

Company Registration No. 01511975

Horstman Defence Systems Limited

Annual report and financial statements

9 months ended 31 December 2019



Horstman Defence Systems Limited

Annual report and financial statements for the 9 months period ended 31 December 2019

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Horstman Defence Systems Limited

Officers and professional advisers

Directors

John Graham Harris (resigned 16 April 2019)
Florian Hofbauer (appointed 16 April 2019)
Frank Hoffmann (appointed 16 April 2019, resigned on 31 December 2019)
Ian Pain (appointed 16 April 2019)
Michael Masur (appointed 31 December 2019)

Secretary

Oakwood Corporate Secretary Limited

Registered office

Locksbrook Road, Bath, Avon, United Kingdom, BA1 3EX

Bankers

NatWest
24-25 Stall Street
Bath
Somerset
BA1 1WF

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Horstman Defence Systems Limited

Strategic Report

The directors present their strategic report, together with the directors' report, the financial statements and independent auditors' report for Horstman Defence Systems Limited ("the company") for the 9 months period ended 31 December 2019. The company changed its year end from 31 March to align with its parent company.

Horstman Defence Systems Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Locksbrook Road, Bath, Avon, United Kingdom, BA1 3EX.

Principal activities

The company's principal activity continues to be the design, manufacture, refurbishment and sale of suspension systems, gearboxes, auxiliary power units and components, high precision maritime built to print parts and naval instrumentation equipment. As of 16th April 2019 it is a wholly owned subsidiary of RENK Aktiengesellschaft (RENK), which is a German publicly listed company.

Strategic review

The statement of comprehensive income is set out on page 13. The company performed in line with the directors' expectations. Turnover in the year decreased by -£4.5M (9 months vs prior year 12 months) but increased by £2.5M if Dec 2019 results are grossed up to a comparable 12 month period. This demonstrated the strong growth that was anticipated in the prior year's strategic review.

Operating profit achieved increased by £1M (equivalent to £1.8M on a like for like basis grossed up to a comparable 12 month period), reflecting the increase in volume, the mix of programmes contributing to turnover and the operational efficiency resulting from improved access to capital as a subsidiary of RENK.

The technology portfolio of the business, coupled with a global customer base and the strong Horstman brand in the armoured vehicle mobility market, provides the directors confidence that the level of activity achieved in 2019 will continue in 2020. An order book at year end of £38M provides a solid foundation for both continued operations and investment in research and development.

The company's balance sheet strengthened significantly during the period with an additional £3M of shareholders loans. Coupled with retained profits from trading, these funds were deployed to pay off all significant trade finance, mortgage and lease arrangements.

The proposed acquisition of RENK, and as such the company, announced by Triton on 30th January 2020 is a post-balance sheet event that is pending regulatory approval. The directors note that the company will benefit from Triton's experience in internationalization and digitisation and consider that RENK have found the ideal anchor investor and partner, to realize growth potential and to expand our technology leadership in the coming years.

Key performance indicators

The company uses a number of KPIs to monitor its performance. The two main financial KPIs are turnover and operating profit which indicate the volume of business and profitability of the work undertaken.

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Turnover	20,929	25,387
Operating profit	4,159	3,154

These results further strengthen the financial position of the company as evidenced by the company balance sheet on page 14.

Horstman Defence Systems Limited

Strategic report (continued)

Principal risks and uncertainties

Business risks

Outside of Brexit and Covid-19, both discussed further below, more general business risks can be considered under business continuity, health and safety, product quality and market activity (defence spending patterns).

We minimise product quality risks with close attention to quality assurance processes, supply chain oversight and an experienced and well trained team. The company takes an appropriate warranty provision.

The company is part of the Horstman group and benefits from a balanced multi-site capability, an international operating footprint and a strong brand with multiple products spread across multiple markets. As such, and with good financial reserves and profitable operations, the business is well placed to handle localised risks and business continuity events in any one location or in likely combinations.

