

Showa UK Limited

Annual Report and Financial Statements

31 March 2019

WEDNESDAY



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26/06/2019
COMPANIES HOUSE

Directors

T Furuhashi
N Mima
T Atkins
D P Enoch

Secretary

C Connolly

Auditors

Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

Bankers

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London EC2Y 9AN

Barclays Bank plc
PO Box 747
Barclays House
Ty-Glas Avenue
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Cardiff CF4 5FG

Solicitors

Graham John with AF Brooks
Victoria House
Cardiff Street
Aberdare CF44 7DG

Registered Office

Aberaman Industrial Estate
Aberaman
Aberdare
Mid Glamorgan CF44 6DA

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 March 2019.

Principal activity and review of the business

The company's main activities are the reprogramming, passthrough, assembly and manufacture of power steering systems, shock absorbers and other automotive parts.

The key financial and other performance indicators were as follows:

	2019	2018	Change
	£	£	%
Turnover	54,407,436	60,882,133	-11
Operating Profit	1,205,319	6,337,183	-81
Profit for the year	929,601	5,156,002	-82
Shareholders' funds	14,971,917	19,042,316	-21
Average number of employees	35	69	-49

Turnover in the twelve months' period under review was £54,407,436 compared with £60,882,133, reflecting a main customer reducing from a two to one Car Plant.

The profit for the year of £929,601 compared to previous year profit of £5,156,002 was a direct result of change to product mix with the company becoming mainly reprogramming and passthrough for one car plant as compared to the previous year as an assemble and manufacturing plant for two Car production.

Honda UK Manufacturing informed all stakeholders on 13 May 2019 that plans to close its Swindon vehicle manufacturing plant, at the end of the current model's production lifecycle, in 2021, have been confirmed.

The decision to close the plant is part of Honda's broader global strategy in response to changes to the automotive industry. Honda is accelerating its electrification plans, and as a result resources, capabilities and production systems for electrified vehicles will be focused in regions with a high volume of customer demand.

The directors continually review and evaluate the risks that the company is facing. The company does not use derivative financial instruments for speculative purposes. The principal risks and uncertainties facing the company are broadly grouped as – competitive, legislative and financial risks.

Competitive risks

Largely owing to the nature of the market worldwide, the company has faced very strong competition in recent years. The company puts strong emphasis on its excellent service levels, the quality of its product and competitive pricing to its customer base to maintain its position within the market. The company is continually exploring geographical avenues throughout Europe in order to widen its customer base and in relation to statement above regarding Honda UK.

The impact of Brexit on the Company has been evaluated and assessed. Brexit concerns are being driven by our main customer and group, mitigated by forward audits throughout supplier chain, concentrating production on markets other than Europe during initial 6 weeks after probable Brexit timing.

Strategic report

Legislative risks

Laws and regulations are controlled by specific recognised bodies within the industry, as well as TS IATF 16949 2016 standards. The company ensures that it is compliant with all of these by a combination of training, research and management discussion procedures.

Financial risks

The company has established a risk and financial management framework, the primary objectives of which are to protect the company from events that hinder the achievement of its performance objectives. A more detailed discussion of the main elements of this is as follows:

Price risk is the risk of detrimental movements in working capital values being held by the company. The company's main price risk is on inventory purchases; however, the company aims to minimise risk through effective management of foreign exchange, mitigated by purchasing in sterling from Group companies, inventory levels, monitoring stock turn and reviewing prices regularly.

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Policies are aimed at minimising such losses and require that material deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the company's debtors are shown in note 12 to the financial statements. The company limits individual trade debtor exposures and these limits are reviewed on a continual basis. A focused credit control team ensures compliance with sales invoice terms.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation of its operations and applying cash collection targets. The company is focused on reducing debtor and inventory days. The company also manages liquidity risk via short-term credit facilities where applicable. Regular management meetings, together with quarterly re-forecasts taking into account unpredicted changes in the economy, enable the company to meet all obligations as they fall due.

