

Registered number: 10066569

LSH Auto UK Limited

Report and Financial Statements

31 December 2018

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Company information

Directors

Dr Till Henrik Conrad
Liew Kek Thin
Martyn Paul Webb

Secretary

Jordan Company Secretaries Limited

Auditors

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Birmingham
B4 6HQ
United Kingdom

Registered Office

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Strategic Report

The Directors present their Strategic Report of LSH Auto UK Limited (the "Company") for the year ended 31 December 2018.

Principal activities

The principal activities of the Company comprised retailing new and used Mercedes-Benz passenger cars and smart cars through a network of sites across Manchester and Birmingham. In addition, the Company engages in the supply of parts and accessories, and provision of service and repair facilities.

Business review

Turnover for the period was £445,667,000 (2017: £445,650,000). Loss before tax was £4,980,000 (2017: £11,820,000). The directors consider this to be a satisfactory performance.

In 2018, the Company sold 5,619 (2017: 5,991) new car vehicles and 8,761 (2017: 9,023) used car vehicles amidst a highly competitive market. The UK new car market remained challenging in 2018 with a fall in total registrations of 6.8% year on year.

Our Mercedes-Benz used car volumes remain consistent in 2018 at 8,234 units (2017: 8,224) however our profitability was vastly improved following reduced used car stocking levels.

In aftersales we grew our retail sold hours on the comparable period in 2017 and delivered a strong aftersales result.

Despite the ongoing new car market challenges, we continue to perform in line with the wider network as we challenge to outperform the market going forward.

As well as measuring volumes, the company also measures a number of other KPI's. These include profit per unit, customer satisfaction, after sales efficiency, after sales recovery rate, and various labour measures including labour turnover and sickness.

Principal risks and uncertainties

The Company does not envisage any specific or direct challenges to its business model or operations resulting from the continued uncertainty surrounding the Brexit vote. The Company continues to procure and sell passenger cars within the UK.

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

Cash flow risk

The Company is not significantly exposed to changes in foreign currency exchange rates or fluctuating interest rates and does not make material sales or purchases in any currency other than Sterling.

Credit risk

The Company's principal financial assets are bank balances and 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.

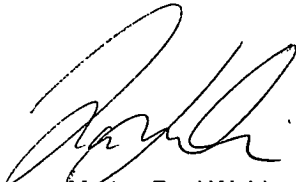
Credit risk is mitigated as exposure is spread over a large number of counterparties and customers, who are subject to rigorous monitoring. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Strategic Report (continued)

Liquidity risk

The Company's exposure to liquidity risk is minimised as it is a wholly owned subsidiary, with a significant level of finance from its ultimate parent undertaking.

This report was approved by the board on 20 March 2019 and signed on its behalf by:



Martyn Paul Webb
Director

Directors' Report

Registered No. 10066569

The directors present their report for the year ended 31 December 2018.

Directors of the Company

The directors at 31 December 2018 are shown on page 2 and remain the same at the signing date unless stated otherwise:

Till Henrik Conrad (appointed 1 February 2018)
Liew Kek Thin (appointed 1 February 2018)
Martyn Paul Webb (appointed 1 November 2018)
Clive Michael Hammond (resigned 31 October 2018)

Dividends

During the year the Company did not pay or declare a dividend (2017: Nil dividend).

Future developments

The company plans to relocate its dealerships at Solihull and Stockport to new premises. Development commenced in 2017 and the dealerships will become operational between 2019 and 2020.

Financial instruments

The Company finances its activities with a combination of shareholder equity, bank loans and floorplan payables as summarised in note 16. Overdrafts are used to satisfy short term cash flow requirements. Other financial assets and short term liabilities, such as trade receivables and trade creditors, arise directly from the Company's operating activities. The Company does not enter into derivative transactions. In accordance with the Companies Act 2006 section 414C(11), the disclosure of principal risks and uncertainties has been included in the Strategic report.

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The majority of employees receive an annual bonus related to both the performance of the Company and/or their own personal performance.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Events since the balance sheet date

On 31 January 2019, the Company converted £15,000,000 of intercompany loans into 15,000,000 ordinary shares of £1 each taking total allotted, authorised and called up share capital to £65,010,000.

