

ARRK EUROPE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Holmes
K Honna
A Lowe
R Vickers

COMPANY SECRETARY

S Holmes

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BANKERS

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SOLICITORS

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AUDITOR

Deloitte LLP
Statutory Auditor
Bristol
United Kingdom

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COMPANIES HOUSE

ARRK EUROPE LIMITED

STRATEGIC REPORT

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

BUSINESS MODEL

The directors consider the Company to be a key component of the worldwide ARRK Corporation Group and its operations. The principal activities of the Company include design engineering, craftsmanship products, composites, tooling and low-volume manufacturing for the automotive, aerospace, motorsport and medical industries.

REVIEW OF THE BUSINESS

The sales revenue for the year amounted to £35,786,000 (2017: £34,306,000). The loss for the year after taxation amounted to £3,777,000 (2017: profit of £948,000). The drop in reported profit is due largely to the start-up costs involved in establishing a new facility in Kings Norton, coupled with the general uncertainty in the UK market of the likely effects of the decision to leave the European Union. This resulted in an impairment of the fixed assets at the KN and Petersfield sites.

The newly established site at Kings Norton is now fully operational and as a result the fixed assets previously reported as being under construction have been transferred onto the fixed asset register as detailed in note 8.

KEY PERFORMANCE INDICATORS

Due to the size and nature of the business the key performance indicators are sales revenue and profit after taxation. These are monitored on a monthly basis and are discussed above in the review of the business.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk.

Price risk

The Company is exposed to commodity price risk. The Company does not manage its exposure to commodity price risk through derivatives due to cost benefit considerations.

Credit risk

The Company's principal financial assets are bank balances, cash, trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Cash flow risk

Interest-bearing assets and liabilities are held at a fixed rate, where appropriate, to ensure certainty of cash flows.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Brexit risk

With the UK decision to leave the EU in January 2020, the Company is continuing to review the likely impact this may have upon the principal industries and markets it operates within. This includes the likely actions of the Company's customer base and supply chain, particularly those that manufacture raw material within the EU for import to the UK. At this stage there have been no indications of a likely significant detrimental effect to the Company and its trading.

ARRK EUROPE LIMITED

STRATEGIC REPORT (continued)

APPROVAL OF REDUCED DISCLOSURES

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 101 paragraphs 5, 7A and 8(j).

The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the Company by ARRK Product Development Group Limited as the immediate parent of the entity.

Approved by the Board of Directors
and signed on behalf of the Board



S Holmes
Director

Date 28/11/19.

ARRK EUROPE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2018. ARRK Europe Limited is a private Company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales.

EXISTENCE OF BRANCHES OUTSIDE THE U.K.

The Company has branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK in Spain.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £3,777,000 (2017: profit of £948,000).

The directors do not recommend the payment of a dividend (2017: £nil).

GOING CONCERN

ARRK Product Development Group Limited ('the Group') is the intermediate parent of ARRK Europe Limited. The going concern position of the Group has been reviewed by the Group and Company directors considering the factors below.

The Group continues to focus on business improvement with its reorganisation plan which has included the merger and restructuring of business activities. It also continues to work on the co-operation between its members worldwide to support the global development of its business.

The Company is dependent on financial support being provided by the parent Company, ARRK Corporation, mainly in the form of equity funding, and therefore the financial position of ARRK Corporation is a relevant factor in the directors' assessment of going concern. As at 31 March 2019 ARRK Corporation has net assets of £213m and approximately 3,872 employees throughout the world and is well positioned to ensure continued future profitable growth.

ARRK Corporation has indicated its willingness to provide financial support that may be necessary for the Group to be able to meet its financial obligations as they fall due for a period of at least 12 months from the date of approval of the financial statements. Consequently, the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

DIRECTORS

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

EMPLOYEES

Full and fair consideration is given to applications for employment from disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

The Company places considerable value on the involvement of its employees with regular general meetings to update and engage with staff at all levels. Regular presentations for all staff are made by senior management, enabling open discussion and highlighting any current or forthcoming factors which may influence the Company. A quarterly performance bonus scheme is in operation in which all staff are equally entitled to benefit from the successful achievement of quarterly and annual targets.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. These are discussed further within the Strategic report.

