

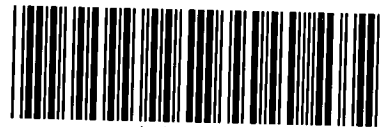
COMPANY NO: 1675128

Excil Electronics Limited

Annual Report

Year Ended 30 September 2019

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Company Information

Directors	P G Pollock J Hesketh N S Orme C J Buckenham P V Curtis
Secretary	C J Buckenham
Registered office	Light & Power House Shire Hill Saffron Walden CB11 3AQ
Registered number	1675128
Auditors	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY
Bankers	Barclays Bank Plc PO Box 885 Mortlock House Vision Park, Histon Cambridge CB24 9DE

Strategic Report

Business description

The Company is based in the North of England and is a market leading designer, manufacturer and supplier of LED based lighting systems. Sales are made into rail, general industrial and transport infrastructure markets: of these, rail is the most significant. A wide range of customers are served and exports form a significant part of the business. Revenues are derived from both higher value contracts and lower value routine business. Routes to market vary but a combination of direct and indirect is usual for most products. Agents and distributors are used, particularly in overseas markets, although larger contracts continue to require direct contact.

The Company has a reputation for innovation, finding cost effective solutions to customers' problems, in both benign and hostile environments, which aim to improve reliability and reduce maintenance and life cycle costs. It looks to maintain and develop its technology and to build upon past investment in product development.

Business review

The Company achieved revenues of £7.0m, down £4.2m (37.3%), 2018 £11.2m. Gross Margins reduced to 16.7% through the reduced activity providing lower cost absorptions and reduced efficiencies, down 4.9% (2018: 21.6%). Operating costs decreased by 20.4%, £259k to £1.01m (2018: £1.27m), reduced through cost savings, predominantly due to decreased staffing; a waiver received for group management charges, offset by increased depreciation costs following prior years investments. Other operating income of £0.09m, (2018: Nil)) relates to a grant receipt. An operating profit of £0.25m (2018: £1.16m) was achieved, a decrease of 78.4% on prior year.

2019 order entry of £9.6m increased by 21.5% from the prior year (2018: £7.9m), in part due to delayed UK rail projects reducing the 2018 intake and subsequently 2019 revenues. The order book at the end of the year increased 38.7% to £9.1m (2018: £6.5m) as a result. Current year orders have continued strongly with a number of new rail and tram rolling stock platform wins with strategic UK and European rail OEM's. As anticipated in the 2018 business review, 2019 proved to be a challenging year with lower activity levels and short term visibility of delays with customers, beyond the timelines that had been anticipated by the Directors. Whilst reducing costs, the Company maintained resources to respond to deliver the order book and future expectations on demand, impacting profitability in the year. The Directors anticipate an improving position through the 2020 financial year, supported by a growing order intake and improved order book, whilst continue to view the future opportunities and leverage of the business investments and capabilities positively.

Principal risks and uncertainties

The principal risks confronting the Company, where adverse changes could impact results, are:

- The Company's sales dependence upon the rail sector. The Company monitors the rail market for advance warning of negative developments; derives revenues from both new-build and the aftermarket; and benefits from its non-rail products, customers and markets served, which mitigate the impact of this dependence.
- Certain activities benefit from long standing commercial relationships with key customers and suppliers. The Company devotes resource to ensure that good customer relationships are maintained while continuing to build relationships with new customers across different business sectors and geographies. The Company monitors supply-chain risks and develops contingency plans to mitigate the impact of supplier failure.
- The Company operates in competitive markets which are subject to product innovation, technical advances and intensive price competition. The Company invests in research and development to develop new technologies and products in order to sustain or improve its competitive position.
- The political and economic uncertainty of Brexit remains a risk which has been discussed with key customers and suppliers to ensure continuity of supply, while the Company believes trading risks remain associated with a lack of focus caused by the uncertainty, but which should now ease.
- Financial risks – see note 23

