

# **Arlington Securities Limited**

**Annual report and consolidated  
financial statements**

**Registered number 08741590**

**For the year ended 31 March 2017**

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## Strategic report

### Review of the business and future developments

The Arlington Industries Group of companies was founded in the UK in 2013 and is headed up by the parent company Arlington Securities Limited. The Group was formed with the goal of becoming one of the world's leading supply chain Group of companies in the automotive, aerospace and related sectors.

Since its inception, the Group has completed a number of acquisitions that underpin its ultimate goal. The acquisitions have included companies that have design, manufacturing and assembly capabilities that are able to reduce customers supply chains and build long lasting and mutually profitable business opportunities together.

As part of the planned acquisition strategy, in June 2016, the Group acquired the share capital of North West Precision Limited, an aerospace parts manufacturer based in the North West and its results since acquisition are included within these consolidated financial statements.

In order to further support the future growth activities and strategy of the business, in November 2016, the Board of Directors agreed to issue additional \$1 preference shares to Pangaea Two Acquisition Holding VIII, LLC and other investors, in consideration for the deemed repayment of £4.7 million of part of their investment in the Group. The remaining Eurobonds which are listed on the Channel Islands stock exchange and are recorded as debt within the financial statements. The Board of Directors believe that this transaction, demonstrates the continued support of the shareholders in the performance and future plans for the group.

At the same date, a £969,000 reserves balance was recognised to account for the foreign exchange impact which is considered to be part of this capital transaction.

The preference shares carry voting rights and a cumulative, preferential dividend at the rate of 13 per cent per annum which is only payable on redemption of the Preference Shares. The holders of the Preference Shares shall not have any right to payment of a Preference Dividend in respect of their Preference Shares unless and to the extent that the same is declared upon redemption of the Preference Shares. The power to redeem any preference shares lies with the Board of Directors or if there is an exit.

The Group's strategy continues to actively explore other similar growth / acquisition opportunities in the future and since year end, the Group has acquired the share capital of Magal Engineering with headquarters in the South East. Magal has global facilities located in France, India, Turkey, Germany and China and together delivers complex design solutions, engineering capability and manufacturing across a broad customer base. The business is a Tier 1 strategic supplier to major OEMs.

### Results and key performance indicators (KPIs)

The turnover for the year to 31 March 2017 was £109,399,000 (2016: £94,974,000). A main KPI utilised by the group is EBITDA. During the year, the group reported underlying EBITDA of £7,411,000 prior to charging non-recurring deal costs of £378,000 and other costs £549,000 (2016: £5,710,000 prior to charging non-recurring deal costs of £69,000). Operating Profit for the year was £3,697,000 (2016: £1,491,000)

Revenue, EBITDA and net cash from operating activities compared to budget are the KPIs upon which management is focused.

### **Principal risks and uncertainties**

The Group is a supplier to the aerospace and automotive industries and the principal risk to the business is the health of these markets. All the market surveys available to the company predict a healthy growth in both the global aerospace and automotive markets for the next five years.

As with any business that trades in currencies other than sterling, the relative strength of pound sterling provides some uncertainty as to future earnings; the group manages this risk by endeavouring to match exposure to currencies as much as possible

The monitoring of accounts receivable and payable ensures that the business effectively controls its working capital.

At a local level the attention to recording continuous improvement in working practices will enable the company to attain additional business.

The Group has successfully extended the CID facilities with similar terms to those existing until 2019 which have helped underpin and support its overall strategy.

### **Employees**

#### *Employment of disabled persons*

Where individuals become disabled whilst in the group's employment, every reasonable effort is made to provide opportunity for continued employment within the potential aptitude and ability of the person concerned and to provide such facilities, including any appropriate training, as may be necessary for that purpose.

In dealing with applications for employment and the training, career development and promotion of existing employees, efforts are made to ensure that a disabled individual's potential aptitude and ability are considered both without prejudice and as constructively as possible in relation to the opportunities available.

#### *Employee consultation and involvement*

The group recognises that training and free flow of communications are the key elements in involving all employees, to get the best out of them at all levels in the business and in making those improvements in performance which will advance its international competitiveness.

Frequent briefings continue to enable employees to understand more about the business and about the essential part they have to play in its success. Incentive schemes are in place to encourage involvement in the company's performance.

#### *Equal opportunities*

The group is committed to providing equal opportunities in employment regardless of sex, marital status, creed, colour, race, age, nationality or ethnic origin. This applies to recruitment, training, promotion and all other aspects of employment. Only in this way can the company deploy its personnel to best effect, for the benefit of the business and its employees alike.

By order of the board



**M Franckel**  
Director

29<sup>th</sup> September 2017

## Directors' report

The directors present their audited financial statements for the year ended 31 March 2017.

### Principal activities

The company is a holding company which, through its subsidiaries provides manufacturing and consolidation services to the automotive industry and supplies precision tooling engineering to the aerospace industry.

### Proposed dividend

The directors do not recommend the payment of a dividend (2016: £Nil).

