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## Horstman Defence Systems Limited

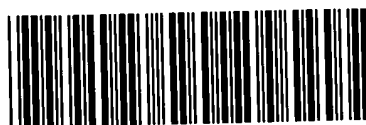
Report and Financial Statements

Year Ended

31 March 2017

Company Number 01511975

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**BDO**

# **Horstman Defence Systems Limited**

**Report and financial statements  
for the year ended 31 March 2017**

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### **Director**

J G Harris

### **Registered office**

Locksbrook Road, Bath, Avon, BA1 3EX

### **Company number**

01511975

### **Auditors**

BDO LLP, Two Snowhill, Birmingham, B4 6GA

# **Horstman Defence Systems Limited**

## **Strategic report for the year ended 31 March 2017**

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The director presents his strategic report together with the audited financial statements for the year ended 31 March 2017.

### **Principal activities**

The principal activity of the company continues to be the design, manufacture, refurbishment and sale of suspension systems, gearboxes, auxiliary power units and components, high precision torpedo parts and naval instrumentation equipment.

### **Review of the business and future developments**

Following the strong growth in the order book recorded in the last financial year, sales grew by 28% in the current year. The order book remains strong but it is expected that the sales profile will level off in the next year.

Order intake for the year was £18.7m contributing to a closing order book at the year end of £35.1m.

The main performance measures used by the company are sales, profits and cash generation.

Profit before tax improved by 96% to £2,445,122 (2016 - £1,244,617). This was achieved by a combination of increases in sales and margins (albeit in the face of some significant cost challenges). Operating costs were higher than the previous year due to the significant increase in business sales.

The average number of employees increased by 3% in support of the increased sales and manufacturing throughput which was also supported by an increase in temporary labour.

A tax charge of £372,139 (2016 - £469,214) was recorded resulting in profit after tax of £2,072,983 (2016 - £775,403).

### **Principal risks and uncertainties**

The company's principal financial instruments comprise cash, cash equivalents, bank overdraft, finance leases, hire purchase obligations and property mortgage. The main purpose of these financial instruments is to raise finance for the company's operations. The company has various other financial assets and liabilities, including trade debtors and creditors and amounts owed by group undertakings that arise directly from its operations.

The company enters into forward foreign currency contracts when appropriate, whose purpose is to manage the foreign currency risks arising from the company's operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments of a speculative nature shall be undertaken.

The principal risks associated with the company's financial assets and liabilities are set out below:

#### ***Interest rate risk***

The company's borrowings are principally its bank overdraft and property mortgage which attract interest at variable rates. Therefore, financial liabilities, interest charges and cash flows can be affected by movements in interest rates. Surplus cash is transferred to the parent company.

# Horstman Defence Systems Limited

## Strategic report for the year ended 31 March 2017 (*continued*)

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### Principal risks and uncertainties (*continued*)

#### *Price risk*

There is no significant exposure to changes in the carrying value of financial instruments, assets and liabilities, except as a result of foreign currency exchange rate fluctuations, as described below.

#### *Credit risk*

The company makes appropriate credit checks on its customers and maintains strict credit limits to minimise its exposure to external credit risk.

#### *Liquidity risk*

The company aims to mitigate liquidity risk by managing cash generated by its operations. The principal form of financing is through a property mortgage repayable by 2020. The company is party to a cross-guarantee securing certain banking facilities of other former group companies.

#### *Foreign currency risk*

The company has exposure to a number of foreign currencies through its purchases and sales of products. Exposure is principally to US dollars and Euros. The company takes out forward foreign currency contracts to mitigate this risk, consistent with the group's policy of hedging against known and highly probable exposures for a 6-12 month forward period.

### Going concern

The company changed its banking arrangements subsequent to the year end to new bankers. No overdraft and loan facilities are provided within these new arrangements. If required, the company is funded by short term trade finance facility which is repayable in 120 days. The director remains confident that the short term trade finance facility extant at the year end of £1,520,000 (2016 - £1,315,000) will continue to be available and renewed when necessary for the foreseeable future.

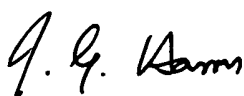
The company has prepared a cash flow forecast for the period ended 31 March 2021 based on expectations of future trading. This forecast shows that the company can operate within the available funding facilities noted above and therefore should be able to pay its liabilities as they fall due for at least twelve months following the date of approval of these financial statements.

