John McGavigan Limited

Registered number: SC144766

Annual Report

For the year ended 31 December 2019

JOHN MCGAVIGAN LIMITED

COMPANY INFORMATION

Directors	D F Taylor S J Mathers
Company secretary	C R Smith
Registered number	SC144766
Registered office	111 Westerhill Road Westerhill Business Park Bishopbriggs Glasgow G64 2QR
Independent auditor	Mazars LLP Chartered Accountants & Statutory Auditor 100 Queen Street Glasgow G1 3DN
Bankers	Royal Bank of Scotland 10 Gordon Street Glasgow G1 3PL

JOHN MCGAVIGAN LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

John McGavigan Limited manufactures and supplies technical and decorative plastic components and assemblies for the global automotive industry. These range from printed dials and appliques used in the vehicle instrument cluster to climate control components and assemblies, audio bezel assemblies, interior switches, technical moulded components, decorative trim and finishes used within the vehicle interior and decorative touch screen products. The main materials used are plastic resin and films, inks and paints, with the main technologies used being printing, thermomechanical forming, injection moulding and spray painting.

During 2019 the UK operation continued to be impacted by turbulence in the automotive market which has resulted in lower demand for new vehicles. During the year this saw volumes on several key projects reduce significantly. As a result of this reduction in demand the cost base of the operation was reduced accordingly although capability has been retained to support the launch of new projects.

In the wider market place automotive interior technology is migrating in a direction which plays to McGavigan technical strengths. As a result opportunity exists for McGavigan to produce more parts per vehicles thus negating the effects of weakening demand. This is evident through some of the new projects being awarded which reflect more integration of vehicle controls into touch screen and capacitance-based units and away from electromechanical assemblies. These new projects will take time to engineer and launch but winning these has demonstrated the continuous focus of the business on moving into areas where engineering skills built up over the years can be deployed to meet the technical demands of new technical solutions for vehicle interiors.

McGavigan foreign exchange risk was reduced by a natural hedge in Euros whereby Euro purchases broadly matched Euro sales. The lack of market predictability in forward currency has led management to continue to monitor the relative exposure of the business to the Euro and other currencies as necessary.

Sustained and profitable growth remains central to the business's strategy, delivered through maintaining a balanced portfolio of clients, continued innovation of new production processes and a capital investment policy aligned to delivering further operational efficiencies.

The McGavigan Group's operational capabilities equip the business to serve clients globally through competitive manufacturing in Europe and Asia, supported regionally by engineering and development resources who work closely with clients locally. The Company provides key inputs to this support.

Business review

The Statement of Comprehensive Income is set out on page 9 and shows turnover for the period of £9.9m and profit before tax of £6.9m, primarily from dividends.

This represents an increase in profit over 2018 due to the timing of dividends being declared by the Chinese subsidiary McGavigan Decorative Technology (Suzhou) Limited (MDT).

In 2019 the benefit of dividends for profits earned in 2017 and 2018 was enjoyed. Out of a total of £7.6m of dividend income, withholding tax totalling £0.4m was paid or deferred and £3.8m was reinvested in MDT. A dividend of £1.5m was then paid to Lemac No 1 Limited to facilitate scheduled debt repayments to RBS.

In addition, a further £1m was paid to RBS to settle Senior Debt in advance of when it fell due for repayment on behalf of McGavigan Corporate Limited (MCL).

Principal risks and uncertainties

Continuing turbulence in the global automotive market as noted above continues to create risk and uncertainty. Global light vehicle demand is projected to decline in 2020 by up to 4%, reflecting a continued cooling in the global economy and the likely impact from softening consumer activity in the first half of the year as a consequence of the Coronavirus outbreak and its impact on automotive production supply chains. Whilst this presents uncertainty, management anticipate stabilisation in the second half of the year aided by pent-up consumer demand. Added to this is the high number of planned EV and hybrid vehicle launches planned by most of the global OEMs during the second part of 2020, as they replace current diesel and petrol powered vehicles to respond to growing consumer demand and counter the effects of stringent environmental standards and regulations which came into law in Europe at the end of 2019.