Strategic Report (continued)

Key performance indicators

The Company uses the following key performance indicators to assess the progression in its business:

- Orders to sales (orders for the year expressed as a multiple of sales) as a measure of prospective growth increased to 1.36 in the current year (2018: 0.70, 2017: 1.23);
- Sales growth (the change in year on year sales as a percentage of prior year sales) as a measure of current growth being a decrease of 37.3% for the current year (2018: 24.0%; 2017: 8.5%);
- Gross margin (gross profit as a percentage of turnover) as a measure of profitability being 16.7% in the current year (2018: 21.6% 2017: 22.9%); and
- Net cash flow (net cash flow before financing) as a measure of cash generation being an inflow of £921k for the current year (2018: outflow of £99k, 2017: outflow of £11k).



By order of the Board
P V Curtis
Director
28 January 2020

Report of the Directors

The directors present their report and the audited financial statements for the year ended 30 September 2019.

Results and dividends

The profit on ordinary activities after taxation amounted to £266,000 (2018: £1,008,000). Dividends paid in the year amounted to £Nil (2018: £900,000). The directors do not recommend the payment of a final dividend (2018: £Nil).

Principal activities

The principal activities of the Company continue to be the design and manufacture of electronics and lighting solutions for the rail industry and other high reliability markets.

Directors and their interests

The directors who served during the year are set out on page 1.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom generally accepted accounting practice (United Kingdom accounting standards and applicable law including FRS102, the financial reporting standard applicable in the United Kingdom and Republic of Ireland). 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors confirm that:

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Directors (continued)

Auditors

Grant Thornton UK LLP are willing to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approval

The report of the directors was approved by the Board on 28 January 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'C J Buckenham', with a long horizontal flourish extending to the right.

C J Buckenham
Director

Excil Electronics Limited is registered in England No 1675128

Independent auditor's report to the members of Excil Electronics Limited

Opinion

We have audited the financial statements of Excil Electronics Limited (the 'company') for the year ended 30 September 2019, which comprise the profit and loss account, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report to the members of Excil Electronics Limited (continued)

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

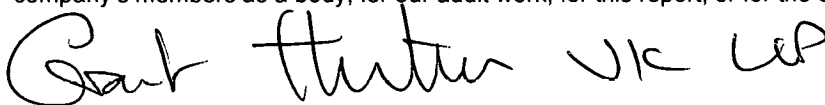
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Paul C Brown
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

28 January 2020

Profit and Loss Account

for the year ended 30 September 2019

	Note	2019 £000	2018 £000
Turnover	4	7,040	11,234
Cost of sales		(5,867)	(8,808)
Gross profit		1,173	2,426
Sales and distribution costs		(489)	(574)
Administrative expenses		(522)	(696)
Other operating income	6	90	-
Operating profit		252	1,156
Interest payable	5	(5)	(8)
Profit on ordinary activities before taxation	6	247	1,148
Tax on profit on ordinary activities	9	19	(140)
Profit for the financial year		266	1,008
Attributable to:			
- Equity holders of the parent		266	1,008

All activities are continuing.

The notes on pages 11 to 23 form an integral part of these financial statements.

Balance Sheet

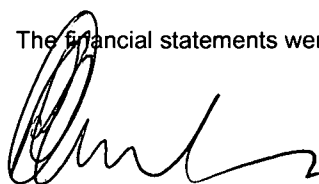
Company No: 1675128

at 30 September 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	10	128	51
Tangible assets	11	2,668	2,815
		<u>2,796</u>	<u>2,866</u>
Current assets			
Stocks	12	1,196	1,374
Debtors	13	1,087	2,425
Cash at bank and in hand		764	137
		<u>3,047</u>	<u>3,936</u>
Creditors: Amounts falling due within one year	14	(1,411)	(2,601)
Net current assets		<u>1,636</u>	<u>1,335</u>
Total assets less current liabilities		4,432	4,201
Creditors: Amounts falling due after more than one year	15	(64)	(102)
Provisions for liabilities	17	(50)	(47)
Net assets		<u>4,318</u>	<u>4,052</u>
Capital and reserves			
Called up share capital	18	1,254	1,254
Share premium account	19	104	104
Profit and loss reserve	19	2,960	2,694
Equity shareholders' funds		<u>4,318</u>	<u>4,052</u>

The notes on pages 11 to 23 form an integral part of these financial statements.

