

H.V.R. INTERNATIONAL LIMITED

Annual Report and Financial Statements

for the Year Ended 31 May 2018



H.V.R. International Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6 to 8
Income Statement	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 to 27

H.V.R. International Limited

Company Information

Directors	S. M. Elliott K. S. McLaughlin
Registered office	Bedesway Bede Industrial Estate Jarrow NE32 3EN
Solicitors	Watson Burton LLP 1 St James Gate Newcastle upon Tyne NE1 4AD
Bankers	Lloyds Bank Gillingham P.O. Box 72 Orchard Brae Gillingham ME8 0LS
Auditor	Tait Walker LLP Chartered Accountants & Statutory Auditor Bulman House Regent Centre Gosforth Newcastle upon Tyne NE3 3LS

H.V.R. International Limited

Strategic Report for the Year Ended 31 May 2018

The directors present their strategic report for the year ended 31 May 2018.

Principal activity

The principal activity of the company is the manufacture and distribution of ceramic resistors.

Fair review of the business

Although 2017-18 was a very challenging year for HVR International, the directors remain extremely positive and confident about the future of the business. Turnover decreased by 26% to £9.937m (2017: £13.452m). The decline was predominately in export sales particularly in Asian markets as China's infrastructure projects came to an end.

The rapid decline in orders forced the company to make a small number of redundancies at the end of the year. It was felt this difficult decision would help to financially strengthen the company going forward.

The weakness of sterling and reductions in overheads helped to keep the company in profit during the year.

Position at the year end

Looking ahead the company needs to focus on embedding its strategic plan of delivering long-term sustainable growth. This will be achieved by evolving the way the company communicates with its customers, actively sourcing new markets and new applications for its products. It is envisaged, maintaining focus on driving productivity, simplifying the business and a strong financial discipline will place the company in a good position ensuring longevity.

The company's key financial and other performance indicators during the year were as follows:

	Unit	2018	2017
Gross Profit	%	18	35
Number of customer complaints		18	29

Principal risks and uncertainties

The company's activities expose it to a variety of financial risks, including the effects of credit, liquidity, cash flow, interest rate risks and foreign exchange risks. In order to mitigate these risks in the most cost effective manner, the company's risk management is addressed through a framework of policies, procedures and internal controls. All policies are reviewed on an ongoing basis by management.

Financial assets that expose the group to financial risk consist primarily of trade debtors and cash. Financial liabilities that expose the group to financial risk consist principally of trade creditors and loans.

Credit risk is the risk of loss in value of financial assets due to counterparties failing to meet all or part of their obligations. The company performs ongoing credit evaluations of its customer's financial condition.

Liquidity risk is the risk that the company does not have sufficient liquid assets to meet its obligations as they fall due. Liquidity is maintained at a prudent level and the group ensures there is an adequate liquidity buffer to cover contingencies. The company maintains sufficient cash and open credit lines from its bankers to meet funding requirements.

Interest rate risk regarding unfavourable movements in interest rates is not perceived as being material to the accounts due to the borrowing agreements in place.

H.V.R. International Limited

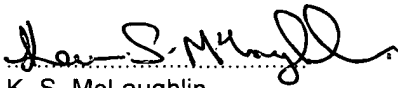
Strategic Report for the Year Ended 31 May 2018 (continued)

The company is exposed to foreign exchange risk from various exposures primarily with respect to the U.S. Dollar and the Euro. The risk is not perceived as being material to the accounts due to the company holding both Euro and Dollar bank accounts and utilising these to pay foreign currency suppliers.

The company will continue to monitor the political environment, the exit of Britain from the European Union (Brexit) and the current global economic risk. Various Brexit scenarios could cause disruptions and create uncertainty around the business, including affecting our relationships with our existing and future customers, suppliers and colleagues. These disruptions and uncertainties could have an adverse effect on the business, the financial results and operations. As further details of the Brexit terms emerge, the management will continue to assess the potential risks and impacts of these on the company.

The company continually enhances its data security and data privacy to ensure it complies with the General Data Protection Regulations and keeps pace with any increasing cyber threats.

Approved by the Board on 27/22/19 and signed on its behalf by:



K. S. McLaughlin
Director

H.V.R. International Limited

Directors' Report for the Year Ended 31 May 2018

The directors present their report and the financial statements for the year ended 31 May 2018.