Longer term data continues to show growth in passenger vehicle production through 2025 at a 3% CAGR as demand for environmentally cleaner mobility solutions grow in both developing and mature economic regions. As the business extends into new export markets, the issue of currency fluctuation presents a risk. To mitigate this, management monitors the need to enter into arrangements to secure long-term stability through currency hedging, including where possible structured natural hedging, reducing risk of exposure to future currency volatility in the year ahead.

Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The Directors are actively monitoring the outbreak, its potential economic impact and the effect this may have on the group.

The Board also track closely the ongoing discussions relating to the UK's withdrawal from the EU, assessing any risks or opportunities this may present. Given the diversity of the European automotive component supply chain the Board view any rapid change unlikely. The interdependence across European markets is in the considered opinion of the Board likely to steer the political dialogue towards a form of free or low tariff system to prevent damaging the economies either side of the separation discussions. Furthermore as part of a global group where a majority of earnings are generated outside of the UK it is extremely unlikely any economic shock would seriously impact overall liquidity and should it be necessary for the Company to respond to more draconian trade constraints it is well positioned to respond, including options for EU localisation if needed.

Longer-term the Company continues to develop products and processes which are applicable to non-automotive sectors, and where the technology can deliver value for the client and business alike. Operationally the UK business maintains rigorous credit controls and close management of cash at all times. Cash management is forecasted on a rolling thirteen-week basis, ensuring funding is always in place.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Non-financial and financial key performance indicators

The non-financial key performance indicators of the business continued to improve. Quality performance targets have been made more stringent in line with this improved performance, as has the in-house target for premium freight costs, unscheduled overtime and on-time delivery.

The Company maintained its status as an IATF16949 registered supplier, its ISO 9001 Quality Management accreditation and its ISO14001 environmental standard in the UK.

Sales and profitability in 2020 are budgeted to stabilise as the already secured new business comes to fruition and operational improvements made take full effect.

This report was approved by the Board on Apr 14, 2020 and signed on its behalf.

D F Taylor
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; 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 to 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.

Principal activity

The principal activity of the Company is the manufacture and supply of technical and decorative components for the automotive industry.

Results and dividends

The profit for the period, after taxation, amounted to £6,503k (2018 - £1,153k).

During the period an interim dividend of £1,477k (2018 - £NIL) was declared and paid to the Company's parent company, Lemac No.1 Limited. No final dividend will be declared.

Directors

The Directors who served during the year were:

D F Taylor
S J Mathers

Future developments

The Company operates, as a McGavigan group company, an industrialised product development model closely aligned with future market trends. This is supported by externally sourced research and close dialogue with key industry decision makers. From this the business operates a management led product development process designed to generate long-term stakeholder value. Where appropriate the business takes steps to protect intellectual property assets generated from this process.

In the automotive market the continuing move to touch sensitive controls within vehicles is seen as an opportunity to exploit technologies which the business has developed following this strategy. Management believe that these technologies can be taken to other significant markets outside of automotive.

In parallel to defined product and process innovation the business participates in a group review of strategic market opportunities that can further enhance the capabilities of the business and generate long-term stakeholder value.

Research and development activities

The Company has a research and development programme for both new products and markets, and the improvement of existing products and methods. This research and development is mainly being carried out in-house. In addition, the business utilises research and development resources from local academic institutions where appropriate.

Employees

The Company has maintained the company practice of keeping employees informed on matters affecting them by formal and informal briefings. Applications for employment by disabled people are given equal consideration having regard to their particular abilities. If any employee becomes disabled every effort will be made to continue their employment within the Company.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Matters covered in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 1 - 2. These matters include a fair review of the Company's business and a description of the Company's principal risks and uncertainties.

Auditor

The auditor, Mazars LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on Apr 14, 2020 and signed on its behalf.

D F Taylor
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN MCGAVIGAN LIMITED

Opinion

We have audited the financial statements of John McGavigan Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

The Directors' view on the impacts of Brexit are disclosed on page 2.

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impacts of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN MCGAVIGAN LIMITED

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN MCGAVIGAN LIMITED

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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 intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of the audit 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.

