

SHAFTEC AUTOMOTIVE COMPONENTS LTD
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018



SHAFTEC AUTOMOTIVE COMPONENTS LTD

COMPANY INFORMATION

Directors

R S Jones
T R Curtis
S Marshall
M Bradbury
A Dunn
I J Marlow

Company number

03006083

Registered office

Soho Poolway
Park Road
Hockley
Birmingham
B18 5JA

Auditor

RSM UK Audit LLP
Chartered Accountants
St Philips Point
Temple Row
Birmingham
West Midlands
B2 5AF

SHAFTEC AUTOMOTIVE COMPONENTS LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

The directors are pleased to report that during the year the management team along with Ardenton Capital Investments Limited successfully acquired the Company. Management are optimistic that the Company will continue to thrive by being aligned with a business partner who are supportive of the management strategy of growth through developing new geographic markets, the addition of complimentary product ranges, the consideration of strategic acquisition opportunities, whilst continuing to invest in the existing business infrastructure.

Fair review of the business

Shaftec is the UK's leading manufacturer and distributor of both remanufactured and new components for the automotive aftermarket in its Braking, Steering and Transmission programmes.

The business has reported a 14% increase in turnover, however with a slight reduction in gross margin but in line with the director's expectations.

Export sales have seen considerable growth throughout 2018 and is expected to continue as the business continues to invest in this sector. As the average age of vehicles on the road continues to increase and the Shaftec brand gathers further recognition the market opportunities throughout the EU are an exciting prospect.

Net current assets have increased by £1.6 million at 31 December 2018 principally as a result of additional stock holding to support growth. In addition, the company has incurred capital expenditure of £451,135 during 2018.

Principal risks and uncertainties

The directors carefully monitor the company's performance not only from within, but also with reference to the wider marketplace that includes supplier, customer and market trends. The company is a remanufacturer/distributor of automotive components for the aftermarket where stock range and availability are paramount.

Wherever possible the directors implement strategies consistent with reducing risk across all areas of the business. These include regular and frequent detailed reviews across all product ranges identifying future product development, demand trends and sourcing options ensuring that the company can offer solutions to customers that enhance their own businesses.

Ongoing uncertainty continues following the decision for the UK to leave the European Union, the board of directors have continued to monitor exchange rates closely, taking measures where necessary, to ensure that it protects the company's profitability. A weakening sterling could impact profitability on imported goods but adversely could create export opportunities from a sales perspective. Margin analysis is closely monitored to ensure gross margin is in line with management expectations.

Future developments

The company continues to evolve its current product range and re-manufacturing facility to deliver market requirements. The depreciation of sterling makes the roll out of a European distribution programme an ongoing key objective of the directors. Significant investment into the business' infrastructure has taken place over the last five years and more is planned for 2019 with additional warehouse expansion and the introduction of additional product ranges. This policy of continual re-investment and the ongoing search for operational improvements will further enhance the group's performance.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Key performance indicators

The directors carefully monitor the business' performance closely focusing on both financial and non-financial KPI's. The business has made progress throughout the year under review across all categories of measurement which is reflected in continued strong financial performance. The main financial KPI's measured include turnover, gross margin and profitability, as set out below.

	2018	2017
Turnover	£12.8m	£11.2m
Gross margin	38.1%	39.4%
Operating profit	£2.1m	£1.7m

R & D

Investment into R&D continued throughout 2018 resulting in the implementation of multiple in-house developed software programmes to improve the measurement of direct labour costs, bill of material and scrappage analysis. In addition to this additional programmes have been developed to monitor work in progress, customer orders and enquiries along with a master customer dashboard to improve customer support and service levels.

By order of the board


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R S Jones
Director

19/06/19
.....

SHAFTEC AUTOMOTIVE COMPONENTS LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Principal activities

The principal activity of the company continued to be that of the supply and manufacture of automotive components.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

R S Jones

T R Curtis

S Marshall

M Bradbury (appointed 30 November 2018)

A Dunn (appointed 30 November 2018)

I J Marlow (appointed 30 November 2018)

Results and dividends

The results for the year are set out on page 8.