Directors of the company

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

S. M. Elliott
K. S. McLaughlin

Financial instruments

Objectives and policies

The company has an established, structured approach to risk management. The company's activities expose it to a variety of financial risks, including the effects of credit, liquidity, cash flow, interest rate risks and foreign exchange risks. The company has adopted risk management policies that seek to mitigate these risks in a cost effective manner. Financial assets that expose the group to financial risk consist primarily of trade debtors and cash. Financial liabilities that expose the group to financial risk consist principally of trade creditors and loans.

See disclosures within the Strategic Report regarding credit, liquidity, interest rate and foreign exchange risk.

Future developments

See disclosures within the Strategic Report regarding future developments of the Company.

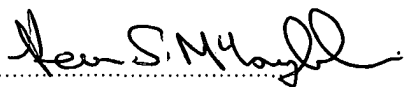
Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditor

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Tait Walker LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 27/02/19 and signed on its behalf by:



K. S. McLaughlin
Director

H.V.R. International Limited

Statement of Directors' Responsibilities

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

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

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

H.V.R. International Limited

Independent Auditor's Report to the Members of H.V.R. International Limited

Opinion

We have audited the financial statements of H.V.R. International Limited (the 'company') for the year ended 31 May 2018, which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of 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 in this regard.

H.V.R. International Limited

Independent Auditor's Report to the Members of H.V.R. International Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

H.V.R. International Limited

Independent Auditor's Report to the Members of H.V.R. International Limited (continued)

Use of our report

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

Tait Walker LP.

Paul Shields FCA (Senior Statutory Auditor)
For and on behalf of Tait Walker LLP
Chartered Accountants and Statutory Auditor
Bulman House
Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3LS

Date: 27/02/2019.

H.V.R. International Limited

Income Statement for the Year Ended 31 May 2018

	Note	2018 £	2017 £
Turnover	3	9,936,830	13,451,629
Cost of sales		<u>(8,108,316)</u>	<u>(8,767,519)</u>
Gross profit		1,828,514	4,684,110
Distribution costs		(197,852)	(334,413)
Administrative expenses		(1,381,585)	(1,686,828)
Other operating income	4	<u>43,523</u>	<u>23,661</u>
Operating profit	5	292,600	2,686,530
Other interest receivable and similar income	6	6,982	7,639
Interest payable and similar expenses	7	<u>(29,314)</u>	<u>(41,157)</u>
Profit before tax		270,268	2,653,012
Taxation	10	<u>(84,061)</u>	<u>(415,924)</u>
Profit for the financial year		<u>186,207</u>	<u>2,237,088</u>

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

The notes on pages 12 to 27 form an integral part of these financial statements.

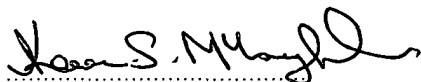
H.V.R. International Limited

(Registration number: 02589651)

Statement of Financial Position as at 31 May 2018

	Note	2018 £	2017 £
Fixed assets			
Tangible assets	12	2,011,842	2,357,069
Investments	13	6,000	6,000
		<u>2,017,842</u>	<u>2,363,069</u>
Current assets			
Stocks	14	897,021	1,050,761
Debtors	15	11,791,960	9,985,923
Cash at bank and in hand		92,518	133,209
		<u>12,781,499</u>	<u>11,169,893</u>
Creditors: Amounts falling due within one year	16	<u>(3,028,654)</u>	<u>(1,666,955)</u>
Net current assets		<u>9,752,845</u>	<u>9,502,938</u>
Total assets less current liabilities		<u>11,770,687</u>	<u>11,866,007</u>
Creditors: Amounts falling due after more than one year	16	(313,465)	(570,532)
Provisions for liabilities	18	<u>(115,451)</u>	<u>(139,911)</u>
Net assets		<u>11,341,771</u>	<u>11,155,564</u>
Capital and reserves			
Called up share capital	20	32,000	32,000
Capital redemption reserve	21	398,573	398,573
Profit and loss account	21	<u>10,911,198</u>	<u>10,724,991</u>
Total equity		<u>11,341,771</u>	<u>11,155,564</u>

Approved and authorised by the Board on 27/02/19 and signed on its behalf by:



K. S. McLaughlin
Director

The notes on pages 12 to 27 form an integral part of these financial statements.

H.V.R. International Limited

Statement of Changes in Equity for the Year Ended 31 May 2018

	Share capital	Capital redemption reserve	Profit and loss account	Total
	£	£	£	£
At 1 June 2016	32,000	398,573	8,487,903	8,918,476
Profit for the year	-	-	2,237,088	2,237,088
Total comprehensive income	-	-	2,237,088	2,237,088
At 31 May 2017	<u>32,000</u>	<u>398,573</u>	<u>10,724,991</u>	<u>11,155,564</u>

	Share capital	Capital redemption reserve	Profit and loss account	Total
	£	£	£	£
At 1 June 2017	32,000	398,573	10,724,991	11,155,564
Profit for the year	-	-	186,207	186,207
Total comprehensive income	-	-	186,207	186,207
At 31 May 2018	<u>32,000</u>	<u>398,573</u>	<u>10,911,198</u>	<u>11,341,771</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is Bedesway, Bede Industrial Estate, Jarrow, NE32 3EN.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Statement of compliance

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

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

These financial statements are prepared in sterling which is the functional currency of the entity.

