

COMPANIES HOUSE COPY

Horstman Defence Systems Limited

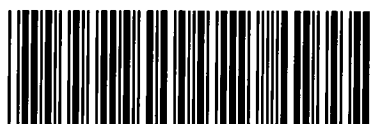
Report and Financial Statements

Year Ended

31 March 2018

Company Number 01511975

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Horstman Defence Systems Limited

**Report and financial statements
for the year ended 31 March 2018**

Contents

Page:

1	Strategic report
3	Director's report
5	Independent auditor's report
8	Statement of comprehensive income
9	Balance sheet
10	Statement of changes in equity
11	Notes forming part of the financial statements

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 2018

The director presents his strategic report together with the audited financial statements for the year ended 31 March 2018.

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

Whilst the company has seen strong growth in the order book recorded over the last two years, sales reduced by 5.8% in the current year reflecting the timing of revenues across current projects prior to a forecasted double digit percentage increase in turnover next year.

Order intake for the year was £41.2m contributing to a closing order book at the year-end of £58.6m.

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

Profit before tax for the year was £354,835 (2017 - £2,445,122) reflecting the lower turnover in the year and the start-up costs for new programmes.

The average number of employees increased by 12% in support of the projected increased sales and manufacturing throughput in the coming year.

A tax credit of £42,550 (2017 - £372,139 charge) was recorded resulting in profit after tax of £397,385 (2017 - £2,027,983).

Principal risks and uncertainties

Derivatives and financial instruments

The company's principal financial instruments, other than derivatives, 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 trade finance and property mortgage which attract interest at contracted values for each drawdown of funds. 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 2018 (*continued*)

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 trade finance and a property mortgage repayable by 2020.

The company changed its primary bankers during the year and is no longer party to a cross-guarantee securing certain banking facilities of other former group companies.

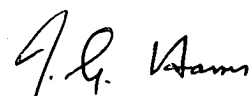
Foreign currency risk

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.

Funding and going concern

The primary working capital funding of the company is provided by short term financing facilities that have to be repaid on the due date and new facilities renegotiated. At the year end the short term trade finance facilities recorded in the financial statements amounted to £1.4m. At 30 November 2018 (the date of the most recent management accounts) the short term trade finance facilities amounted to £2.1m and were scheduled for repayment within 90 days in line with the arrangements. In addition, the company is also funded by a bank loan (mortgage) of £0.8m that is repayable over the period to December 2020 and is secured over the company property. The company does not have bank overdraft or other loan facilities. The director has prepared detailed profit and cash flow forecasts for the period to 31 March 2020 which show that the company continues to be dependent upon the ongoing successful repayment and renewal of the short term trade finance facilities. These forecasts assume significant sales and profits growth which is supported by a strong order book at the date of approval of the financial statements but the director is aware that these orders can sometimes be significantly delayed. The director of the company is satisfied that the company will be able to achieve its cash flow forecast for the period to 31 March 2020 and that the company will continue to be supported by short term trade finance facilities as required to support its working capital needs. Therefore, the director continues to adopt the going concern basis of accounting in preparing the financial statements and the financial statements do not include any adjustments that might be required in the event that the company was not able to continue as a going concern. However, these circumstances indicate the existence of a material uncertainty which may cast significant doubt over the company's ability to continue as a going concern.

This report was approved by the board on 19/12/2018 and signed on its behalf



J G Harris
Director

Horstman Defence Systems Limited

Director's report for the year ended 31 March 2018

The director presents his report together with the audited financial statements for the year ended 31 March 2018.

Results and dividends

The profit for the year, after taxation, amounted to £397,385 (2017 - £2,072,983).

