

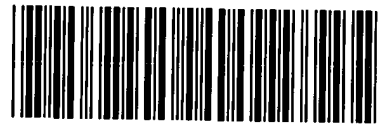
NCT Leather Limited

Annual Report and Financial Statements

Registered number SC019503

31 March 2018

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Strategic Report

The directors present their Strategic Report for the year ended 31 March 2018.

Principal activity and business review

The principal activity of the company is the tanning of bovine hides.

During the year the company focussed on the supply of tanned hides to other companies within the Scottish Leather Group.

The principal risks and uncertainties affecting the business include the following:

- **Foreign currency exchange:** the company monitors closely short, medium and long term exchange rates and in addition to utilising a natural hedge where available has a policy of hedging against currency fluctuations relating to forecast transactions for up to fifteen months ahead on a rolling basis in respect of major currency exposures.
- **Raw material availability and prices:** the company monitors raw material sources on a global basis and negotiates forward purchase contracts where appropriate with key suppliers.
- **Environmental performance:** the company places considerable emphasis upon environmental compliance and not only seeks to ensure ongoing compliance with relevant legislation but also strives to ensure that environmental best practice is incorporated into its key processes.
- **Debtors:** the company maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. In addition, the company maintains credit insurance whereby the majority of outstanding debts are credit insured.
- **Major disruption/disaster:** business continuity planning is reviewed regularly. A formal Business Continuity Plan is in place.

Key areas of development and performance of the business include:

- **Health and Safety:** the company retains a strong focus on its primary objective of ensuring that a safe and healthy working environment is maintained and continuously improved for the benefit of all stakeholders. Regular safety climate surveys are conducted through which the company benchmarks itself against a wide range of other manufacturing businesses.
- **Wellbeing:** the company has embarked on a range of initiatives to promote employee wellbeing with the purpose of enabling all our people to reach their maximum potential through healthy living. The company is supporting the Healthy Working Lives Award Programme promoted by NHS Scotland and the Scottish Government.
- **Sales and marketing:** new and replacement business is being won continually; new markets have been developed in line with the company's strategy; key customer relationships are monitored on a regular basis.
- **Manufacturing:** new products continue to be developed for both existing and developing markets; production efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.
- **Sustainability:** the company constantly seeks new and innovative ways to deliver industry leading economic, environmental and social responsibility. A Sustainability Report is prepared and published annually on the Scottish Leather Group website and is distributed directly to all shareholders and other key stakeholders.

Key financial performance indicators include monitoring the management of profitability and working capital.

	2018	2017	Measure
Financial			
Return on capital	18.4%	13.4%	Profit before tax/net assets
Current ratio	2.4:1	2.2:1	Current assets: current liabilities
Stock turnover	31.1	48.8	Turnover/stock

Strategic Report *(continued)*

Financing

The company's business activities and current financial position are set out within this annual report and the notes to the financial statements.

The working capital requirements can fluctuate over the course of a year driven by trading volumes, raw material prices and seasonal factors. Cash flow requirements are closely monitored across each element of the business, rolling annual cash forecasts are prepared on a three-monthly basis and six-monthly forecasts are prepared on a monthly basis. These forecasts are regularly reviewed in detail and a structured analysis of sensitivities to the main risks facing the business has been carried out.

After taking into account the current order book, the best estimate of future market conditions and the underlying operational performance of the business, the most recent forecasts indicate that the company should continue to be able to operate within its existing level of cash resources for the foreseeable future.

Accordingly, after having made appropriate enquiries the directors have a reasonable expectation that the company has adequate resources to finance operations for the foreseeable future. Therefore, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

By order of the board



Steven A Ireland
Secretary

Locher Works, Bridge of Weir PA11 3RL
1 June 2018

Directors' Report

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

Directors

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

D Bird (resigned 30 June 2017)
S A Ireland
I A Lundie
M K S Marshall
I F McFadyen
N R Muirhead
G W Scott (appointed 1 September 2017)

Dividend

Dividends paid during the year comprise a final dividend of £141,906 in respect of the previous year ended 31 March 2017, together with an interim dividend in respect of the year ended 31 March 2018 of £70,953.

Disclosure of information to auditor

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

Auditor

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Financial instruments

The company does not make use of complex financial instruments. However, as noted on page 1, the company has a policy of hedging against major currency exposures. This is achieved through a combination of forward currency contracts being taken out and/or the creation of a currency overdraft in respect of certain forecast sales transactions. This policy is monitored regularly by the board.