### Directors

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

B Michelson  
PG Pizzani  
GL Hamlin  
KT Morley  
S G Greenhalgh  
M Franckel

### Political contributions

The group made no political donations or incurred any political expenditure during the current year or preceding period.

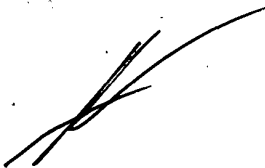
### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



**M Franckel**  
Director

79 Torrington Avenue  
Coventry  
CV4 9AQ

29<sup>th</sup> September 2017

## **Statement of directors' responsibilities in respect of the annual report and the financial statements**

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 group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **Independent auditor's report to the members of Arlington Securities Limited**

We have audited the financial statements of Arlington Securities Limited for the year ended 31 March 2017 set out on pages 9 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

### ***Respective responsibilities of directors and auditor***

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### ***Opinion on financial statements***

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

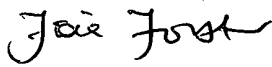
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



**Fiona Forster (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

29<sup>th</sup> September 2017



## Consolidated Statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 £000	2016 £000
<b>Revenue</b>	1,3	109,399	94,974
Cost of sales		(91,414)	(79,396)
<b>Gross profit</b>		17,985	15,578
Administrative expenses	4	(14,288)	(14,087)
<b>Operating profit</b>		3,697	1,491
Financial expenses	7	(5,067)	(3,975)
<b>(Loss) before tax</b>		(1,369)	(2,484)
Income tax expense	8	237	292
<b>(Loss) for the year</b>		(1,132)	(2,192)

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

The results above relate to continuing operations.

The company has no other income or expenses recognised in the current year or preceding period, other than those shown in the Consolidated Statement of comprehensive income shown above.

**Consolidated balance sheet**  
*at 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	11,669	10,097
Intangible assets	2,10	18,451	16,365
		<hr/> 30,120	<hr/> 26,462
<b>Current assets</b>			
Inventories	13	5,509	4,271
Trade and other receivables	14	40,040	33,314
Cash and cash equivalents	15	1,641	709
		<hr/> 47,190	<hr/> 38,294
<b>Total assets</b>		<hr/> <b>77,310</b>	<hr/> <b>64,756</b>
<b>Current liabilities</b>			
Other interest-bearing loans and borrowings	16	11,727	13,019
Trade and other payables	17	31,819	24,912
Provisions	18	290	290
		<hr/> 43,836	<hr/> 38,221
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	16	14,249	10,342
Provisions	18	1,032	1,537
		<hr/> 15,281	<hr/> 11,879
<b>Total liabilities</b>		<hr/> <b>59,117</b>	<hr/> <b>50,100</b>
<b>Net assets</b>		<hr/> <b>18,193</b>	<hr/> <b>14,656</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	19	20,672	16,003
Retained earnings		(2,479)	(1,347)
<b>Total equity</b>		<hr/> <b>18,193</b>	<hr/> <b>14,656</b>

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

The results above relate to continuing operations.

The company has no other income or expenses recognised in the period, other than those shown in the income statement shown above.

These financial statements were approved by the board of directors on 29<sup>th</sup> September 2017 and were signed on its behalf by:

  
**M Franckel**  
Director

Company registered number: 8741590

**Company balance sheet**  
*at 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	2016 £000
<b>Non-current assets</b>			
Investment in subsidiaries	<i>11</i>	9,250	9,250
		<u>9,250</u>	<u>9,250</u>
<b>Current assets</b>			
Other financial assets	<i>20</i>	26,572	19,207
		<u>26,572</u>	<u>19,207</u>
<b>Total assets</b>		<u><b>35,822</b></u>	<u><b>28,457</b></u>
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	<i>16</i>	(15,150)	(12,454)
		<u>(15,150)</u>	<u>(12,454)</u>
<b>Total liabilities</b>		<u><b>(15,150)</b></u>	<u><b>(12,454)</b></u>
<b>Net (liabilities)/assets</b>		<u><b>20,672</b></u>	<u><b>16,003</b></u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	<i>19</i>	20,672	16,003
Retained earnings		-	-
		<u>20,672</u>	<u>16,003</u>
<b>Total equity</b>		<u><b>20,672</b></u>	<u><b>16,003</b></u>

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

The results above relate to continuing operations.

The company has no other income or expenses recognised in the period, other than those shown in the income statement shown above

These financial statements were approved by the board of directors on 29<sup>th</sup> September 2017 and were signed on its behalf by:



**M Franckel**  
*Director*

Company registered number: 8741590

## Statement of Changes in Equity

### Group

	Share capital £000	Retained Earnings £000	Total equity £000
Balance at 1 April 2016	16,003	(1,347)	14,656
<b>Total comprehensive loss for the year</b>			
Issue of Share Capital	4,669	-	4,669
Comprehensive loss for the year	-	(1,132)	(1,032)
<b>Balance at 31 March 2017</b>	<b>20,672</b>	<b>(2,479)</b>	<b>18,193</b>
Balance at 1 April 2015	550	845	1,395
<b>Total comprehensive loss for the year</b>			
Issue of Share Capital	15,453	-	15,453
Comprehensive loss for the year	-	(2,192)	(2,192)
<b>Balance at 31 March 2016</b>	<b>16,003</b>	<b>(1,347)</b>	<b>14,656</b>