Potential changes in future year defence budgets could lead to slow down of order intake in some markets, potentially offset by stimulus measures that include defence spending in other countries. The exposure for the Company is not the total size of defence budget, but rather is due to programme by programme funding outcomes. Fundamental drivers to new defence programmes include regional tensions and emerging peer threats around the borders of NATO and the Asia Pacific - these have if anything heightened as a result of economic shocks from the pandemic. In consequence a majority of current and projected programmes with the company's products are expected to continue or in some cases accelerate.

We continued to monitor Brexit related risks and have no reason to anticipate significant impacts to long term good trading. The flexible operating footprint RENK have secured in both Germany and the UK presents opportunities to mitigate any issues which may arise on the UK and German programmes that represent the company's key exposure in these markets.

Covid-19

The company entered the Covid-19 pandemic with high demand in our addressable market, with a strong management team and with a positive, stable, financial base as a company of the RENK Group.

Horstman is economically and mentally well prepared for complex situations such as Covid-19. A key factor of this ability to respond is the experienced leadership team, well versed in overcoming contingency situations due to customer demand (urgent operational wartime surges) and adapting to resource constraints. A significant portion of our workforce are military veterans, experienced in remaining calm and overcoming challenges to win through – this cadre provide leadership by example at both senior management team and workforce level. The company developed and deployed a “Dispersed Working” model in advance of government requirements; on-site factory operations were maintained at all times, with enhanced social distancing measures in place; supported by remote working for office based employees. All medically vulnerable employees have been supported to shield at home. Our normal practice of supply chain dual sourcing provided resilience against small logistics disruptions in supply of critical components. Our supply chain has proved generally robust, although we continue to monitor specialist finishing/coating suppliers that rely heavily on aerospace and automotive volume.

The immediate effect on order book to mid 2020 has been positive. Customers and end-users accelerated order placement activities and stressed the need to continue or accelerate deliveries. Shipment, import/export and payments all continued as normal and the impact on cash flow of Covid-19 has thus been marginal. The directors continue to monitor the forward position in markets and economies. Potential changes in future year defence budgets will be in the 2021-2023 timeframe and may require managed scaling of operations to match the turnover – they do not however give rise to any going concern issues as such scaling up or down is part of business as usual.

Horstman Defence Systems Limited

Strategic report (continued)

Financial risks

Financial instruments

The group's principal financial instruments, other than derivatives, comprised finance leases and hire purchase contracts, trade finance and cash and short-term deposits. The main purpose of these financial instruments was to raise finance for the company's operations. Following the acquisition by RENK, the majority of these instruments were repaid with shareholder loans and the retained profits from trading providing finance for the company's operations. The company has various other financial instruments such as trade debtors and trade creditors 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 group'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 were 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.

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 was through trade finance and a property mortgage. As noted above, these finance instruments were repaid post acquisition.

Under ownership of RENK the Liquidity risk management approach has been modified to align with the owner's approach and financial strength. In this approach the profile of borrowings is reduced, inflows and outflows of cash are monitored and managed at all times to safeguard liquidity. Moreover, cash flow trends are monitored in the context of detailed financial planning. The company's inclusion as part of RENK financial planning ensures the availability of the necessary funds in the coming period.

Foreign currency risk

The company has exposure to a number of foreign currencies through its purchase 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 policy of hedging against known and highly probable exposures for a 6-12 month forward period.

The company's directors and senior management regularly review these risks and their potential impact on the group and take mitigating action as necessary.

Horstman Defence Systems Limited

Strategic report (continued)

Section 172 Statement

The directors are committed to their responsibilities to promote the success of the Company in accordance with Section 172 of the Act. Our intention is to behave responsibly and ensure that management operate the business in an appropriate manner, operating within the high standards of business conduct and good governance expected of us.

The directors have had regard to the Stakeholder agenda when performing their duty under section 172. The company is in an industry with decade long programme lifecycles and stable long term strategic relationships are recognised as critical to our business success. The company's internal vision statement recognises a ten year forward view of the market and directly relates this to employee engagement, customer, supplier and other strategic partnerships. Our Quality Management System (to AS9100) maps all stakeholder relationship and is reviewed and audited frequently. Our safety management system (to ISO45001) maps the roles of employees, suppliers and contractors in maintaining a safe and healthy environment for all stakeholders.