The company is also seeking to obtain additional mortgage funding to repay its current mortgage of £223,000 and provide additional funding to the company.

The company is party to a cross guarantee securing certain banking facilities of related parties, being companies owned by the director of the company. The amount outstanding at the year end is £550,000 (2016 - £550,000). The director considers that the likelihood of a default event arising such that the cross guarantees would be called upon is remote.

Having considered these matters, the director considers it appropriate to continue to adopt the going concern basis in preparing the financial statements.

This report was approved by the board on 14/7/17 and signed on its behalf



J G Harris  
Director

# **Horstman Defence Systems Limited**

## **Report of the director for the year ended 31 March 2017**

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The director presents his report together with the audited financial statements for the year ended 31 March 2017.

### **Results and dividends**

The profit for the year, after taxation, amounted to £2,072,983 (2016 - £775,403).

No interim dividends were declared and paid during the year (2016 - £Nil). The director does not propose the payment of a final dividend (2016 - £Nil).

### **Director**

The director who served during the year and up to the date of approval of this report was:

J G Harris

### **Future developments**

The order book remains strong and there are increasing opportunities to benefit from recent development programmes, leading to future sales growth.

### **Research and development activities**

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on innovative research and product development and improvement.

### **Employee involvement**

During the year, regular meetings are held between local management and employees to allow a free flow of information and ideas.

### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### **Post balance sheet events**

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

# Horstman Defence Systems Limited

## Report of the director for the year ended 31 March 2017 (*continued*)

### Director's responsibilities

The director is responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has 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 director must not approve the financial statements unless he is 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 director is 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

The company's principal activities, trading review, future developments and financial risk management objectives and policies that would normally be shown within the directors' report have been included in the strategic report.

### Disclosure of information to auditors

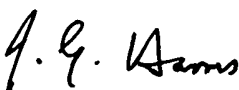
The director at the time when this director's report is approved has confirmed that:

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

### Auditors

Ernst & Young LLP resigned as auditors of the company during the year and BDO LLP were appointed as auditors of the company by the director. BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting.

This report was approved on behalf of the Board on 14/7/17 and signed on its behalf

  
J G Harris  
Director

# Horstman Defence Systems Limited

## Independent auditor's report

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### TO THE MEMBERS OF HORSTMAN DEFENCE SYSTEMS LIMITED

We have audited the financial statements of Horstman Defence Systems Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion 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 director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and director's report have been prepared in accordance with applicable legal requirements.

# Horstman Defence Systems Limited

## Independent auditor's report (*continued*)

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### 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 the director's report.

We have nothing to report in respect of the following matters where 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.



Thomas Lawton (*Senior statutory auditor*)  
For and on behalf of BDO LLP, Statutory auditor  
Birmingham  
United Kingdom

Date: 

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



# Horstman Defence Systems Limited

## Statement of comprehensive income for the year ended 31 March 2017

	Note	2017 £	2016 £
<b>Turnover</b>	3	<b>18,793,470</b>	14,673,796
Cost of sales		(13,928,656)	(11,722,197)
<b>Gross profit</b>		<b>4,864,814</b>	2,951,599
Distribution costs		(738,497)	(639,085)
Administrative expenses		(1,671,525)	(1,308,476)
Other operating income	5	160,436	250,211
Fair value movements		(9,032)	85,022
<b>Operating profit</b>	6	<b>2,606,196</b>	1,339,271
Interest receivable and similar income	7	198,109	137,105
Interest payable and expenses	8	(359,183)	(231,759)
<b>Profit before tax</b>		<b>2,445,122</b>	1,244,617
Tax on profit	9	(372,139)	(469,214)
<b>Profit for the year</b>		<b>2,072,983</b>	775,403
<b>Total comprehensive income for the year</b>		<b>2,072,983</b>	775,403

There were no recognised gains and losses for the year ended 31 March 2017 or for the year ended 31 March 2016 other than those included in the statement of comprehensive income above.

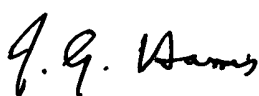
The notes on pages 10 to 26 form part of these financial statements.