No interim dividends were declared and paid during the year (2017 - £Nil). The director does not propose the payment of a final dividend (2017 - £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

Director's report for the year ended 31 March 2018 (*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

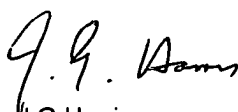
The director at the time when this director's report is approved has confirmed that:

- 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

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 15/2/2018 and signed on its behalf


J G Harris
Director

Horstman Defence Systems Limited

Independent auditor's report

TO THE MEMBERS OF HORSTMAN DEFENCE SYSTEMS LIMITED

Opinion

We have audited the financial statements of Horstman Defence Systems Limited ("the Company") for the year ended 31 March 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty relating to going concern

We draw attention to note 1 to the financial statements which explains that the company is dependent upon the continuation of short term trade finance facilities to enable it to meet its working capital requirements. These events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

Horstman Defence Systems Limited

Independent auditor's report (*continued*)

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 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.

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 and director's 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 Director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Horstman Defence Systems Limited

Independent auditor's report (*continued*)

Responsibilities of the Director

As explained more fully in the Director's report, the Director is 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 Director determines 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 Director is 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 Director either intends to liquidate the Company or to cease operations, or has 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 at 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.

BDO LLP

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

Date: 19-12-2018

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 2018

	Note	2018 £	2017 £
Turnover	3	17,770,890	18,793,470
Cost of sales		(14,004,942)	(13,928,656)
Gross profit		3,765,948	4,864,814
Distribution costs		(575,639)	(738,497)
Administrative expenses		(2,492,001)	(1,671,525)
Other operating income	5	258,275	160,436
Fair value movements		(29,439)	(9,032)
Operating profit	6	927,144	2,606,196
Interest receivable and similar income	7	-	198,109
Interest payable and expenses	8	(572,309)	(359,183)
Profit before tax		354,835	2,445,122
Tax on profit	9	42,550	(372,139)
Profit for the year		397,385	2,072,983
Total comprehensive income for the year		397,385	2,072,983

There were no recognised gains and losses for the year ended 31 March 2018 or for the year ended 31 March 2017 other than those included in the statement of comprehensive income above.


The notes on pages 11 to 27 form part of these financial statements.

Horstman Defence Systems Limited

Balance sheet as at 31 March 2018

Company number 01511975	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	10		3,125,304		2,519,864
Current assets					
Stocks	11	5,339,085		3,365,491	
Debtors:	12				
- amounts falling due after more than one year		9,983,048		7,763,217	
- amounts falling due within one year		3,612,011		3,084,686	
Cash at bank and in hand		598,690		1,745,356	
		<u>19,532,834</u>		<u>15,958,750</u>	
Creditors: amounts falling due within one year	13	<u>(8,384,790)</u>		<u>(7,225,470)</u>	
Net current assets			<u>11,148,044</u>		<u>8,733,280</u>
Total assets less current liabilities			<u>14,273,348</u>		<u>11,253,144</u>
Creditors: amounts falling due after more than one year	14	(4,112,622)			(1,311,735)
Provisions for liabilities					
Deferred tax	18	(162,098)		(153,014)	
Other provisions	19	(567,820)		(754,972)	
		<u>(729,918)</u>		<u>(907,986)</u>	
Net assets			<u>9,430,808</u>		<u>9,033,423</u>
Capital and reserves					
Called up share capital	21	50,000		50,000	
Share premium account	22	207		207	
Profit and loss account	22	9,380,601		8,983,216	
Shareholders' funds			<u>9,430,808</u>		<u>9,033,423</u>

The financial statements were approved by the Board of Directors and authorised for issue on 19/12/2018


J. G. Harris
Director

The notes on pages 11 to 27 form part of these financial statements.

Horstman Defence Systems Limited

Statement of changes in equity for the year ended 31 March 2018

	Share capital £	Share premium £	Profit and loss account £	Total equity £
At 1 April 2017	50,000	207	8,983,216	9,033,423
Comprehensive income for the year				
Profit for the year	-	-	397,385	397,385
Total comprehensive income for the year	-	-	397,385	397,385
At 31 March 2018	50,000	207	9,380,601	9,430,808

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
Comprehensive income for the year				
Profit for the year	-	-	2,072,983	2,072,983
Total comprehensive income for the year	-	-	2,072,983	2,072,983
At 31 March 2017	50,000	207	8,983,216	9,033,423

The notes on pages 11 to 27 form part of these financial statements.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018

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. The nature of the company's operations and its principal activities are that of the design, manufacture, refurbishment and sale of suspension systems, gearboxes, auxiliary power units and components, high precision torpedo parts and naval instrumentation equipment.

