

**KSR ELECTRONIC SYSTEMS LIMITED**

**Annual Report and Financial Statements**

**Year ended 31 December 2018**

**Company No 03648720**



## **REPORT AND FINANCIAL STATEMENTS 2018**

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## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

E Kanthers  
R T Nunn  
R Dahlmanns (resigned 18 September 2018)

### **SECRETARY**

E Kanthers

### **REGISTERED NUMBER**

03648720

### **REGISTERED OFFICE**

Heol y Ddraig  
Penllergaer Business Park  
Swansea  
Wales  
SA4 9HL

### **BANKERS**

Wells Fargo Bank  
London Branch  
1 Plantation Place  
30 Fenchurch Street  
London  
EC3M 3BD

### **AUDITOR**

Deloitte LLP  
Cardiff  
United Kingdom

## STRATEGIC REPORT

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

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

#### Principal activities

The principal activity of the company is to develop, manufacture, market and sell proprietary motion control systems containing silicon-controlled semiconductors principally for use in the automotive industry.

The directors are not aware, at the date of this report, of any likely changes in the company's activities in the forthcoming year.

#### Business review

In the year ended 31 December 2018, turnover increased by 21.3% which was mainly attributable to the start of a major new contract.

The company has tested the goodwill, property, plant and equipment and other intangible assets for impairment. The recoverable amount of the assets is deemed to be less than the carrying value and resulted in a £3,000,000 asset impairment.

The company's cash position has remained stable during the year.

### KEY PERFORMANCE INDICATORS

The management of the business use a range of performance indicators, both financial and non-financial, to measure the delivery of the company's strategic objectives. The KPIs are used by management to compare actual performance during the financial period, and the latest monthly forecasts, against the annual budgeted targets. The KPIs, both financial and non-financial, are set out below:

#### Financial

Gross profit margin (%)

Sale of goods (£000)

Inventory turns (number of turns)

Days payable outstanding (days)

The KPI information for 2018 and 2017 against target is set out below:

Financial	Target	2018	2017
Gross profit margin	15%	2.7%	7.7%
Revenue - sale of goods (note 4)	21,500	22,583	18,339
Inventory turns	9.0	9.6	10.0
Days payable outstanding	50	31	57

The results against our financial KPI's were not at target. Lower than expected sales with our customer ZF due to lower demand, and lower production yield than plan, impacted revenue and profit for the year.

## **STRATEGIC REPORT (continued)**

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to be foreign exchange risk, credit risk, liquidity risk, competition risk and impact of leaving the European Union.

#### **Foreign exchange risk**

The company's activities expose it to a number of financial risks of changes in foreign currencies, particularly with respect to the Euro and US Dollar. Currency fluctuations are managed by matching the selling currency with the purchasing currency where possible.

#### **Credit risk**

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is continually monitored in line with the company's credit control procedures.

#### **Liquidity risk**

The company is a subsidiary in the KSR International Co. group and is principally funded by intra-group borrowings to ensure it has sufficient available funds for operations.

#### **Competition risk**

The company continues to invest significantly in research and development to bring new products to the market which enhance performance and improve energy efficiency response to the increasing competitive environment.

#### **Impact of the United Kingdom leaving the European Union**

The ongoing negotiations between the United Kingdom and the European Union may cause price volatility and exchange fluctuations. However to minimise the risks we have contacted and are working closely with key European suppliers and also increased certain material stock levels.

### **FUTURE STRATEGY AND DEVELOPMENT**

The existing business with key customers for EPS and EHPS systems continues and there are several new projects in discussion with these customers. There are several new EHPS projects for different OEMs with both low and high volume projects.

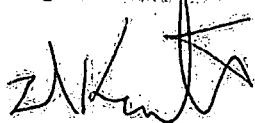
Key business for KSR Electronic Systems are power modules. KSR has capacity to manufacture over two million transfer moulded power modules a year and has core IP and significant manufacturing experience. The demand for power modules is increasing rapidly and there are several programmes in the pipeline with global OEM's.

The key focus of KSR will continue to be MOSFET and IGBT modules, EPS and EHPS ECUs as well as electronics for brushless DC motors.

There are two major new projects in development which include new MOSFET power modules as well as motor control ECUs. The potential start of production for these projects will be ~2021.

KSR is partnering with OEM's that have strategies for developing and manufacturing Boost Recuperation Machine's with potential SOP from 2021 onwards which is a key part of the technology used in hybrid drive cars.