# Horstman Defence Systems Limited

## Balance sheet as at 31 March 2017

<i>Company number 01511975</i>	Note	2017 £	2017 £	2016 £	2016 £
<b>Fixed assets</b>					
Tangible assets	10		2,519,864		2,552,645
<b>Current assets</b>					
Stocks	11	3,365,491		3,023,086	
Debtors:	12				
- amounts falling due after more than one year		7,763,217		4,782,400	
- amounts falling due within one year		3,084,686		5,511,164	
Cash at bank and in hand		1,745,356		-	
		15,958,750		13,316,650	
<b>Creditors: amounts falling due within one year</b>	13	(7,225,470)		(7,560,118)	
<b>Net current assets</b>			8,733,280		5,756,532
<b>Total assets less current liabilities</b>			11,253,144		8,309,177
<b>Creditors: amounts falling due after more than one year</b>	14		(1,311,735)		(287,605)
<b>Provisions for liabilities</b>					
Deferred tax	18	(153,014)		(135,213)	
Other provisions	19	(754,972)		(925,919)	
			(907,986)		(1,061,132)
<b>Net assets</b>			9,033,423		6,960,440
<b>Capital and reserves</b>					
Called up share capital	21	50,000		50,000	
Share premium account	22	207		207	
Profit and loss account	22	8,983,216		6,910,233	
<b>Shareholders' funds</b>			9,033,423		6,960,440

The financial statements were approved by the Board of Directors and authorised for issue on 14-7-17



J G Harris  
Director

The notes on pages 10 to 26 form part of these financial statements.

# Horstman Defence Systems Limited

## Statement of changes in equity for the year ended 31 March 2017

Statement of changes in equity for the year ended 31 March 2017				
	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2016	50,000	207	6,910,233	6,960,440
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	2,072,983	2,072,983
<b>Total comprehensive income for the year</b>	-	-	2,072,983	2,072,983
<b>At 31 March 2017</b>	<b>50,000</b>	<b>207</b>	<b>8,983,216</b>	<b>9,033,423</b>

## Statement of changes in equity for the year ended 31 March 2016

	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2015	50,000	207	6,134,830	6,185,037
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	775,403	775,403
<b>Total comprehensive income for the year</b>	-	-	775,403	775,403
<b>At 31 March 2016</b>	<b>50,000</b>	<b>207</b>	<b>6,910,233</b>	<b>6,960,440</b>

The notes on pages 10 to 26 form part of these financial statements.

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017

### 1 Accounting policies

Horstman Defence Systems Limited is a private limited liability company incorporated and domiciled in England and Wales. The registered office is Locksbrook Road, Bath, Avon, BA1 3EX.

#### *Basis of preparation of financial statements*

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £1.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 2).

The following principal accounting policies have been applied:

#### *Financial reporting standard 102 - reduced disclosure exemptions*

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

- the requirements of Section 4 Statement of Financial Position paragraph 4 12(a)(1V);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3 17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11 39 to 11 48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12 26 to 12 29;
- the requirements of Section 33 Related Party Disclosures paragraph 33 7

This information is included in the consolidated financial statements of Horstman Holdings Limited as at 31 March 2017 and these financial statements may be obtained from Horstman Holdings Limited, c/o Shakespeare Martineau LLP, No 1 Colmore Square, Birmingham, B4 6AA.

#### *Going concern*

The company changed its banking arrangements subsequent to the year end to new bankers. No overdraft and loan facilities are provided within these new arrangements. If required, the company is funded by a short term trade finance facility which is repayable in 120 days. The director remains confident that the short term trade finance facility extant at the year end of £1,520,000 (2016 - £1,315,000) will continue to be available and renewed when necessary for the foreseeable future.

The company has prepared a cash flow forecast for the period ended 31 March 2021 based on expectations of future trading. This forecast shows that the company can operate within the available funding facilities noted above and therefore should be able to pay its liabilities as they fall due for at least twelve months following the date of approval of these financial statements.

The company is also seeking to obtain additional mortgage funding to repay its current mortgage of £223,000 and provide additional funding to the company.

The company is party to a cross guarantee securing certain banking facilities of related parties, being companies owned by the director of the company. The amount outstanding at the year end is £550,000 (2016 - £550,000). The director considers that the likelihood of a default event arising such that the cross guarantees would be called upon is remote.

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

### 1 Accounting policies (*continued*)

Having considered these matters, the director considers it appropriate to continue to adopt the going concern basis in preparing the financial statements.