Our stakeholders

Understanding what matters to stakeholders is achieved by building strong, constructive relationships and engaging regularly. We value the diverse perspectives that a broad range of stakeholders, representing different and often competing interests, can bring to our decision making.

Customers

Customer and other business partnerships such as overseas representatives, and group companies are reviewed at monthly internal management meetings against key performance metrics. Horstman fully engage with customers to create bespoke solutions tailored to customers need. The customer relationship is typically a long term engagement. We adapt our communications and improve our service delivery based on customer feedback.

Employees

Horstman rely upon employees to deliver quality service taking steps to enable an engaged, motivation and productive workforce to deliver upon customer needs. The company's active employee engagement strategy includes frequent Employee Consultation Group discussion, all-hands company quarterly briefings and written business updates. These include key metrics and an update on the business environment. Employees share in the benefits of the company through a discretionary employee bonus scheme, related to productivity and performance. Employees have a structured personal development review with objectives set according to the company Vision and then training needs analysis, ad-hoc engagement surveys and employee turnover metrics are used to promote employee engagement topics to the internal board. In addition our HR team communicate proactively with any employees temporarily outside the business (e.g. maternity, paternity, illness, Covid related isolation).

Suppliers

Effective relationships with suppliers are critical to manage the supply chain and maintain high quality production. Our engagement with suppliers has included regular contact to discuss current work and future business, to review capacity and to agree optimised payment terms. We explore opportunities to create shared value by developing innovative solutions and minimising environmental impact.

Local Community

We are proud to support projects at a local level. With over a century headquartered in Bath, Horstman's workforce has deep historic ties to the local areas. Community engagement has included hosting work experience students from local schools and technical colleges as well as Erasmus exchange. We support the STEM agenda through engineering ambassador roles with the engineering institutions and with two employees serving as volunteer school governors. Horstman also views the Armed Forces as a part of our wider community and supported the regimental museum of the Royal Tank Regiment (The Tank Museum) in refurbishment of an historic vehicle using Horstman's original Hydrogas® suspension system, enabling their roles in both public outreach and cultural preservation.

Horstman Defence Systems Limited

Strategic report (continued)

Environment

The company is committed to conserving natural resources and protecting the environment. We endeavour to shape operations, processes and products to bring sustainable ecological benefits.

Specifically the company is committed to:

- Introduce ISO14001 over time
- Incorporate sensitivity to environmental issues and objectives in all appropriate business decisions
- Monitor and review our performance on a regular basis
- Access and revise environmental targets on an annual basis
- Train our employees in environmental awareness and encourage them to contribute voluntarily
- Develop and market products which are environmentally friendly
- Respond positively to customer environmental programmes
- Encourage suppliers to apply standards compatible with our own
- Bench-mark our achievements against enlightened environmental policies
- Pursue a philosophy of continuous improvement that will enhance environmental management performance

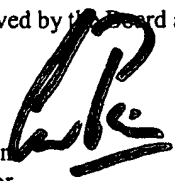
Parent company

Strategic decisions, whilst driven by management and assessed in the context of being beneficial to the company and its stakeholders, are now also ratified/approved by RENK as the parent company. We draw on the expertise and resources of a multinational organisation, with expertise in precision engineering.

“Grow together” a joint strategic project identifies areas of cooperation in the fields of technology, business development/sales, operations and sourcing.

Other significant stakeholders include audit bodies, banks, government agencies (HMRC, local government, export licencing and overseas trade).

Approved by the Board and signed on its behalf by:


Ian Pain
Director
21 August 2020

Horstman Defence Systems Limited

Directors' report

The directors present their annual report and the audited financial statements of the company for the 9 months period ended 31 December 2019.

Going concern

The company's business activities and principal risks and uncertainties are detailed above in the Strategic Report. Having considered the risks facing the company, including the current uncertain economic environment arising from Brexit and Covid-19, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. This position is further reinforced post acquisition by the financial strength of the group's owners. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Financial risk management objectives and policies

The board of directors is responsible for assessing and monitoring the major risks that face the business. Through regular, scheduled review meetings with responsible members of management, appropriate policies are put in place to manage key areas of uncertainty and ensure that the organisation's financial objectives are delivered. The key risks are discussed in the strategic report.