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

## Statement of Changes in Equity *(continued)*

### Company

	Share capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 April 2016	16,003	-	16,003
<b>Total comprehensive loss for the year</b>			
Comprehensive loss for the year	-	-	-
Issue of share capital	4,669	-	4,669
<b>Balance at 31 March 2017</b>	<b>20,672</b>	<b>-</b>	<b>20,672</b>
Balance at 1 April 2015	550	-	550
<b>Total comprehensive loss for the year</b>			
Comprehensive loss for the year	-	-	-
Issue of share capital	15,453	-	15,453
<b>Balance at 31 March 2016</b>	<b>16,003</b>	<b>-</b>	<b>16,003</b>

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

**Consolidated cash flow statement**  
*for the year ended 31 March 2017*

	Note	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
(Loss) for the year		(1,132)	(2,192)
Adjustments for:			
Depreciation and amortisation	9,10	2,785	2,586
Financial expense	7	5,067	3,975
Taxation	8	(237)	(292)
Foreign exchange		(904)	(130)
		<hr/> 5,579	<hr/> 3,947
Increase in trade and other receivables		(6,726)	(2,896)
Increase in inventories		(1,238)	(308)
Increase in trade and other payables		6,907	(934)
Increase in provisions		(721)	587
		<hr/> 3,801	<hr/> 396
Interest paid		(1,127)	(1,533)
Tax received		85	(85)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<hr/> 2,759	<hr/> (1,222)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired	2	(5,459)	(3,500)
Acquisition of a business		(75)	-
Acquisition of property, plant and equipment	9	(1,540)	(501)
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<hr/> (7,074)	<hr/> (4,001)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital	19	4,669	15,453
Proceeds from new loans	16	3,300	8,500
Repayment of borrowings		(2,641)	(18,187)
Payment of finance lease liabilities		(671)	(582)
Proceeds from inception of finance leases		590	-
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<hr/> 5,247	<hr/> 5,184
		<hr/>	<hr/>
Increase in cash and cash equivalents		932	(39)
Cash and cash equivalents at 1 <sup>st</sup> April 2016		709	748
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 March</b>	15	<hr/> 1,641	<hr/> 709

The accompanying notes on pages 15 to 39 form an integral part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Arlington Securities Limited (the “Company”) is a company incorporated and domiciled in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

#### *Measurement convention*

The financial statements are prepared on the historical cost basis.

#### *Going concern*

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate. The directors have reviewed the profit forecast and cash position of the Group and have satisfied themselves that the Group and the company will be able to meet external liabilities as they fall due for payment for at least 12 months following the date of signing of these financial statements.

#### *Basis of consolidation*

##### *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### *Investments*

Investments are carried at cost less any provision for impairment.

#### *Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Classification of financial instruments issued by the Group*

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are reviewed for impairments once permanent losses on future cash flows attributable to those assets are identified.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at historic costs, less any impairment losses.



## Notes (continued)

### 1 Accounting policies (continued)

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Leasehold properties	life of lease
Plant and equipment	4 - 10 years
Motor vehicles	4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### **Business combinations**

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

#### **Acquisitions**

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Intangible assets and goodwill*

##### *Goodwill*

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

##### *Research and development*

Expenditure on research activities is recognised in the income statement as an expense as incurred.

##### *Other intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

##### *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### *Employee benefits*

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Revenue recognition and contract accounting*

Revenue from the sale of goods and services in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement and contracts. Usually transfer occurs when the contract terms are met.

The value of contract work in progress comprises the costs incurred on contracts plus an appropriate proportion of overheads and attributable profit. Fees invoiced on account are deducted from the value of work in progress and the balance is separately disclosed in trade receivables as amounts recoverable on contracts, unless such fees exceed the value of the work in progress on any contract, when the excess is separately disclosed in trade and other payables as fees invoiced in advance. Profit is recognised on a percentage completion basis when the outcome of a contract or project can be reasonably foreseen. Costs incurred before it becomes probable that a contract will be obtained are charged to expenses. Directly attributable costs incurred after that point are recognised in the balance sheet and charged to the income statement over the duration of the contract.

#### *Provisions*

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

#### *Expenses*

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *Financing income and expenses*

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### *Use of estimates and judgements*

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The principal accounting estimates, assumptions and judgements employed in the preparation of these financial statements which could affect the carrying amounts of assets and liabilities at the balance sheet date are as follows:

#### *Judgements*

- Carrying value and useful economic life of other intangible assets
- Revenue recognition and associated trade receivables balances for contracts and tooling
- Assessment of the fair value of assets and liabilities acquired in business combinations

#### *Estimations*

#### *Customer relationships*

The assessment of the future economic benefits generated from acquired customer relationships and the determination of the related amortisation profit involves a significant degree of judgement based on management estimation of future potential revenue and profit and the useful lives of the assets.

#### *Current asset provisions*

Judgement is used by management to establish the net realisable value of various elements of working capital, principally inventory and trade receivables. Provisions are established for net realisable value and bad and doubtful debt risks. Provisions are based on the facts available at the time and applied to inventory and aged receivables.