#### *Revenue*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the customer, usually on despatch of the goods. Where contracts allow for milestone claims, revenue is recognised upon completion of works or services provided in accordance with the contract. Revenue from the provision of other services is recognised when the services have been provided.

#### *Tangible fixed assets*

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

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold buildings	-	2 to 4% straight line
Plant and machinery	-	7 to 25% straight line

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 administrative expenses in the statement of comprehensive income.

Under Section 35 10 of FRS 102 the company has taken advantage of the opportunity to use the previous carrying value of the transition date, being 1 April 2014, as deemed cost. From this point onwards freehold buildings have been depreciated on this basis.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the income statement.

#### *Debtors*

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

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Cash and cash equivalents*

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

#### *Creditors*

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

#### *Financial instruments*

The company enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

#### *Financial assets*

Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received.

Other debt instruments, including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method.

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

The impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

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

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for foreign exchange derivatives.

#### *Government grants*

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the income statement at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the income statement in the same period as the related expenditure.

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

### 1 Accounting policies (*continued*)

#### *Foreign currency translation*

##### Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary asset and liabilities denominated in foreign currencies are currently recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other operating income'.

#### *Finance costs*

Finance costs are charged to the income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction on the proceeds of the associated capital instrument.

#### *Operating leases - lessee*

Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease.

#### *Leased assets: Lessee*

Assets obtained under hire purchase contract and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included on creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant period of rate of charge on the net obligation outstanding in each period.

#### *Pensions*

##### Defined contribution pension plan

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

The contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

#### *Interest income*

Interest income is recognised in the income statement using the effective interest method.

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Borrowing costs*

All borrowing costs are recognised in the income statement in the year in which they are incurred.

#### *Provision for liabilities*

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the income statement in the year that the company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

#### *Current and deferred taxation*

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits, and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### *Research and development*

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.



# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (continued)

### 2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets and disclosures of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The following judgments/estimates have had the most significant effect on amounts recognised in the financial statements.

#### Stock valuation

At each balance sheet date, stocks are reviewed for impairment. If stock is impaired the carrying value is reduced. The provision is based upon a percentage reduction linked to when the stock was last used, and whether any future contracts need the items of stock.

#### Recoverability of trade debtors

At each balance sheet date, debtors are reviewed for recoverability. If a concern exists as to the recoverability of any individual debtor, the carrying value is reduced. The provision is based upon an assessment of the amount which may not be recovered based on the evidence in hand at the time.

#### Recoverability of amounts due from parent company

At each balance sheet date, the amounts due from parent company are reviewed for recoverability. If a concern exists as to recoverability, the carrying value is reduced. The director (who is also the sole director of the parent company) notes that the recoverability of the amounts due from parent company are dependent on the recoverability of funds provided by the parent company to fellow subsidiaries to support their start up and initial development phases. The director considers that these subsidiaries are progressing as expected and at this stage considers that they will be able to repay the funding provided by the parent company which will enable the parent company to fully repay its debt to the company. Therefore at the date of approval of these financial statements, the director does not consider that any impairment is required against amounts due from parent company.

#### Warranty provision

Provision is made for potential warranty and other claims in respect of completed projects which are within their warranty period. This is based upon previous experience of warranty claims.

### 3 Analysis of turnover

The whole of the turnover is attributable to the one principal activity of the company.

Analysis of turnover by country of destination.

	2017 £	2016 £
United Kingdom	4,466,371	2,548,838
Rest of Europe	5,397,359	6,349,883
USA	1,749,552	2,313,497
Rest of the World	7,180,188	3,461,578
	<hr/>	<hr/>
	18,793,470	14,673,796
	<hr/>	<hr/>

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (continued)

## 4 Employees

	2017 £	2016 £
Staff costs consist of:		
Wages and salaries	3,273,628	3,001,212
Social security costs	343,624	312,220
Other pension costs	103,780	100,957
	<u>3,721,032</u>	<u>3,414,389</u>
The average number of employees, including the director, during the year was:	<b>Number</b>	<b>Number</b>
Sales, administration and distribution	13	11
Manufacturing	62	62
	<u>75</u>	<u>73</u>

## 5 Other operating income

	2017 £	2016 £
Royalty receivable	160,436	121,941
Grants receivable	-	128,270
	<u>160,436</u>	<u>250,211</u>

