Industrie S.P.A. of £1,856,296 (2017: £1,794,404). A bank overdraft facility from Barclays is secured by a fixed charge on the freehold properties.

13 Creditors: amounts falling due after more than one year

	2018	2017
	£	£
Amounts owed to group undertakings	-	-
Bank loan	-	-
	-	-

Notes to the financial statements for the year ended 31 December 2018 (continued)

14 Provisions for liabilities

	Warranty provision
	£
At 1 January 2018	1,138,179
Profit and loss – provided for during the year	950,488
Amounts utilised in year	(983,780)
At 31 December 2018	**1,104,887**

The warranty provision reflects the company's expected cost of meeting anticipated warranty claims for refuse collection equipment.

15 Deferred tax

	2018	2017
	£	£
Accelerated capital allowances	**3,961**	2,174
Trading timing differences	**2,622**	2,581
R&D expenditure credit	**24,360**	16,815
Trading losses	**141,166**	72,256
Total deferred taxation	**172,109**	93,826

There are no unrecognised deferred tax amounts. The directors are confident that future profits will enable the tax deferred by trading losses to be recovered.

16 Called up share capital

	2018	2017
	£	£
Allotted, called up, issued and fully paid		
15,000 (2017:15,000) Ordinary shares of £1 each	**15,000**	15,000

There is a single class of ordinary shares. There are no restrictions on the distribution of capital and the repayment of capital.

Notes to the financial statements for the year ended 31 December 2018 (continued)

17 Contingent liabilities

The company has granted a guarantee to the Commissioners of Customs & Excise for £100,000 (2017: £100,000). This guarantee is for duty deferment in favour of Natwest for import of goods.

18 Leases

At 31 December 2018 the company's future minimum operating lease payments are as follows:

	2018	2017
	£	£
Within one year	17,476	20,313
From one to five years	307,760	161,756
	325,236	182,069

19 Pension arrangements

Defined Contribution Pension Scheme

The company operates a defined contribution pension scheme. The cost of company contributions to the scheme was £269,201 (2017: £244,026), of which £nil was accrued as at 31 December 2018 (2017: £nil).

20 Related Party Transactions

The company has taken exemption from providing certain related party disclosures as mentioned in the accounting policy.

21 Ultimate parent undertaking and controlling party

The immediate parent undertaking and controlling party is Farid UK Limited.

FEG Brivio Spa is the parent undertaking of the largest group of undertakings to consolidate these financial statements. The consolidated financial statements of FEG Brivio Spa are available from its registered office FEG Brivio Spa, Corso Re Umberto 1, Turin, Italy.