

# **BARKERS ENGINEERING LIMITED**

Registered number 00597466

Annual Report and Financial Statements  
For the year ended 31 December 2016



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## Strategic Report

### Principal activity

The principal activity of the Company is the manufacture and supply of fencing and related products, galvanizing and powder coating.

### Business review and future developments

Overview – Turnover for the year was £21,502,000 (2015: £23,527,000), while profit on ordinary activities before taxation amounted to £1,657,000 (2015: £1,839,000). A number of significant infrastructure fencing projects in 2015 were not repeated in 2016 while spend on fencing in the Company's rail markets was lower compared to the prior year. However, turnover in other fencing markets improved and the Company's galvanising, powder-coating and fastener divisions all performed better than in 2015. Gross margins improved across the business.

Strategy – In a highly competitive market the Company strives to be the lowest cost producer of steel security fencing in the UK through capital investment and productivity improvements. The directors also seek to fully utilise the capacity we have in our galvanising and coating plants to increase our presence in those markets. The Company has developed new fencing products to help increase its market share in the growing high security fencing sector.

Corporate Social Responsibility – The Company recognises the importance of balancing the interest of key stakeholders – employees, customers, shareholders, suppliers and the wider community in which it operates. The Company remains committed to a continuous improvement in its environmental performance to ensure that its activities comply with environmental standards and legislation.

Health and Safety – Health and safety remains core to the Company's business. The Company is committed to a continuous improvement in its health and safety performance and its activities comply with health and safety standards and legislation. Further details of the Group's health and safety activities can be found in the Hill & Smith Holdings PLC annual Report.

Outlook – The UK fencing market remains strong and our presence in the market remains as one of the leading producers. Raw material costs have risen significantly in recent months and this is an area that we will manage closely in order to protect our margins and market share in the UK fencing market in 2017. Despite the challenge of rising raw material costs the outlook for 2017 is generally positive.

### Principal risks and uncertainties

The Board continues to develop policies and procedures that reflect the nature and scale of the Company's business. These are designed to identify, mitigate and manage risk. The Board has identified the following key areas of risk to the business: reduced UK market budgets for on and off highways products; Local Authority spending profile; and competitor technical innovation.

### Key performance indicators

The Group's key performance indicators are commented on in detail in the Hill & Smith Holdings PLC Annual Report. Those that specifically relate to the Company are as follows:

*Financial* – The Company considers revenue growth, operating margin, return on capital employed and net cash flow from operating activities to be its principal financial key performance indicators.

*Non-financial* – Health and safety, energy efficiency, emissions, use of recycled products and waste management are all principal areas of focus for the Company.

By order of the Board



C A Henderson  
Secretary

Westhaven House  
Arleston Way  
Shirley, Solihull  
West Midlands  
B90 4LH

2 May 2017

## Directors' Report

The Directors present their Report and audited Financial Statements for the year ended 31 December 2016.

### Research and development

The Company spent £nil on research and development during the year (2015: £nil).

### Dividends

A dividend payment of £1,000,000 has been made in the year ended 31 December 2016 (2015: £800,000). There are no proposed dividends.

### Directors

The Directors serving during the year and in the period up to the date of this Report were as follows:

G Dale  
D W Muir  
M Pegler  
R Ridgway  
A Rowe

### Political contributions

The Company made no political donations or incurred any political expenditure during the year.

### Employees

Details of the number of employees and related costs can be found in note 6 to the Financial Statements.

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

The Company participates in Hill & Smith Holdings PLC's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

### Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



C A Henderson  
Secretary

2 May 2017

Westhaven House  
Arleston Way  
Shirley  
Solihull  
West Midlands  
B90 4LH

## **Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements**

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## Independent Auditor's Report to the members of Barkers Engineering Limited

We have audited the Financial Statements of Barkers Engineering Limited for the year ended 31 December 2016 set out on pages 5 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. 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 Auditing Practices Board'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 Financial Reporting Council'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 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the Financial Statements. Based solely on the work required to be undertaken in the course of the audit of the Financial Statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

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.