Craig Maxwell
Craig Maxwell (Apr 15, 2020)

Craig Maxwell (Senior Statutory Auditor)

for and on behalf of

Mazars LLP
Chartered Accountants and Statutory Auditor
100 Queen Street
Glasgow
G1 3DN

Date: Apr 15, 2020

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £000
Turnover	4	9,905	13,076
Cost of sales		(10,006)	(12,872)
Gross (loss)/profit		(101)	204
Distribution and selling costs		(967)	(1,129)
Administrative expenses		(486)	(408)
Redundancy costs		(152)	-
Foreign exchange gain		23	133
Other operating income	5	909	2,134
Operating (loss)/profit	6	(774)	934
Income from fixed asset investments	10	7,563	-
Interest payable and similar expenses	11	(12)	(36)
Other finance (costs) / income	12	84	(53)
Profit before tax		6,861	845
Tax on profit	13	(358)	308
Profit for the financial year		6,503	1,153

There was no other comprehensive income for 2019 (2018: £'000NIL).

The notes on pages 13 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note		2019 £000		2018 £000
Fixed assets					
Tangible fixed assets	**15**		2,132		2,334
Investments	**16**		5,341		1,585
			7,473		3,919
Current assets					
Stocks	**17**	945		1,134	
Debtors: amounts falling due within one year	**18**	2,643		1,921	
Cash and cash equivalents	**19**	1,034		864	
		4,622		3,919	
Creditors: amounts falling due within one year	**20**	(1,097)		(1,993)	
Net current assets			3,525		1,926
Total assets less current liabilities			10,998		5,845
Creditors: amounts falling due after more than one year	**21**		(178)		(51)
Net assets			10,820		5,794
Capital and reserves					
Called up share capital	**23**		50		50
Capital contribution			214		214
Profit and loss account			10,556		5,530
			10,820		5,794

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on

Apr 14, 2020

D F Taylor
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Capital contribution	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2018	50	214	4,377	4,641
Comprehensive income for the year				
Profit for the year	-	-	1,153	1,153
Total comprehensive income for the year	-	-	1,153	1,153
At 1 January 2019	50	214	5,530	5,794
Comprehensive income for the year				
Profit for the year	-	-	6,503	6,503
Total comprehensive income for the year	-	-	6,503	6,503
Dividends: Equity capital	-	-	(1,477)	(1,477)
Total transactions with owners	-	-	(1,477)	(1,477)
At 31 December 2019	50	214	10,556	10,820

The notes on pages 13 to 28 form part of these financial statements.

1. *General information*

John McGavigan Limited is a Company limited by shares, incorporated in Scotland. Its registered office is 111 Westerhill Road, Bishopbriggs, Glasgow, G64 2QR.

2. *Accounting policies*

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d); and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of McGavigan Holdings Limited as at 31 December 2019 and these financial statements may be obtained from 111 Westerhill Road, Bishopbriggs, Glasgow, G64 2QR.

2. Accounting policies (continued)

2.3 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Product sales

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

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Tooling sales

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred or the costs to complete the contract can be measured reliably.

2.4 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Accounting policies (continued)

2.4 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	- 10 years
Plant & machinery	- 10 years
Fixtures & fittings	- 5 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.5 Investments

Investments in subsidiary undertakings are stated at cost, less any impairment losses.

2.6 Stocks

Stocks are stated at the lower of cost and estimated selling price, less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Finished goods include labour and attributable overheads. At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

2.7 Debtors

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

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2. Accounting policies (continued)

2.9 Financial instruments

The Company primarily enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the Statement of Comprehensive Income.

2.10 Creditors

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

2. Accounting policies (continued)

2.11 Government grants

Grants are accounted under the performance model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income as and when the milestones as per the grant are achieved. The income credited to the Statement of Comprehensive Income is equal to the amount of grant income received in the year.

2.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP. Monetary amounts in these financial statements are rounded to the nearest £1,000.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each reporting date foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and the Company's trading and activities are presented in the Statement of Comprehensive Income within 'foreign exchange gain or loss'.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

2.13 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

2.14 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders.

2. Accounting policies (continued)

2.15 Leases

Leases are classified as finance leases when they transfer substantially all the risks and rewards of ownership of the leased assets to the Company. Other leases that do not transfer substantially all the risks and rewards of ownership of the leased assets to the Company are classified as operating leases.

For operating leases the rental charges are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

The Company has entered into some hire purchase agreements for certain machinery assets that include the option to purchase the items at the end of the lease term for a nominal amount, which is expected to be much lower than their fair value at that date. The hire purchase agreements have been classified as finance leases as it is reasonably certain that the option will be exercised.