Approved by the Board of Directors  
and signed on behalf of the Board



**E Kanters**  
Director

Date: September 30, 2019

## DIRECTORS' REPORT

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

Disclosures required by s416 (4) which has been elevated to the strategic report on page 3:

- Financial risk management
- Future strategy and development

## RESULTS AND DIVIDENDS

The company's loss after taxation for the financial year amounted to £6,274,354 (2017: loss after taxation of £2,464,000). The directors do not recommend the payment of a dividend (2017: £nil).

## GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. In making their assessment of going concern, the directors have considered the company's forecasts and projections and the net current liability position of the company at the year-end. As this net current liability position is mainly driven by the amounts due to group undertakings, the directors have obtained confirmation from KSR International Co. (ULC) that the inter-company liabilities will not be called for repayment within the next 12 months from the signing of the December 2018 Financial Statements unless the company is able to fulfil all liabilities in an orderly manner. KSR International Co. (ULC) has confirmed that it will support KSR EMS Holdings Limited and its subsidiaries financially for the next 12 months.

## DIRECTORS

The directors of the company, who served throughout the financial year and subsequently, are as shown on page 1.

## DIRECTORS' INDEMNITY INSURANCE

Directors' indemnity insurance is provided with the cost incurred by KSR Electronic Systems Limited.

## RESEARCH AND DEVELOPMENT

The research and development policies are disclosed in the accounting policies on page 15.

## SUBSEQUENT EVENTS NOTE

The following Non Adjusting event a repayment and termination of the revolving overdraft facility with Wells Fargo facilitated by a £3,275,000 additional loan for the same value from KSR International Corp on the 31 March 2019.

On review of post year end trading management have identified that the actual performance is below forecast as a result of worsening market conditions in 2019, that the Directors could not have foreseen at the balance sheet date. As a result of this there is evidence of further impairment in the current year of the PPE and Intangible asset balances held at the reporting date.

## AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to continue in office as the company's auditor and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



E Kanter

Director

Date

September 30, 2019

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 MEMBER'S OF KSR ELECTRONIC SYSTEMS LIMITED**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements of KSR Electronic Systems Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of KSR Electronic Systems Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **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 are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **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 respect of these matters.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF  
KSR ELECTRONIC SYSTEMS LIMITED (continued)**

**Responsibilities of directors**

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

**Report on other legal and regulatory requirements**

**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.

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 any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the company's member 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 member those matters we are required to state to it 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 member, for our audit work, for this report, or for the opinions we have formed.

*David Hedditch*

David Hedditch (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Cardiff, United Kingdom

30 September 2019

# KSR ELECTRONIC SYSTEMS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	4	23,218	19,133
Cost of sales		(22,581)	(17,662)
<b>GROSS PROFIT</b>		<u>637</u>	<u>1,471</u>
Other operating income		92	132
Administrative expenses – other		(3,929)	(4,010)
Administrative expenses – impairment of fixed assets	10	(3,000)	-
<b>OPERATING LOSS</b>	5	<u>(6,200)</u>	<u>(2,407)</u>
Finance costs	7	(74)	(57)
<b>LOSS BEFORE TAXATION</b>		<u>(6,274)</u>	<u>(2,464)</u>
Tax charge on loss	8	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u>(6,274)</u>	<u>(2,464)</u>
Other comprehensive income for the year attributable to the owners of the company		-	-
<b>TOTAL COMPREHENSIVE EXPENSE</b>		<u>(6,274)</u>	<u>(2,464)</u>

All amounts derive from continuing operations.

# KSR ELECTRONIC SYSTEMS LIMITED

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Fair value reserve £'000	Total £'000
<b>Balance at 31 December 2016</b>	2	1,320	979	2,303
Profit (Loss) and comprehensive income for the year	-	(2,464)	-	(2,464)
Transfer between reserves	-	391	(391)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2017</b>	2	(753)	588	(163)
Profit (Loss) and comprehensive income for the year	-	(6,274)	-	(6,274)
Transfer between reserves	-	588	(588)	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2018</b>	<u>2</u>	<u>(6,437)</u>	<u>-</u>	<u>(6,435)</u>