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 2018 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 primary working capital funding of the company is provided by short term financing facilities that have to be repaid on the due date and new facilities renegotiated. At the year end the short term trade finance facilities recorded in the financial statements amounted to £1.4m. At 30 November 2018 (the date of the most recent management accounts) the short term trade finance facilities amounted to £2.1m and were scheduled for repayment within 90 days in line with the arrangements. In addition, the company is also funded by a bank loan (mortgage) of £0.8m that is repayable over the period to 31 December 2020 and is secured over the company property. The company does not have bank overdraft or other loan facilities. The director has prepared detailed profit and cash flow forecasts for the period to 31 March 2020 which show that the company continues to be dependent upon the ongoing successful repayment and renewal of the short term trade finance facilities. These forecasts assume significant sales and profits growth which is supported by a strong order book at the date of approval of the financial statements but the director is aware that these orders can sometimes be significantly delayed. The director of the company is satisfied that the company will be able to achieve its cash flow forecast for the period to 31 March 2020 and that the company will continue to be supported by short term trade finance facilities as required to support its working capital needs. Therefore, the director continues to adopt the going concern basis of accounting in preparing the financial statements.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (continued)

1 Accounting policies (continued)

Going concern (continued)

and the financial statements do not include any adjustments that might be required in the event that the company was not able to continue as a going concern. However, these circumstances indicate the existence of a material uncertainty which may cast significant doubt over the company's ability to continue as a going concern.

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. 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.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (*continued*)

1 Accounting policies (*continued*)

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.

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.

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.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 *(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.

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.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (*continued*)

1 Accounting policies (*continued*)

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.

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.

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (continued)

1 Accounting policies (continued)

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.

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.

Tangible assets

Tangible assets are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use.

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

The director of the company is also the sole director of the parent company and the noted subsidiaries in USA and Canada. At each balance sheet date the amounts due from the parent company are reviewed for impairment. This review considers both the value of the current recorded net assets of the parent company as well as expected future cash flows from subsidiary companies including two recently established subsidiaries in USA and Canada that have required a significant level of start-up funding that this recorded as part of amounts due from subsidiary companies. The future cash flows of these subsidiaries is based on a discounted future cash flows for five years and then into perpetuity at an appropriate discount rate. The director notes that the forecasts for the subsidiaries in USA and Canada shows significant growth in sales, profits and cash flows and these have to be achieved in order to support the repayment of the amounts due from these companies to the parent company. These cash flows show that significant cash flows should be able to be made to the parent company of the subsidiaries (by repayment of loan funding and dividends) and should support the repayment of amounts due from parent company to the company. The director also notes that the company should have the ability to pay a dividend to the parent company from its retained reserves

Horstman Defence Systems Limited

Notes forming part of the financial statements for the year ended 31 March 2018 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

(£9.5m at 31 March 2018 and expected to significantly increase for the year ending 31 March 2019) that can be used to fully or substantially repay the amount due from parent company. Any such dividend payments will reduce the net assets of the company by the amount of the dividend payment - therefore by £10m if the full value of the amount due from parent company was to be repaid using this approach. Given these various factors 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.

	2018 £	2017 £
United Kingdom	4,525,545	4,466,371
Rest of Europe	5,651,874	5,397,359
USA	1,790,650	1,749,552
Rest of the World	5,802,821	7,180,188
	17,770,890	18,793,470

4 Employees

	2018 £	2017 £
Staff costs consist of:		
Wages and salaries	3,508,340	3,273,628
Social security costs	402,815	343,624
Other pension costs	115,602	103,780
	4,026,757	3,721,032

The average number of employees, including the director, during the year was:

	Number	Number
Sales, administration and distribution	15	13
Manufacturing	69	62
	84	75

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (continued)

5 Other operating income

	2018 £	2017 £
Royalty receivable	134,054	160,436
Other receivable	124,221	-
	<u>258,275</u>	<u>160,436</u>

6 Operating profit

	2018 £	2017 £
This has been arrived at after charging/(crediting):		
Research and development	460,943	426,295
Depreciation of tangible fixed assets	496,973	435,259
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	25,330	23,580
Exchange differences	50,181	(65,188)
Defined contribution pension cost	115,602	103,780
	<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 (2017 - £Nil) in his capacity as director of the company.