## 6 Operating profit

	2017 £	2016 £
This has been arrived at after charging/(crediting):		
Research and development	426,295	592,036
Depreciation of tangible fixed assets	435,259	487,200
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	23,580	22,000
Fees payable to the company's auditors and its associates for other services to the group:		
- other assurance procedures	-	5,000
Exchange differences	(65,188)	(193,379)
Defined contribution pension cost	103,780	100,957
	<u></u>	<u></u>

The director is an employee of other related companies where he is remunerated for his employment. No substantive qualifying services are provided by the director to the company and it is not considered that the director received remuneration in the current year (2016 - £Nil) in his capacity as director of the company.

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

<b>7</b>	<b>Interest receivable</b>	<b>2017</b>	<b>2016</b>
		<b>£</b>	<b>£</b>
	Interest receivable from group companies	<b>198,109</b>	137,105
		<hr/>	<hr/>
<b>8</b>	<b>Interest payable and similar charges</b>	<b>2017</b>	<b>2016</b>
		<b>£</b>	<b>£</b>
	Bank interest payable	<b>33,772</b>	62,383
	Mortgage interest payable	<b>7,551</b>	9,486
	Finance leases and hire purchase contracts	<b>28,326</b>	56,623
	Other interest payable	<b>289,534</b>	103,267
		<hr/>	<hr/>
		<b>359,183</b>	231,759
		<hr/>	<hr/>
<b>9</b>	<b>Taxation on profit from ordinary activities</b>	<b>2017</b>	<b>2016</b>
		<b>£</b>	<b>£</b>
	<b>Corporation tax</b>		
	Current tax on profits for the year	<b>353,949</b>	106,063
	Adjustments in respect of previous periods	<b>(15,655)</b>	-
		<hr/>	<hr/>
		<b>338,294</b>	106,063
		<hr/>	<hr/>
	<b>Foreign tax</b>		
	Foreign tax on income for the year	<b>16,044</b>	12,194
		<hr/>	<hr/>
	<b>Total current tax</b>	<b>354,338</b>	118,257
		<hr/>	<hr/>
	<b>Deferred tax</b>		
	Origination and reversal of timing differences	<b>18,738</b>	22,325
	Changes to tax rates	<b>(937)</b>	(7,116)
	Adjustments in respect of previous periods	<b>-</b>	335,748
		<hr/>	<hr/>
	<b>Total deferred tax</b>	<b>17,801</b>	350,957
		<hr/>	<hr/>
		<hr/>	<hr/>
	<b>Taxation on profit on ordinary activities</b>	<b>372,139</b>	469,214
		<hr/>	<hr/>

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

### 9 Taxation on profit from ordinary activities (*continued*)

#### Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 20% (2016 – 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	2,445,122	1,244,617
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20% (2016 - 20%)	489,024	248,923
Effects of:		
Expenses not deductible for tax purposes	2,535	2,529
Adjustments to tax charge in respect of prior periods	(15,655)	335,748
Other differences leading to a decrease in the tax charge	(102,828)	(110,870)
Effect of tax rate changes	(937)	(7,116)
<b>Tax charge for the year</b>	<b>372,139</b>	<b>469,214</b>

The other differences noted above relate to research and development tax credits.

#### *Factors that may affect future tax charges*

The 2016 budget confirmed that the UK corporation tax rate will reduce to 19% to apply from 1 April 2017 and to 17% from 1 April 2020.

These changes will impact the future tax liabilities of the company.

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

## 10 Tangible assets

	Freehold land and buildings £	Plant and machinery £	Total £
<i>Cost</i>			
At 1 April 2016	1,175,493	8,143,315	9,318,808
Additions	-	402,478	402,478
Disposals	-	(15,671)	(15,671)
Transfers between classes	(90,569)	90,569	-
	<u>1,084,924</u>	<u>8,620,691</u>	<u>9,705,615</u>
<i>Depreciation</i>			
At 1 April 2016	737,608	6,028,555	6,766,163
Charge for the year	38,710	396,549	435,259
Disposals	-	(15,671)	(15,671)
	<u>776,318</u>	<u>6,409,433</u>	<u>7,185,751</u>
<i>Net book value</i>			
At 31 March 2017	<u>308,606</u>	<u>2,211,258</u>	<u>2,519,864</u>
At 31 March 2016	<u>437,885</u>	<u>2,114,760</u>	<u>2,552,645</u>

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

	2017 £	2016 £
Plant and machinery	<u>316,133</u>	<u>178,229</u>

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

### 11 Stocks

	2017 £	2016 £
Raw materials and consumables	2,407,226	2,251,421
Work in progress	958,265	771,665
	<u>3,365,491</u>	<u>3,023,086</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stock recognised in cost of sales during the year as an expense was £7,908,372 (2016 - £6,030,127).