Rights to use assets and corresponding obligations under finance leases are recognised in the Statement of Financial Position as assets and liabilities at the lower of fair value of the assets and the present value of the minimum lease payments, determined at the inception of the lease.

Lease payments are apportioned between finance charges and reduction of outstanding lease liabilities using the effective interest method, so as to produce a constant rate of interest on the remaining balance of the liabilities. Finance charges are recognised in Statement of Comprehensive Income.

Assets held under finance leases are included in tangible fixed assets and are depreciated and reviewed for impairment in the same way as assets owned outright.

2.16 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.17 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

2. Accounting policies (continued)

2.18 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

2.19 Research and development

Expenditure on research and development and on patents and trademarks is written off against profit or loss in the period in which it is incurred. The total expenditure on research and development in the year ended 2019 was £421k (2018 - £180k).

2.20 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

The effect of the time value of money is not material and therefore the provisions are not discounted.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period the revision and future periods if the revision affects both current and future periods.

The following judgements have had the most significant effect on amounts recognised in the financial statements: debt recoverability, stock provisions and the calculation of provisions and accruals.

4. Turnover

An analysis of turnover by class of business is as follows:

	2019 £000	2018 £000
Product sales	8,998	12,642
Tooling sales	907	434
	9,905	13,076

	2019 £000	2018 £000
United Kingdom	3,286	5,018
Rest of Europe	4,673	6,153
Rest of the world	1,946	1,905
	9,905	13,076

5. Other operating income

	2019 £000	2018 £000
Royalties and support services	909	834
Grant income	-	230
Debt forgiveness	-	1,070
	909	2,134

6. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	2019 £000	2018 £000
Research and development costs	421	180
Depreciation of tangible fixed assets - owned	313	259
Depreciation of tangible fixed assets - leased	44	72
Exchange (gain) - operating activities	(23)	(133)
Operating lease rentals - other	12	18
Operating lease rentals - buildings	313	311
Defined contribution pension costs	186	170

7. Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	16	10

Fees payable to the Company's auditor and its associates in respect of:

Taxation compliance services	-	4
Other services relating to taxation	15	24
All other services	11	5
	26	33

8. Employee related costs

Staff costs, including Directors' remuneration, were as follows:

	2019 £000	2018 £000
Wages and salaries	4,419	5,140
Social security costs	447	431
Defined contribution pension costs	186	170
	5,052	5,741

The average monthly number of employees, including the Directors, during the year was as follows:

	2019 No.	2018 No.
Office and management	6	6
Selling	6	4
Production	165	192
	177	202

9. Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	333	354
Company contributions to defined contribution pension schemes	-	2
	333	356

During the year retirement benefits were accruing to no Directors (2018 - 1) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £187,000 (2018 - £193,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £NIL (2018 - £2,000).

10. Income from fixed asset investments

	2019 £000	2018 £000
Dividend income	7,563	-

11. Interest payable and similar expenses

	2019 £000	2018 £000
Other loan interest payable	2	4
Group interest payable	-	20
Finance leases and hire purchase contracts	10	12
	12	36

12. Other finance costs / (income)

	2019 £000	2018 £000
Foreign exchange (gain) / loss - financing activities	(84)	53

13. Taxation

	2019 £000	2018 £000
Corporation tax		
Adjustments in respect of prior periods	(128)	(146)
	(128)	(146)
Foreign tax		
Withholding tax on foreign income	108	116
Withholding tax on foreign dividend income	378	(278)
	486	(162)
Taxation on profit on ordinary activities	358	(308)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	6,861	845
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	1,303	161
Effects of:		
Expenses not deductible for tax purposes	3	7
Capital allowances for year in excess of depreciation	(19)	(22)
Exempt dividend income	(1,437)	-
Withholding tax on foreign income	486	(162)
Adjustments to tax charge in respect of previous periods	(128)	(146)
Tax losses not recognised	141	57
Non-taxable income from loan forgiveness	-	(203)
Non-taxable income	(8)	-
Adjustments to tax charge in respect of deferred tax	17	-
Total tax charge/(credit) for the year	358	(308)