# KSR ELECTRONIC SYSTEMS LIMITED

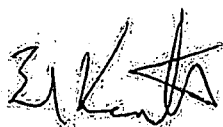
## STATEMENT OF FINANCIAL POSITION As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	247	504
Property, plant and equipment	10	954	4,720
		<u>1,201</u>	<u>5,224</u>
<b>CURRENT ASSETS</b>			
Inventories	12	2,345	1,758
Trade and other receivables	14	2,717	3,345
Cash and bank balances	15	936	1,127
		<u>5,998</u>	<u>6,230</u>
<b>TOTAL ASSETS</b>		<u>7,199</u>	<u>11,454</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	(13,634)	(11,617)
<b>NET CURRENT LIABILITIES</b>		<u>(7,636)</u>	<u>(5,387)</u>
<b>NET LIABILITIES</b>		<u>(6,435)</u>	<u>(163)</u>
<b>EQUITY</b>			
Share capital	18	2	2
Retained earnings	18	(6,437)	(753)
Fair value reserve	18		588
		<u></u>	<u></u>
<b>TOTAL (DEFICIT)</b>		<u>(6,435)</u>	<u>(163)</u>

The financial statements of KSR Electronic Systems Limited, registered number 03648720, were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors

30 September, 2019



**E. Kanters**  
Director

**KSR ELECTRONIC SYSTEMS LIMITED****STATEMENT OF CASH FLOWS**  
**Year ended 31 December 2018**

	<b>Note</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>20</b>	<b>(318)</b>	<b>(332)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	10	(373)	(120)
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b>(373)</b>	<b>(120)</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(691)</b>	<b>(452)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>(1,746)</b>	<b>(1,294)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>20</b>	<b>(2,437)</b>	<b>(1,746)</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

**1. GENERAL INFORMATION**

KSR Electronic Systems Limited (the Company) is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the strategic report on page 2. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below and have been applied in both the current and prior financial year.

**Adoption of new and revised standards**

At the date of authorisation of these financial statements, the group has applied all of the following new and revised IFRSs that have been issued:

**IFRS 9 Financial Instruments (now applied and effective from 1 January 2018)**

In the current year, the company has applied IFRS 9 Financial Instruments. The directors of the company reviewed and assessed the company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no significant impact on the classification and measurement of the company's financial liabilities. The application of the IFRS 9 impairment requirements has resulted in additional loss allowance of nil to be recognised in year ended 31 December 2018. If the prior year comparatives were re-stated under IFRS 9, the increase in the loss allowance would be nil. Therefore prior year comparatives have not been restated.

**IFRS 15 Revenue from Contract with Customers (now applied and effective from 1 January 2018)**

In the current year, the company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016). Review of the requirements of IFRS 15 against existing policy and practice concluded that the timing of revenue recognition was materially consistent with the requirements of IFRS 15. For the majority of the Company's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, on delivery of goods, consistent with the current accounting treatment under IAS 18. Based on this the directors state that there has been no material impact on the financial statements.

The group has not applied the following new and revised IFRSs in issue but not yet effective:

**IFRS 16 Leases (effective 1 January 2019)**

The Directors have not yet adopted IFRS 16 but it will impact the disclosure of assets held under operating leases next year. The company manufactures and operates from a leased property based at the Swansea address. The rental amounts of £360,000 per annum are currently charged to the Administrative expenses line on the Statement of comprehensive income. If IFRS16 had been adopted for 2018 a right of use asset would have been recorded and depreciated over 11 years from September 2010 to August 2021 and also a lease liability recorded over the same time period using a 9% WAC. The depreciation charge on the right of use asset would have been approximately £222,715 and the interest charge on the lease liability would have been approximately £93,620 for the year, in place of the £360,000 rental charge.

**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2018****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Going concern**

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. In making their assessment of going concern, the directors have considered the company's forecasts and projections and the net current liability position of the company at the year-end. As this net current liability position is mainly driven by the amounts due to group undertakings, the directors have obtained confirmation from KSR International Co. (ULC) that the inter-company liabilities will not be called for repayment within the next 12 months from the signing of the December 2018 Financial Statements unless the company is able to fulfil all liabilities in an orderly manner.

KSR International Co. (ULC) has confirmed that it will support KSR EMS Holdings Limited and its subsidiaries financially for the next 12 months.

**Share Based Payments IFRS2**

There were no share based payment transactions during the 2018 accounting period.

**Revenue recognition IFRS15**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the statement of financial position under trade and other receivables.

**Operating loss**

Operating loss is stated before finance costs.