Results and dividends

The profit for the financial year, after taxation, amounted to £3.1M for the 9 months period ended 31 December 2019 (31 March 2019: £2.2M).

No interim dividends were declared and paid during the period and the directors do not propose payment of a final dividend (31 March 2019- £nil).

Directors

The directors, who served throughout the year and to the date of signing, were as follows:

John Graham Harris	(resigned 16 April 2019)
Frank Hoffmann	(appointed 16 April 2019, resigned on 31 December 2019)
Florian Hofbauer	(appointed 16 April 2019)
Ian Pain	(appointed 16 April 2019)
Michael Masur	(appointed 31 December 2019)

Future developments

The directors have every reason to believe that the company will continue its good trading performance in the coming year. Demand in Horstman's addressable market is high, with armoured vehicle fleet recapitalisation in response to peer threats and regional tension creating strong end-user demand. This is combining with pressure by NATO allies on governments to increase their share of defence spend. Given these pressures, slow-down in world economies has not translated to reduced defence expenditure in the group's core markets: indeed - strong defence, exports and industrial capability appear to be key government messages in our home and export markets. Potential changes in future year defence budgets, post Covid-19, could lead to slow down of order intake in some markets, potentially offset by stimulus measures that include defence spending in other countries.

The directors continued to monitor Brexit related risks including specifically workforce availability, currency, tariff, export control, border checks or rules of origin, and have no reason to anticipate significant impacts to long term good trading performance. Notably, in our core markets, customers select RENK and Horstman products on the basis of superior performance over long product lifetimes and are relatively insensitive to the effects of border friction or short term disruption to shipping procedures. Of more significance are potential changes to export control regulations treating the UK as separate to the EU, but in this case our business process and teams are highly experienced in export compliance and trade to a wide variety of global destinations, so are familiar with these challenges. The board notes that the flexible operating footprint RENK have secured in both Germany and the UK presents opportunities to mitigate any issues which arise on UK and German programmes.

The company's planning is based on assumptions by the company's directors and management. Among other things, these assumptions relate to business development or other external factors that are hard to predict and beyond Horstman's control. There is therefore a risk that planning assumptions could be incomplete or incorrect, giving rise

Horstman Defence Systems Limited

Directors' report

to deviations between planned and actual results. There could also be opportunities for Horstman if actual developments deviate positively from forecasts.

Qualifying third party indemnity provisions

The company maintains cover under a qualifying third-party indemnity for all directors and officers against liabilities which may be incurred by them whilst acting as directors or officers.

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.

Statement of directors' responsibilities

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

Company law requires the directors to prepare the group and company financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice and applicable law) including Financial Reporting Standard 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). 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 group and company and of the profit or loss of the group and company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable United Kingdom Accounting Standards, including FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; 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 group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Horstman Defence Systems Limited

Directors' report

Disclosure of information to auditors

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

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

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

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'LP' with a horizontal line underneath.

Ian Pain
Director

21 August 2020

Horstman Defence Systems Limited

Independent auditors' report to the members of Horstman Defence Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion, Horstman Defence Systems Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the 9 month period ("the period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income and the statement of changes in equity for the 9 month period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Horstman Defence Systems Limited

Independent auditors' report to the members of Horstman Defence Systems Limited (continued)

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Horstman Defence Systems Limited

Independent auditors' report to the members of Horstman Defence Systems Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Paul Nott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
21 August 2020

Horstman Defence Systems Limited

Statement of Comprehensive income

For the 9 months ended 31 December 2019

	Notes	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Revenue	2	20,929	25,387
Cost of sales		(10,819)	(19,519)
Gross profit		10,110	5,868
Distribution costs		(1,808)	(628)
Administrative expenses		(4,176)	(2,318)
Other operating income	5	33	232
Operating profit	3	4,159	3,154
Finance income	6	109	286
Finance costs	7	(365)	(942)
Finance costs - net		(256)	(656)
Profit before income tax		3,903	2,498
Income tax expense	8	(820)	(319)
Profit for the financial period / year		3,083	2,179
Other comprehensive income for the period / year		-	-
Total comprehensive income for the period / year		3,083	2,179

All results derive from continuing operations.