In estimating the net realisable value of inventory, judgement is required in assessing their likely value on realisation taking into account market and technological changes.

In estimating the collectability of trade receivables, judgement is required in assessing their likely realisation, including the current creditworthiness of each customer and related ageing of past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration of its financial condition.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### *Impairment of goodwill*

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the company's control.

#### *Deferred taxation*

Deferred taxation has been estimated using the best information available, including seeking the opinion of independent experts where applicable.

#### *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### *Adopted IFRS not yet applied*

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

#### **Endorsed (all effective from 1 February 2016):**

- Annual improvements to IFRSs 2010-2012 (Endorsed)
- Annual improvements to IFRSs 2011-2013 (Endorsed)
- Amendment to IAS 19 – Employee Benefits (Endorsed)

#### **Not yet endorsed by EU and included as may be relevant:**

- IFRS 9 - Financial Instruments
- IFRS 15 - Revenue Recognition
- Amendments to IAS 1 – Presentation of financial statements
- Annual improvements to IFRS 2012 – 2014
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

## Notes (continued)

### 2 Acquisition of subsidiaries

#### *North West Precision Limited*

On 3 June 2016, the company's subsidiary, Arlington Aerospace Limited, acquired the whole of the issued share capital of North West Precision Limited

Arlington Aerospace Limited incurred acquisition related costs of £96,000 related to professional fees and stamp duty. These costs have been included in administrative expenses in the consolidated statement of comprehensive income.

#### **Effect of acquisition**

The acquisition had the following effect on the Group's assets and liabilities:

	NWP
	£000
<b>Acquiree's net assets at the acquisition date:</b>	
Property, plant and equipment	1,523
Inventories	982
Customer relations	1,200
Trade and other receivables	1,995
Cash and cash equivalents	1,403
Other interest-bearing loans and borrowings	(1,475)
Trade and other payables	(2,008)
Deferred tax liability	(396)
	<hr/>
Net identifiable assets and liabilities	3,224
	<hr/>
Consideration paid:	
Initial cash price paid	2,844
	<hr/>
Initial cash consideration relating to business combination	2,844
Deferred consideration at fair value	2,634
	<hr/>
Total consideration	5,478
	<hr/>
Total Consideration	5,478
Less net assets acquired	(3,224)
Goodwill	2,254
	<hr/>

#### *Deferred consideration at fair value*

Of the deferred consideration payable £900,000 is payable within a year of completion, £350,000 is payable in June 2020, £1,384,000 of the deferred consideration was settled at completion.

#### *Customer relationships and Customer Orders*

North West Precision was and continues to trade with its customers through purchase and sales orders. All of whom are recurring customers and Arlington Group now has the ability to offer more precision engineering and design services to its aviation customer base. Regardless of whether they are cancellable or not, the purchase orders from the key customers meet the contractual legal criterion. All such customer relationships are assumed to have a life of 4 years based on the industry characteristics.

## Notes (continued)

### 2 Acquisition of subsidiaries (continued)

#### *Determination of fair values*

Prior to the acquisitions as part of the due diligence processes, the Group conducted a review of the carrying values of balance sheet assets and liabilities.

No material revaluations were deemed necessary for the tangible assets and inventories. Customer relationship calculation was based on current programs trading results and forecasted cash flows discounted at 10% over the average life of the programs.

On the 1<sup>st</sup> July 2017 the group acquired the trade and assets of EDV (UK) Limited for cash consideration of £75,000.

### 3 Revenue

	2017 £000	2016 £000
Sale of goods and engineering	106,079	91,924
Sale of design services	3,320	3,050
	<hr/>	<hr/>
Total revenues	109,399	94,974
	<hr/>	<hr/>

### 4 Expenses and auditor's remuneration

*Loss on ordinary activities before taxation is stated after charging:*

	2017 £000	2016 £000
Acquisition costs (non-recurring)	378	156
Operating lease charges	1,044	788
Depreciation and amortisation	2,785	2,586
	<hr/>	<hr/>

#### *Auditor's remuneration:*

##### **Group**

Audit of these financial statements	10	10
Audit of these financial statements of subsidiaries	94	75
Other services related to taxation	39	20
	<hr/>	<hr/>

### 5 Staff numbers and costs

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

	Number of employees 2017	2016
Production	579	494
Selling, management and administration	103	111
	<hr/>	<hr/>
	682	605
	<hr/>	<hr/>

## Notes (continued)

### 5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	18,313	16,914
Social security costs	1,621	1,578
Contributions to defined contribution plans	477	478
	<u>20,411</u>	<u>18,970</u>

### 6 Directors' remuneration

No remuneration has been paid by the Company to any of its directors. Those directors of the Company who have received emoluments from other entities within the Arlington Securities Limited group have done so from Arlington Industries Group Limited. The portion of their costs that relate to work on Arlington Securities Group limited is below.