**Andrew Cawthray (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
United Kingdom

5 May 2017

**Profit and Loss Account**  
*for the year ended 31 December 2016*

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Turnover	2	21,502	23,527
Cost of sales		(16,550)	(18,540)
<b>Gross profit</b>		<b>4,952</b>	<b>4,987</b>
Distribution costs		(1,186)	(1,125)
Administrative expenses		(2,119)	(2,031)
Operating profit before re-organisation costs		1,647	1,831
Re-organisation costs	3	-	-
<b>Operating profit</b>		<b>1,647</b>	<b>1,831</b>
Income from shares in subsidiary undertakings		-	-
<b>Profit before interest and taxation</b>		<b>1,647</b>	<b>1,831</b>
Interest receivable	7	15	42
Interest payable and similar charges	8	(5)	(34)
<b>Profit before taxation</b>	4	<b>1,657</b>	<b>1,839</b>
Taxation on profit	9	(312)	(365)
<b>Profit for the financial year</b>		<b>1,345</b>	<b>1,474</b>
<b>Other comprehensive income</b>			
<i>Items that will not be classified to profit or loss:</i>			
Taxation on other comprehensive income		-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>1,345</b>	<b>1,474</b>

All operations are continuing.

The notes on pages 8 to 23 form part of the Financial Statements.

**Balance Sheet**  
**as at 31 December 2016**

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	10	7	9
Tangible assets	11	1,296	1,184
		<u>1,303</u>	<u>1,193</u>
<b>Current assets</b>			
Stocks	12	2,381	2,204
Debtors	13	4,493	4,623
Cash at bank and in hand		1,924	1,475
		<u>8,798</u>	<u>8,302</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(6,299)</u>	<u>(6,056)</u>
<b>Net current assets</b>		<u>2,499</u>	<u>2,246</u>
<b>Total assets less current liabilities</b>		<u>3,802</u>	<u>3,439</u>
<b>Provisions for liabilities</b>			
Deferred tax	15	-	-
<b>Net assets</b>		<u>3,802</u>	<u>3,439</u>
<b>Capital and reserves</b>			
Called up share capital	16	1,840	1,840
Profit and loss account		1,962	1,599
<b>Shareholder's funds</b>		<u>3,802</u>	<u>3,439</u>

The notes on pages 8 to 23 form part of the Financial Statements.

These Financial Statements were approved by the Board of Directors and signed on their behalf by:



G Dale  
Director



A Rowe  
Director

Date: 2 May 2017

Company No. 00597466



**Statement of Changes in Equity**  
*for the year ended 31 December 2016*

	<b>Called up share capital £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
At 1 January 2015	1,840	905	2,745
<b>Comprehensive income</b>			
Profit for the year	-	1,474	1,474
Other comprehensive income for the year	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	20	20
<b>Transactions with owners recognised directly in equity</b>			
Dividends	-	(800)	(800)
<b>At 31 December 2015</b>	<b>1,840</b>	<b>1,599</b>	<b>3,439</b>
<b>Comprehensive income</b>			
Profit for the year	-	1,345	1,345
Other comprehensive income for the year	-	-	-
Tax taken directly to the Statement of Changes in Equity	-	18	18
<b>Transactions with owners recognised directly in equity</b>			
Dividends	-	(1,000)	(1,000)
<b>At 31 December 2016</b>	<b>1,840</b>	<b>1,962</b>	<b>3,802</b>

## Notes

### *(forming part of the Financial Statements)*

#### **1 Accounting policies**

The following accounting policies have been applied consistently in the current and prior period in dealing with items which are considered material in relation to the Company's Financial Statements, except as noted below.

#### ***Basis of preparation***

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Hill & Smith Holdings PLC includes the Company in its Consolidated Financial Statements. The Consolidated Financial Statements of Hill & Smith Holdings PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Group Headquarters (see note 23).

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the Consolidated Financial Statements of Hill & Smith Holdings PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Measurement convention**

The Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

#### **Going concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company participates in the Group's centralised treasury and banking arrangements, along with its parent and certain fellow subsidiaries, as shown in note 18. However, the Directors have no reason to believe that a material uncertainty exists for the Company since the Directors of the Company's parent, Hill & Smith Holdings PLC, have already signed the Annual Report and Accounts for the same period on a going concern basis. The Directors of the Company therefore have evidence of the Group's ability to continue in operational existence for the foreseeable future with its current banking arrangements. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

#### **Foreign currencies**

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

#### **Turnover**

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

## Notes (continued)

### 1 Accounting policies (continued)

#### **Research and development**

Expenditure on research activities is recognised in the Profit and Loss Account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Profit and Loss Account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

#### **Amortisation**

Amortisation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Balance Sheet date. Other intangible assets are amortised from the date they are available for use up to a maximum of 20 years.