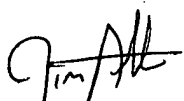
Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, such as future interest payments on a variable rate debt. The company manages this risk, where significant, by forecasting plus detailed budget procedures which are discussed at group level. Short-term fixed rate borrowings are entered into where necessary but on the whole the company aims to minimise the reliance on external borrowings.

Future developments

As well as ensuring quality, cost and delivery for current customers, SUK is actively pursuing new OEM business within the UK and Europe, supported by the newly formed SDG GmbH, being R&D and Sales offices based in Frankfurt and Munich respectively.

While SUK core business is with 4 Wheel Shock absorber and Power steering, SUK have agreed small contracts and are working on various project collaboration within the 2-wheel motorcycle business segment of Showa Corporation. SUK Management and Showa Japan are working together to discuss impact, options within the group to consider SUK long term future and decision will be made within this year.

On behalf of the Board



Director

Date

20/06/19

Registered No. 3021272

Directors' report

The directors present their report and financial statements for the year ended 31 March 2019.

Results and dividends

The profit for the year after taxation amounted to £929,601 (2018 – profit of £5,156,002). The company made a £5m dividend payment in the financial year and will discuss further dividend payments at the annual AGM in June 2019.

Financial control

The directors acknowledge responsibility for the company's system of internal financial control and believe the established systems including the computerization of the company's financial statements are appropriate to the business.

It is the view of the directors of the company that the financial statements presented represent a true and fair view of the state of affairs of the company and results for the year ended 31 March 2019. Suitable accounting policies have been established and applied consistently and disclose with reasonable accuracy the financial position of the company.

Going concern

The Showa Group has considerable financial resources and Showa UK committed orders until July 2021; while the long-term future as noted in the strategic report will change the scope, size and direction of Showa UK, the directors believe the company and group is well placed to consider and manage business risks and changes required.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the next 3 years and long-term options will be considered later this year and reported in the 2020 financial statements.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

The directors who served the company during the year and for the period through to the approval of the reports and financial statements were as follows:

T Atkins
D P Enoch
T Furuhashi
N Mima

Directors' report (continued)

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the directors' report.

Disclosure of information to the auditors

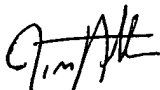
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Director
Date


20/06/19

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure framework (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, 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.

Independent auditors' report to the members of Showa UK Limited

Opinion

We have audited the financial statements of Showa UK Limited for the year ended 31 March 2019 which comprise the Income statement, Statement of comprehensive income, Balance sheet, the Statement of Changes in Equity and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 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 below. 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 were:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report to the members of Showa UK Limited (continued)

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of 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 directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent auditors' report to the members of Showa UK Limited (continued)

Use of our report

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

Ernst & Young LLP

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

25th June 2019

Income statement

for the year ended 31 March 2019

	Notes	2019 £	2018 £
Turnover	4	54,407,436	60,882,133
Cost of sales		<u>(51,375,402)</u>	<u>(51,296,869)</u>
Gross Profit		3,032,034	9,585,264
Administrative expenses		<u>(1,826,715)</u>	<u>(3,248,081)</u>
Operating Profit	5	1,205,319	6,337,183
Interest receivable and similar income	8	8,724	9,584
Interest payable and similar charges	8	<u>(605)</u>	<u>(1,987)</u>
Profit on ordinary activities before taxation		1,213,438	6,344,780
Tax	9	<u>(283,837)</u>	<u>(1,188,778)</u>
Profit for the financial year		<u>929,601</u>	<u>5,156,002</u>

All amounts relate to continuing activities.