The financial statements were approved by the Board on 28 January 2020 and signed on its behalf by:



P G Pollock
Director

Statement of Changes in Equity

For the year ended 30 September 2019

	Called up share capital £000	Share premium account £000	Profit and loss reserve £000	Total £000
As at 1 October 2018	1,254	104	2,694	4,052
Total comprehensive income for the financial year	-	-	266	266
As at 30 September 2019	<u>1,254</u>	<u>104</u>	<u>2,960</u>	<u>4,318</u>

For the year ended 30 September 2018

	Called up share capital £000	Share premium account £000	Profit and loss reserve £000	Total £000
As at 1 October 2017	1,254	104	2,586	3,944
Total comprehensive income for the financial year	-	-	1,008	1,008
Dividend	-	-	(900)	(900)
As at 30 September 2018	<u>1,254</u>	<u>104</u>	<u>2,694</u>	<u>4,052</u>

The notes on pages 11 to 23 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 30 September 2019

1. Company Information

Excil Electronics Limited is a private limited company incorporated in England. Its principal place of business is LPA House, Ripley Drive, Normanton, West Yorkshire, WF6 1QT. The Business is a market leading designer, manufacturer and supplier of LED based lighting systems for rail and other high reliability markets.

2. Basis of Preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS102"), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments and revaluation of property as specified in the accounting policies below.

The financial statements are presented in Sterling (£).

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 2. The Company is a subsidiary of LPA Group plc which manages its banking arrangements on a pooled basis across the Group.

Whilst current economic conditions create uncertainty, as: (i) the Company is expected to continue to generate positive cash flows on its own account for the foreseeable future; (ii) the Group has in place adequate working capital facilities for its forecast needs; and (iii) the Company has proven adaptable in past periods of adversity, the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the Financial Statements

3. Accounting Policies

A. Intangible assets

Research and development

Research expenditure is expensed in the income statement as incurred.

Development expenditure on a project is written off as incurred unless it can be demonstrated that the following conditions for capitalisation, in accordance with FRS102 are met:

- the intention is to complete the development of the intangible asset and use or sell it;
- the development costs are separately identifiable and can be measured reliably;
- management are satisfied as to the ultimate technical and commercial viability of the project; so that it will be available for use or sale;
- management are satisfied with the availability of technical, financial and other resources to complete the development and use or sell the intangible asset; and
- it is probable that the asset will generate future economic benefit.

Any subsequent development costs are capitalised and are amortised, within cost of sales, from the date the product or process is available for use, on a straight line basis over its estimated useful life. The useful life for the development costs capitalised at the current year-end is 3 years from the commencement of the following financial year.

Software

All finite-lived intangible assets, including separately identifiable purchased software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described below.

Amortisation has been provided within impairment of non-financial assets. Subsequent expenditure on the maintenance of computer software are expensed as incurred. When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement within other income or expenses.

The rates applicable are:

Research & Development	33.3%
Software	25.0%

B. Tangible fixed assets

Tangible fixed assets are measured at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost or valuation, less estimated residual value, of all tangible fixed assets, other than freehold land, by equal annual instalments over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	2%
Plant and equipment	10%
Fixtures and fittings	10%
Computer equipment	25%

A profit or loss on disposal is recognised in the profit & loss account at the surplus or deficit of disposal proceeds over net carrying amount of the asset at the time of disposal.