	2017 £000	2016 £000
Directors' emoluments	<u>121</u>	<u>151</u>

### 7 Finance income and expense

#### Recognised in profit or loss

	2017 £000	2016 £000
<i>Finance expense</i>		
Interest expense	4,722	3,600
Finance lease charges	345	378
	<u>5,067</u>	<u>3,975</u>
Total finance expense		



## Notes (continued)

### 8 Taxation

#### Recognised in the income statement

	2017 £000	2016 £000
Current tax (charge)		
Current year	(746)	206
Current tax (charge)	(746)	206
Deferred tax		
Origination and reversal of temporary differences	983	86
Deferred tax	983	86
Total tax credit	237	292

#### Reconciliation of effective tax rate

	2017 £000	2016 £000
Loss for the year	(1,132)	(2,192)
Total tax (credit)	(237)	(292)
Loss excluding taxation	(1,369)	(2,484)
Tax using the UK corporation tax rate of 20% (2016: 20%)	(274)	(373)
Non-deductible expenses	905	61
Effect of rate change	8	-
Unrecognised timing differences	-	(241)
Adjustments in respect of prior periods	(774)	(260)
Group relief surrender	(102)	521
Total tax (credit) / charge	(237)	(292)

#### Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset/liability at balance sheet date has been calculated based on these rates.

## Notes (continued)

### 9 Property, plant and equipment

#### Group

	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
Balance at 1 April 2016	2,797	13,101	459	16,357
Additions through business combinations	404	2,439	56	2,899
Additions	20	1,463	33	1,516
Disposals	-	(161)	(120)	(281)
	<u>3,221</u>	<u>16,842</u>	<u>428</u>	<u>20,491</u>
Balance at 31 March 2017	<u>3,221</u>	<u>16,842</u>	<u>428</u>	<u>20,491</u>
<b>Depreciation and impairment</b>				
Balance at 1 April 2016	151	5,754	355	6,260
Additions through business combinations	112	1,254	10	1,376
Depreciation charge for the year	115	1,246	56	1,417
Disposals	-	(161)	(70)	(231)
	<u>378</u>	<u>8,093</u>	<u>351</u>	<u>8,822</u>
Balance at 31 March 2017	<u>378</u>	<u>8,093</u>	<u>351</u>	<u>8,822</u>
<b>Net book value</b>				
At 31 March 2016	<u>2,646</u>	<u>7,347</u>	<u>104</u>	<u>10,097</u>
At 31 March 2017	<u>2,843</u>	<u>8,749</u>	<u>77</u>	<u>11,669</u>

## Notes (continued)

### 10 Intangible assets

#### Group

	Goodwill	Customer order	Customer relationships	Total
	£000	£000	£000	£000
<b>Cost</b>				
Balance at 1 April 2016	10,743	857	7,121	18,721
Acquisitions through business combinations	2,254	-	1,200	3,454
	<u>12,997</u>	<u>857</u>	<u>8,321</u>	<u>22,175</u>
Balance at 31 March 2017	12,997	857	8,321	22,175
<b>Amortisation and impairment</b>				
Balance at 1 April 2016	-	857	1,499	2,356
Amortisation for the year	-	-	1,368	1,368
	<u>-</u>	<u>857</u>	<u>2,867</u>	<u>3,724</u>
Balance at 31 March 2017	-	857	2,867	3,724
<b>Net book value</b>				
At 31 March 2016	10,743	-	5,622	16,365
	<u>12,997</u>	<u>-</u>	<u>5,454</u>	<u>18,451</u>
At 31 March 2017	12,997	-	5,454	18,451

#### Impairment testing for goodwill

For the purpose of impairment testing on goodwill generated on AIM Engineering, AIM Design transactions and AANE Limited and North West Precision Limited, goodwill is allocated to each trading divisions. The key assumptions applied in determining budgeted revenues are based on each enterprise's projected profile of current and new contracts and their estimates for the prospective economies. Budgeted costs are based upon directors' experience and estimate of the costs required to support these contracts.

The assessment as to recoverable amount of each cash-generating unit was based on its value in use. The carrying amount of each unit was determined to be lower than its recoverable amount and management identified that there is sufficient headroom on each unit with no need for any impairment.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2017 was determined similarly as in 2016. The calculation of the value in use was based on the following key assumptions:

Cash flows were projected based on past experience, actual operating results and the 3-year Board approved business plan in 2017. A terminal value was then calculated for each cash-generating unit on the basis of the 3-year plan with zero long term growth assumed which is not considered to exceed the long-term average growth rate for each of the CGUs. Value in use calculations provided sufficient headroom in all cash-generating units containing goodwill.

## Notes (continued)

### 10 Intangible assets (continued)

A Group pre-tax discount rate of 15% (2016: 15%) was calculated based on past experience and industry average assumptions to determine weighted average cost of capital based on an assumed market-participant debt/equity position. Based on the similar profile of the entities and the synergies going forward, the directors considered it appropriate to use the same discount rate for both the Automotive and Aerospace companies.

#### Sensitivity analysis

The pre-tax discount rate would need to increase to 40% in order for the assets to become impaired.

#### Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

	2017 £000	2016 £000
Administrative	<u>1,368</u>	<u>1,423</u>

### 11 Investments in subsidiaries

The Group and Company have the following investments in subsidiaries:

#### All Companies incorporated in England

Company	Registered number	Registered office address	Class of shares held	Ownership 2017
Arlington Industries Group Ltd	08296565	79 Torrington Avenue, Coventry, CV4 9AQ	Ordinary	100%
Arlington Aerospace Ltd	06353995	Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD	Ordinary	100%
AIM Engineering Ltd	02744531	Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD	Ordinary	100%
Arlington Automotive Holdings Ltd	08554259	79 Torrington Avenue, Coventry, CV4 9AQ	Ordinary	100%
Arlington Automotive Ltd	08554261	79 Torrington Avenue, Coventry, CV4 9AQ	Ordinary	100%
DPE Auto Engineering Group Ltd	09029135	Gurney Way, Newton Aycliffe, County Durham, DL5 6UJ	Ordinary	100%

## Notes (continued)

### 11 Investments in subsidiaries (continued)

Company	Registered number	Registered office address	Class of shares held	Ownership 2017
DPE Holdings Ltd	05664126	Gurney Way, Newton Aycliffe, County Durham, DL5 6UJ	Ordinary	100%
Arlington Automotive NE Ltd	01797394	Gurney Way, Aycliffe Business Park, Newton Aycliffe, County Durham, DL5 6UJ	Ordinary	100%
AIM Design Co Ltd	94752004	Southmoor Industrial Estate, Southmoor Road, Manchester, M23 9XD	Ordinary	100%
North West Precision Ltd	07341603	3a And 3b Ebenezer Street, Birkenhead, CH24 1NH	Ordinary	100%
Ampco 106 Ltd	09050978	3a And 3b Ebenezer Street, Birkenhead, CH24 1NH	Ordinary	100%
Arlington Wheels Ltd	09217256	79 Torrington Avenue, Coventry, CV4 9AQ	Ordinary	100%

### 12 Deferred tax liabilities – Group

#### Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	2017 £000
Property, plant and equipment	(158)
Intangibles	740
	<hr/>
	582
	<hr/>

#### Movement in deferred tax during the year

	At 31 March 2016 £000	Recognised in income £000	Acquired in business combination £000	At 31 March 2017 £000
Property, plant and equipment	(313)	651	(180)	158
Intangibles	(524)	-	(216)	(740)
	<hr/>	<hr/>	<hr/>	<hr/>
	(837)	651	(396)	(582)
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 13 Inventories

	2017 Group £000	Company £000	2016 Group £000	Company £000
Raw materials and consumables	4,775	-	3,822	-
Work in progress	214	-	85	-
Finished goods	520	-	364	-
	<u>5,509</u>	<u>-</u>	<u>4,271</u>	<u>-</u>

### 14 Trade and other receivables

	2017 Group £000	Company £000	2016 Group £000	Company £000
Trade receivables	29,141	-	25,732	-
Uninvoiced amounts recoverable on contracts	4,561	-	2,765	-
Other receivables from related parties	-	26,572	-	19,207
Other receivables, prepayments and accrued income	6,338	-	4,817	-
	<u>40,040</u>	<u>26,572</u>	<u>33,314</u>	<u>19,207</u>
Non-current	-	-	-	-
Current	<u>40,040</u>	<u>26,572</u>	<u>33,314</u>	<u>19,207</u>

Amounts owed by related parties unsecured, interest free and had fixed date of repayment (note 23).

At £4.5 million (2016: £3 million) aggregate costs incurred under open construction contracts and associated recognised profits. Advances received from customers under open construction contracts amounted to £NIL (2016: £NIL). The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of amounts recoverable on contracts.

### 15 Cash and cash equivalents

	2017 Group £000	Company £000	2016 Group £000	Company £000
Cash and cash equivalents per balance sheet	1,641	-	709	1
Cash and cash equivalents per cash flow statements	<u>1,641</u>	<u>-</u>	<u>709</u>	<u>1</u>

## Notes (continued)

### 16 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 20.

	2017 Group £000	Company £000	2016 Group £000	Company £000
<b>Non-current liabilities</b>				
Secured bank loans	498	-	503	-
Finance lease liabilities	1,111	-	951	-
Loan from related parties	12,445	15,150	8,616	12,454
Other borrowings	195	-	272	-
	<u>14,249</u>	<u>15,150</u>	<u>10,342</u>	<u>12,454</u>
<b>Current liabilities</b>				
Current portion of secured bank loans	11,212	-	12,424	-
Current portion of finance lease liabilities	515	-	595	-
	<u>11,727</u>	<u>-</u>	<u>13,019</u>	<u>-</u>

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £000	Carrying amount 2017 £000
Secured bank loans	GBP	BoEBR+3%	2016	7,845	7,845
Secured bank loans	USD	BoEBR+3%	2016	42	42
Secured bank loans	EUR	BoEBR+3%	2016	3,325	3,325
Other unsecured Eurobond Loan Notes	USD	15.00%	2018	10,674	10,674
Loan from related party	GBP	-	-	1,771	1,771
Secured bank loan	GBP	BoEBR+2%	2017	499	499
				<u>24,156</u>	<u>24,156</u>

	Contractual cash flows £000	Within 1 year £000	1-2 years £000	2-5 years £000
Secured bank loans	7,845	7,845	-	-
Secured bank loans	42	42	-	-
Secured bank loans	3,325	3,325	-	-
Other unsecured Eurobond Loan Notes	10,674	-	-	10,674
Loan from related party	1,771	-	-	1,771
Secured bank loan	499	-	499	-
	<u>24,156</u>	<u>11,212</u>	<u>499</u>	<u>12,445</u>

## Notes (continued)

### 16 Other interest-bearing loans and borrowings (continued)

The secured bank loans are structured through a CID facility which is secured by floating charges over the current and future assets of the company.