Summary of disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

- (a) No cash flow statement has been presented for the company.
- (b) Disclosures in respect of financial instruments have not been presented.
- (c) Disclosures in respect of share-based payments have not been presented.
- (d) No disclosure has been given for the aggregate remuneration of key management personnel.

The Company has taken advantage of the the exemption available under paragraph 33.1A of FRS 102 and does not disclose related party transactions with members of the same group that are wholly owned.

Name of parent of group

These financial statements are consolidated in the financial statements of Hawkridge Management Limited.

The financial statements of Hawkridge Management Limited may be obtained from Bedesway, Bede Industrial Estate, Jarrow, Tyne and Wear, NE32, 3EN, which is also the registered address of the ultimate parent company.

Group accounts not prepared

The company has taken advantage of the exemption from preparing consolidated financial statements contained in Section 400 of the Companies Act 2006 on the basis that it is a subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA State.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

2 Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis.

Exemption from preparing group accounts

The financial statements contain information about H.V.R. International Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Hawkridge Management Limited, a company incorporated in England and Wales.

Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

Assessing indicators of impairment - In assessing whether there have been indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Useful economic lives of tangible assets - The annual depreciation charge is sensitive to changes in the estimated useful lives of the assets. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, future investments and economic utilisation.

Impairment of debtors - The company makes an estimate of the recoverable value of the trade and other debtors. When assessing impairment of trade and other debtor, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of value added tax, returns, rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

2 Accounting policies (continued)

Government grants

Government grants are recognised at the fair value of the asset received or receivable. Grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised using the accrual model or the performance model.

Under the accrual model, government grants relating to revenue are recognised on a systematic basis over the periods in which the company recognises the related costs for which the grant is intended to compensate. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised in income in the period in which it becomes receivable.

Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income and not deducted from the carrying amount of the asset.

Under the performance model, where the grant does not impose specified future performance-related conditions on the recipient, it is recognised in income when the grant proceeds are received or receivable. Where the grant does impose specified future performance-related conditions on the recipient, it is recognised in income only when the performance-related conditions have been met. Where grants received are prior to satisfying the revenue recognition criteria, they are recognised as a liability.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax

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

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements. Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold property	Straight line over 15 years
Property improvements	Straight line over 10 years
Plant and machinery	Straight line over 10 years
Fixtures and fittings	Straight line over 3 years
Motor Vehicles	Straight line over 4 years

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

Amortisation

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

Asset class	Amortisation method and rate
Goodwill	Fully amortised

Investments

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

2 Accounting policies (continued)

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

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

Trade creditors

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 the company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

2 Accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance costs in the Income Statement and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

Research and development

Research expenditure is written off in the period in which it is incurred.

Development expenditure incurred is capitalised as an intangible asset only when all of the following criteria are met:

- * It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- * There is the intention to complete the intangible asset and use or sell it;
- * There is the ability to use or sell the intangible asset;
- * The use or sale of the intangible asset will generate probable future economic benefits;
- * There are adequate technical, financial and other resources available to complete the development and to use or sell the intangible asset; and
- * The expenditure attributable to the intangible asset during its development can be measured reliably.

Expenditure that does not meet the above criteria is expensed as incurred.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

3 Revenue

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

	2018 £	2017 £
Sale of goods	<u>9,936,830</u>	<u>13,451,629</u>

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

	2018 £	2017 £
UK	376,311	608,695
Rest of world	<u>9,560,519</u>	<u>12,842,934</u>
	<u>9,936,830</u>	<u>13,451,629</u>

4 Other operating income

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

	2018 £	2017 £
Government grants	30,000	14,562
Rental income	<u>13,523</u>	<u>9,099</u>
	<u>43,523</u>	<u>23,661</u>

5 Operating profit

Arrived at after charging/(crediting)

	2018 £	2017 £
Depreciation expense	417,757	369,765
Foreign exchange gains	(137,563)	(199,576)
Profit on disposal of property, plant and equipment	<u>(713)</u>	<u>(8,226)</u>