ARRK EUROPE LIMITED

DIRECTORS' REPORT (continued)

FUTURE DEVELOPMENTS

The business continues to enjoy the support of its parent Company and intends to again invest significantly in new premises and machinery during the forthcoming year, bringing with it fresh opportunities for low-volume production to the automotive market.

IMPAIRMENT

The directors have undertaken a review of the business and have concluded that certain assets have been deemed to have suffered an impairment loss. A tightening automotive sector has resulted in the directors taking a more prudent view when forecasting forward and as a result the assets at the Petersfield and Kings Norton sites have been impaired accordingly. See notes 8 and 9.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as the Company's auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



S Holmes
Director

Date 28/11/19.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

ARRK EUROPE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ARRK EUROPE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of ARRK Europe Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

ARRK EUROPE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ARRK EUROPE LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Use of our report

This report is made solely to the Company's members, 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 member 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, for our audit work, for this report, or for the opinions we have formed.

Andrew Wright

Andrew Wright (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

28 November 2019

ARRK EUROPE LIMITED**INCOME STATEMENT****For the year ended 31 December 2018**

	Note	2018 £'000	2017 £'000
REVENUE	3	35,786	34,306
Cost of sales		(30,237)	(27,783)
GROSS PROFIT		5,549	6,523
Administrative expenses		(6,156)	(5,601)
OPERATING (LOSS) / PROFIT	5	(607)	922
Finance costs	6	(400)	(140)
Asset impairment	8 & 9	(3,392)	-
(LOSS) / PROFIT BEFORE TAXATION		(4,399)	782
Tax on (loss)/profit	7	622	166
(LOSS) / PROFIT FOR THE YEAR		(3,777)	948

All results derive from continuing operations.

There are no comprehensive income or expenses for the current or preceding year other than as stated in the income statement. Accordingly, no separate statement of total comprehensive income has been presented.

ARRK EUROPE LIMITED

BALANCE SHEET As at 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
NON-CURRENT ASSETS					
Tangible assets	8		4,719		5,571
Intangible assets	9		126		78
			<u>4,845</u>		<u>5,649</u>
CURRENT ASSETS					
Stocks	10	2,845		1,930	
Debtors	11	11,189		8,472	
Cash at bank and in hand		3,764		2,329	
		<u>17,798</u>		<u>12,731</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	<u>(9,855)</u>		<u>(6,589)</u>	
NET CURRENT ASSETS			<u>7,943</u>		<u>6,142</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>12,788</u>		<u>11,791</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	13		<u>(9,524)</u>		<u>(4,750)</u>
NET ASSETS			<u><u>3,264</u></u>		<u><u>7,041</u></u>
EQUITY					
Share capital	15		3,672		3,672
Retained earnings			(408)		3,369
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE COMPANY			<u><u>3,264</u></u>		<u><u>7,041</u></u>

The financial statements of ARRK Europe Limited, registered number 03418673, were approved by the Board of Directors and authorised for issue on 28/11/19.

Signed on behalf of the Board of Directors



S Holmes
Director

ARRK EUROPE LIMITED**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2018**

	Share capital (note 15) £'000	Retained earnings £'000	Total £'000
As at 1 January 2017	3,672	2,421	6,093
Profit for the year, being total comprehensive income	-	948	948
As at 31 December 2017	<u>3,672</u>	<u>3,369</u>	<u>7,041</u>
As at 1 January 2018	3,672	3,369	7,041
Loss for the year, being total comprehensive loss	-	(3,777)	(3,777)
As at 31 December 2018	<u>3,672</u>	<u>(408)</u>	<u>3,264</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards.

Accounting convention

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

ARRK Europe Limited is a private Company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the business review on page 2.

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of ARRK Corporation. Details of the parent in whose consolidated financial statements the Company is included are shown in note 19 to the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of ARRK Corporation. The group accounts of ARRK Corporation are available to the public and can be obtained as set out in note 19.

Going concern

ARRK Product Development Group Limited ('the Group') is the intermediate parent of ARRK Europe Limited. The going concern position of the Group has been reviewed by the Group and Company directors considering the factors below.

The Group continues to focus on business improvement with its reorganisation plan which has included the merger and restructuring of business activities. It also continues to work on the co-operation between its members worldwide to support the global development of its business.