The interest payable on the unsecured Eurobond Loan Notes is payable in cash or in kind at the discretion of the Board.

### 17 Trade and other payables

	2016 Group £000	Company £000	2016 Group £000	Company £000
<b>Current</b>				
Trade payables	20,295	-	16,489	-
Non-trade payables and accrued expenses	11,524	-	8,603	-
	<u>31,819</u>	<u>-</u>	<u>24,912</u>	<u>-</u>

### 18 Provisions

Group	Deferred tax £000	Dilapidation provision £000	Warranty provision £000	Total £000
Balance at 1 April 2016	837	700	290	1,827
Additions	603	-	-	603
Utilisation	(858)	(250)	-	(1,108)
	<u>582</u>	<u>450</u>	<u>290</u>	<u>1,322</u>
Balance at 31 March 2017	582	450	290	1,322
Non-current	582	450	-	1,032
Current	-	-	290	290
	<u>582</u>	<u>450</u>	<u>290</u>	<u>1,322</u>



## Notes (continued)

### 19 Share capital

	2017 £000	2016 £000
<i>Allotted, called up and fully paid</i>		
550 Ordinary shares £1 each	550	550
31,219,628 preference shares \$1 each	20,122	15,453
	<hr/> 20,672	<hr/> 16,003

The preference shares carry voting rights and a cumulative, preferential dividend at the rate of 13 per cent per annum which is only payable on redemption of the Preference Shares. The holders of the Preference Shares shall not have any right to payment of a Preference Dividend in respect of their Preference Shares unless and to the extent that the same is declared upon redemption of the Preference Shares. The power to redeem any preference shares lies with the Board of Directors or if there is an exit.

## Notes (continued)

### 20 Financial instruments

#### (a) Fair values of financial instruments

##### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows.

##### Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows.

##### Cash

Cash represents bank balances and the fair value of cash is estimated as its carrying amount where the cash is repayable on demand.

##### Fair values

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the consolidated balance sheet, are considered to be as follows:

Group	Payables and other receivables £000	Other financial liabilities £000	Total carrying amount £000	Fair value £000
<b>31 March 2017</b>				
Trade and other receivables	40,040	-	40,040	40,040
	<u>40,040</u>	<u>-</u>	<u>40,040</u>	<u>40,040</u>
Loan from related parties	-	(12,445)	(12,445)	(12,445)
Trade payables	(31,819)	-	(31,819)	(31,819)
Other borrowings	-	(11,212)	(11,212)	(11,212)
	<u>(31,819)</u>	<u>(23,657)</u>	<u>(55,476)</u>	<u>(55,476)</u>
<b>31 March 2016</b>				
Trade and other receivables	33,314	-	33,314	33,314
	<u>33,314</u>	<u>-</u>	<u>33,314</u>	<u>33,314</u>
Loan from related parties	-	(8,616)	(8,616)	(8,616)
Trade payables	(24,912)	-	(24,912)	(24,912)
Other borrowings	-	(14,745)	(14,745)	(14,745)
	<u>(24,912)</u>	<u>(23,361)</u>	<u>(48,273)</u>	<u>(48,273)</u>

## Notes (continued)

### 20 Financial instruments (continued)

#### Company

	Total carrying amount £000	Fair value £000
<b>31 March 2017</b>		
Other receivables from subsidiaries	26,572	26,572
	<u>26,572</u>	<u>26,572</u>
Loan from related parties	(15,150)	(15,150)
Other payables to related parties	-	-
	<u>(15,150)</u>	<u>(15,150)</u>
<b>31 March 2016</b>		
Other receivables from subsidiaries	19,207	19,207
	<u>19,207</u>	<u>19,207</u>
Loan from related parties	(12,454)	(12,454)
Other payables to related parties	-	-
	<u>(12,454)</u>	<u>(12,454)</u>

The fair value of financial assets and liabilities are not materially different to the book value.

#### Credit risk

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Group 2017 £000	2016 £000
Trade and other receivables	29,141	25,732
Cash and cash equivalents	1,641	709
	<u>30,782</u>	<u>26,441</u>

Amounts in the above table include all trade and other receivables at the reporting date that were not impaired. As at 31 March 2017, the doubtful debtors allowance was £0.3 million (31 March 2016: £0.3 million). The company had no trade receivables.