Horstman Defence Systems Limited

Statement of financial position As at 31 December 2019

	Notes	At 31 December 2019 £'000	At 31 March 2019 £'000
Fixed assets			
Property, plant and equipment	9	5,792	5,592
Current assets			
Inventory	10	6,427	5,871
Trade and other receivables			
- amounts due within one year	11	7,833	4,914
- amounts due after one year	11	8,079	10,992
Cash and cash equivalents		2,487	1,739
		24,826	23,516
Creditors: amounts due within one year	12	(6,283)	(12,210)
Net current assets		18,543	11,306
Total assets less current liabilities		24,335	16,898
Creditors: amounts due in more than one year	13	(9,064)	(4,894)
Provisions for liabilities	15	(578)	(394)
Net assets		14,693	11,610
Equity			
Ordinary shares	17	50	50
Retained Earnings		14,643	11,560
Total shareholders' funds		14,693	11,610

The financial statements of Horstman Defence Systems Limited, registered number 01511975 were approved by the Board of Directors and authorised for issue on 21 August 2020.

Signed on behalf of the Board of Directors

Ian Pain
Director



Horstman Defence Systems Limited

Statement of changes in equity For the 9 months ended 31 December 2019

	Called up share capital £'000	Retained Earnings £'000	Total equity £'000
Balance as at 1 April 2018	50	9,381	9,431
Profit for the year	-	2,179	2,179
Balance as at 31 March 2019	50	11,560	11,610
Profit for the period	-	3,083	3,083
Balance as at 31 December 2019	50	14,643	14,693

Horstman Defence Systems Limited

Notes to the financial statements 9 months period ended 31 December 2019

1. Accounting policies

General information

Horstman Defence Systems Limited is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Locksbrook Road, Bath, Avon, United Kingdom, BA1 3EX.

The nature of the company's operation and principal activities 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.

The company has changed its year end from 31 March to 31 December to align with its parent company. These financial statements are for the 9 months ended 31 December 2019, the comparative period is the year ended 31 March 2019.

Statement of Compliance

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The particular accounting policies adopted are described below and have been applied consistently throughout the current and preceding year in dealing with items which are considered material in relation to the company's financial statements.

This is the first accounting period in which the company has applied FRS 101, having previously applied FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland". This change has been made as the company is now a subsidiary of RENK A.G. and is required to group report under IFRS. There were no material adjustments to the profit for the period or to net assets as a result of the adoption of FRS 101. Accordingly the requirement in IFRS 1 to provide a reconciliation of differences between amounts shown under IFRS (FRS 101) and amounts reported under previous GAAP does not apply.

Basis of preparation

The financial statements have been prepared under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £1,000.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies, such areas being discussed further on page 18.

Reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 101:

- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1;
 - Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10 (d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B–D (additional comparative information);
 - 111 (statement of cash flows information); and
- 134–136 (capital management disclosures).

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

1. Accounting policies (continued)

- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraphs 110, 113a, 114, 115, 118, 119(a) to (c), 120-127 and 129 of IFRS 15 'Revenue from contracts with customers'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The requirement of IFRS 1, 'First-time adoption of International Financial Reporting Standards', to present a statement of financial position at the date of transition.

This information is included in the consolidated financial statements of RENK A.G. as at 31 December 2019. These financial statements may be obtained from the company, c/o Locksbrook Road, Bath, Avon, BA1 3EX.

Going concern

The company's business activities, principal risks and uncertainties and sources of funding are detailed in the strategic report and directors' report on pages 2 to 6. Having considered these risks, the sources of funding available and the repayment of bank debt and finance leases in the year, and the current economic environment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Revenue

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

Revenue is recognised net of VAT and any discounts offered to customers.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributed 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 its 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 group. 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

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

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 disposal are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

1. Accounting policies (continued)

Inventory

Inventories 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, inventories are assessed for impairment. If inventory 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.