#### **Financial instruments**

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

##### *Fair value hedges*

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the Profit and Loss Account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the Profit and Loss Account (even if those gains would normally be recognised directly in reserves).

#### **Provisions**

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## Notes (continued)

### 1 Accounting policies (continued)

#### **Tangible Fixed assets and depreciation**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Plant, equipment and vehicles	-	4 to 20 years
Buildings	-	50 years
Leasehold assets	-	the life of the lease

Depreciation methods, useful lives and residual values are reviewed at each Balance Sheet date

#### **Stocks and work in progress**

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Balance Sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Leases*

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the Profit and Loss Account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Profit and Loss Account as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

#### *Expenses*

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Profit and Loss Account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### *Pension scheme arrangements*

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The Company's employees are members of Group-wide defined benefit schemes. The net defined benefit cost of the plans is allocated to participating entities based on the employing entity of the participating employees of the scheme. The contributions payable by the participating entities are determined on the same basis.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **Share based payments**

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each Balance Sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

The share option programme allows employees to acquire shares of the ultimate parent company Hill & Smith Holdings PLC. The fair value of options granted after 7 November 2002 and those not yet vested by 31 December 2004 are not recognised as an employee expense, while those vested from 1 January 2005 onwards are expensed with a corresponding increase in equity.

Share-based payments are recharged by the ultimate parent company to participating subsidiary undertakings on an annual basis. Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity settled.

#### **Dividends**

Dividends are recognised in the Financial Statements in the period in which they are approved by the Company's shareholders.

## Notes (continued)

### 2 Turnover

The turnover of the Company is derived from the following geographical markets:

	2016 £000	2015 £000
United Kingdom	20,880	23,121
Rest of Europe	286	159
Rest of the world	336	247
	<u>21,502</u>	<u>23,527</u>

In the opinion of the Directors, there is only one class of business.

### 3 Reorganisation costs

There were no reorganisation costs in the year (2015: £nil).

### 4 Profit before taxation

	2016 £000	2015 £000
<b>Profit before taxation is stated</b>		
<i>after charging:</i>		
Depreciation:		
Owned assets	326	363
Amortisation of intangible assets	2	3
Operating leases:		
Plant and equipment	50	59
Other assets	203	202
Auditor's remuneration	12	11
Loss on sale of fixed assets	16	7
	<u>          </u>	<u>          </u>

Fees paid to KPMG LLP and its associates for non-audit services to the Company itself are not disclosed because Hill & Smith Holdings PLC Group accounts are required to disclose such fees on a consolidated basis.



## Notes (continued)

### 5 Remuneration of Directors

Aggregate Directors' remuneration for the year was as follows:

	2016 £000	2015 £000
Emoluments	433	395
Company contributions to money purchase pension schemes	12	11
	<u>445</u>	<u>406</u>
	<u><u>445</u></u>	<u><u>406</u></u>
	Number	Number
Directors exercising share options	-	2
Directors who are members of defined benefit pension schemes	-	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

The remuneration of the highest paid director excluding pension contributions was £209,000 (2015: £203,000). His accrued pension entitlement per annum at the year-end was £68,000 (2015: £68,000).

### 6 Staff numbers and costs

The average number of persons employed by the Company (including Directors) all of whom were involved in the principal activity was:

	2016 Number	2015 Number
Production	154	149
Administration	19	17
Sales and distribution	18	19
	<u>191</u>	<u>185</u>
	<u><u>191</u></u>	<u><u>185</u></u>

The aggregate payroll costs of these persons were:

	£000	£000
Wages and salaries	4,324	4,074
Share-based payment (see note 21)	26	14
Social security costs	367	348
Other pension costs (see note 19)	107	97
	<u>4,824</u>	<u>4,533</u>
	<u><u>4,824</u></u>	<u><u>4,533</u></u>