Notes to the Financial Statements

for the year ended 30 September 2019

3. Accounting Policies (continued)

C. Impairment of assets

At each reporting date fixed assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carry forward amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

D. Leased assets

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

Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the period of the lease, unless the rental payments are structured to increase in line with expected general inflation, in which case the Company recognises annual rent expense equal to amounts owed to the lessor. Lease incentives are spread over the term of the lease.

E. Stocks

Stocks are stated at the lower of cost and net realisable value. The costs of ordinarily interchangeable items are based on a first-in, first-out basis. Cost includes direct materials, direct labour and an appropriate proportion of production overheads based on normal levels of activity.

F. Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

G. Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the Financial Statements

for the year ended 30 September 2019

3. Accounting Policies (continued)

H. Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

The tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if the Company has a legally enforceable right to set off current tax assets against current tax liabilities.

I. Turnover

Turnover comprises the invoiced value of the design, manufacture and supply of products and services by the Company excluding value added tax, trade and volume discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer of the goods, generally upon despatch or service delivery and reliable measurement is possible. Revenue is not recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, the possible return of goods, or where the commercial invoicing profile differs from the value of the deliverables between the Company and its customer. In such cases the fair value of turnover recognised is calculated to reflect the substance of the transaction.

Where a project combines the design with the manufacture and supply of products, the revenue from the project is recognised on the achievement of milestones in accordance with specific contractual agreements.

Where invoiced values are in excess, or below, the recognisable value of services rendered by the Company for a performance obligation or milestone, such amounts are held as deferred income, or provided as accrued income, until such time as the invoicing profile matches the deliverable. This may, in the event of design, or engineering services, provide for ongoing support through the supply of the associated product. The values recognised will reflect the stage completion of the project as determined by the Company.

J. Government grants

Grants that relate to specific capital expenditure are treated as deferred income, which is then credited to the profit and loss account over the related assets useful life. Other grants are credited to the profit and loss account when received.

K. Employee benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements

for the year ended 30 September 2019

3. Accounting Policies (continued)

L. Foreign currencies

Transactions in foreign currencies (those other than Sterling) are recognised at the exchange rate ruling at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognised in profit or loss in the period in which they arise.

M. Disclosures and cash flow statement

As a qualifying entity, the Company has adopted the following disclosure exemptions under FRS102:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures
- key management remuneration disclosures

The company is included in the consolidated financial statements of LPA Group Plc which can be obtained from www.lpa-group.com.

N. Significant judgements and estimates

The preparation of the financial statements requires management to make judgements on the application of its accounting policies and make estimates about the future. Actual results may differ from these assumptions. There are no critical judgements made in arriving at the amounts included in these financial statements nor are there key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Timing of revenue and cost recognition

FRS102 requires the Company to measure revenue at fair value of the consideration received or receivable and to apply criteria separately to each transaction, when necessary, to reflect the substance of the transaction.

The Company's judgement is, that where separately identified and the transaction can be estimated reliably, the undertaking of Non-Recurring Costs (NRC's), which include bespoke engineering and design services, accreditation, certification and test protocols; are ordinarily separately identifiable deliverables and the straight line basis of revenue recognition should apply, unless reliable judgement is made that better represents the stage of completion within a wider contract obligation. Where this involves the rendering of services and the outcome cannot be reliably measured, the Company shall recognise revenue only to the extent of the absorbed costs that it is probable will be recovered.

Where product is supplied with engineering support, or design and engineering is not separately identifiable and forms part of a single deliverable, typically a non-bespoke product sale, revenues are attributed to each of the product deliverables, with any separately identifiable direct costs and overhead absorption matched through work in progress.

During the year the Company recognised £0.28m as deferred income (2018: Nil), against invoiced values of £0.52m, recognising £0.24m as revenue. These revenues are a subjective estimate of the value attributable to the services provided against the contractual invoicing profile within such contracts.