14. Redundancy costs

	2019 £000	2018 £000
Redundancy costs	152	-

15. Tangible fixed assets

	Leasehold improvements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Cost				
At 1 January 2019	79	4,407	77	4,563
Additions	15	98	42	155
At 31 December 2019	94	4,505	119	4,718
Depreciation				
At 1 January 2019	5	2,178	46	2,229
Charge for the year on owned assets	9	290	14	313
Charge for the year on financed assets	-	44	-	44
At 31 December 2019	14	2,512	60	2,586
Net book value				
At 31 December 2019	80	1,993	59	2,132
At 31 December 2018	74	2,229	31	2,334

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £000	2018 £000
Plant and machinery	318	568

16. *Investments*

The Company owns the entire share capital of McGavigan Decorative Technologies (Suzhou) Co. Ltd.

The Company's subsidiary undertaking is incorporated in China and is wholly owned.

The principal activity of McGavigan Decorative Technologies (Suzhou) Co. Ltd. is the manufacture of technical and decorative components, primarily for the automotive industry.

The Company owns the entire share capital of McGavigan GmbH.

The Company's subsidiary undertaking is incorporated in Germany and is wholly owned.

The principal activity of McGavigan GmbH is sales and engineering support facility for the McGavigan Group.

John McGavigan Limited has taken advantage of the exemption within Chapter 4 of Part 15 of the Companies Act 2006 and is not preparing group accounts. These financial statements therefore present information about the Company as an individual undertaking and not about its group. The results of the companies are included in the consolidated accounts of McGavigan Holdings Limited, a Company incorporated in England. This is the largest and smallest group into whose consolidated accounts the companies's financial information is consolidated.

	Investments in subsidiary companies £000
Cost	
At 1 January 2019	1,585
Additions	3,756
At 31 December 2019	5,341
Net book value	
At 31 December 2019	5,341
At 31 December 2018	1,585

17. Stocks

	2019 £000	2018 £000
Raw materials	382	498
Work in progress	373	434
Finished goods	190	202
	945	1,134

18. Debtors: Amounts falling due within one year

	2019 £000	2018 £000
Trade debtors	958	1,346
Amounts owed by group undertakings (Note 26)	1,353	117
Other debtors	332	458
	2,643	1,921

19. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	1,034	864

20. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	570	1,311
Amounts due on contracts	88	15
Amounts owed to group undertakings (Note 26)	109	31
Other taxation and social security	92	116
Finance leases (Note 22)	51	171
Other creditors	187	349
	1,097	1,993

The finance leases are secured by the lessors' title to the leased assets.

21. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Finance leases (Note 22)	-	51
Withholding tax	178	-
	178	51

22. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2019 £000	2018 £000
Within one year	51	171
Between 1-2 years	-	51
	51	222

23. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
50,000 (2018 - 50,000) Ordinary shares shares of £1.00 each	50	50

24. Pension commitments

The Company operates a defined contribution pension scheme. The pension cost charge represents contributions payable by the Company to the fund and amounted to £186,403 (2018 - £169,755). At 31 December 2019 contributions amounting to £20,104 (2018 - £21,197) were payable to the fund.

25. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	2018 £000
Other		
Not later than 1 year	9	12
Later than 1 year and not later than 5 years	15	1
	24	13

	2019 £000	2018 £000
Land and buildings		
Not later than 1 year	313	313
Later than 1 year and not later than 5 years	444	753
	757	1,066

26. Related party transactions

The Company is included in the consolidated Financial Statements of McGavigan Holdings Limited, the ultimate parent Company, which are publicly available. Accordingly, the Company has taken advantage of the exemption offered by FRS 102 from the requirement to disclose transactions with other wholly owned undertakings within the McGavigan Holdings Limited group.

27. Ultimate parent company and controlling party

The Company's immediate parent company is Lemac No.1 Limited.

The entire share capital of Lemac No.1 Limited is held by McGavigan Corporate Limited.

The ultimate parent undertaking and controlling party is McGavigan Holdings Limited. A set of the parent company financial statements is available on request from 111 Westerhill Road, Bishopbriggs, Glasgow, G64 2QR.

The Directors are of the opinion that the ultimate controlling party is funds managed by Maven Capital Partners UK LLP.