Directors' Report (continued)

Going Concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The Company has net current liabilities of £11,028,000 (2017: £36,206,000) and accordingly have sought and obtained confirmation from the parent undertaking, LSH Auto International Limited, that they will provide the necessary support to ensure the Company is able to meet its financial liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

Auditors

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



Martyn Paul Webb
Director
20 March 2019

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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). 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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

Independent auditor's report

to the members of LSH Auto UK Limited

Opinion

We have audited the financial statements of LSH Auto UK Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of comprehensive income, the Balance Sheet, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Independent auditor's report

to the members of LSH Auto UK Limited (continued)

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent auditor's report

to the members of LSH Auto UK Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

*Stephen Kirk (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham*

20th March 2019

Income Statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	4	445,667	445,650
Cost of sales		(406,916)	(409,496)
Gross profit		<u>38,751</u>	<u>36,154</u>
Other income and gains		10,172	7,795
Distribution costs		(32,725)	(33,242)
Administrative expenses		(18,581)	(19,800)
Operating loss	5	<u>(2,383)</u>	<u>(9,093)</u>
Interest payable	8	(2,597)	(2,727)
Loss on ordinary activities before taxation		<u>(4,980)</u>	<u>(11,820)</u>
Tax	9	875	1,819
Loss for the year after tax		<u>(4,105)</u>	<u>(10,001)</u>

The notes on pages 16 to 32 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2018

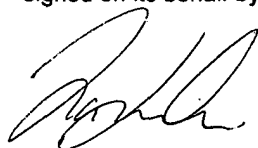
	Year ended 2018 £000	Year ended 2017 £000
Loss for the year after tax	(4,105)	(10,001)
Other comprehensive loss for the year, net of tax	-	-
Total comprehensive loss for the year	<u>(4,105)</u>	<u>(10,001)</u>

Balance sheet

at 31 December 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Intangible assets	10	49,500	49,500
Tangible assets	11	7,468	7,425
Deferred tax	14	2,695	2,021
		<u>59,663</u>	<u>58,946</u>
Current assets			
Stocks	12	84,661	103,603
Trade and other receivables	13	18,845	19,340
Cash at bank and in hand		3,025	15,806
		<u>106,531</u>	<u>138,749</u>
Creditors: amounts falling due within one year	15	<u>(117,559)</u>	<u>(174,955)</u>
Net current liabilities		<u>(11,028)</u>	<u>(36,206)</u>
Total assets less current liabilities		48,635	22,740
Creditors: amounts falling due after more than one year	16	(15,000)	-
Net Assets		<u><u>33,635</u></u>	<u><u>22,740</u></u>
Capital and reserves			
Share capital	18	50,010	35,010
Profit and loss account		<u>(16,375)</u>	<u>(12,270)</u>
Total equity shareholders' funds		<u><u>33,635</u></u>	<u><u>22,740</u></u>

The financial statements were approved and authorised for issue by the board on 20 March 2019 and were signed on its behalf by:



Martyn Paul Webb
Director

Statement of Cash Flows

for the year ended 31 December 2018

	2018 £000	2017 £000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(4,980)	(11,820)
Adjustments for:		
Depreciation of property, plant and equipment	2,187	2,029
Loss on disposal of property, plant and equipment	1	134
Finance costs	2,597	2,727
Operating loss adjusted for Non-Cash Items	(195)	(6,930)
Decrease in inventories	18,942	2,664
Decrease in trade and other receivables	428	746
(Decrease)/Increase in trade and bills payables	(27,396)	17,629
Net (decrease)/increase in Working Capital	(8,026)	21,039
Cash generated from/(used in) operations		
Group tax relief received	268	111
Net cash (outflow)/inflow from operating activities	(7,953)	14,220
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(2,231)	(2,306)
Net cash outflow from investing activities	(2,231)	(2,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(2,597)	(2,727)
New bank loans and other loans	15,000	-
Repayment of bank loans and other loans	(30,000)	-
New shareholder capital injection	15,000	-
Net cash outflow from financing activities	(2,597)	(2,727)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,781)	9,187
Cash and cash equivalents at beginning of year	15,806	6,619
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,025	15,806