7 Interest receivable

	2018 £	2017 £
Interest receivable from group companies	-	198,109
	<u></u>	<u></u>

8 Interest payable and similar charges

	2018 £	2017 £
Bank overdraft interest payable	-	33,772
Bank loan interest payable	36,904	7,551
Finance leases and hire purchase contracts	152,438	28,326
Other interest payable	382,967	289,534
	<u>572,309</u>	<u>359,183</u>

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (continued)

9 Taxation on profit from ordinary activities

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	(52,659)	353,949
Adjustments in respect of previous periods	(12,380)	(15,655)
	<u>(65,039)</u>	<u>338,294</u>
Foreign tax		
Foreign tax on income for the year	13,405	16,044
	<u>13,405</u>	<u>16,044</u>
Total current tax	<u>(51,634)</u>	<u>354,338</u>
Deferred tax		
Origination and reversal of timing differences	9,084	18,738
Changes to tax rates	-	(937)
Adjustments in respect of previous periods	-	-
	<u>9,084</u>	<u>17,801</u>
Total deferred tax	<u>9,084</u>	<u>17,801</u>
Taxation on profit on ordinary activities	<u>(42,550)</u>	<u>372,139</u>

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 19% (2017 – 20%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	<u>354,835</u>	<u>2,445,122</u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017 - 20%)	67,419	489,024
Effects of:		
Expenses not deductible for tax purposes	792	2,535
Adjustments to tax charge in respect of prior periods	(12,380)	(15,655)
Other differences leading to a decrease in the tax charge	(111,786)	(102,828)
Effect of tax rate changes	-	(937)
Sundry differences	13,405	-
	<u>(42,550)</u>	<u>372,139</u>
Tax (credit)/charge for the year	<u>(42,550)</u>	<u>372,139</u>

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

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (*continued*)

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

Factors that may affect future tax charges

The 2017 budget confirmed that the UK corporation tax rate will reduce to 19% to apply from 1 April 2018 and to 17% from 1 April 2020.

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

10 Tangible assets

	Freehold land and buildings £	Plant and machinery £	Total £
<i>Cost</i>			
At 1 April 2017	1,084,924	8,620,691	9,705,615
Additions	31,303	1,087,046	1,118,349
Disposals	-	(134,969)	(134,969)
	<hr/>	<hr/>	<hr/>
At 31 March 2018	1,116,227	9,572,768	10,688,995
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 April 2017	776,318	6,409,433	7,185,751
Charge for the year	38,664	458,309	496,973
Disposals	-	(119,033)	(119,033)
	<hr/>	<hr/>	<hr/>
At 31 March 2018	814,982	6,748,709	7,563,691
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2018	301,245	2,824,059	3,125,304
	<hr/>	<hr/>	<hr/>
At 31 March 2017	308,606	2,211,258	2,519,864
	<hr/>	<hr/>	<hr/>

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

	2018 £	2017 £
Plant and machinery	1,551,235	1,334,485
	<hr/>	<hr/>

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (*continued*)

11 Stocks

	2018 £	2017 £
Raw materials and consumables	3,575,314	2,407,226
Work in progress	1,691,623	958,265
Finished goods	72,148	-
	<u>5,339,085</u>	<u>3,365,491</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 £7,290,198 (2017 - £7,908,372).

An impairment charge of £105,812 (2017 - £250,003) 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 £1,561,112 (2017 - £1,455,300).