The deferred income will be apportioned across the contracted product supply, recognising the engineering support of the supply. The revenue recognised is calculated by reference to actual engineering costs, similar activities and the added value that would be ordinarily be expected from such activities.

R&D expenditure and tax credits

The tax credit/charge for the year reflects management's judgements in respect of the application of tax regulations, in particular R&D tax credits available.

The Company's estimates maybe different to the final values adopted once the annual tax computations have been finalised with the Group's advisors, resulting in a different tax payable or recoverable from that provided. The tax note (note 9) identifies prior year tax adjustments where R&D spend has differed to the values provided in past years.

Notes to the Financial Statements

4. Geographical Analysis of Turnover

	2019 £000	2018 £000
United Kingdom	2,865	4,008
Rest of Europe	2,573	2,884
Rest of World	1,602	4,342
	7,040	11,234

In the opinion of the directors, the activities of the Company constitute one business segment.

5. Interest Payable

	2019 £000	2018 £000
Bank overdraft	-	1
Hire purchase contracts	5	7
	5	8

6. Profit on Ordinary Activities Before Taxation

The profit on ordinary activities before taxation is stated after charging / (crediting):

	2019 £000	2018 £000
Depreciation of tangible fixed assets	191	195
Amortisation of intangible fixed assets	36	12
Operating lease rentals - plant and machinery	58	53
Foreign exchange loss	3	1
Research and development expenditure	172	140
Other Operating Income – Government Grant	(90)	-
Fees payable to the Company's auditor and its associates for:		
- the audit of the Company's annual accounts	16	14
- for tax services	-	5
	16	35

7. Employees

Average monthly number of employees, including directors:	2019 No	2018 No
Production	66	70
Sales and distribution	7	7
Administration	8	8
	81	85

Staff costs, including directors:	2019 £000	2018 £000
Wages and salaries	2,075	2,300
Social security costs	212	235
Pension costs	111	81
Group Life assurance	12	13
	2,410	2,629

Notes to the Financial Statements

for the year ended 30 September 2019

8. Directors' Remuneration

Remuneration in respect of directors was as follows:	2019 £000	2018 £000
Emoluments	185	199
Pension contributions to money purchase pension schemes	20	15
	<u>205</u>	<u>214</u>

During the year two directors (2018: two) participated in money purchase pension schemes. The highest paid director received remuneration of £123,000 (2018 £128,000).

9. Tax on Profit on Ordinary Activities

	2019 £000	2018 £000
United Kingdom corporation tax		
Corporation tax payable	-	164
Group relief payable	15	14
Adjustments in respect of prior years	(37)	(38)
Current taxation	<u>(22)</u>	<u>140</u>
Deferred taxation		
Net origination and reversal of timing differences	3	-
Tax on profit on ordinary activities	<u>(19)</u>	<u>140</u>

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 19% (2018: 19%). The differences are explained as follows:

Tax reconciliation	2019 £000	2018 £000
Profit on ordinary activities before taxation	<u>247</u>	<u>1,148</u>
UK corporation tax at a rate of 19% (2018: 19%)	47	220
Effects of:		
- Other expenditure that is not tax deductible	3	2
- Research and development expenditure	(15)	(36)
- Research and development expenditure prior years	(25)	(38)
- Adjustments relating to prior year	(12)	-
- Other	(17)	(8)
Tax on profit on ordinary activities	<u>(19)</u>	<u>140</u>

Notes to the Financial Statements

for the year ended 30 September 2019

10. Intangible Fixed Assets

	Development costs	Software	Total
	£000	£000	£000
Cost			
At 1 October 2018	342	-	342
Transferred *		78	78
Additions	57	14	71
Disposals	-	-	-
At 30 September 2019	399	92	491
Amortisation			
At 1 October 2018	(291)	-	(291)
Transferred *		(34)	(34)
Charge in the Period	(21)	(17)	(38)
Disposals	-	-	-
At 30 September 2019	(312)	(51)	(363)
Net book value			
At 30 September 2019	87	41	128
At 30 September 2018	51	-	51

* Software previously capitalised as a Tangible Fixed Asset has been transferred as at 1 October 2018 and included above as an Intangible Asset, in accordance with FRS102. The financial impact of the transfer is nil, with amortisation provided on the same basis as depreciation was charged prior. The associated depreciation charged to date has been transferred and reclassified as amortisation.