**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2018****2. SIGNIFICANT 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. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign currencies**

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

**Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to contributions. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

**Property, plant and equipment**

KSR Electronic Systems Limited re-measured certain assets to fair value at the date of transition to IFRSs. The fair value became the deemed cost of the assets re-measured. The fair value gain arising on transition to IFRSs was credited to the fair value reserve. Depreciation on property, plant and equipment is charged to the statement of comprehensive income. The company has elected to transfer an amount equal to the excess depreciation on the re-measurement from the fair value reserve to retained earnings on an annual basis.

Plant and machinery are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised to write off the cost or valuation of assets to their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery                      5 to 8 years

Assets under construction are not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.



**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

**Current tax and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Internally-generated intangible assets – research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Internally-generated intangible assets – research and development expenditure (continued)**

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

**Amortisation of intangible assets**

Amortisation is recognised to write off the cost or valuation of intangible assets over their useful lives, using the straight-line method, on the following bases:

Development costs                      5 to 7 years.

**Impairment of tangible and intangible assets**

At each statement of financial position date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Derecognition of intangible assets**

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost 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. Cost is calculated using the first in first out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the relevant instrument. Financial assets are derecognised when the rights to receive benefits have expired or been transferred, and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation is extinguished.

Financial assets are classified as either loans and receivables or cash and cash equivalents. They are stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of trade receivables 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 those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the statement of comprehensive income. For interest-bearing assets, their carrying value includes accrued interest receivable.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments. Financial liabilities (classified as other payables) are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as any unamortised issue costs.

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts 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.

**Critical Judgements in applying the company accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements

***Recoverability of deferred tax assets***

The recognition of deferred tax assets on tax losses incurred during previous years is recognised to the extent that it is probable that taxable income will be available in the future against which they can be utilised. Given the tax loss for the year, the Board has decided that the deferred tax asset should not be recognised until there is certainty over the future profitability of the company at which point a deferred tax asset will be recognised to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**Key sources of estimation uncertainty*****Impairment of property, plant and equipment and intangible assets***

The company has tested the property, plant and equipment for impairment. The recoverable amount of the assets is deemed to be less than the carrying value and resulted in a £3,000,000 asset impairment. The recoverable amounts have been determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs incurred during the period. Management estimates the discount rate using a pre-tax rate that reflects the rate the entity would pay in a current market transaction to borrow money to buy that specific asset (WACC of 9%). Management has assumed no growth within the value in use calculations. Changes in selling prices are based agreed prices with customers and direct costs are expected to remain consist with the percentage of revenue based on past practices.

Management have reviewed post year end trading and have identified that actual performance is below forecasts as a result of worsening market conditions in 2019. Management based their impairment calculations on the best available information at the reporting date, and are satisfied that the deterioration of market conditions could not have been foreseen by the client at the balance sheet date. Therefore it has been determined that any further impairment which may arise as a result of declining market conditions in 2019 will be treated as a non-adjusting post balance sheet event for the purposes of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**4. REVENUE**

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

	2018 £'000	2017 £'000
<b>Continuing operations</b>		
Sales of goods	22,583	18,339
Revenue from construction contracts - tooling projects	635	794
	<u>23,218</u>	<u>19,133</u>
	<b>£'000</b>	<b>£'000</b>
<b>Geographical information</b>		
Europe (including UK)	16,704	11,353
Rest of the World	6,514	7,780
	<u>23,218</u>	<u>19,133</u>

Included in revenues are revenues from the following major customers which contributed 10 per cent or more to the companies' revenue in either 2018 or 2017:

	£'000	£'000
<b>Major customer</b>		
Customer A	7,735	5,294
Customer B	6,226	5,367
Customer C	4,367	2,192
Customer D	2,109	2,324
	<u>20,437</u>	<u>15,177</u>

The whole of the turnover and loss before taxation from continuing activities is attributable to developing, manufacturing, marketing and selling proprietary motion control systems containing silicon-controlled semiconductors principally for use in the automotive industry.

The Directors have carried out a revenue risk analysis and are working closely with our European customers to counteract any threats from Brexit (72% of 2018 turnover sold to Europe).

**5. OPERATING LOSS**

	2018 £'000	2017 £'000
This has been arrived at after charging:		
Amortisation of development costs (note 9)	257	63
Auditors remuneration - audit services for audit of the company's financial statements	46	42
Foreign exchange (gain)/loss	(7)	62
Depreciation of tangible fixed assets:		
- owned by the company (note 10)	1,139	1,042
Impairment of tangible fixed assets	3,000	-
Operating lease rentals:		
- plant and machinery	13	25
- other operating leases	360	360

Fees payable to Deloitte and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis.