Statement of comprehensive income

for the year ended 31 March 2019

	2019 £	2018 £
Profit for the financial year	<u>929,601</u>	<u>5,156,002</u>
Total comprehensive income for the year	<u>929,601</u>	<u>5,156,002</u>

Balance sheet

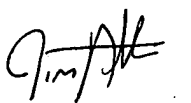
at 31 March 2019

	Notes	2019 £	2018 £
Fixed assets	10	5,192,409	5,500,531
Current assets			
Stocks	11	6,695,218	9,582,488
Debtors	12	4,545,855	6,207,667
Cash at bank and in hand		6,019,595	7,527,412
		17,260,668	23,317,567
Creditors: amounts falling due within one year	13	(7,078,593)	(9,455,593)
Net current assets		10,182,075	13,861,974
Total assets less current liabilities		15,374,484	19,362,505
Provision for liabilities			
Deferred tax	9	(402,567)	(320,189)
Net assets		14,971,917	19,042,316
Capital and reserves			
Called up share capital	14	5,000,000	5,000,000
Share premium account		500,000	500,000
Profit and loss account		9,471,917	13,542,316
Shareholders' funds		14,971,917	19,042,316

Approved by the board on

and signed on its behalf by:

Director


20/06/19

Statement of changes in equity

for the year ended 31 March 2019

	<i>Share capital</i>	<i>Share premium account</i>	<i>Retained earnings</i>	<i>Total equity</i>
	£	£	£	£
Balance at 1 April 2017	5,000,000	500,000	8,386,314	13,886,314
Total comprehensive profit for the financial year	-	-	5,156,002	5,156,002
Balance at 1 April 2018	5,000,000	500,000	13,542,316	19,042,316
Total comprehensive profit for the financial year	-	-	929,601	929,601
Dividends for the year	-	-	(5,000,000)	(5,000,000)
Balance at 31 March 2019	5,000,000	500,000	9,471,917	14,971,917

Notes to the financial statements

at 31 March 2019

1. Basis of preparation

The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

Showa UK Limited is a private limited company by shares issued and has prepared and reported its financial statements in British Pounds (GBP) (£). Showa UK Ltd is a United Kingdom based company incorporated in England and Wales that sells automotive parts to OEM Car plants in the UK and Europe, products principally intended for the European Market and American Markets. Showa UK Limited registered office is set out on page 1.

The accounting policies in note 2 set out those policies which apply in preparing the financial statements for the year ended 31 March 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- (c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79 (a)(iv) of IAS 1;
 - (ii) paragraph 73 (e) of IAS 16 Property, Plant and Equipment;
- (d) the requirements of paragraphs 10 (d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (e) the requirements of IAS 7 Statement of Cash Flows. The company is exempt from preparing a statement of cash flow as a group statement of cash flow is prepared by its ultimate parent undertaking, Showa Corporation.
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which a party to the transaction is wholly owned by such a member; and
- (i) the requirements of paragraphs 134 (d) – 134(f) and 135(c) – 135(e) of IAS 36 Impairment of Assets.
- (j) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Going concern

The Showa Group has considerable financial resources and Showa UK committed orders until July 2021; while the long-term future as noted in the strategic report will change the scope, size and direction of Showa UK, the directors believe the company and group is well placed to consider and manage business risks and changes required.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the next 3 years and long-term options will be considered later this year and reported in the 2020 financial statements.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements

at 31 March 2019

2. Summary of significant accounting policies

Revenue from contracts with customers

The company is in the business of manufacturing and assembly of automotive parts. There are no formal Revenue contracts other than forecast based on nominated model years, revenue is based on transfer of title and no service being transferred other than goods.

Revenue is recognised when goods have been dispatched, and the control of the goods has been transferred to the buyer. Revenue is stated before taxes and after deduction of reductions (rebates or price down) at fair value of the consideration received or receivable

The company does not have any significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers.

Sale of Equipment Revenue from sale of equipment is not a normal business operation but recognised at the point in time when control of the asset is transferred to third party, generally on delivery of the equipment.

The normal credit term is 30 to 90 days upon delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale, the company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any), which has never been the situation in the company.

Variable Consideration there is no variable consideration in the company's revenue or contracts other than price down not yet agreed.

The Accounting Treatment of Revenue Recognition for "Price Down" will not be changed under IFRS 15.