Notes to the Financial Statements

for the year ended 30 September 2019

11. Tangible Fixed Assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and Equipment £000	Total £000
Cost				
At 1 October 2018	2,081	1,467	596	4,144
Transferred (see note 10)	-	-	(78)	(78)
Additions	36	44	8	88
Disposals	-	-	-	-
At 30 September 2019	<u>2,117</u>	<u>1,511</u>	<u>526</u>	<u>4,154</u>
Depreciation				
At 1 October 2018	69	904	356	1,329
Transferred (see note 10)	-	-	(34)	(34)
Charged in Period	30	104	57	191
Disposals	-	-	-	-
At 30 September 2019	<u>99</u>	<u>1,008</u>	<u>379</u>	<u>1,486</u>
Net book value				
At 30 September 2019	<u>2,018</u>	<u>503</u>	<u>147</u>	<u>2,668</u>
At 30 September 2018	<u>2,012</u>	<u>563</u>	<u>240</u>	<u>2,815</u>

The net book value of the tangible fixed assets includes £161,000 (2018: £183,000) in respect of assets held under hire purchase contracts. Depreciation charged in the period on those assets amounted to £22,000 (2018: £22,000).

12. Stocks

	2019 £000	2018 £000
Raw materials	935	950
Work in progress	261	424
	<u>1,196</u>	<u>1,374</u>

Stock recognised in cost of sales during the year as an expense was £5.87m (2018: £8.82m).

An impairment gain of £42k (2018: £26k loss) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

Notes to the Financial Statements

for the year ended 30 September 2019

13. Debtors

	2019 £000	2018 £000
Trade debtors	996	2,220
Prepayments and accrued income	82	75
Amounts owed from group undertakings	7	-
Other Debtors	-	130
Corporation Tax	2	-
	1,087	2,425

An impairment loss of £52,000 (2018: £34,000) was recognised against trade debtors.

14. Creditors: Amounts Falling Due Within One Year

	2019 £000	2018 £000
Trade creditors	639	1,524
Amounts owed to group undertakings	232	427
Other taxation and social security	108	55
Other creditors	12	9
Accruals and deferred income	382	296
Corporation tax	-	163
Government grants	-	90
Obligations under hire purchase contracts	38	37
	1,411	2,601

15. Creditors: Amounts Falling Due After More Than One Year

	2019 £000	2018 £000
Obligations under hire purchase contracts	64	102
Amounts falling due between 1 and 5 years	64	102

16. Obligations Under Hire Purchase Contracts

The Company's obligations under hire purchase contracts are analysed by maturity below:

	2019 £000	2018 £000
Within one year	38	37
Between one and two years	40	38
Between two and five years	24	64
	102	139

Hire purchase liabilities are secured against the assets to which they relate.

Notes to the Financial Statements

for the year ended 30 September 2019

17. Provisions for Liabilities

Deferred taxation

	2019 £000	2018 £000
Deferred taxation	50	47
		£000
At 1 October 2018		47
Charged to profit and loss account in the year		12
Adjustment for prior year		(9)
At 30 September 2019		50

Deferred taxation provided in the accounts is as follows:

	Provided 2019 £000	2018 £000
Accelerated capital allowances	35	43
Capitalised development costs	14	5
Other timing differences	1	(1)
Deferred taxation	50	47

18. Called Up Share Capital

	2019 £000	2018 £000
Authorised, issued and fully paid 1,254,000 ordinary shares of £1 each	1,254	1,254

19. Reserves

Called-up share capital - called up share capital represents the nominal value of shares that have been issued.