The cost of inventories recognised as an expense during the year in respect of continuing operations was £13,927,000 (2018: £10,420,000).

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

The following directors are also directors or employees of another group company:

R T Nunn  
 E Kanter  
 R Dahlmanns (resigned 18 September 2018)

For the years ended 31 December 2018 and 2017 the directors are remunerated by KSR Industrial Corporation. It is not practicable to allocate their remuneration between their services as directors of this company and as directors or employees of other group companies. No pension costs in relation to the directors were payable in either financial period.

	<b>2018</b>	<b>2017</b>
	<b>No.</b>	<b>No.</b>
<b>Average number of persons employed (including directors) in line with the companies act</b>		
Administration	63	69
Production	82	84
Sales and marketing	1	-
	<u>146</u>	<u>153</u>

	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year (excluding directors)</b>	<b>4,676</b>	<b>4,005</b>
Wages and salaries	450	377
Social security costs	97	71
Other pension costs	<u>5,223</u>	<u>4,453</u>

**7. FINANCE COSTS**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest	<u>74</u>	<u>57</u>

**8. TAX ON LOSS**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current taxation</b>		
United Kingdom corporation tax:		
Current tax on income for the year	<u>-</u>	<u>-</u>
<b>Total tax for the year</b>	<u>-</u>	<u>-</u>
<b>Deferred tax:</b>		
Current year	-	-
Effect of changes in tax rate	<u>-</u>	<u>-</u>
<b>Total deferred tax</b>	<u>-</u>	<u>-</u>
<b>Tax as per the statement of comprehensive income</b>	<u>-</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

The charge for the year can be reconciled to the loss per the statement of comprehensive income as follows:

	£'000	£'000
Loss on ordinary activities before tax	(6,274)	(2,464)
	£'000	£'000
Tax on loss on ordinary activities before tax at 19% (2017: 19.25%)	(1,192)	(474)
<b>Factors affecting charge for the year</b>		
Expenses not deductible	3	3
Income not taxable	(41)	-
Change in unrecognised deferred tax assets	1,230	471
<b>Total tax charge for the year</b>	-	-

The company has losses brought forward against future taxable profits. In addition, the carrying value of qualifying plant and machinery for tax purposes exceeds the net book value of these assets. As a result, the company has an unrecognised deferred tax asset of £10,645,444 (2017: £9,544,000). This asset has not been recorded in the year-end financial statements. Given the tax loss for the year, the Board has decided that the deferred tax asset should not be recognised until there is certainty over the future profitability of the company at which point a deferred tax asset will be recognised to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The Finance Act 2015 changed the rate from 20% to 19% during the prior year and there would be a further reduction to 17% from 1 April 2020. This will reduce the company's future current tax charge accordingly. As the changes have been substantively enacted at the statement of financial position date their effects are included in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**9. INTANGIBLE ASSETS**

	<b>Development costs £'000</b>
<b>Cost</b>	
At 1 January 2018 and 31 December 2018	654
<b>Amortisation</b>	
At 1 January 2018	150
Charge for the year	257
At 31 December 2018	408
<b>Carrying amount</b>	
At 31 December 2018	247
At 31 December 2017	504

The amortisation period for development costs incurred on the company's capitalised development costs is amortised in Administrative expenses-other, in line with the expected future sales from the related project from the commencement of the generation of sales. The company carried out an impairment review which led to the full impairment of the intangible assets. The amortisation is charged to administration expenses line in the Statement of Comprehensive income.

Research costs of £nil were expensed during the year (2017:£nil).

**10. PROPERTY, PLANT AND EQUIPMENT**

	<b>Plant and machinery £'000</b>	<b>Assets under construction £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2018	19,896		19,896
Additions	-	373	373
Transfers	129	(129)	-
At 31 December 2018	20,025	244	20,269
<b>Accumulated depreciation and impairment</b>			
At 1 January 2018	15,176	-	15,176
Charge for the year	1,139	-	1,139
Impairment charge	3,000	-	3,000
At 31 December 2018	19,315	-	19,315
<b>Carrying amount At 31 December 2018</b>	710	244	954
At 31 December 2017	4,720	-	4,720

During the year the company carried out a review of the recoverable amount of that manufacturing plant and the related equipment. The review using a discount rate WACC of 9% led to the recognition of an impairment loss of £3,000,000 which has been recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**11. DEFERRED TAX**

The following are the deferred tax assets recognised by the company and the movements thereon during the current and prior reporting period.