Expected Price Down (PD) not yet agreed with customers shall be recorded as follows:

1. Reasonably estimated amounts.
2. Estimation shall be determined by past experience and/or status of the negotiation.
3. PD agreed with the customers shall be recorded in the agreed amount.
4. Record PD in accounts receivable and sales.

Rights of return Goods can only be returned or rejected because of market or line reject, both sides would instigate investigation to decide responsibility. If considered to be Showa UK's responsibility, full refund will be issued via credit note. In practice these are very rare and the company is judged on rejects per million which are not significant.

Volume rebates There is no volume rebate, both customers and suppliers work together on continual improvements, if successful price reductions are issued on actual basis only.

- i) **Significant financing component** There are no advances from customers in terms of goods and services.
- ii) **Non cash consideration** currently there are no consideration other than within the price of the product for Tooling (see below accounting policy on Tooling income)

Warranty There is a long-term warranty within the customer purchase agreement, warranty is paid on investigation and acceptance of a fault, cost is recognised on an actual invoice basis plus provision calculated based on future model life volume and historical charges, currently both are insignificant to the business.

Loyalty programme, there is no scheme in operation or being considered.

Installation / procurement programme, there is no scheme in operation or being considered.

Contract Asset / trade receivable there are no contract assets, point of sale is with the goods supplied and on an invoice basis.

Rights of return assets / refund liabilities there is no scheme in operation or being considered.

Costs to obtain contract by nature of the business contracts are won and maintained via research and development operation situated in Japan. The royalty paid by Showa UK is the consideration of IPs owned by Showa, such as manufacturing technologies (patents etc) and know-how, for Showa UK to manufacture the products in the UK.

The company has considered the impact of IFRS 15 on its financial statements for 2019 and consider there are no significant adjustments required at and for the year ended 31 March 2019. Further there are no identified transition adjustments as at 1 April 2018.

Notes to the financial statements

at 31 March 2019

2. Summary of significant accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange ruling at the date of the transaction. Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the statement of financial position date. The resulting differences are dealt with in the statement of income.

Tangible fixed assets

Fixed assets are stated at cost, including costs that are directly attributable to bringing the asset into working condition, less depreciation.

Depreciation is provided on all tangible fixed assets, other than land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Freehold buildings	–	over 40 years
Plant and machinery	–	over 3-5 years
Fixtures and fittings	–	over 3-5 years
Computers	–	over 3-5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials and goods for resale	–	purchase cost on a first in, first out basis
Finished goods	–	cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 31 March 2019

2. Summary of significant accounting policies (continued)

Employee benefits

The company operates a defined contribution pension scheme. Contributions are charged in the income statement as they become payable in accordance with the rules of the scheme.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets mainly include cash and cash equivalents and trade debtors. Financial liabilities mainly comprise trade creditors and other creditors. Financial instruments are recognised in the statement of financial position when the company becomes a party to the contractual obligations of the instrument. Initially, financial instruments are recognised at their fair value. Subsequently, financial assets and liabilities are measured at amortised cost.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Showa UK being primarily automotive and manufacturing company is not intending or contracted to any financial instruments and does not consider financial instruments as part of the financial policy of the company.

Showa UK has considered the impact of the expected credit loss ("ECL") model under IFRS 9 and does not consider that it has a material adjustment on the provisioning of financial assets held on the balance sheet.

Operating leases

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

Government grants

Government grants in respect of capital expenditure are credited to deferred income and are released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Tooling income

Contributions received in respect of capital tooling expenditure are credited to deferred income and are released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. Contributions of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Warranty provision

A provision is recognised for expected warranty claims on products sold within three years, based on the past four years' experience of actual warranty costs incurred. Assumptions used to calculate the provisions for warranties are based on historic and forecasted three years sales and current information available about returns based on a three-year warranty period for all products sold.

New accounting standards

IFRS 16 was issued during the year and is effective from and will be adopted by the company from 1 April 2019. The impact of this standard is currently being assessed by management.