An impairment charge of £250,003 (2016 - £311,023 credit) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

The provision made against gross stock was £1,455,300 (2016 - £1,205,297).

### 12 Debtors

	2017 £	2016 £
<i>Due after more than one year:</i>		
Amounts owed by parent company	7,763,217	4,777,089
Financial instruments	-	5,311
	<u>7,763,217</u>	<u>4,782,400</u>
<i>Due within one year:</i>		
Trade debtors	1,997,433	2,032,204
Amounts owed by group undertakings	557,606	2,971,655
Other debtors	365,531	233,218
Prepayments and accrued income	126,356	232,606
Financial instruments	37,760	41,481
	<u>3,084,686</u>	<u>5,511,164</u>

The amounts owed by parent company earn interest at 2% over base rate. No repayments were made in 2016 and 2017. Note 2 contains other information in respect of this balance.

The amounts owed by group undertakings relate to trading balances.

The impairment loss recognised in profit or loss for the year in respect of bad and doubtful trade debts was £3,892 (2016 - £Nil).

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

## 13 Creditors: amounts falling due within one year

	2017 £	2016 £
Bank overdrafts	-	964,809
Bank loan (note 15)	51,986	50,366
Other loans (note 15)	1,519,946	1,315,267
Trade creditors	2,213,050	2,093,610
Amounts owed to related party undertakings	244,708	201,632
Corporation tax	433,068	94,774
Taxation and social security	103,210	82,000
Net obligations under finance lease and hire purchase contracts (note 16)	190,610	61,125
Accruals and deferred income	2,468,892	2,696,535
	<b>7,225,470</b>	<b>7,560,118</b>

## 14 Creditors: amounts falling due after more than one year

	2017 £	2016 £
Bank loan (note 15)	170,895	223,223
Net obligations under finance leases and hire purchase contracts (note 16)	240,840	64,382
Accruals and deferred income	900,000	-
	<b>1,311,735</b>	<b>287,605</b>

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

## 15 Loans

Analysis of the maturity of loans is given below:

	2017 £	2016 £
<b>Amounts falling due within one year</b>		
Bank loan	51,986	50,366
Other loans	1,519,946	1,315,267
	<u>1,571,932</u>	<u>1,365,633</u>
<b>Amounts falling due 1-2 years</b>		
Bank loan	53,646	51,976
	<u>53,646</u>	<u>51,976</u>
<b>Amounts falling due 2-5 years</b>		
Bank loan	117,249	166,110
	<u>117,249</u>	<u>166,110</u>
<b>Amounts falling due after more than 5 years</b>		
Bank loan	-	5,137
	<u>-</u>	<u>5,137</u>

The original amount of the bank loan was £510,000 repayable by December 2020 and interest is charged at base rate plus 2.65% per annum. The bank loan is secured by a charge over the freehold property included in fixed assets as disclosed in note 10 and also by a guarantee given by the holding company, Horstman Holdings Limited.

The other loans relate to a short term trade finance facility which is repayable in 120 days.

## 16 Hire purchase and finance leases

Future minimum lease payments under hire purchase fall due as follows:

	2017 £	2016 £
Within one year	190,610	61,125
Between 1-2 years	131,939	61,507
Between 2-5 years	108,901	2,875
	<u>431,450</u>	<u>125,507</u>

Net obligations under finance leases and hire purchase contracts are secured against the assets to which they relate.



# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

## 17 Financial instruments

	2017 £	2016 £
<b>Financial assets</b>		
Financial assets measured at fair value through profit or loss	37,760	46,792
Financial assets measured at amortised cost	12,429,143	10,014,166
	<u>12,466,903</u>	<u>10,060,958</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	(8,000,927)	(7,670,949)
	<u>(8,000,927)</u>	<u>(7,670,949)</u>

Financial assets measured at fair value through the income statement comprise expected gains on foreign currency forward contracts.