Interim ordinary dividends were paid amounting to £303,722 (2017: £392,290). The directors do not recommend payment of a final dividend.

Financial instruments

Cash flow and liquidity risk

The company carefully monitors and ensures that investment opportunities and working capital elements are held within carefully controlled liquidity parameters. The company makes use of an invoice discounting facility to provide sufficient funding for working capital and mitigate cash flow and liquidity risk.

Credit risk

The company's credit risk is primarily attributable to its trade debtors. The business has implemented a number of strategies that reduce the likelihood of material adverse impact upon the company's financial performance in this area. The amounts presented in the balance sheet are net of provision for bad and doubtful debtors.

Price risk

The company carefully monitors its pricing strategy in its various market sectors in order to maintain and strengthen its financial robustness whilst maintaining a competitive offering to its customers.

Matters of strategic importance

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's Strategic Report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the Directors' Report.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board


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R S Jones

Director

19/06/2019
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SHAFTEC AUTOMOTIVE COMPONENTS LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAFTEC AUTOMOTIVE COMPONENTS LTD

Opinion

We have audited the financial statements of Shaftec Automotive Components Limited (the 'company') for the year ended 31 December 2018 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity 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 FRS 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 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

Opinions on other matters 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAFTEC AUTOMOTIVE COMPONENTS LTD (CONTINUED)

Matters on which we are required to report by exception

In the light of the 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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: <http://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

Use of our report

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

RSM UK Audit LLP

Richard Eccles FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

Date

21/6/19.

SHAFTEC AUTOMOTIVE COMPONENTS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Turnover	3	12,773,485	11,221,756
Cost of sales		(7,907,557)	(6,802,373)
Gross profit		4,865,928	4,419,383
Administrative expenses		(2,774,808)	(2,764,835)
Other operating income	3	35,656	3,062
Operating profit	6	2,126,776	1,657,610
Interest payable and similar expenses	7	(37,361)	(63,090)
Profit before taxation		2,089,415	1,594,520
Taxation	8	(417,818)	(547,344)
Profit for the financial year		1,671,597	1,047,176
Total comprehensive income for the year		1,671,597	1,047,176

SHAFTEC AUTOMOTIVE COMPONENTS LTD**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2018**

	Notes	2018 £	£	2017 £	£
Fixed assets					
Tangible assets	10		971,320		1,073,172
Current assets					
Stocks	11	5,677,522		4,484,204	
Debtors	12	4,904,237		3,693,727	
Cash at bank and in hand		492,210		168,759	
		<u>11,073,969</u>		<u>8,346,690</u>	
Creditors: amounts falling due within one year	13	<u>(4,679,995)</u>		<u>(3,559,105)</u>	
Net current assets			6,393,974		4,787,585
Total assets less current liabilities			<u>7,365,294</u>		<u>5,860,757</u>
Creditors: Amounts falling due after more than one year	14		(174,998)		(132,598)
Provisions for liabilities	18		(2,136,372)		(2,042,110)
Net assets			<u>5,053,924</u>		<u>3,686,049</u>
Capital and reserves					
Called up share capital	22		45,000		45,000
Share premium account	23		485,000		485,000
Revaluation reserve	23		-		62,830
Profit and loss reserves	23		4,523,924		3,093,219
Total equity			<u>5,053,924</u>		<u>3,686,049</u>

The financial statements were approved by the board of directors and authorised for issue on 19/06/2019 and are signed on its behalf by:



R S Jones
Director

SHAFTEC AUTOMOTIVE COMPONENTS LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £	Share premium account £	Revaluation reserve £	Profit and loss reserves £	Total £
Balance at 1 January 2017:		45,000	485,000	62,830	2,438,333	3,031,163
Year ended 31 December 2017:						
Profit for the year		-	-	-	1,047,176	1,047,176
Total comprehensive income for the year		-	-	-	1,047,176	1,047,176
Dividends	9	-	-	-	(392,290)	(392,290)
Balance at 31 December 2017		45,000	485,000	62,830	3,093,219	3,686,049
Year ended 31 December 2018:						
Profit for the year		-	-	-	1,671,597	1,671,597
Total comprehensive income for the year		-	-	-	1,671,597	1,671,597
Transfer on disposal		-	-	(62,830)	62,830	-
Dividends	9	-	-	-	(303,722)	(303,722)
Balance at 31 December 2018		45,000	485,000	-	4,523,924	5,053,924

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Shaftec Automotive Components Ltd is a private company limited by shares incorporated in England and Wales. The registered office is Soho Poolway, Park Road, Hockley, Birmingham, B18 5JA.

The company's principal activities and nature of its operations are disclosed in the Directors' Report.

Accounting convention

These financial statements have been prepared in accordance with FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention.

The financial statements are presented in sterling which is also the functional currency of the Company.

Monetary amounts in these financial statements are rounded to the nearest whole £1, except where otherwise indicated.

The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flows and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Ardenton Capital Limited. These consolidated financial statements are available from its registered office, 3 Hardman Square, Spinningfields, Manchester M3 3EB.

Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

The Turnover shown in the Statement of Comprehensive Income represents the value of all goods sold during the period, net of rebates, less returns received and an estimate of future returns, at selling price excluding Value Added Tax. Sales are recognised at the point at which the company has fulfilled its contractual obligations and the risks and rewards attaching to the product, have been transferred to the customer. Rebates are accounted for in the period to which they relate.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Long leasehold	Over the lease term
Improvements to property	10% on cost
Plant and machinery	10% on cost
Fixtures and fittings	20% on cost
Computer equipment	33% on cost
Motor vehicles	25% on reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Provisions for obsolete stock are made when stock levels exceed certain historic sales levels.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally 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.

SHAFTEC AUTOMOTIVE COMPONENTS LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Financial assets

Trade, group and other debtors (including accrued income), which are receivable within one year, are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Financial liabilities

Basic financial liabilities, including trade and other creditors (including accruals), bank loans, and amounts owed to group undertakings, 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 payments discounted at a market rate of interest.

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

Other financial liabilities

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

For non-depreciable assets measured using the revaluation model and investment properties measured at fair value, deferred tax is measured using the tax rates and allowances that apply to the sale of the asset or property.

Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Customer surcharge provision

The Company offers a credit against future sales providing that the customer returns the used part in an acceptable condition. No credit is given if the part is not deemed by the Company to be acceptable or if the part has no value. The potential credit is identified on the original sales invoice as a surcharge and has a fixed period of time in which it may be returned. The obligation to honour this credit is a constructive obligation and therefore, in accordance with FRS 102, a surcharge provision has been made on the basis of the average value of the cost of the economic benefit to be transferred to customers and the probability that the liability will be realised.

Warranties provision

Products have a warranty ranging from one to two years, provisioning is based upon an expected return rate against sales.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies (Continued)

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Leases

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

Assets held under finance leases are recognised as assets at the lower of the assets' fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the Statement of Financial Position as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the income statement so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants are recognised as income over the periods when the related costs are incurred. If part of such a grant is deferred it is deducted from the asset's carrying amount.

Foreign exchange

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined. All translation differences are taken to profit or loss.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

- Estimate of level of future surcharge returns based on past levels of surcharge sales, and average redemption rate;
- Provision is made for product warranties. These provisions require management's best estimate of the cost that will be incurred based on legislative and contractual requirements;
- Methodology for providing for stock obsolescence based on sales history;
- Useful economic life of tangible assets.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2018 £	2017 £
Turnover analysed by class of business		
Sale of goods	12,773,485	11,221,756
Other revenue		
Grant income	32,469	-
Other income	3,187	3,062
	<u>35,656</u>	<u>3,062</u>
 Turnover analysed by geographical market		
	2018 £	2017 £
United Kingdom	10,991,940	10,004,072
Other European countries	1,781,545	1,217,684
	<u>12,773,485</u>	<u>11,221,756</u>