Trade and other receivables

Short terms trade receivables 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 investment 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 basis 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 to the financial statements

9 months period ended 31 December 2019 (continued)

1. Accounting policies (continued)

Foreign currencies

Foreign currency transactions are transacted into the functional current 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 are 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 assets and liabilities denominated in foreign currencies are recognised in the income statement.

All other foreign exchange gains and losses are presented in the income statement within 'administrative expenses'.

Government grants

Grants are accounted under the accruals model as permitted by FRS 101. Grants relating to expenditure on tangible fixed assets are credited to the income statement at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

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

Finance costs

Finance costs are charged to the income 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 leases arrangements are recognised as right of use assets together with a lease liability for the net present value of minimum lease payments. The right of use asset has been included in the relevant category of property, plant and equipment and is depreciated over the shorter of the lease term and their useful lives. Obligations under such lease agreements are included in creditors, net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement as interest expense so as to give a constant effective interest rate on the net obligations outstanding in each period.

The company has taken advantage of the practical expedients within IFRS 16 to not recognise a lease liability and right of use asset for leases with an initial duration of less than 12 months and for low value leases of less than £5000. The costs of such arrangements are recognised as an expense in the income statement as incurred.

Pensions

Defined contribution pension plan

The companies operate a defined contribution plan for their employees. A defined contribution plan is a pension plan under which subsidiary companies pay fixed contributions into a separate entity. Once the contributions have been paid the companies have 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 subsidiary companies in independently administered funds.

Interest income

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

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

1. Accounting policies (continued)

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 change 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 substantially enacted by the balance sheet date in the countries where the company and the group operate and generate income.

Deferred tax balances are recognised in respect of all temporary 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met: and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

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

Research and development

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

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

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

1. Accounting policies (continued)

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to use judgement in applying the company's accounting policies and 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 key judgement made in applying the accounting policies is whether revenue on certain contracts should be recognised at a point in time (on dispatch of product) or whether revenue should be recognised over time as work is performed. The directors do not believe that the criteria in IFRS 15 for recognition over time are met and hence all revenue has been recognised on dispatch of products, which the directors believe is the more prudent and appropriate treatment.

The following key estimates could result in a material change to assets or liabilities recognised in the financial statements in the next 12 months:

Tangible assets depreciation

Tangible fixed assets are depreciated over their useful economic lives taking into account residual values where appropriate. In assessing the useful economic lives, factors such as life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as the remaining life of the asset and projected disposal values.

Inventory valuation

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

Additionally at 31 December 2019, as specific provision of £179,000 has been made against inventory held for a specific customer order where there is political uncertainty as to whether the company will be granted an export licence.

Warranty provision

Provision is made for potential warranty claims in respect of completed projects which are within their warranty period. This is based upon previous experience of warranty claims. The movement on the warranty provision is shown in note 15. An accrual is also made for any claims made on specific contracts where the directors believe it is more likely than not the the company will be required to settle an obligation.

2. Revenue

The revenue and profit on ordinary activities before taxation are attributable to the one principal activity of the company and relate predominantly to sales of goods. An analysis of revenue by geography is given below:

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
United Kingdom	5,514	6,029
Rest of Europe	3,893	6,897
USA	3,343	3,697
Rest of World	8,179	8,764
	20,929	25,387

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

3. Operating profit

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment (note 9)		
- Owned assets	625	754
- Right of use assets held under leases	47	31
Research and development expenditure	290	272
Auditors' remuneration		
- audit of the financial statements	43	44
Loss on foreign currency translation	25	23

4. Employees

The average monthly number of staff employed by the company during the financial year was:

	9 months period ended 31 December 2019 Number	For the year ended 31 March 2019 Number
Sales, administration and distribution	28	28
Manufacturing	78	70
	106	98

The aggregate payroll costs of the above were:

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Wages and salaries	3,623	3,991
Social security costs	420	446
Other pension costs	147	134
	4,190	4,571

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

4. Employees (continued)

Directors remuneration

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Emoluments receivable	438	-

Only one director was remunerated by the company in respect of his services to the company. Other directors were paid by other group companies, primarily for their services to those other companies.

In the prior year, the sole director was paid by other related companies and none of his emoluments were deemed to relate to services to the company.