By order of the board



Steven A Ireland
Secretary

Locher Works, Bridge of Weir PA11 3RL
1 June 2018

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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 year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK 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 of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern and disclose any relevant issues;
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no other realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of NCT Leather Limited

Opinion

We have audited the financial statements of NCT Leather Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Statement of Other Comprehensive Income and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street, Glasgow G2 5AS
1 June 2018

Profit and Loss Account
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Turnover	2	47,956	44,685
Cost of sales		(43,473)	(40,492)
Gross profit		4,483	4,193
Distribution costs		(561)	(344)
Administration expenses – recurring		(1,718)	(1,432)
Exceptional pension contribution	4	-	(1,044)
Administrative expenses		(1,718)	(2,476)
Operating profit	3	2,204	1,373
Other interest receivable and similar income	6	-	12
Interest payable and similar charges	7	(3)	-
Profit before taxation		2,201	1,385
Tax on profit	8	(316)	(95)
Profit for the financial year		1,885	1,290

All amounts relate to continuing activities.

The company had no other comprehensive income in the current or prior years other than the profit shown above.

The notes on pages 10 to 22 form part of the financial statements.

Balance Sheet
at 31 March 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Tangible assets	9		2,262		2,453
Current assets					
Stocks	10	1,540		916	
Debtors	11	6,985		7,822	
Cash at bank and in hand	12	7,959		5,457	
Creditors: amounts falling due within one year	13	16,484 (6,736)		14,195 (6,333)	
Net current assets			9,748		7,862
Total assets less current liabilities			12,010		10,315
Provision for liabilities					
Deferred tax liability	14		(23)		-
Net assets			11,987		10,315
Capital and reserves					
Called up share capital	16		1,255		1,255
Share premium			2,000		2,000
Profit and loss account			8,732		7,060
Shareholders' funds			11,987		10,315

The notes on pages 10 to 22 form part of the financial statements.

These financial statements were approved by the board of directors on 1 June 2018 and were signed on its behalf by:



Nicholas R Muirhead
Director



Iain F McFadyen
Director

Company registered number: SC019503

Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2016	1,255	2,000	5,952	9,207
Profit for the financial period	-	-	1,290	1,290
Total comprehensive income for the period	-	-	1,290	1,290
Transactions with owners, recorded directly in equity				
Dividends	-	-	(182)	(182)
Total contributions by and distributions to owners	-	-	(182)	(182)
Balance at 31 March 2017	1,255	2,000	7,060	10,315

	Called up share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	1,255	2,000	7,060	10,315
Profit for the financial period	-	-	1,885	1,885
Total comprehensive income for the period	-	-	1,885	1,885
Transactions with owners, recorded directly in equity				
Dividends	-	-	(213)	(213)
Total contributions by and distributions to owners	-	-	(213)	(213)
Balance at 31 March 2018	1,255	2,000	8,732	11,987

Notes

(forming part of the financial statements)

1 Accounting policies

NCT Leather Limited (the “company”) is a private company incorporated, domiciled and registered in Scotland, United Kingdom. The registered number is SC019503 and the registered office is Locher Works, Bridge of Weir PA11 3RL.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company’s ultimate parent undertaking, Scottish Leather Group Limited, includes the company in its consolidated financial statements. The consolidated financial statements of Scottish Leather Group Limited are prepared in accordance with UK Generally Accepted Accounting Practice, are available to the public and may be obtained from Locher House, Kilbarchan Road, Bridge of Weir, Renfrewshire, PA11 3RN. In these financial statements, the company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Scottish Leather Group Limited include the equivalent disclosures, the company has also taken the exemptions available under FRS 102 in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 for *Share Based Payments*; and,
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are detailed in note 22.

1.1 Measurement convention

The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policy below.

1.2 Going concern

The financial statements have been prepared on the going concern basis for the reasons set out on page 2.

1.3 Foreign currency

Transactions in foreign currencies are translated to the company’s functional currency at the foreign exchange rate ruling at the date of the transaction or at an average rate where that rate approximates the actual rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued which are recognised in other comprehensive income.

Notes (continued)

1 Accounting policies (continued)

1.4 Turnover

Turnover represents sales invoiced on despatch of goods to external customers and excludes value added tax.

1.5 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.6 Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Other financial instruments *(continued)*

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, such as land and buildings, they are accounted for as separate items of tangible fixed assets.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 2% - 10%
- plant and equipment 6.67% - 33.33%
- motor vehicles 25%

Depreciation methods, useful lives and residual values are reviewed if there are indications of significant changes since the last annual reporting date in the pattern by which the company expects to consume the future economic benefit of assets.