4 Employees

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

	2018 No	2017 No
Administration	38	39
Production	83	78
	<u>121</u>	<u>117</u>

Their aggregate remuneration comprised:

	2018 £	2017 £
Wages and salaries	2,929,088	2,797,056
Social security costs	251,338	248,756
Pension costs	72,534	63,047
	<u>3,252,960</u>	<u>3,108,859</u>

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

5 Directors' remuneration

	2018	2017
	£	£
Remuneration for qualifying services	159,026	150,000
Company pension contributions to defined contribution schemes	1,749	24,657
	<u>160,775</u>	<u>174,657</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2017: 1).

6 Operating profit

	2018	2017
	£	£
Operating profit for the year is stated after charging/(crediting):		
Exchange gains	(2,997)	(11,526)
Government grants	(32,469)	-
Fees payable to the company's auditor for the audit of the company's financial statements	19,000	24,000
Depreciation of owned tangible fixed assets	232,474	169,187
Depreciation of tangible fixed assets held under finance leases	19,955	21,532
Loss on disposal of tangible fixed assets	49,201	2,847
Cost of stocks recognised as an expense	5,232,816	4,469,245
Impairment of stocks recognised	76,690	-
Operating lease charges	243,755	256,642
	<u>243,755</u>	<u>256,642</u>

7 Interest payable and similar expenses

	2018	2017
	£	£
Interest on bank overdrafts and loans	3,430	4,209
Interest on finance leases and hire purchase contracts	2,891	7,849
Other interest	31,040	51,032
	<u>37,361</u>	<u>63,090</u>

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8 Taxation

	2018 £	2017 £
Current tax		
UK corporation tax on profits for the current period	423,184	297,168
Adjustments in respect of prior periods	829	244,258
	<u>424,013</u>	<u>541,426</u>
Deferred tax		
Origination and reversal of timing differences	(4,926)	3,647
Adjustment in respect of prior periods	(1,269)	2,271
	<u>(6,195)</u>	<u>5,918</u>
Total tax charge	<u>417,818</u>	<u>547,344</u>

The total tax charge for the year included in the Statement of Comprehensive Income can be reconciled to the profit before tax multiplied by the standard rate of tax as follows:

	2018 £	2017 £
Profit before taxation	2,089,415	1,594,520
	<u>2,089,415</u>	<u>1,594,520</u>
	2018 £	2017 £
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	396,989	306,945
Tax effect of expenses that are not deductible in determining taxable profit	19,600	3,071
Adjustments in respect of prior years	(440)	246,529
Research and development tax credit	-	(7,506)
Other movements	1,669	(1,695)
	<u>417,818</u>	<u>547,344</u>
Taxation for the year	<u>417,818</u>	<u>547,344</u>

9 Dividends

	2018 £	2017 £
Interim paid	303,722	392,290
	<u>303,722</u>	<u>392,290</u>

SHAFTEC AUTOMOTIVE COMPONENTS LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

10 Tangible fixed assets

	Long leasehold £	Improvements to property £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Motor vehicles £	Total £
Cost or valuation							
At 1 January 2018	325,000	190,318	302,685	592,110	148,986	164,712	1,723,811
Additions	-	-	247,640	174,280	29,215	-	451,135
Disposals	(325,000)	-	(13,296)	(3,359)	(538)	-	(342,193)
At 31 December 2018	-	190,318	537,029	763,031	177,663	164,712	1,832,753
Depreciation and impairment							
At 1 January 2018	25,855	31,569	144,067	285,272	75,866	88,010	650,639
Depreciation charged in the year	3,009	19,032	37,716	132,734	40,762	19,176	252,429
Eliminated in respect of disposals	(28,864)	-	(10,139)	(2,298)	(334)	-	(41,635)
At 31 December 2018	-	50,601	171,644	415,708	116,294	107,186	861,433
Carrying amount							
At 31 December 2018	-	139,717	365,385	347,323	61,369	57,526	971,320
At 31 December 2017	299,145	158,749	158,618	306,838	73,120	76,702	1,073,172