	2018 £'000	2017 £'000
Deferred taxation	-	-
	-	-
	-	-

Given the tax loss for the year, the Board has decided that the deferred tax asset should not be recognised until there is certainty over the future profitability of the company at which point a deferred tax asset will be recognised to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**12. INVENTORY**

Raw materials	1,982	1,401
Work in progress	146	180
Finished goods and goods for resale	217	177
	2,345	1,758

All inventory is expected to be recovered within 12 months.

**13. FINANCIAL ASSETS**

	2018 £'000	2017 £'000
Cash and bank balances (note 15)	936	1,127
Trade and other receivables (note 14)	2,412	3,122
Amounts owed by group undertakings (note 14)	305	223
	3,653	4,472

**14. TRADE AND OTHER RECEIVABLES**

	2018 £'000	2017 £'000
Trade receivables	1,515	1,988
Amounts owed by group undertakings	305	223
Other receivables	428	466
Prepayments	354	455
Amounts recoverable under construction contracts	115	213
	2,717	3,345



**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

**14. TRADE AND OTHER RECEIVABLES (continued)**

**Trade receivables**

Total trade receivables (net of allowances of £nil) held by the company at 31 December 2018 amounted to £1,515,000 (2017: £1,988,000).

The average credit period on sale of goods is 28 days (2017: 32 days). The company has provided in full for all receivables which are considered to be impaired. Management performs a monthly detailed review of the trade receivables ledger to assess whether receivables past due are not recoverable.

The directors consider that the carrying amount of the trade and other receivables approximates their fair value.

**15. CASH AND BANK BALANCES**

These comprise cash in hand and deposits held at call with banks. The carrying amount of these assets approximates their fair value.

**16. FINANCIAL LIABILITIES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings (note 17)	6,952	3,381
Borrowings	3,372	2,873
Other liabilities	3,310	5,363
	<u>13,634</u>	<u>11,617</u>

**17. TRADE AND OTHER PAYABLES**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	1,904	2,738
Other payables	150	-
Accruals	1,200	2,268
Amounts due under construction contracts	56	357
Borrowings	3,372	2,873
Amounts owed to group undertakings	6,952	3,381
	<u>13,634</u>	<u>11,617</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2017: 57 days). The directors consider that the carrying amount of trade payables approximates their fair value.

Borrowings consists of a bank overdraft which is repayable on demand.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**18. SHARE CAPITAL AND RESERVES**

	2018 £'000	2017 £'000
<b>Share capital</b>		
<i>Authorised</i>		
2,000 Ordinary shares of £1 each	2	2
	<u>£'000</u>	<u>£'000</u>
<i>Issued and fully paid</i>		
2,000 Ordinary shares of £1 each	2	2
	<u>£'000</u>	<u>£'000</u>

The company has one class of ordinary shares which carry no right to fixed income.

**Retained earnings**

This reserve relates to the cumulative retained profits and losses and other comprehensive income less amounts distributed to the shareholder.

**Fair value reserve**

Property, plant and equipment have been re-measured to their fair value at the date of transition to IFRSs. The fair value became the 'deemed cost' going forward under IFRSs. The fair value gain was recognised within a fair value reserve. The company has elected to unwind the fair value reserve over a period of five years in line with the excess depreciation, which results in a transfer between the fair value reserve and retained earnings.

**19. OPERATING LEASE ARRANGEMENTS**

<b>The company as lessee</b>	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the year	373	373

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

	£'000	£'000
<b>Land and buildings</b>		
Within one year	360	360
In the second to fifth years inclusive	600	960
	<u>960</u>	<u>1,320</u>
	<u>£'000</u>	<u>£'000</u>
<b>Other</b>		
Within one year	13	13
In the second to fifth years inclusive	23	30
	<u>36</u>	<u>43</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