Statement of Changes in Equity

for the year ended 31 December 2018

	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total Equity £000</i>
Balance at 31 December 2016	35,010	(2,269)	32,741
Loss for the year	-	(10,001)	(10,001)
Other comprehensive income	-	-	-
Balance at 31 December 2017	35,010	(12,270)	22,740
Shares issued 15 June 2018	15,000	-	15,000
Loss for the year	-	(4,105)	(4,105)
Other comprehensive income	-	-	-
Balance at 31 December 2018	50,010	(16,375)	33,635

Notes to the financial statements

at 31 December 2018

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of LSH Auto UK Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 20 March 2019 and the balance sheet was signed on the board's behalf by Martyn Paul Webb. LSH Auto UK Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The Company has used a true and fair view override in respect of the non-amortisation of goodwill.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

2.2 Intangible assets

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment.

The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Had the Company amortised goodwill a period of 20 years would have been chosen as the useful life for goodwill. The loss for the period would have been increased by £2,475,000 had goodwill been amortised in the period.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Notes to the financial statements

at 31 December 2018

2. Accounting policies (continued)

2.3 Tangible fixed assets

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

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

Leasehold property	Over the shorter of 10 years or the life of the lease
Plant and machinery	10%-33%
Fixtures and fittings	20%-33%

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 within distribution costs and administration expenses in the Income Statement.

2.4 Provision for liabilities

Provisions are recognised when the Company has a present obligation, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of that obligation can be made. Where the effect of the time value of money is material, the provision is discounted to the present value of the expected future cash flows required to settle the obligation.

2.5 Inventory

Inventories are of vehicles and spare parts, which are valued at the lower of cost and net realisable value. Cost is the purchase price of stock including transport and handling costs. Net realisable value is the estimated proceeds of sale less all costs to be incurred in marketing, selling and distributing the stock in question.

2.6 Revenue

Revenue comprises amounts recognised by the Company in respect of goods and services supplied during the period, exclusive of Value Added Tax and trade discounts.

Full disclosures required under IFRS 15 for the current period in the first year of application have been set out below.

The Company confirms that following adoption of IFRS 15 that no individual line item in the Income Statement or Balance Sheet is affected in the current reporting period by the application of IFRS 15 as compared with the previous revenue recognition requirements.

The revenue streams of the business remain sale of passenger cars, supply of parts and accessories, and provision of service and repair facilities.

Revenue from the sale of passenger cars represent the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised at a single point in time when control has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Notes to the financial statements

at 31 December 2018

2. Accounting policies (continued)

The aftersales stream consists of the sale of parts and accessories in addition to the provision of service and repair facilities.

Revenue from the sale of parts and accessories is recognised at a single point in time when control is transferred to the buyer, being the point of delivery or collection of the goods.

Revenue from the provision of services represents the value of services provided to the extent that there is a right to consideration and is recorded at the value of the consideration due. The Company acts as an agent for vehicle package sales (e.g. free servicing offers, extended warranty offers, etc), the net amount retained after the deduction of any costs paid to the principal is recognised as revenue. The point of recognition being the completion of engaged service at a single point in time.

Revenue from Finance income has been presented under 'other income and gains' in the Income Statement. In line with provision of services above, the Company acts as an agent for vehicle package sales implicating a finance contribution. Revenue is recognised at a single point in time.

2.7 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the period. It is measured using tax rates enacted or substantively enacted at the reporting date.

2.8 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities of financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. This is reviewed by reference to discounting future taxable profits available within the UK group.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Notes to the financial statements

at 31 December 2018

2. Accounting policies (continued)

2.9 Group relief

Any company in the UK owned directly or indirectly by Lei Shing Hong Limited and under the control of Lei Shing Hong Limited (an "LSH UK Company") can surrender current period trading losses, non trading deficits on loan relationships, excess property business losses, excess management expenses, and excess gift aid donations to any other LSH UK Company.

The maximum surrender to a group company is that company's taxable total profits. For this purpose, a company's taxable total profits are reduced by its own trading losses for the current period regardless of whether or not such a loss claim is made.

The LSH UK Company that is the beneficiary of such group relief shall compensate the surrendering LSH UK Company at the corporation tax rate for company profits in effect in the year for which the surrender relates.