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

10 Tangible fixed assets (Continued)

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases:

	2018 £	2017 £
Plant and machinery	139,417	-
Motor vehicles	48,448	64,597
	<u>187,865</u>	<u>64,597</u>
Depreciation charge for the year in respect of leased assets	<u>19,955</u>	<u>21,532</u>

11 Stocks

	2018 £	2017 £
Finished goods and goods for resale	<u>5,677,522</u>	<u>4,484,204</u>

12 Debtors

	2018 £	2017 £
Amounts falling due within one year:		
Trade debtors	3,874,779	3,550,455
Amounts owed by group undertakings	832,343	-
Other debtors	16,549	20,697
Prepayments and accrued income	180,566	122,575
	<u>4,904,237</u>	<u>3,693,727</u>

During the year an impairment loss of £3,730 (2017: impairment loss of £3,819) was recognised in respect of trade debtors due from customers who are known to be in financial difficulty.

The Company has a debt factoring agreement with a third party which covered all of its trade debtors at the year-end and the prior year-end. Amounts due to the factoring company of £1,472,430 (2017: £829,766) are presented within note 13 and are secured.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Creditors: amounts falling due within one year

	Notes	2018 £	2017 £
Bank loans and overdrafts	15	-	93,053
Obligations under finance leases	17	43,139	29,629
Other borrowings	15	-	386
Trade creditors		1,713,008	1,471,128
Amounts due to group undertakings		119,279	-
Corporation tax		486,289	428,095
Other taxation and social security		183,744	212,915
Government grants	20	18,683	21,067
Other creditors		1,472,430	835,129
Accruals and deferred income		643,423	467,703
		<u>4,679,995</u>	<u>3,559,105</u>

14 Creditors: amounts falling due after more than one year

	Notes	2018 £	2017 £
Bank loans and overdrafts	15	-	113,989
Obligations under finance leases	17	100,267	18,609
Government grants	20	74,731	-
		<u>174,998</u>	<u>132,598</u>

15 Borrowings

	2018 £	2017 £
Bank loans	-	207,042
Other loans	-	386
	<u>-</u>	<u>207,428</u>
Payable within one year	-	93,439
Payable after one year	-	113,989
	<u>-</u>	<u>113,989</u>

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

16 Foreign Exchange Forward Contracts

Elements of turnover and purchases relate to transactions conducted in US Dollars. As a consequence, the Company uses foreign currency forward contracts to manage the foreign exchange risk of future transactions and cash flows.

The contracts are valued based on available market data. The Company does not adopt hedge accounting for forward exchange contracts and, consequently, fair value gains and losses are recognised in profit or loss.

At the year end, the total fair value of outstanding foreign exchange forward contracts committed to was a liability of £nil (2017: £18,259).

17 Finance lease obligations

	2018 £	2017 £
Future minimum lease payments due under finance leases:		
Less than one year	43,139	29,629
Between one and five years	100,267	18,609
	<u>143,406</u>	<u>48,238</u>

The company leases certain equipment and motor vehicles under finance leases. The average lease term is 3 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Obligations under finance leases and hire purchase contracts are secured by the related assets and bear finance charges at rates ranging from 8.78% to 11.45% per annum (2017: 8.78% to 10.24% per annum).

18 Provisions for liabilities

	Notes	2018 £	2017 £
Customer surcharge and warranty provision		2,029,565	1,929,108
Deferred tax liabilities	19	106,807	113,002
		<u>2,136,372</u>	<u>2,042,110</u>

Movements on provisions apart from deferred tax liabilities:

	Customer surcharge and warranty provision £
At 1 January 2018	1,929,108
Additional provisions in the year	1,729,261
Utilisation of provision	(1,628,804)
	<u>2,029,565</u>
At 31 December 2018	<u>2,029,565</u>

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18 Provisions for liabilities (Continued)

A provision of £2,029,565 (2017: £1,929,108) has been recognised for expected surcharge and warranty claims on goods sold. It is expected that most of this expenditure will be incurred in the short to medium term.