**Notes (continued)**

**7 Interest receivable**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Bank interest receivable	<b>15</b>	<b>42</b>
	<hr/>	<hr/>
	<b>15</b>	<b>42</b>
	<hr/>	<hr/>

**8 Interest payable and similar charges**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
On loans from group undertakings	<b>5</b>	<b>34</b>
	<hr/>	<hr/>
	<b>5</b>	<b>34</b>
	<hr/>	<hr/>

**9 Taxation on profit**

*Analysis of charge in year*

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<i>UK corporation tax</i>		
Current tax for the year	<b>328</b>	<b>395</b>
Relating to the prior year	<b>-</b>	<b>-</b>
	<hr/>	<hr/>
Current tax charge	<b>328</b>	<b>395</b>
<i>Deferred tax (see note 15)</i>		
Current year credit	<b>(16)</b>	<b>(27)</b>
Effect of change in tax rate	<b>-</b>	<b>(3)</b>
	<hr/>	<hr/>
Deferred tax credit	<b>(16)</b>	<b>(30)</b>
	<hr/>	<hr/>
Total tax charge	<b>312</b>	<b>365</b>
	<hr/>	<hr/>

## Notes (continued)

### 9 Taxation on profit (continued)

#### Factors affecting tax charge for the year

The effective current tax rate for the year is lower (2015: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £000	2015 £000
<i>Total tax reconciliation</i>		
Profit before taxation	1,657	1,839
	<hr/>	<hr/>
Profit multiplied by the effective rate of corporation tax in the UK of 20% (2015: 20.25%)	331	372
<i>Effects of:</i>		
Expenses not deductible for tax purposes	16	10
Employee benefits	(38)	(17)
Difference between current and deferred tax rates	3	3
Effect of change in deferred tax rate	-	(3)
	<hr/>	<hr/>
<b>Total tax charge</b>	<b>312</b>	<b>365</b>
	<hr/>	<hr/>

In the UK Budget on 8 July 2015, the UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned.

The rate reduction to 17% was enacted during the period and therefore the deferred tax balance has been calculated at 17% (2015: 18%) on the basis that this balance will materially reverse after 1 April 2020.

**Notes (continued)**

**10 Intangible assets**

	Capitalised R&D £000	Total £000
<b>Cost</b>		
At 1 January 2016	116	116
Additions	-	-
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>116</b>	<b>116</b>
	<hr/>	<hr/>
<b>Amortisation</b>		
At 1 January 2016	107	107
Charge for the year	2	2
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>109</b>	<b>109</b>
	<hr/>	<hr/>
<b>Net book value</b>		
<b>At 31 December 2016</b>	<b>7</b>	<b>7</b>
	<hr/>	<hr/>
At 31 December 2015	9	9
	<hr/>	<hr/>

## Notes (continued)

### 11 Tangible fixed assets

	Plant, equipment and vehicles £000	Total £000
<b>Cost</b>		
At 1 January 2016	5,474	5,474
Additions	463	463
Disposals	(374)	(374)
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>5,563</b>	<b>5,563</b>
	<hr/>	<hr/>
<b>Depreciation</b>		
At 1 January 2016	4,290	4,290
Charge for the year	326	326
Disposals	(349)	(349)
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>4,267</b>	<b>4,267</b>
	<hr/>	<hr/>
<b>Net book value</b>		
<b>At 31 December 2016</b>	<b>1,296</b>	<b>1,296</b>
	<hr/>	<hr/>
At 31 December 2015	1,184	1,184
	<hr/>	<hr/>

Included within plant, equipment and vehicles are assets held for hire with an accumulated cost of £nil (2015: £nil) and accumulated depreciation of £nil (2015: £nil).

Included in the total net book value of plant, equipment and vehicles is £nil (2015: £nil) in respect of assets held under finance leases and similar hire purchase contracts.

## Notes (continued)

### 12 Stocks

	2016 £000	2015 £000
Raw material and consumables	831	1,291
Work in progress	1,550	913
	<u>2,381</u>	<u>2,204</u>

The amount of stocks expensed to the profit and loss account in the year was £14,491,000 (2015: £16,505,000).

The value of stocks written down and expensed in the profit and loss account amounted to £62,000 (2015: £nil).