Share premium account - this reserve records the premium for shares issued at a value that exceeds their nominal value

Profit and loss reserve - this reserve includes all current and prior period retained profits and losses.

Notes to the Financial Statements

for the year ended 30 September 2019

20. Financial Commitments

Operating lease commitments

At the Balance Sheet date the Company has outstanding commitments for future minimum lease payments under non-cancellable operating leases, all of which relate to plant & machinery, which fall due as follows:

	2019 £000	2018 £000
Within one year	55	40
Within two to five years	46	61
	101	101

Capital commitments

Contracted for but not provided in the accounts amounted to £Nil (2018: £25,000).

21. Transactions with Related Parties

The Company's immediate parent undertaking and controlling party is LPA Group plc a company incorporated in England and Wales. Copies of LPA Group plc group accounts, which include the Company, are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company has taken advantage of the exemption conferred by FRS102 and has not disclosed related party transactions with group undertakings during the period.

22. Contingent Liabilities

The following security is provided to Barclays Bank plc in respect of LPA Group plc's £2.6 million term loan facility: (i) a legal charge over the freehold property owned by the Company; (ii) a debenture from the Company; and (iii) a cross guarantee by the Company as guarantor on account of the obligations of each Group company to Barclays Bank plc.

At the year-end the Company had outstanding performance bonds to customers of £Nil (2018: £87,128). At 30 September 2019 the Company had no commitments under non-cancellable forward foreign exchange contracts (2018: £Nil). At the year-end the Company had an HMRC Deferment Guarantee of £20,000 (2018: £Nil).

Notes to the Financial Statements

for the year ended 30 September 2019

23. Financial Risk Management

The Company is exposed to foreign currency, interest rate, liquidity and credit risks, either directly on its own account and/or indirectly through being a member of the LPA Group. The two main areas of risk confronting the Company directly are foreign currency and credit risk. The Company's approach and where relevant the Group's policy of managing risk are outlined below.

A. Currency risk

Currency exposure arises on sale or purchase transactions in currencies other than sterling, the functional currency of the Company. It is the Group's policy to minimise risk to exchange rate movements affecting sales and purchases by netting currency exposures across the Group, or when there is a high probability of a future commitment arising, using forward exchange contracts. The Group and Company's principal exposure is in respect of the Euro. The Group had no commitments under forward foreign exchange contracts in the year (2018: £Nil). The Group does not trade in derivatives or make speculative hedges.

B. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from trade receivables, but also from cash and cash equivalents, and other financial assets.

Trade receivables

The Company offers credit terms to its customers which allow payment of the debt after delivery of the goods and so it is at risk to the extent that a customer may be unable to pay the debt on the specified due date. The exposure to credit risk is principally influenced by the individual characteristics of each customer as opposed to a more general demographic of the customer base. Credit risk is managed on an ongoing basis by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. Credit risk is minimised through cash flow management.

Cash and cash equivalents

The Group monitors counterparties with whom it deposits cash and transacts other financial instruments so as to control exposure to any one institution.

C. Liquidity risk

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

The Group's approach is to ensure that, as far as possible, it will have adequate resources to meet its foreseeable financing requirements, with headroom to cope with adverse market conditions. The Group's operations are funded through a combination of retained profits, acquiring an element of its fixed assets under finance leases, medium-term bank loans with short-term flexibility achieved through the use of overdraft facilities.

D. Interest rate risk

The Group is exposed to risk from the effect of changes in floating interest rates on the level of interest it pays on its borrowings and receives on its cash deposits. The only financial liabilities of the Group which are subject to interest charges are bank loans, overdrafts and finance lease obligations. The directors monitor the overall level of borrowings and interest costs to limit any adverse effects on financial performance of the Group.