Financial assets measured at amortised cost comprise cash at bank and in hand, trade and other debtors and amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, trade and other creditors, amounts owed to related party undertakings, net obligations under finance leases and hire purchase contracts and accruals and deferred income.

### Foreign currency forward contracts

The group purchases forward currency contracts to hedge currency exposure on firm future commitments. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2017 were £732,910 (2016 - £2,175,603).

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months from the reporting date and, as a current asset or liability if the maturity of the hedged item is less than twelve month from the reporting date.

The fair values of the assets and liabilities held at fair value through profit and loss at the balance sheet date are determined using quoted prices. Where quoted prices are not available for derivatives the fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.

# Horstman Defence Systems Limited

Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)

<b>18 Deferred taxation</b>	<b>£</b>
At 1 April 2016	(135,213)
Charged to the profit or loss	(17,801)
	<hr/>
At 31 March 2017	<b>(153,014)</b>
	<hr/>

The deferred taxation balance is made up as follows:

	<b>2017 £</b>	<b>2016 £</b>
Accelerated capital allowances	(153,014)	(135,213)
	<hr/>	<hr/>
	<b>(153,014)</b>	<b>(135,213)</b>
	<hr/>	<hr/>

<b>19 Provisions</b>	<b>Provision for warranties £</b>
At 1 April 2016	925,919
Charged to the income statement	83,829
Utilised in year	(254,776)
	<hr/>
At 31 March 2017	<b>754,972</b>
	<hr/>

The warranty provision represents the best estimate of the potential exposure to the company on customer claims against work carried out. It is expected that any transfer of economic benefits will occur within two years.

## 20 Pension commitments

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the year end (2016 - £Nil).

# Horstman Defence Systems Limited

## Notes forming part of the financial statements for the year ended 31 March 2017 (*continued*)

### 21 Share capital

	2017 £	2016 £
<b>Allotted, called up and fully paid</b>		
50,000 Ordinary shares of £1 each	50,000	50,000

### 22 Reserves

#### Share capital

Called up share capital represents the nominal value of the shares issued.

#### Share premium

The reserve records the amount above the nominal value received for shares sold, less transaction costs.

#### Profit and loss account

Profit and loss account reserves relate to accumulated profits less distributions to shareholders.

### 23 Financial commitments

Capital commitments contracted for but not provided in the accounts amounted to £290,631 at 31 March 2017 (2016 - £7,670).

### 24 Contingent liabilities

As part of the normal process of trade, HSBC Bank PLC (the bankers at the year end) provides certain performance and advance payment guarantees required by some customers in relation to contracts entered into by the company. In return, the company provides the bank with counter indemnities for the granting of such guarantees, which at the balance sheet date amounted to £250,000 (2016 - £Nil).

The company has indemnified HSBC Bank PLC (the bankers at the year end) in connection with a duty deferment guarantee in favour of HM Revenue & Customs in the sum of £8,000 (2016 - £8,000).

The company is party to a cross guarantee securing certain banking facilities of related parties, being companies owned by the director of the company. The amount outstanding at the year end is £550,000 (2016 - £550,000). The facilities are secured by fixed and floating charges over the assets of the company and certain other UK companies under common ownership.

### 25 Related party transactions

As at 31 March 2017, the company owed £200,000 (2016 - £200,000) to HWH Investments Limited and £44,708 (2016 - £1,632) to A B Precision (Poole) Limited, being related companies under common control.

In accordance with FRS 102 section 33 1A the company has taken advantage of the exemption available not to disclose details of transactions entered into between its parent company, Horstman Holdings Limited and with fellow subsidiaries where 100% of the voting rights are controlled within the Horstman Holdings Limited group.

Key management personnel received remuneration, including benefits, of £644,903 (2016 - £517,697) during the year.

# **Horstman Defence Systems Limited**

**Notes forming part of the financial statements  
for the year ended 31 March 2017 (*continued*)**

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## **26 Ultimate parent company**

The company's parent company is Horstman Holdings Limited, a company registered in England and Wales. Consolidated financial statements of Horstman Holdings Limited may be obtained from Horstman Holdings Limited, c/o Shakespeare Martineau LLP, No 1 Colmore Square, Birmingham, B4 6AA.

The company is under the ultimate control of Mr J G Harris by virtue of his majority shareholding in the parent company.