2.10 Related Parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - i. has control or joint control over the Company;
 - ii. has significant influence over the Company; or
 - iii. is a member of the key management personnel of the Company or of a parent of the Group
- (b) the party is an entity where any of the following conditions applies:
 - i. the entity and the Group are members of the same group;
 - ii. one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - iii. the entity and the Group are joint ventures of the same third party;
 - iv. the entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - v. the entity is a post-employment benefit plan for the benefit of the employees of either the Group or an entity related to the Group;
 - vi. the entity is controlled or jointly controlled by a person identified in (a);
 - vii. a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)
 - viii. the entity, or any member of a group of which it is part, provides key management personnel services to the group or to the parent of the Group

Relates party transactions and outstanding balances, including commitments, together with the names of the related parties are disclosed in the financial statements.

2.11 Operating leases

Rentals under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Notes to the financial statements

at 31 December 2018

2. Accounting policies (continued)

2.12 Financial instruments

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost, less impairment.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.13 Employee Benefits

The Company offers a defined contribution scheme to its employees as regulated by the Pensions Act 2008. This is a non-compulsory and non-contractual scheme offered as a benefit to employees. From February 2018 all employees, not already members of the existing pension scheme, were auto enrolled into a pension scheme in which they and the Company contribute 1% of salary.

2.14 Going Concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The Company has net current liabilities of £11,028,000 (2017: £36,206,000) and accordingly have sought and obtained confirmation from the parent undertaking, LSH Auto International Limited, that they will provide the necessary support to ensure the Company is able to meet its financial liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

3. Significant Accounting Judgements and Estimates

Judgements in applying accounting policies

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Notes to the financial statements

at 31 December 2018

3. Significant Accounting Judgements and Estimates (continued)

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use required the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of property, plant and equipment

The Company determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. The estimate is based on the historical experience of the actual useful life of items of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Used car stock

In assessing the net realisable value of stock, management assess the value of every used car in stock. Used cars were reviewed to ensure that cost was lower than net realisable value by reference to the prevailing retail price. Expected selling costs are deducted from the retail price to arrive at a net realisable value. This is compared to the cost price of the vehicle to arrive at a valuation that is the lower of cost and net realisable value.

Provision for doubtful debts

The Company performs an assessment of the credit risk of individual customers as well as assessing the recoverability of individual balances including reference to previous experience with the customer and known circumstances. The allowance against receivables disclosed in Note 13 covers the risk of impairment of individual receivable balances as well as the risk of credit default by customers.

Notes to the financial statements

at 31 December 2018

4. Turnover

The whole of the turnover is attributable to its main trading activity. No material sales are made outside of the United Kingdom.

Turnover recognised in the income statement is analysed as follows:

	2018 £000	2017 £000
Retailing of motor vehicles – New Cars	158,853	163,611
Retailing of motor vehicles – Used Cars	248,985	248,945
Aftersales	37,829	33,094
	<u>445,667</u>	<u>445,650</u>

5. Operating loss

This is stated after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	2,187	2,029
Operating lease charges – land and buildings	3,043	3,193
Operating lease charges – plant and machinery	675	556
Cost of stocks recognised as an expense	346,663	357,273
- including write down of stocks to net realisable value	1,521	2,167

6. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2018 £000	2017 £000
Audit of the financial statements	50	45
Tax advisory / tax compliance	16	13
All other services	-	-
	<u>66</u>	<u>58</u>

7. Staff costs and directors' remuneration

(a) Staff costs

	2018 £000	2017 £000
Wages and salaries	22,535	22,809
Social security costs	3,074	3,179
Other pension costs	781	585
	<u>26,390</u>	<u>26,573</u>

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

	2018 No.	2017 No.
Administration	625	605
Management	102	91
	<u>727</u>	<u>696</u>

Notes to the financial statements

at 31 December 2018

7. Staff costs and directors' remuneration (continued)

(b) Directors' remuneration

	2018 £	2017 £
Directors' remuneration	<u>375,071</u>	<u>394,785</u>

During the period retirement benefits were accruing to no directors in respect of defined benefit pension schemes.

The highest paid director received remuneration of £304,361 (2017: £394,785). There were two directors paid directly by the Company in the period. All other directors are remunerated by other companies within the overall group. Their role as directors to this Company is considered incidental to their group roles.

The total defined contribution amounts paid to the highest paid director for the year ended 31 December 2018 amounted to £5,668 (2017: £7,050).