## 20. NOTES TO THE STATEMENT OF CASH FLOWS

	2018 £'000	2017 £'000
Loss for the financial year	(6,274)	(2,464)
Adjustment for:		
Amortisation and impairment of development costs	257	63
Depreciation of property, plant and equipment and impairment	4,139	1,042
Finance costs	74	57
<b>Operating cash flows before movements in working capital</b>	<b>(1,804)</b>	<b>(1,302)</b>
(Increase)/decrease in inventories	(586)	140
decrease/(increase) in trade and other receivables	628	(1,953)
Increase in trade and other payables	1,518	2,840
<b>Cash generated by operations</b>	<b>(244)</b>	<b>(275)</b>
Interest paid	(74)	(57)
<b>Net cash outflow from operating activities</b>	<b>(318)</b>	<b>(332)</b>
<b>Cash and cash equivalents</b>	<b>£'000</b>	<b>£'000</b>
Cash and bank balances	936	1,127
Borrowings	(3,373)	(2,873)
	<b>(2,437)</b>	<b>(1,746)</b>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as shown above.

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2018**

**21. RELATED PARTY TRANSACTIONS**

**Transactions with related parties**

During the year, the company entered into the following transactions with related parties:

	Sales		Recharge expense/ (other income)		Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
KSR (Shanghai)								
Automotive								
Engineering &								
Technology	132	54	(12)	(10)	2	14	-	-
KSR Internacional								
S. de R.L. de C.V.	-	-	(20)	(20)	2	2	-	-
KSR Dresden								
Industrial	-	-	-	-	-	-	(255)	(236)
KSR Industrial s.r.o.	1,708	1,744	(57)	(30)	138	175	(12)	(35)
Automotive Technical								
Advisory Service								
(ATAS)	-	-	69	56	-	-	(39)	(32)
KSR International Co.	-	-	357	437	164	32	(5,386)	(2,155)
KSR Industrial Corp	-	-	89	55	-	-	(106)	(13)
Electronic Motion								
Systems Holdings Ltd	-	-	-	-	-	-	-	(217)
KSR IP Holdings	-	-	414	330	-	-	(689)	(252)
KSR UK LLC	-	-	-	-	-	-	(465)	(441)
<b>Total</b>	<b>1,840</b>	<b>1,798</b>	<b>838</b>	<b>818</b>	<b>306</b>	<b>223</b>	<b>(6,952)</b>	<b>(3,381)</b>

No provision has been made for doubtful debts in respect of the amounts owed by related parties in either period. The amounts outstanding are unsecured and will be settled in cash. No interest is expected to be received or paid on any of the related party balances shown above.

**22. RETIREMENT BENEFIT SCHEMES**

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held in separate trustee-administered funds. Contributions made during the year amounted to £97,000 (2017: £71,000); there is no amount included in creditors in respect of unpaid contributions for either year.

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

**23. FINANCIAL RISK MANAGEMENT**

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Concentration of credit risk has been addressed in the trade receivables note above.

**Market risk management**

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Currency fluctuations are managed by matching the selling currency with the purchasing currency where possible.

**Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements.

**Interest rate risk management**

The company is exposed to interest rate risk because it has a finance facility with a variable rate of interest. An increase of one percent to the interest rate is deemed to have an immaterial impact on the financial statements. The total finance expense for the year ended 31 December 2018 is £74,000 (2017: £57,000).

**24. FINANCIAL INSTRUMENTS**

**Fair value of the company's financial assets and financial liabilities that are measured at fair value on a recurring basis**

The company does not hold any financial assets and financial liabilities that are measured at fair value at the end of each reporting period.

**Fair value of the company's financial assets and financial liabilities that are not measured at fair value on a recurring basis**

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximate to their fair values.

**25. ULTIMATE PARENT AND CONTROLLING PARTY**

In the opinion of the directors, the company's ultimate parent company and ultimate controlling party is KSR Industrial Corporation, 95 Erie Street South, PO.Box 1060, Ridgetown, Ontario, NOP 2C0 a company incorporated in Canada. The parent undertaking of the largest and smallest group, which includes the company and for which group financial statements are prepared, is KSR EMS Holdings Limited, a company incorporated in Great Britain. Copies of the group financial statements of KSR EMS Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

**26. SUBSEQUENT EVENTS**

On the 31 March 2019 the revolving overdraft facility held with Wells Fargo was fully repaid and terminated. This payment was facilitated by a £3,275,000 additional loan for the same value from KSR International Corp.

On review of post year end trading management have identified that actual performance is below forecasts as a result of worsening market conditions in 2019 that the Directors could not have foreseen at the balance sheet date. As a result of this there is evidence of further impairment indicators in the current year of the PPE and Intangible asset balances held at the reporting date.