### 13 Debtors

	2016 £000	2015 £000
Trade debtors	3,806	3,994
Amounts owed by group undertakings	433	377
Deferred tax (note 15)	84	50
Prepayments and accrued income	162	202
Fair value derivatives (note 18)	8	-
	<u>4,493</u>	<u>4,623</u>

Intercompany loans are unsecured and with no fixed repayment date. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

### 14 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank loans and overdrafts	-	23
Trade creditors	3,973	4,070
Amounts owed to group undertakings	877	489
Other creditors	77	65
Corporation tax	330	397
Other tax and social security	373	459
Accruals and deferred income	669	551
Fair value derivatives (note 18)	-	2
	<u>6,299</u>	<u>6,056</u>

Intercompany loans are unsecured and with no fixed repayment date. Interest is charged at a rate equivalent to the Group's average borrowing rate for the year.

## Notes (continued)

### 15 Deferred tax

	Deferred Tax £000
At 1 January 2016	50
Profit and loss account	16
Statement of changes in equity	18
	<hr/>
<b>At 31 December 2016</b>	<b>84</b>
	<hr/> <hr/>

Details of amounts provided for deferred taxation follow:

	2016 £000	2015 £000
Capital allowances in excess of depreciation	(1)	13
Short term timing differences	(83)	(63)
	<hr/>	<hr/>
Deferred tax (asset)	(84)	(50)
	<hr/> <hr/>	<hr/> <hr/>

### 16 Called up share capital

	2016 £000	2015 £000
<b>Allotted, called up and fully paid</b>		
1,840,000 (2015: 1,840,000) ordinary shares of £1 each	1,840	1,840
	<hr/>	<hr/>
	1,840	1,840
	<hr/> <hr/>	<hr/> <hr/>

### 17 Contingent liabilities

The Company is a party to cross guarantees given for bank loans and overdrafts of the ultimate parent company and certain fellow subsidiaries amounting to £158,079,000 (2015: £119,286,000).

The Company has no other guarantees (2015: *Nil*).

## Notes (continued)

### 18 Commitments

Non-cancellable operating lease rentals payable as follows:

	Land and buildings		Other	
	2016	2015	2016	2015
	£000	£000	£000	£000
Within one year	177	177	78	62
Within two to five years	531	531	138	39
After more than five years	885	1,062	-	-
	<u>1,593</u>	<u>1,770</u>	<u>216</u>	<u>101</u>

The Company had capital expenditure contracted but not provided in the Financial Statements at the year end of £nil (2015: £22,000).

At the year end, the Company was committed to sell Euros through forward contracts which mature in 2017. The Company has included these derivatives in its results for the year (see note 13).

### 19 Pension Scheme

The Company is a subsidiary of Hill & Smith Holdings PLC and participates in the Hill & Smith 2016 Pension Scheme, which has sections that provide benefits on both a defined benefit and a defined contribution basis. Details of the Schemes and the most recent actuarial valuation are contained in note 23 to the Group Financial Statements. There are also separate personal pension plans.

The pension cost for the year represents contributions payable by the Company to the fund and amounted to £107,000 (2015: £97,000).

### 20 Dividends

	2016	2015
	£000	£000
Aggregate amount of dividends paid in the financial year	<u>1,000</u>	<u>800</u>

### 21 Share-based payments

Employees of the Company have been granted various options in the ultimate parent company, which have given rise to charges related to the implied share-based payments, the details of which can be found in the Financial Statements of Hill & Smith Holdings PLC

The total expense recognised for the period arising from share based payments is as follows:

	2016	2015
	£000	£000
Expensed during the year	<u>26</u>	<u>14</u>

### 22 Related party transactions

As an ultimately wholly owned subsidiary of Hill & Smith Holdings PLC, the Company has taken advantage of the exemption available under FRS 101 not to disclose transactions that have been made between the Company and other fellow subsidiaries of Hill & Smith Holdings PLC.



**Notes** *(continued)*

**23 Ultimate parent company**

The immediate and ultimate parent of the Company is Hill & Smith Holdings PLC, a company registered in England. Copies of the Group Financial Statements may be obtained from Group headquarters:

Westhaven House  
Arleston Way  
Shirley  
Solihull  
B90 4LH

**24 Post Balance Sheet events**

There were no significant post Balance Sheet events.