Shaftec offers a credit against future sales providing that the customer returns the used part in an acceptable condition. No credit is given if the part is not deemed by Shaftec to be acceptable or if the part has no value. The potential credit is identified on the original sales invoice as a surcharge and has a fixed period of time in which it may be returned. The obligation to honour this credit is a constructive obligation and therefore, in accordance with FRS 102, a surcharge provision has been made on the basis of the average value of the cost of the economic benefit to be transferred to customers and the probability that the liability will be realised.

The warranty provision represents the company's liability in respect of 12-24 month warranties granted on certain of its products. The amount provided represents management's best estimate of the future cash outflows in respect of those products still within the warranty period at the year end. It is based on past experience and costs incurred which are monitored on a regular basis.

19 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2018 £	Liabilities 2017 £
Balances:		
Fixed asset timing differences	108,563	114,758
Short term timing differences	(1,756)	(1,756)
	<u>106,807</u>	<u>113,002</u>
Movements in the year:		2018 £
Liability at 1 January 2018		113,002
Charge to profit or loss		(6,195)
		<u>106,807</u>

The deferred tax liability set out above is expected to reverse within 10 years and relates to accelerated capital allowances that are expected to mature within the same period.

SHAFTEC AUTOMOTIVE COMPONENTS LTD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

20 Government grants

Deferred income is included in the financial statements as follows:

	2018 £	2017 £
Current liabilities	18,683	21,067
Non-current liabilities	74,731	-
	<u>93,414</u>	<u>21,067</u>

21 Retirement benefit schemes

	2018 £	2017 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	72,534	63,047
	<u>72,534</u>	<u>63,047</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

There is an accrual of £20,682 at 31 December 2018 (2017: £10,331) representing employer and employee contributions not yet paid.

22 Share capital

	2018 £	2017 £
Ordinary share capital		
Issued and fully paid		
45,000 Ordinary shares of £1 each	45,000	45,000
	<u>45,000</u>	<u>45,000</u>

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

23 Reserves

Share premium

Share premium comprises consideration received for shares issued above their nominal value net of transaction costs.

Revaluation reserve

The revaluation reserve comprises the cumulative revaluation gains and losses in respect of leasehold property, except revaluation gains and losses recognised in profit or loss.

Profit and loss reserves

Profit and loss reserves comprise of cumulative profit and loss net of distributions to owners.

SHAFTEC AUTOMOTIVE COMPONENTS LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

24 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £	2017 £
Within one year	254,496	235,912
Between one and five years	906,546	263,987
	<u>1,161,042</u>	<u>499,899</u>

25 Related party transactions

Transactions/balances between the Company and its related parties are disclosed below:

	2018 Entities in which directors have a controlling interest £	2017 Entities in which directors have a controlling interest £
Rental costs incurred	194,611	189,000
Amounts owed to related parties	-	-
	<u>194,611</u>	<u>189,000</u>

26 Contingent liabilities

Bank loans in the wider group are secured by way of a fixed and floating charge over the assets of the group.

27 Related party transactions

During the year, the company provided funding of £832,343 (2017: £nil) to a company in which there is a director in common control. This balance remained outstanding at the year-end (2017: £nil).

28 Controlling party

The immediate parent company is Shaftec Automotive Components Holdings Limited, a company incorporated in England and Wales.

The smallest group for which the results of the company are consolidated is that headed by Ardenton Capital Limited. The registered office is 3 Hardman Square, Spinningfields, Manchester M3 3EB.

The ultimate controlling party is Ardenton Capital Corporation which is incorporated in Canada, registered office 1021 West Hastings Street, Suite 2400, Vancouver, BC V6E, Canada.