6 Other interest receivable and similar income

	2018 £	2017 £
Interest income on bank deposits	6,982	7,495
Other finance income	<u>-</u>	<u>144</u>
	<u>6,982</u>	<u>7,639</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

7 Interest payable and similar expenses

	2018	2017
	£	£
Interest on bank overdrafts and borrowings	<u>29,314</u>	<u>41,157</u>

8 Staff costs

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

	2018	2017
	£	£
Wages and salaries	4,902,136	5,267,169
Social security costs	479,831	510,720
Pension costs, defined contribution scheme	328,245	390,546
Redundancy costs	<u>35,176</u>	<u>-</u>
	<u>5,745,388</u>	<u>6,168,435</u>

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

	2018	2017
	No.	No.
Production	149	147
Administration	<u>24</u>	<u>25</u>
	<u>173</u>	<u>172</u>

9 Auditor's remuneration

	2018	2017
	£	£
Audit of the financial statements	<u>9,700</u>	<u>9,700</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

10 Taxation

Tax charged/(credited) in the income statement

	2018 £	2017 £
Current taxation		
UK corporation tax	87,514	448,775
UK corporation tax adjustment to prior periods	21,007	(11,899)
	<u>108,521</u>	<u>436,876</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(37,789)	(20,952)
Arising from changes in tax rates and laws	3,979	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	9,350	-
	<u>(24,460)</u>	<u>(20,952)</u>
Total deferred taxation		
	<u>84,061</u>	<u>415,924</u>
Tax expense in the income statement		

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 20%).

The differences are reconciled below:

	2018 £	2017 £
Profit before tax	<u>270,268</u>	<u>2,653,012</u>
Corporation tax at standard rate	51,351	530,602
Effect of revenues exempt from taxation	(5,700)	-
Effect of expense not deductible in determining taxable profit (tax loss)	21,721	(1,517)
UK deferred tax expense (credit) relating to changes in tax rates or laws	3,978	(9,152)
Increase (decrease) in UK and foreign current tax from adjustment for prior periods	30,357	(11,899)
Tax increase (decrease) arising from group relief	(166)	(60,145)
Tax increase (decrease) from effect of adjustment in research and development tax credit	<u>(17,480)</u>	<u>(31,965)</u>
Total tax charge	<u>84,061</u>	<u>415,924</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

10 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

	Liability £
2018	
Accelerated capital allowances	129,270
Retirement benefit obligations	<u>(13,820)</u>
	<u>115,450</u>
2017	
Accelerated capital allowances	148,719
Retirement benefit obligations	<u>(8,808)</u>
	<u>139,911</u>

11 Intangible assets

	Goodwill £
Cost or valuation	
At 1 June 2017	<u>569,686</u>
At 31 May 2018	<u>569,686</u>
Amortisation	
At 1 June 2017	<u>569,686</u>
At 31 May 2018	<u>569,686</u>
Carrying amount	
At 31 May 2018	<u>-</u>
At 31 May 2017	<u>-</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

12 Tangible assets

	Leasehold property £	Property improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Total £
Cost or valuation						
At 1 June 2017	1,029,757	798,791	195,003	3,711,568	164,185	5,899,304
Additions	-	9,165	4,609	7,900	70,142	91,816
Disposals	-	-	-	-	(31,905)	(31,905)
At 31 May 2018	<u>1,029,757</u>	<u>807,956</u>	<u>199,612</u>	<u>3,719,468</u>	<u>202,422</u>	<u>5,959,215</u>
Depreciation						
At 1 June 2017	726,519	376,508	174,848	2,247,989	16,371	3,542,235
Charge for the year	50,645	75,932	15,163	221,068	54,948	417,756
Eliminated on disposal	-	-	-	-	(12,618)	(12,618)
At 31 May 2018	<u>777,164</u>	<u>452,440</u>	<u>190,011</u>	<u>2,469,057</u>	<u>58,701</u>	<u>3,947,373</u>
Carrying amount						
At 31 May 2018	<u>252,593</u>	<u>355,516</u>	<u>9,601</u>	<u>1,250,411</u>	<u>143,721</u>	<u>2,011,842</u>
At 31 May 2017	<u>303,238</u>	<u>422,283</u>	<u>20,155</u>	<u>1,463,579</u>	<u>147,814</u>	<u>2,357,069</u>

Included within the net book value of land and buildings above is £252,593 (2017 - £303,238) in respect of freehold land and buildings.