Notes to the financial statements

at 31 March 2019

3. Management estimates and judgments

Certain of the accounting policies described in note 2 require critical accounting estimates that involve complex and subjective judgements and use of assumptions, some of which may be matters that are inherently uncertain and susceptible to change.

The Company makes estimates and assumptions that are continually evaluated and are based on historical experience and other factors, including exceptions of future events that are believed to be reasonable under circumstances. These accounting estimates may, by definition, not equal the related actual results.

Management believes that the following accounting policy is the critical policy where the assumptions and judgements made could have a significant impact on the financial statements:

Provision for impairment

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The level of this impairment is judgemental and may not ultimately represent the amount subsequently recovered for an asset.

4. Revenue from contracts with customers

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to the assembly, import and sale of automotive parts. All sales are attributed to the continuing activities within the UK. The geographical split of turnover by invoice destination is shown below.

	2019	2018
	£	£
UK	45,480,725	49,267,652
Europe	8,912,619	10,109,436
Rest of the world	14,092	1,505,045
	<u>54,407,436</u>	<u>60,882,133</u>

The company has considered the impact of IFRS 15 on its financial statements for 2019 and no further disclosures are required, revenue being goods at point of sale only.

5. Operating profit

Operating profit has been arrived at after charging/(crediting):

	2019	2018
	£	£
Auditors' remuneration – audit	27,531	28,500
– taxation services	8,708	7,655
Depreciation of owned fixed assets	289,388	388,726
Operating lease rentals	9,969	10,811
Government grants and tooling released	-	(18,302)
Exchange losses	<u>312,326</u>	<u>34,443</u>

Notes to the financial statements

at 31 March 2019

6. Directors' remuneration

The directors' aggregate remuneration, including pension contributions, in respect of qualifying services were:

	2019 £	2018 £
Remuneration	179,850	173,499
Company contributions to money purchase pension schemes	28,203	27,255

The number of directors who participate in the money purchase pension scheme are 2 (2018:2).

The amounts in respect of the highest paid director are as follows:

	2019 £	2018 £
Remuneration	106,585	101,771
Company contributions to money purchase pension schemes	16,730	16,085

7. Staff costs

	2019 £	2018 £
Wages and salaries	974,074	2,118,005
Social security costs	65,653	188,204
Other costs (incl. pension and redundancy)	318,122	691,983
	<u>1,357,849</u>	<u>2,998,192</u>

The average monthly number of employees during the year was made up as follows:

	2019 No.	2018 No.
Administration	11	21
Production support	12	15
Production	12	33
	<u>35</u>	<u>69</u>

The company operates a personal stakeholder defined contribution pension scheme. The costs of the scheme are held separately from those of the company in an independently administered fund. Pension costs for the year amounted to £209,423 (2018 – £238,030).

8. Interest payable and receivable

	2019 £	2018 £
Bank interest receivable	8,724	9,584
Bank interest payable	<u>605</u>	<u>1,987</u>

Notes to the financial statements

at 31 March 2019

9. Tax

(a) Tax on profit on ordinary activities

The taxable profit is made up as follows:

	2019 £	2018 £
Current tax:		
UK corporation tax on profit for the year	187,590	1,160,897
Adjustment in respect of previous year	13,869	(19,368)
Foreign tax (relief)	-	(18,708)
	<u>201,459</u>	<u>1,122,821</u>
Foreign tax suffered	-	8,830
Total current tax	<u>201,459</u>	<u>1,131,651</u>
Deferred tax:		
Origination and reversal of temporary differences	89,877	53,780
Adjustment in respect of prior year	(7,499)	3,347
Total deferred tax	<u>82,378</u>	<u>57,127</u>
Tax on profit on ordinary activities	<u>283,837</u>	<u>1,188,778</u>