The Group is dependent on financial support being provided by the parent Company, ARRK Corporation, mainly in the form of equity funding, and therefore the financial position of ARRK Corporation is a relevant factor in the directors' assessment of going concern. As at 31 March 2019 ARRK Corporation has net assets of £213m and approximately 3,872 employees throughout the world and is well positioned to ensure continued future profitable growth.

ARRK Corporation has indicated its willingness to provide financial support that may be necessary for the Group to be able to meet its financial obligations as they fall due for a period of at least 12 months from the date of approval of the financial statements. Consequently, the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2018**

1. ACCOUNTING POLICIES (continued)

Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in the statement of total comprehensive income. All other exchange differences are included in the income statement.

Tangible fixed assets

Non-current assets are stated at cost net of depreciation. Depreciation is provided on all tangible fixed assets other than freehold land. On other assets it is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum straight-line
Plant and machinery	Straight-line over 3 to 20 years

Intangible fixed assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The rates of amortisation are as follows:

Software	Straight-line over 3 years
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The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

Stocks

Stocks, including work in progress, are stated at the lower of cost and net realisable value, and utilised on a First-In-First-Out basis. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on selling price, less further costs expected to be incurred to completion, and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences between the Company's taxable profits and its results as stated in the financial statements arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold as it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

Profit is recognised on long-term contracts in line with IFRS 15 by including in the income statement turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as a proportion of the total contract value.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

Pensions

For defined contribution schemes the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 ongoing 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 of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

Apart from those involving estimations (which are dealt with separately below), the directors are not of the opinion that there are any judgements of a critical nature required in the process of applying the Company's accounting policies which would have a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 which the estimates of future cash flows have not been adjusted. When assessing the impairment, the management of the Company will fully impair any asset it considers having an immaterial value.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Valuation of stocks

Stocks, including work in progress, are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. The net realisable value requires a calculation which includes estimates of the likely further costs to be incurred to completion, together with estimates of likely marketing, selling and distribution costs. If the net realisable value is estimated to be less than its carrying amount, the carrying amount is reduced to its net realisable value and any loss is recognised immediately in the profit and loss.

The carrying amount of stocks held at the balance sheet date was £2,845,000 (2017: £1,930,000).

Adoption of new and revised standards

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) are mandatorily effective for an accounting period that begins on or after 1 January 2018. The adoption of these standards has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The amendments to IFRSs applied are:-

IFRS 9 – Financial Instruments

IFRS15 – Revenue from contracts with customers

Clarifications to IFRS 15 (Apr 2016) – Revenue from contracts with customers

IFRIC 22 – Foreign currency transactions and advance considerations

Amendments to IFRS 2 (Jun 2016)

Amendments to IFRS 4 (Sept 2016)

Amendments to IAS 0 (Dec 2016)

Annual improvements to IFRS: 2014-16 Cycle (Dec 16)

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2018

3. TURNOVER	2018	2017
	£'000	£'000
Geographical analysis of turnover by destination		
UK	25,535	25,631
Rest of Europe	9,035	8,051
Rest of world	1,216	624
	<u>35,786</u>	<u>34,306</u>
	£'000	£'000
Geographical analysis of turnover by origin		
UK	33,497	32,565
Rest of Europe	2,289	1,741
	<u>35,786</u>	<u>34,306</u>
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES	2018	2017
	£'000	£'000
Directors' remuneration:		
Emoluments	252	227
Contributions to defined contribution pension schemes	11	10
	<u>263</u>	<u>237</u>
	Number	Number
Number of directors accruing benefits under defined contribution schemes	<u>2</u>	<u>2</u>
Remuneration of the highest paid director:	£'000	£'000
Emoluments	<u>140</u>	<u>127</u>
Employee costs (excluding directors) during the year:	£'000	£'000
Wages and salaries	8,595	8,006
Social security costs	827	766
Other pension costs	236	203
	<u>9,658</u>	<u>8,975</u>
Average monthly number of persons employed (excluding directors):	Number	Number
Production	222	217
Administration	61	56
	<u>283</u>	<u>273</u>