Key management personnel compensation

The key management personnel, including directors and senior management, aggregate emoluments in respect of qualifying services were:

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Emoluments receivable	943	795

	Number	Number
The number of key management personnel who are members of a money purchase pension scheme	6	6

5. Other operating income

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Royalty receivable	33	232
Grant receivable	-	-
	33	232

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

6. Finance income

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Interest on loans to group undertakings	109	286

7. Finance costs

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Bank interest payable	-	64
Interest on lease liabilities	352	352
Other interest payable	13	526
	365	942

Interest payable on lease liabilities includes a premium of £197,784 for the early redemption of certain lease balances following the acquisition of the company by RENK.

8. Income tax expense

(a) Analysis of charge included in profit or loss

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Current tax		
UK Corporation tax	811	281
Prior year adjustment	0	(23)
Foreign Tax	14	23
	825	281
Deferred tax		
Origination and reversal of timing differences	(5)	59
Adjustments in respect of prior years	-	(21)
	(5)	38
Total deferred tax (note 15)	(5)	38
Total tax charge for the year	820	319

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

(b) Reconciliation of tax charge:

The tax assessed on the profit for the period/year is higher than (31 March 2019: lower than) than the standard rate of corporation tax in the UK of 19% (31 March 2019: 19%). The differences are shown below:

	9 months period ended 31 December 2019 £'000	For the year ended 31 March 2019 £'000
Profit before taxation	3,903	2,498
Tax on profit at the current UK tax rate	742	475
Prior year adjustments	-	(44)
Effect of changes in tax rates (deferred tax)	1	(7)
Expenses not deductible for tax purposes	17	-
Other differences leading to an increase in the tax charge	53	-
Additional deduction for R&D expenditure	7	(105)
Total tax charge for the period / year (note 8a)	820	319

As at 31 December 2019, the Corporation tax rate of 19% was due to reduce to 17% from 1 April 2020. Deferred tax has been calculated at 17% which is the rate substantively enacted at the balance sheet date. However, in the March 2020 Budget this reduction in rate was reversed and the rate will now remain at 19%. This change will not have a material impact on deferred tax.

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

9. Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, Fittings and equipment	Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2019	1,220	10,896	1,187	145	13,448
Additions	144	686	42		872
Disposal	-	(415)	(24)	-	(439)
At 31 December 2019	1,364	11,167	1,205	145	13,881
Accumulated depreciation & impairment					
At 1 April 2019	854	5,873	1,047	82	7,856
Charge for the year	59	553	43	17	672
Disposals	-	(415)	(24)	-	(439)
At 31 December 2019	913	6,011	1,066	99	8,089
Net book value					
At 31 December 2019	451	5,156	139	46	5,792
At 31 March 2019	366	5,023	140	63	5,592

Land and buildings include Right of Use assets under lease arrangements with a net book value of £92,000 (31 March 2019: £nil). Additions of such assets during the year are included above with a cost of £122,000.

Included in plant and machinery, fixtures, fittings and equipment, and motor vehicles are assets held under lease arrangements or hire purchase contracts with a net book value of £145,000 (31 March 2019: £3,557,000).

10. Inventory

	31 December 2019 £'000	31 March 2019 £'000
Raw materials and consumables	5,291	3,872
Work in progress	1,136	1,999
	6,427	5,871

There is no material difference between the balance sheet value of inventories and their replacement cost.

The amount of inventories booked through cost of sales for the period ended 31 December 2019 were £7,276,976 (31 March 2019: £12,461,621).

The value of inventory is stated net of provision for the impairment of £2,880,351 for the period ended 31 December 2019 (31 March 2019: £1,993,000).

Horstman Defence Systems Limited

Notes to the financial statements 9 months period ended 31 December 2019 (continued)

11. Trade and other receivables

	31 December 2019 £'000	31 March 2019 £'000
Amounts falling due within one year:		
Trade debtors	5,664	2,797
Amount owed by group undertakings	1,630	1,448
Prepayments and accrued income	249	469
Other debtors	290	200
	7,833	4,914
	31 December 2019 £'000	31 March 2019 £'000
Amounts falling due after more than one year:		
Amounts owed by group undertaking	8,079	10,992

Amount owed by group undertakings due after more than one year to the Company represents a loan provided to Horstman Holding Limited, that bears interest at the 3 month London Interbank Offered Rate plus 2 percent per annum simple interest.