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

12 Tangible assets (continued)

Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2018 £	2017 £
Plant and machinery	811,785	935,045
Motor vehicles	141,912	117,731
	<u>953,697</u>	<u>1,052,776</u>

13 Investments in subsidiaries, joint ventures and associates

	2018 £	2017 £
Investments in subsidiaries	<u>6,000</u>	<u>6,000</u>

Subsidiaries

Cost or valuation

At 1 June 2017	<u>6,000</u>
At 31 May 2018	<u>6,000</u>

Provision

At 1 June 2017	<u>-</u>
At 31 May 2018	<u>-</u>

Carrying amount

At 31 May 2018	<u>6,000</u>
At 31 May 2017	<u>6,000</u>

Details of undertakings

Details of the investments (including principal place of business of unincorporated entities) in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Registered office	Holding	Proportion of voting rights and shares held	
			2018	2017
Subsidiary undertakings				
HVR Advanced Power Components Inc	2090 Old Union Rd, Cheektowaga, NY 14227 United States of America	Ordinary	86.96%	86.96%

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

13 Investments in subsidiaries, joint ventures and associates (continued)

The principal activity of HVR Advanced Power Components Inc is the manufacture and distribution of high voltage resistors.

14 Stocks

	2018	2017
	£	£
Raw materials and consumables	592,568	585,394
Work in progress	304,453	465,367
	<u>897,021</u>	<u>1,050,761</u>

The cost of stocks recognised as an expense in the year amounted to £1,609,122 (2017 - £2,007,958).

15 Debtors

	2018	2017
	£	£
Trade debtors	1,347,033	2,207,700
Amounts owed by group undertakings	7,739,841	6,126,608
Other debtors	2,292,791	1,262,323
Prepayments	104,438	154,292
Corporation tax asset	72,857	-
Directors loan accounts	235,000	235,000
	<u>11,791,960</u>	<u>9,985,923</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

16 Creditors

	Note	2018 £	2017 £
Due within one year			
Loans and borrowings	17	278,517	307,233
Trade creditors		426,152	479,430
Amounts due to related parties	23	18,052	-
Social security and other taxes		110,395	109,973
Other creditors		1,808,038	79,084
Accrued expenses		357,500	426,550
Corporation tax liability		-	234,685
Deferred income		30,000	30,000
		<u>3,028,654</u>	<u>1,666,955</u>
Due after one year			
Loans and borrowings	17	88,027	315,094
Deferred income		225,438	255,438
		<u>313,465</u>	<u>570,532</u>

17 Loans and borrowings

	2018 £	2017 £
Current loans and borrowings		
Finance lease liabilities	<u>278,517</u>	<u>307,233</u>

	2018 £	2017 £
Non-current loans and borrowings		
Finance lease liabilities	<u>88,027</u>	<u>315,094</u>

18 Deferred tax and other provisions

	Deferred tax £	Total £
At 1 June 2017	139,911	139,911
Increase (decrease) in existing provisions	<u>(24,460)</u>	<u>(24,460)</u>
At 31 May 2018	<u>115,451</u>	<u>115,451</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

19 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £328,245 (2017 - £390,546).

20 Share capital

Allotted, called up and fully paid shares

	No.	2018 £	No.	2017 £
Ordinary of £1 each	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>

21 Reserves

Called up share capital

This represents the nominal value of shares that have been issued.

Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company.

Profit and loss

This reserve records retained earnings and accumulated losses.

22 Obligations under leases and hire purchase contracts

Finance leases

The obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

The total of future minimum lease payments is as follows:

	2018 £	2017 £
Not later than one year	278,517	307,233
Later than one year and not later than five years	<u>88,027</u>	<u>315,094</u>
	<u>366,544</u>	<u>622,327</u>

H.V.R. International Limited

Notes to the Financial Statements for the Year Ended 31 May 2018 (continued)

23 Related party transactions

Transactions with directors

	At 1 June 2017 £	Advances to directors £	At 31 May 2018 £
2018			
S. M. Elliott			
Directors loan	117,500	-	117,500
K. S. McLaughlin			
Directors loan	117,500	-	117,500
	At 1 June 2016 £	Advances to directors £	At 31 May 2017 £
2017			
S. M. Elliott			
Directors loan	112,500	5,000	117,500
K. S. McLaughlin			
Directors loan	117,500	-	117,500

24 Parent and ultimate parent undertaking

The company's immediate parent is HawkrIDGE Management Limited, incorporated in England and Wales.

The consolidated financial statements of HawkrIDGE Management Limited are available upon request from HawkrIDGE Management Limited, Bedesway, Bede Industrial Estate, Jarrow, Tyne and Wear, NE32, 3EN, which is also the registered address of the ultimate parent company.

There is no ultimate controlling party.