The Company operates an interest free loan scheme to all eligible employees on equal terms to enable such employees to acquire cars for their own use. The amount outstanding and owed by the Directors at the balance sheet date was £57,617 (2017: £55,429).

No other loans were made to Directors during the period (2017: £Nil).

Key management personnel

Key management personnel are those people having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly.

Compensation of key management personnel of the Company (including directors' emoluments):

	2018 £000	2017 £000
Short-term employee benefits	1,236	1,321
Post-employment benefits	8	12
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
Total compensation paid to key management personnel	<u>1,244</u>	<u>1,333</u>

8. Interest payable

	2018 £000	2017 £000
Bank loans and overdrafts	2,597	2,727
Interest payable to group undertakings	-	-
	<u>2,597</u>	<u>2,727</u>

Notes to the financial statements

at 31 December 2018

9. Taxation

(a) Tax credited in the income statement

	2018 £000	2017 £000
Current income tax:		
Current tax on profits for the year	(188)	(254)
Adjustment in respect of prior periods	(13)	(111)
Total current income tax	(201)	(365)
Deferred tax:		
Current year	(704)	(1,913)
Adjustment in respect of previous periods	(43)	178
Effect of changes in tax rates	73	281
Origination and reversal of temporary differences	-	-
Total deferred tax	(674)	(1,454)
Tax credit in the income statement	(875)	(1,819)

(b) Reconciliation of the total tax charge

The credit for the year can be reconciled to the loss per the income statement as follows:

	2018 £000	2017 £000
Loss for the year - continuing activities	(4,980)	(11,820)
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25%)	(946)	(2,275)
Effects of:		
Adjustments in respect of prior periods	(57)	67
Income not taxable	55	108
Tax rate changes	73	281
Exempt assets	-	-
Tax credit for the year	(875)	(1,819)

(c) Deferred tax (assets) / liabilities

The deferred tax included in the balance sheet is as follows:

	2018 £000	2017 £000
Asset at the start of the year	(2,021)	(567)
Tax credit to income statement for the period	(674)	(1,454)
Asset at the end of the year	(2,695)	(2,021)

The asset at the end of the year relates to tax losses (£1,737,000), fixed asset differences (£777,000) and other timing differences (£181,000) incurred in the business.

The rate of corporation tax is 19% for the year beginning 1 April 2018. This rate will fall to 17% for the year beginning 1 April 2020.

The deferred tax asset has been calculated based on the rate of 17%.

Notes to the financial statements

at 31 December 2018

10. Intangible assets

	<i>Goodwill</i> £000	<i>Total</i> £000
Cost:		
At 31 December 2017	49,500	49,500
Additions	-	-
At 31 December 2018	49,500	49,500
Carrying amount:		
At 31 December 2018	49,500	49,500
At 31 December 2017	49,500	49,500

Goodwill acquired through business combinations has been allocated to a single cash generating unit. This is the lowest level within the Company at which goodwill is monitored for internal management purposes.

The recoverable amounts of the cash-generating unit acquired has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period.

The discount rate applied to the cash flow projection is 8.0% (2017: 10.53%) and the cash flows beyond the five-year period are extrapolated using a growth rate of 3.0% (2017: 3.0%).

No impairment has been made in the year ended 31 December 2018 (2017: £Nil).

Assumptions were applied in the value in use calculation for the year ended 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – the basis to determine the value assigned to the budgeted gross margins is based on the historical gross margins achieved in the industry

Discount rates – the discount rate used are after tax and reflect the specific risks relating to the industry.

Revenue growth rates - within the five-year period, the revenue growth has followed MBUK-produced revenue growth projections.

Sensitivity to changes in assumptions

In order for the estimate of recoverable amount to be equal to the carrying value, and consequently, any adverse change resulting in an impairment – the discount value would need to be 12.90% (2017: 15.74%) as opposed to the 8% (2017: 10.53%) applied based on management assessment.

In order for the estimate of recoverable amount to be equal to the carrying value, and consequently, any adverse change resulting in an impairment - the used car gross margin per unit would need to be £51 per unit, as opposed to the £500 per unit applied based on management assessment.