Amounts owed by group undertakings due within one year represents trading balances and a short term loan with the former parent company that was repaid during the period.

12. Creditors: amounts falling due within one year

	31 December 2019 £'000	31 March 2019 £'000
Other loans (note 14)	-	1,471
Trade payables	2,404	4,541
Corporation tax	825	281
Amounts owed to group undertakings	6	53
Amounts owed to related parties	-	279
Other taxation & social security	126	129
Lease liabilities	36	982
Accruals and deferred income	2,886	4,474
	6,283	12,210

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

13. Creditors: amounts falling due after more than one year

	31 December 2019 £'000	31 March 2019 £'000
Intercompany loans	7,547	-
Bank loan	-	1,046
Lease liabilities	60	2,574
Payments received on account	1,457	1,274
	9,064	4,894

Intercompany loans bear interest at a rate linked to 3 month LIBOR and are repayable in March 2021.

14. Maturity of bank loans and lease and hire purchase liabilities

	Bank loans		Lease and hire purchase liabilities	
	31 December 2019 £'000	31 March 2019 £'000	31 December 2019 £'000	31 March 2019 £'000
Due within 1 year	-	-	36	982
Due between 1 and 2 years	-	1,046	60	907
Due between 2 and 5 years	-	-	-	1,667
	-	1,046	96	3,556

Obligations under lease arrangements and hire purchase contracts are secured against the assets to which they relate. The external bank loans, and a majority of lease and hire purchase arrangements were repaid in the period, following the acquisition of the company by RENK.

The total cash payments made under lease arrangements during the year amounted to £2,621,000. The weighted average interest rate used to discount lease liabilities was 2.32% and is based on the group's incremental borrowing rate adjusted for the type of asset being leased.

15. Provisions for liabilities

Group	Deferred taxation £'000	Warranty £'000	Total £'000
Balance at 1 April 2019	200	194	394
(Credit)/Charge for the period	(5)	201	196
Released in the period	-	-	-
Utilised in the period	-	(12)	(12)
Balance at 31 December 2019	195	383	578

The deferred taxation liability consists of the tax effect of timing differences in respect of accelerated capital allowances and other short term timing differences.

The warranty provision represents the expected costs of meeting product warranty obligations issued in the normal course of business that typically are for up to two years duration.

Horstman Defence Systems Limited

Notes to the financial statements

9 months period ended 31 December 2019 (continued)

16. Commitments

Capital commitments contracted for but not provided in the financial statements amounted to £NIL as at 31 December 2019 (31 March 2019 - £NIL).

17. Ordinary shares

	31 December 2019 £'000	31 March 2019 £'000
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50	50

18. Related party transactions

The company is exempt from disclosing transactions with other group companies for the period to 31 December 2019 by virtue of being included in the consolidated financial statements of RENK AG.

During the year ended 31 March 2019, the company had a number of transactions with companies under common control, totalling £408,000. The amount outstanding at 31 March 2019 was £279,000.

19. Controlling parties

The company's immediate parent company is Horstman Holdings Limited, a company registered in England and Wales.

At 31 December 2019, the company's intermediate parent company was RENK Aktiengesellschaft ("RENK"). RENK, registered in Germany, is 76% owned by Volkswagen AG, which is deemed to be the ultimate controlling party.

The smallest group to consolidate the accounts of the company is that headed by RENK. Copies of the RENK consolidated financial statements for the year ended 31 December 2019 may be obtained from the company's registered office. The largest group to consolidate the accounts of the company is that headed by Volkswagen AG.

20. Post Balance Sheet Events

The proposed acquisition of RENK, and as such the company, announced by Triton on 30th January 2020 is a post-balance sheet event that is pending regulatory approval. The directors note that we will benefit from Triton's experience in internationalization and digitisation and consider that RENK have found the ideal anchor investor and partner to realize growth potential and to expand our technology leadership in the coming years.