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2018

5. OPERATING (LOSS)/PROFIT

	2018 £'000	2017 £'000
Operating (loss)/profit is stated after charging:		
Rentals under operating leases - other operating leases	692	640
Rentals under operating leases - plant and machinery	241	220
Inventory recognised as an expense	6,641	5,395
Depreciation and other amounts written off tangible fixed assets:		
- owned assets	937	681
- held under finance leases	-	73
Amortisation and other amounts written off intangible fixed assets	89	127
Auditor's remuneration:		
- Audit of the Company's annual financial statements	79	76
- Tax services	31	27
- JSOX compliance services	36	36
- Quarterly review consultation services	60	60
	<u> </u>	<u> </u>

6. FINANCE COSTS

	2018 £'000	2017 £'000
Interest receivable and similar income		
Bank interest	4	-
Foreign exchange gains	144	213
	<u> </u>	<u> </u>
Total interest receivable and similar income	148	213
	<u> </u>	<u> </u>
Interest payable and similar charges		
Bank loans, overdrafts and other	(35)	(21)
Interest payable on Group undertakings	(216)	(101)
Foreign exchange loss	(297)	(226)
Finance lease and hire purchase contracts	-	(5)
	<u> </u>	<u> </u>
Total interest payable and similar charges	(548)	(353)
	<u> </u>	<u> </u>
Total finance costs	<u>(400)</u>	<u>(140)</u>

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

7. TAX ON (LOSS)/PROFIT	2018 £'000	2017 £'000
UK corporation tax (credit)/charge on (loss)/profit for the year	(85)	42
Total current tax	(85)	42
Deferred tax:		
Current year	(480)	(257)
Adjustment in respect of prior years	(107)	19
Effect of changes in tax rates	50	30
Total deferred tax	(537)	(208)
Tax credit per income statement	(622)	(166)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 19.00% (2017: 19.25%). The tax on (loss)/profit for the year is less than 19.00% (2017: is less than 19.25%) for the reasons set out in the following reconciliation:

	£'000	£'000
(Loss)/profit before tax	(4,399)	782
	£'000	£'000
Tax on (loss)/profit at standard rate of 19.00% (2017: 19.25%)	(836)	150
Effects of:		
Adjustment in respect of prior years	(107)	19
Expenses not deductible	13	28
Losses	102	-
Tax rate changes	50	30
Foreign branch exemption	(32)	(15)
Group relief / other reliefs	(119)	-
Deferred tax not recognised	307	(378)
Total tax credit for the year	(622)	(166)

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 March 2017. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and 17% from 1 April 2020. The future proposed changes to tax rates and capital allowances are not expected to have a material effect on the Company.

A deferred tax asset of £623,000 has been recognised (see note 11). This asset relates to the Company's short-term temporary trading differences (e.g. general provisions and unpaid remuneration). This is on the assumption that there will be sufficient taxable profits against which the temporary difference will unwind.

There is an unrecognised deferred tax allowance of £356,000 (2017: £182,000) on losses of £2.1m (2017: £1.1m) calculated at the rate of 17%.

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2018

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Under construction £'000	Total £'000
Cost				
At 1 January 2018	2,004	14,488	593	17,085
Reclassification	132	461	(593)	-
Additions	1,211	2,285	-	3,496
Disposals	-	(81)	-	(81)
At 31 December 2018	3,347	17,153	-	20,500
Accumulated depreciation				
At 1 January 2018	912	10,602	-	11,514
Charge for the year	148	789	-	937
Impairment	1,492	1,892	-	3,384
Disposals	-	(54)	-	(54)
At 31 December 2018	2,552	13,229	-	15,781
Net book value				
At 31 December 2018	795	3,924	-	4,719
At 31 December 2017	1,092	3,886	593	5,571

The previously reported assets under construction comprised £132,000 (freehold land and buildings) and £461,000 (plant and machinery), both relating to the new Kings Norton site, which has now become operational. They have been reclassified accordingly. An impairment review has been performed at the year end which has resulted in an impairment of the asset values as indicated.