Notes to the financial statements

at 31 December 2018

11. Tangible fixed assets

	<i>Leasehold improvements</i>	<i>Fixtures & Fittings</i>	<i>Plant and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Cost:					
At 31 December 2017	2,075	4,251	3,893	-	10,219
Additions	77	769	262	1,123	2,231
Disposals	-	(4)	(4)	-	(8)
At 31 December 2018	2,152	5,016	4,151	1,123	12,442
Depreciation:					
At 31 December 2017	(206)	(1,253)	(1,335)	-	(2,794)
Charge for the year	(174)	(859)	(1,154)	-	(2,187)
Disposals	-	4	3	-	7
At 31 December 2018	(380)	(2,108)	(2,486)	-	(4,974)
<i>Carrying amount:</i>					
At 31 December 2018	1,772	2,908	1,665	1,123	7,468
At 31 December 2017	1,869	2,998	2,558	-	7,425

Notes to the financial statements

at 31 December 2018

12. Stocks

	2018	2017
	£000	£000
Finished goods and goods for resale	84,661	103,603
	<u>84,661</u>	<u>103,603</u>

The replacement cost of stocks are not materially different from the amounts shown above. Stocks are stated after provisions for impairment of £612,000 (2017: £91,000).

A write down of used car stock of £909,000 (2017: £2,076,000) was recognised in the year.

13. Trade and other receivables: Amounts falling due within one year

	2018	2017
	£000	£000
Trade debtors	9,530	12,200
Prepayments and accrued income	8,478	6,763
Other debtors	837	377
Total	<u>18,845</u>	<u>19,340</u>

At 31 December 2018, trade debtors of £5,614,000 (2017: £6,998,000) were past due. The ageing analysis of these debtors is as follows:

	2018	2017
	£000	£000
Past due		
1-30 days	5,030	5,917
31-60 days	213	798
61-90 days	251	193
91-120 days	120	24
>120 days	-	66
Total	<u>5,614</u>	<u>6,998</u>

Of the trade debtors past due at 31 December 2018, £5,527,000 was received by the accounts signing date and £87,000 (2017: £278,000) remained outstanding.

At 31 December 2018, a provision against trade debtors was held of £94,000 (2017: £66,000). The movement in the provision was as follows:

	2018	2017
	£000	£000
Opening provision	66	36
Charge in the year	28	30
Closing provision	<u>94</u>	<u>66</u>

Based on experience to date in collecting past due receivables, along with an assessment of individual customers abilities to make payments, the Company believes that the allowance for doubtful receivables is sufficient to cover the risk of default.

Notes to the financial statements

at 31 December 2018

14. Trade and other receivables: Amounts falling due over one year

	2018	2017
	£000	£000
Deferred taxation (note 9)	2,695	2,021
Total	<u>2,695</u>	<u>2,021</u>

15. Creditors: Amounts falling due within one year

	2018	2017
	£000	£000
Payments received on account	216	612
Trade creditors	14,248	18,781
Finance house new vehicle stocking facilities (note 16)	34,060	48,111
Other taxation and social security	2,806	2,243
Accruals and deferred income	5,423	6,265
Borrowings (note 16)	60,806	98,943
Total	<u>117,559</u>	<u>174,955</u>

Notes to the financial statements

at 31 December 2018

16. Financial liabilities

	2018 £000	2017 £000
Interest-bearing financial liabilities		
Current	94,866	147,054
Non-current	15,000	-
Total	<u>109,866</u>	<u>147,054</u>
Bank overdrafts	-	-

Interest-bearing financial liabilities

Interest-bearing financial liabilities comprise the following:

£15,000,000 revolving credit facility (2017: £15,000,000)

The facility bears interest at LIBOR + 1.5% (2017: LIBOR + 1.5%).

A deed of guarantee and indemnity for the facility value and interest is held by the ultimate parent, Lei Shing Hong Limited.

£45,806,000 Used car floorplan facility (2017: £53,943,000)

The facility limit is £65,000,000 and bears interest at 1.75% (2017: 1.75%).

£34,060,000 New car floorplan facility (2017: £48,111,000)

The facility limit is £65,000,000 and bears interest at 1.75% (2017: 2%).

£15,000,000 Term loan facility (2017: Nil)

2 year facility bears interest at LIBOR + 2%.