Notes (continued)

1 Accounting policies (continued)

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out method and includes expenditure incurred on acquiring the stocks, production, conversion and other costs in bringing them to their existing condition and location. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

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

Defined benefit plans

Group Plans

The company is a participating employer with members in two group defined benefit pension schemes. Contributions payable are calculated based on the overall funding requirements of the schemes with the company recognising a cost equal to the contributions payable for each accounting period.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan and the net defined benefit liability are recognised fully by the company which is legally responsible for the plan, which is Scottish Leather Group Limited.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Share-based payment transactions

Eligible members of staff participate in the Scottish Leather Group Limited Approved Share Option Scheme which allows eligible employees to acquire shares in Scottish Leather Group Limited. The fair value of options granted is recognised as an employee expense. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an options pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

Disclosure in respect of approved share option schemes in which the company's employees participate is made in the consolidated financial statements of the parent entity, Scottish Leather Group Limited. No expense is accounted for in the financial statements of the company as the charge is immaterial.

Notes (continued)

1 Accounting policies (continued)

1.10 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges includes interest payable, finance charges on shares classified as liabilities, finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains.

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

1.11 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

1 Accounting policies (continued)

1.12 Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

1.13 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units (CGU), that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.14 Classification of financial instruments issued by the company

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

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

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

2 Turnover

Turnover and profit before taxation were derived substantially from leather manufacturing. The geographical analysis of turnover is not provided as the directors consider that this would be seriously prejudicial to the company's interests.

3 Expenses and auditor's remuneration

Included in profit are the following:

	2018 £000	2017 £000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	9	9
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	3	3

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	2018	2017
Production	59	60
Administration	5	4
	<u>64</u>	<u>64</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	1,983	1,933
Social security costs	213	207
Contributions to defined contribution plans	129	123
Expenses related to defined benefit plans	-	1,044
	<u>2,325</u>	<u>3,307</u>

An exceptional pension contribution of £nil was paid during the current year (2017: £1,044,000).

5 Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	206	160
Company contributions to defined contribution pension plans	24	18
	<u>230</u>	<u>178</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £104,598 (2017: £93,159). The director is a deferred member of a defined benefit scheme under which the accrued pension at the year-end was £6,407 (2017: £5,845) and company pension contributions of £11,947 (2017: £10,042) were made to a defined contribution pension plan.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	<u>3</u>	<u>2</u>
The number of directors who exercised share options was	1	-
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	<u>3</u>	<u>2</u>

Notes (continued)

6 Other interest receivable and similar income

	2018 £000	2017 £000
Net foreign exchange gain	-	12
Total interest receivable and similar income	-	12

7 Interest payable and similar charges

	2018 £000	2017 £000
Net foreign exchange loss	3	-
Total other interest payable and similar charges	3	-

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2018 £000	2017 £000
<i>Current tax</i>		
UK corporation tax on income for the period	238	3
Adjustments in respect of prior periods	(3)	78
Total current tax	235	81
<i>Deferred tax (see note 14)</i>		
Origination and reversal of timing differences	76	(84)
Adjustments in respect of prior periods	5	98
Total deferred tax	81	14
Total tax	316	95

	Current tax £000	2018 Deferred tax £000	Total tax £000	Current tax £000	2017 Deferred tax £000	Total tax £000
Recognised in profit and loss account	235	81	316	81	14	95
Total tax	235	81	316	81	14	95

Notes (continued)

8 Taxation (continued)

	2018 £000	2017 £000
Reconciliation of effective tax rate		
Profit for the year	1,885	1,290
Total tax expense	316	95
Profit excluding taxation	2,201	1,385
Tax using the UK corporation tax rate of 19% (2017: 20%)	418	277
Non-deductible expenses	1	-
Ineligible depreciation	15	13
Under provided in prior years	2	176
Group relief	(116)	(383)
Other items	(4)	12
Total tax expense included in profit	316	95

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future tax charge accordingly. The deferred tax asset at 31 March 2018 has been calculated based on these rates.

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 April 2017	3,376	9,823	13,199
Additions	24	93	117
Balance at 31 March 2018	3,400	9,916	13,316
Depreciation and impairment			
Balance at 1 April 2017	1,440	9,306	10,746
Depreciation charge for the year	79	229	308
Balance at 31 March 2018	1,519	9,535	11,054
Net book value			
At 31 March 2018	1,881	381	2,262
At 31 March 2017	1,936	517	2,453

Notes (continued)

10 Stocks

	2018 £000	2017 £000
Raw materials and consumables	1,079	397
Work in progress	293	350
Finished goods	168	169
	<u>1,540</u>	<u>916</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £36,132,000 (2017: £33,284,000).