9. INTANGIBLE FIXED ASSETS

	Software £'000
Cost	
At 1 January 2018	684
Additions	145
At 31 December 2018	829
Accumulated amortisation	
At 1 January 2018	606
Charge for the year	89
Impairment	8
At 31 December 2018	703
Net book value	
At 31 December 2018	126
At 31 December 2017	78

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

10. STOCKS	2018	2017
	£'000	£'000
Raw materials and consumables	1,231	796
Work in progress	1,614	1,134
	<u>2,845</u>	<u>1,930</u>
11. DEBTORS	2018	2017
	£'000	£'000
Trade debtors	7,129	6,526
Amounts recoverable on contracts	1,684	523
Amounts owed by Group undertakings	388	135
Other debtors	143	62
Prepayments	1,222	1,097
Deferred tax asset	623	129
	<u>11,189</u>	<u>8,472</u>
Deferred taxation	£'000	£'000
Brought forward	129	(79)
Adjustments in respect of prior years	64	(19)
(Charge) / credit to income statement	430	227
	<u>623</u>	<u>129</u>
At 31 December asset	623	129
Explained by:	£'000	£'000
Fixed assets	273	(212)
Timing differences	78	69
Losses	272	272
	<u>623</u>	<u>129</u>
12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2018	2017
	£'000	£'000
Amounts due under finance leases and hire purchase contracts (see note 14)	-	64
Deferred income	565	628
Trade creditors	2,752	2,310
Loan amounts owed to Group undertakings (see note 14)	1,086	-
Other amounts owed to Group undertakings	3,042	1,784
Other taxation and social security	221	253
Accruals	2,189	1,550
	<u>9,855</u>	<u>6,589</u>

HSBC Bank Plc maintains fixed and floating charges over the assets of the Company for providing facilities to the Company as required from time to time.

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018	2017
	£'000	£'000
Amounts owed to Group undertakings (see note 14)	9,524	4,750

14. BORROWINGS

	2018	2017
	£'000	£'000
Finance leases:		
Due within one year	-	64
	£'000	£'000
Loans owed to Group undertakings:		
Due within one year	1,086	-
Between one and two years	1,488	3,680
Between two and five years	3,656	1,070
More than five years	4,380	-
	10,610	4,750
	£'000	£'000
Total borrowings:		
Due within one year	1,086	64
Between one and two years	1,488	3,680
Between two and five years	3,656	1,070
More than five years	4,380	-
	10,610	4,814

Finance leases are secured over the assets to which they relate.

Borrowings from Group undertakings are granted to the Company from time to time as required and are on an unsecured basis. Interest is payable on loans from Group undertakings at market compatible rates between 2% and 3%.

ARRK EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2018

15. SHARE CAPITAL	2018	2017
	£'000	£'000
Authorised		
3,672,267 Ordinary shares of £1 each	3,672	3,672
Allotted, called-up and fully paid		
3,672,267 Ordinary shares of £1 each	3,672	3,672

16. OPERATING LEASE COMMITMENTS

At 31 December the Company was committed to making the following future minimum lease payments during the next year in respect of operating leases:

	2018	2017
	£'000	£'000
Land and buildings		
- within one year	73	-
- within two to five years	76	206
- more than five years	646	519
	795	725
Others	£'000	£'000
- within one year	25	22
- within two to five years	202	142
	227	164

17. PENSION SCHEMES

The Company operates a defined contribution pension scheme for all qualified employees. The assets of the scheme are held in separate trustee-administered funds. Contributions made during the year amounted to £247,000 (2017: £213,000); no amount was outstanding as a liability at the year-end (2017: £nil).

18. RELATED PARTIES

Advantage has been taken of the exemption contained in FRS 101, which does not require the Company to disclose transactions with other wholly-owned group companies.

19. ULTIMATE CONTROLLING PARTY

The immediate parent of the Company is ARRK Product Development Group Limited, a company incorporated in the United Kingdom, which in turn is wholly-owned by ARRK Corporation, a company incorporated in Japan. The ultimate parent and controlling party is Mitsui Chemicals Inc., a company incorporated in Japan. Mitsui Chemicals Inc. is the parent of the largest and smallest group into which the results of ARRK Europe Limited are consolidated. Copies of the financial statements of Mitsui Chemicals Inc. are available from Mitsui Chemicals Inc. registered office:

Mitsui Chemicals Inc.,
1-5-2, Higashi-Shimbashi,
Minato-ku, Tokyo, Japan.