Parent guarantee of the loan is held by the parent, LSH Auto International Limited

£Nil uncommitted revolving facility (2017: £30,000,000)

The facility was not renewed in 2018, bearing interest at LIBOR + 2% (2017: LIBOR + 2% rolling).

Interest-bearing financial liabilities are repayable in line with that presented below:

	2018 £000	2017 £000
Not later than one year	94,866	147,054
After one year but not more than five years	15,000	-
After five years	-	-
	<u>109,866</u>	<u>147,054</u>

The Company is exposed to market risk from changes in interest rates with respect to the interest-bearing bank and other borrowings. If the interest change was 25 basis points higher in the period the loss before tax of the Company would have increased by £275,000.

Notes to the financial statements

at 31 December 2018

17. Obligations under leases

Operating lease agreements where the Company is lessee

The Company holds commercial leases on certain properties and items of equipment. At 31 December 2018, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 £000	2017 £000
Not later than one year	2,883	3,268
After one year but not more than five years	9,834	3,507
After five years	24,015	2,441
	<u>36,732</u>	<u>9,216</u>

18. Authorised, issued and called up share capital

	2018 £000	2017 £000
<i>Allotted, authorised and called up</i>		
50,010,000 Ordinary shares of £1 each	50,010	35,010
	<u>50,010</u>	<u>35,010</u>

The Company does not have a complex capital structure. The Company is limited by shares. The Company has one class of ordinary shares which carries no right to fixed income.

On 15 June 2018, the Company converted £15,000,000 of intercompany loans into 15,000,000 ordinary shares of £1 each taking total allotted, authorised and called up share capital to £50,010,000.

19. Post balance sheet events

On 31 January 2019, the Company converted £15,000,000 of intercompany loans into 15,000,000 ordinary shares of £1 each taking total allotted, authorised and called up share capital to £65,010,000.

20. Capital commitments

At 31 December 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £337,100 (2017: £Nil).

Notes to the financial statements

at 31 December 2018

21. Related party transactions

During the period the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 December 2018 with other related parties, are as follows:

	<i>Recharge to related party £000</i>	<i>Purchases from related party £000</i>	<i>Amounts owed by related party £000</i>	<i>Amounts owed to related party £000</i>
<i>Related party</i>				
LSH Auto Properties (UK) Limited				
2018	104	2,109	–	–
2017	263	2,287	–	–

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made on an arm's length basis. During the year ended 31 December 2018, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2017: £Nil).

LSH Auto Properties (UK) Limited is a wholly-owned subsidiary of the ultimate parent company Lei Shing Hong Limited and a sister company to LSH Auto UK Limited.

The directors of LSH Auto UK Limited are considered related parties to the Company also. The directors received remuneration of £375,071 (2017: £394,785) in the period. The total defined contribution amounts paid to the directors for the year ended 31 December 2018 amounted to £5,402 (2017: £7,050). In addition, the Company operates an interest free loan scheme to all eligible employees on equal terms to enable such employees to acquire cars for their own use. The amount outstanding at the balance sheet date was £57,617 (2017: £55,429).

No other loans were made to Directors during the year (2017: £Nil).

22. Ultimate Group undertaking

The immediate holding company of LSH Auto UK Limited is LSH Auto (Hong Kong) Limited incorporated in Hong Kong. LSH Auto (Hong Kong) Limited is a wholly-owned subsidiary of LSH Auto International Limited incorporated in Hong Kong.

The Company's ultimate parent undertaking is Lei Shing Hong Limited which is incorporated in Hong Kong. Copies of the group financial statements are available from the Company Secretary at New World Tower 1, 18 Queens Road Central, Hong Kong.

Notes to the financial statements

at 31 December 2018

23. Standards and interpretations issued but not yet applied

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaces the previous leases standard IAS 17 and several interpretations, and sets out new rules for lease accounting. For lessees, IFRS 16 will eliminate the classifications of leases as either operating leases or finance leases as is required by IAS 17 and instead, introduces a single lessee accounting model. Applying that model, a lessee will be required to recognise assets and liabilities for most leases and charge depreciation on those leased assets separately from interest on lease liabilities in the income statement. For lessors, there will be only minor changes compared to IAS 17. The Company continues its assessments of the effects of IFRS 16. The effective date is 1 January 2019.

There are no further standards and interpretations issued not yet applied that are expected to have a material impact on the Company.