(b) Factors affecting tax on profit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	<u>1,213,438</u>	<u>6,344,780</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	230,553	1,205,512
Effect of:		
Expenses not deductible for tax purposes	10,127	15,492
Effect of overseas tax rates	-	(9,878)
Adjustments in respect of previous year	6,370	(16,022)
Effect of other tax rates /credits	36,787	(6,326)
Total tax for the year (note 9(a))	<u>283,837</u>	<u>1,188,778</u>

Notes to the financial statements

at 31 March 2019

9. Tax (continued)

(c) Deferred tax

The movements in deferred taxation during the current year are as follows:

	£
At 1 April 2018	320,189
Adjustment in respect of previous year	(7,499)
Deferred tax to income statement for the current year	89,877
At 31 March 2019	<u>402,567</u>

The deferred tax consists of:

	2019 £	2018 £
Fixed assets	402,567	320,189
Total deferred tax	<u>402,567</u>	<u>320,189</u>

(d) Factors that may affect future tax charges

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

10. Tangible fixed assets

	<i>Freehold buildings</i> £	<i>Plant and machinery</i> £	<i>F&F and computers</i> £	<i>Total</i> £
Cost:				
At 1 April 2018	8,236,479	4,705,683	409,914	13,352,076
Additions	-	57,377	49,267	106,644
Disposals	-	(230,622)	(155,698)	(386,320)
At 31 March 2019	<u>8,236,479</u>	<u>4,532,438</u>	<u>303,483</u>	<u>13,072,400</u>
Depreciation:				
At 1 April 2018	3,058,355	4,436,117	357,073	7,851,545
Provided during the year	193,512	53,924	41,952	289,388
Released during the year	-	(100,685)	(160,257)	(260,942)
At 31 March 2019	<u>3,251,867</u>	<u>4,389,356</u>	<u>238,768</u>	<u>7,879,991</u>
Net book value:				
At 31 March 2019	<u>4,984,612</u>	<u>143,082</u>	<u>64,715</u>	<u>5,192,409</u>
At 31 March 2018	<u>5,178,124</u>	<u>269,566</u>	<u>52,841</u>	<u>5,500,531</u>

Notes to the financial statements

at 31 March 2019

11. Stocks

	2019	2018
	£	£
Goods in transit	2,376,667	4,329,331
Raw materials	736,095	332,439
Finished goods and goods for resale	3,582,456	4,920,718
	<u>6,695,218</u>	<u>9,582,488</u>

12. Debtors

	2019	2018
	£	£
Trade debtors	4,529,901	5,911,083
Prepayments and accrued income	4,776	10,095
Amounts owed from parent undertaking	11,178	229,131
Amounts owed from group undertakings	-	7,986
Other debtors	-	49,372
	<u>4,545,855</u>	<u>6,207,667</u>

The amounts owed from parent and group undertakings are interest free and have no fixed terms for their repayment.

13. Creditors: amounts falling due within one year

	2019	2018
	£	£
Trade creditors	219,022	247,726
Amounts owed to parent undertaking	4,229,913	5,653,711
Amounts owed to group undertakings	1,501,787	1,593,464
Other taxes and social security costs	708,270	668,351
Corporation tax	100,340	693,404
Other creditors and accruals	319,261	598,937
	<u>7,078,593</u>	<u>9,455,593</u>

The amounts owed to parent and group undertakings are interest free and have no fixed terms for their repayment.

14. Issued share capital

		2019		2018
	No.	£	No.	£
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	5,000,000	<u>5,000,000</u>	5,000,000	<u>5,000,000</u>

Notes to the financial statements

at 31 March 2019

15. Other financial commitments

At 31 March 2019 the company had total commitments under non-cancellable operating leases in respect of plant and machinery as set out below:

	2019	2018
	£	£
Payment due:		
Within one year	55,757	6,558
In two to five years	41,014	1,033
	<u>96,771</u>	<u>7,591</u>

16. Ultimate parent undertaking and controlling party

The company's ultimate parent undertaking and controlling party is Showa Corporation a company registered in Japan. Copies of the group's financial statements can be obtained from No. 1-14-1, Fujiwara-Cho, Gyoda-Shi, Saitama, Japan.