11 Debtors

	2018 £000	2017 £000
Amounts falling due within one year		
Trade debtors	1,276	1,052
Amounts owed by group undertakings	5,377	6,565
Other debtors	52	37
Deferred tax assets (see note 14)	-	58
Prepayments and accrued income	280	110
	<u>6,985</u>	<u>7,822</u>

12 Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	<u>7,959</u>	<u>5,457</u>

13 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	5,037	4,133
Amounts owed to group undertakings	975	1,492
Taxation and social security	68	64
Other creditors	22	22
Accruals and deferred income	428	541
Corporation tax	206	81
	<u>6,736</u>	<u>6,333</u>

Notes (continued)

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000	Liabilities 2018 £000	2017 £000	Net 2018 £000	2017 £000
Accelerated capital allowances	-	-	(23)	(26)	(23)	(26)
Other timing differences	-	84	-	-	-	84
Deferred tax assets/(liabilities)	-	84	(23)	(26)	(23)	58
Net of deferred tax liabilities	-	(26)	-	26	-	-
Net deferred tax assets	-	58	(23)	-	(23)	58

15 Employee benefits

The company participates in two defined benefit pension schemes, the Scottish Leather Group Retirement Benefit Scheme and the Scottish Leather Group 1979 Retirement Benefit Scheme for Directors, operated by the group. The assets of each scheme are held in separate trustee administered funds. Following consultation with the members accruals to both defined benefit schemes ceased with effect from 31 March 2016.

It has not been possible to readily determine, on a consistent and reasonable basis, the assets and liabilities attributable to the company. As permitted by FRS 102 the schemes have been accounted for, in these financial statements, as if the schemes were defined contribution schemes.

As at 31 March 2018 the two pension schemes had a gross liability of £462,000 (2017: £1,198,000) on an FRS 102 basis and further disclosures are included within the financial statements of the parent entity, Scottish Leather Group Limited. The charge in relation to the defined benefits schemes in these financial statements is £nil (2017: £1,044,000).

Defined contribution plans

The company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £129,000 (2017: £123,000).

16 Capital and reserves

Share capital

	2018 £000	2017 £000
<i>Allotted, called up and fully paid</i>		
1,255,000 ordinary shares of £1 each	1,255	1,255
	1,255	1,255

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Other reserves

Share premium represents amounts received from the sale of share capital over and above the par value of shares.

Notes (continued)

17 Commitments

Capital commitments

Contracts placed but not provided for in the financial statements £46,826 (2017: £nil).

18 Contingencies

The company has provided a cross guarantee, covering the bank borrowings on overdraft of Scottish Leather Group Limited and its subsidiary undertakings. The aggregate bank borrowings on overdraft of Scottish Leather Group Limited and its subsidiary undertakings at the end of the year were £nil (2017: £nil).

The company has provided a guarantee of £100,000 to H M Revenue and Customs (2017: £100,000).

19 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Scottish Leather Group Limited. The ultimate controlling party is Scottish Leather Group Limited.

The largest group in which the results of the company are consolidated is that headed by Scottish Leather Group Limited, United Kingdom. No other group financial statements include the results of the company. The consolidated financial statements of the group are available to the public at the company's registered office at Locher House, Kilbarchan Road, Bridge of Weir, Renfrewshire, PA11 3RN, Scotland.

20 Subsequent events

There have been no events after the financial year end date that would materially affect the amounts presented in the financial statements.

21 Financial risk management

The company is exposed to financial risk from three main areas – raw material availability and prices, foreign currency transactions and customer credit exposure.

The company, with the support of other group members, constantly assesses the sources and availability of raw materials and related prices. Relationships have been developed with existing and potential vendors with the objective of ensuring continuity of supplies in what is essentially a commodity market. The effect on sales and profit margins of raw material price changes is closely monitored. Inventory is assessed to ensure that stock values are reasonably stated to reflect current raw material prices, manufacturing and overhead costs and market values for finished products.

The company is exposed to foreign currency risk as a proportion of sales and accounts receivable are denominated in non-Sterling currencies. The net exposure to each currency is closely monitored and managed by the use of forward exchange contracts. The forward foreign exchange contracts all mature within two years.

The company, where appropriate, offers credit terms to its customers for the payment of debts due for goods and services. The risk is mitigated by credit insurance and by maintaining strong ongoing relationships with customers.

The carrying value of assets and liabilities is assessed on a regular basis and appropriate judgements applied in areas of financial risk.