12 Debtors

	2018 £	2017 £
<i>Due within one year:</i>		
Trade debtors	2,374,017	1,997,433
Amounts owed by group undertakings	445,214	557,606
Other debtors	551,591	365,531
Prepayments and accrued income	232,868	126,356
Financial instruments	8,321	37,760
	<u>3,612,011</u>	<u>3,084,686</u>
<i>Due after more than one year:</i>		
Amounts owed by parent company	9,983,048	7,763,217

The amounts owed by parent company earn interest at 2% over base rate. No repayments were made in 2017 and 2018. 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 £2,022 (2017 - £3,892).

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (*continued*)

13 Creditors: amounts falling due within one year

	2018 £	2017 £
Bank loan (note 15)	74,906	51,986
Other loans (note 15)	1,357,693	1,519,946
Trade creditors	3,587,834	2,213,050
Amounts owed to related party undertakings	200,000	244,708
Corporation tax	289,384	433,068
Taxation and social security	107,943	103,210
Net obligations under finance lease and hire purchase contracts (note 16)	382,857	190,610
Accruals and deferred income	1,290,893	1,549,051
Payments received on account	1,093,280	919,841
	8,384,790	7,225,470

14 Creditors: amounts falling due after more than one year

	2018 £	2017 £
Bank loan (note 15)	755,829	170,895
Net obligations under finance leases and hire purchase contracts (note 16)	969,787	240,840
Payments received on account	2,387,006	900,000
	4,112,622	1,311,735

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (continued)

15 Loans

Analysis of the maturity of loans is given below:

	2018 £	2017 £
Amounts falling due within one year		
Bank loan (mortgage)	74,906	51,986
Other loans	1,357,693	1,519,946
	<hr/>	<hr/>
	1,432,599	1,571,932
	<hr/>	<hr/>
Amounts falling due 1-2 years		
Bank loan (mortgage)	37,364	53,646
	<hr/>	<hr/>
Amounts falling due 2-5 years		
Bank loan (mortgage)	718,465	117,249
	<hr/>	<hr/>
Amounts falling due after more than 5 years		
Bank loan (mortgage)	-	-
	<hr/>	<hr/>

The bank loan (mortgage) is repayable by December 2020 and interest is charged at base rate plus 2.25% per annum. The bank loan (mortgage) 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:

	2018 £	2017 £
Within one year	382,857	190,610
Between 1-2 years	344,350	131,939
Between 2-5 years	625,437	108,901
	<hr/>	<hr/>
	1,352,644	431,450
	<hr/>	<hr/>

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 2018 (*continued*)

17 Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets measured at fair value through profit or loss	8,321	37,760
Financial assets measured at amortised cost	13,952,560	12,429,143
	<u>13,960,881</u>	<u>12,466,903</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(12,100,085)	(8,000,927)
	<u>(12,100,085)</u>	<u>(8,000,927)</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, accruals and deferred income and payments received on account.

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 2018 were £493,827 (2017 - £732,910).

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 2018 (*continued*)

18 Deferred taxation	£
At 1 April 2017	(153,014)
Charged to the profit or loss	(9,084)
	<hr/>
At 31 March 2018	(162,098)
	<hr/>

The deferred taxation balance is made up as follows:

	2018 £	2017 £
Accelerated capital allowances	(162,630)	(153,014)
Other differences	532	-
	<hr/>	<hr/>
	(162,098)	(153,014)
	<hr/>	<hr/>

19 Provisions	Provision for warranties £
At 1 April 2017	754,972
Charged to the income statement	50,086
Utilised in year	(237,238)
	<hr/>
At 31 March 2018	567,820
	<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 (2017 - £Nil).

21 Share capital	2018 £	2017 £
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>

Horstman Defence Systems Limited

Notes forming part of the financial statements
for the year ended 31 March 2018 (*continued*)

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 £2,390,396 at 31 March 2018 (2017 - £290,631).

24 Contingent liabilities

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 £Nil (2017 - £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 2018, the company owed £200,000 (2017 - £200,000) to HWH Investments Limited and £Nil (2017 - £44,708) 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 £1,126,354 (2017 - £644,903) during the year.

Horstman Defence Systems Limited

**Notes forming part of the financial statements
for the year ended 31 March 2018 (*continued*)**

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.