## Notes (continued)

### 20 Financial instruments (continued)

#### Liquidity and credit risk

##### Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group prepares cash flow information on a regular basis which is reviewed by directors and senior management to ensure that as far as possible it will have sufficient liquidity to meet its liabilities when due.

Management have reviewed the forecast cash requirements of the Group for the following 12 months and have satisfied themselves that the company will be able to meet its external liabilities as they fall due.

Certain Group entities entered a receivables financing agreement during the period. The agreement is for a fixed amount of consideration per receivable and there is no recourse to the originator for losses. The credit risk still lies within the company, thus trade receivables and amounts borrowed are presented gross in the balance sheet.

#### Market risk

##### Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.

Exposure to currency, interest rate and credit risks arise in the normal course of the company's business.

##### Foreign currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currency of the Group. The functional currency of the Group is the pound sterling. The Group has not entered into any hedging agreements as the currency risk is not considered to be significant.

The Group's exposure to foreign currency as at the year end was as follows:

	EUR £000	USD £000
Trade receivables	17,470	2,310
Trade payables	(14,546)	(1,200)
Secured bank loans	(3,325)	(42)
Other unsecured loans	-	(10,674)
	<hr/>	<hr/>
<b>Net statement of financial position exposure</b>	<b>(401)</b>	<b>(9,606)</b>
	<hr/>	<hr/>

The Group's exposure to foreign currency as at the prior period end was as follows:

	EUR £000	USD £000
Trade receivables	14,496	3,340
Trade payables	(9,726)	(1,865)
Secured bank loans	(4,034)	(362)
Other unsecured loans	-	(8,616)
	<hr/>	<hr/>
<b>Net statement of financial position exposure</b>	<b>736</b>	<b>(7,503)</b>
	<hr/>	<hr/>

The company had no significant exposure to credit for foreign currency risk during the current year or preceding period.

## Notes (continued)

### 20 Financial instruments (continued)

The following significant exchange rates applied during the year:

	Spot rate		Average rate	
	2017 £000	2016 £000	2017 £000	2016 £000
EUR	1.17	1.27	1.15	1.29
USD	1.25	1.44	1.23	1.43

#### Sensitivity analysis

A strengthening/(weakening) of GBP, as indicated below, against the USD and EUR at 31 March would have increased/(decreased) equity and profit or loss by the amounts shown below. This quantifies the impact of a change in value of assets and liabilities denominated in a currency other than the functional currency of that business unit. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

31 March 2017	Equity £000	Profit or loss £000
USD (10% strengthening)	(62)	9
EUR (10% strengthening)	(1,483)	(129)

A weakening of GBP against the above currencies at 31 March 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### Interest rate risk

##### Capital management

The company meets its day to day working capital requirements and medium term funding requirements through trading with its customers. The company prepares cash flow information on a regular basis which is reviewed by directors and senior management to ensure that as far as possible it will have sufficient liquidity to meet its liabilities when due.

### 21 Lease commitments

#### Capital commitments

The Group anticipates making the following payments under operating leases:

	Land and buildings £000	2017 Motor Vehicles £000	Total £000	Land and Buildings £000	2016 Motor vehicles £000	Total £000
Within one year	92	103	195	110	98	208
Between two and five years	1,374	69	1,443	448	57	505
After five years	1,665	-	1,665	3,040	-	3,040
	<u>3,131</u>	<u>172</u>	<u>3,303</u>	<u>3,598</u>	<u>155</u>	<u>3,753</u>

## Notes (continued)

### 21 Lease commitments (continued)

The Group anticipates making the following payments under finance leases:

	2017 £000	2016 £000
<b>Plant and equipment</b>		
Within one year	417	463
Between two and five years	642	374
	<u>1,059</u>	<u>837</u>

### Contingent liabilities

Certain members of the Group guarantee the obligations arising from its facilities with Shawbrook Business Finance, which is a trading entity of Shawbrook Bank Limited. Net indebtedness under this arrangement at 31 March 2017 was £11.2 million (31 March 2016: £12.4 million).

The company had no contingent liabilities at 31 March 2017.

### 22 Capital commitments

The company and group had no capital commitments at 31 March 2017.

### 23 Related parties

#### Transactions with key management personnel

The compensation of key management personnel (including the directors) is as follows:

	2017 Group	Company	2016 Group	Company
Key management emoluments including social security costs	<u>709</u>	<u>-</u>	<u>518</u>	<u>-</u>

#### Finance expense

	2017 £000	2016 £000
Pāngaea Two Acquisition Holdings VIII LLC	<u>4,053</u>	<u>2,925</u>

#### Payables outstanding

	2017 £000	2016 £000
Pangaea Two Acquisition Holdings VIII LLC	<u>10,674</u>	<u>8,616</u>

## **Notes** *(continued)*

### **24 Post balance sheet events**

The Group's strategy continues to actively explore other similar growth / acquisition opportunities in the future and since year end, the Group has acquired the share capital of Magal Engineering Group, this is a supplier to the automotive industry.

### **25 Ultimate parent company and parent company of larger group**

The company is the ultimate parent company of its group. The ultimate controlling entity is Pangaea Two Acquisition Holdings VIII, LLC (Delaware).