

Company Registration No. 01727919 (England and Wales)

KERN LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016



KERN LIMITED

COMPANY INFORMATION

Director	Mr U Kern
Secretary	Tiercel Services Limited
Company number	01727919
Registered office	New Zealand House 9th Floor 80 Haymarket London United Kingdom SW1Y 4TQ
Auditor	Moore Stephens (South) LLP The French Quarter 114 High Street Southampton SO14 2AA
Business address	5 Sopwith Park Concorde Way Segensworth North Fareham Hampshire PO15 5RT
Bankers	National Westminster bank Plc St James's and Piccadilly 208 Piccadilly London United Kingdom W1A 2DG

KERN LIMITED

CONTENTS

	Page
Strategic report	1 - 2
Director's report	3 - 4
Independent auditor's report	5 - 6
Income statement	7
Statement of comprehensive income	
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 22

KERN LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The director presents the strategic report and financial statements for the year ended 31 December 2016 which show a fair and balanced analysis of:

- a) the business and company performance;
- b) a description of the principal risks and uncertainties facing the company;
- c) the development and performance of the company's business during the year; and
- b) the position of the company at the year end.

Given the straight forward nature of the business, the company's director is of the opinion that the summary provided below is sufficient for an understanding of the development, performance and position of the business and that analysis using more detailed KPI's is unnecessary.

Summary of performance

	2016	2015	2014	2013
	£'000	£'000	£'000	£'000
Sales	4,792	6,543	6,650	6,894
Gross margin %	30.72	33.20	33.60	36.34
Operating profit/(loss)	(1,032)	(378)	(391)	(165)
Interest payable on group loans	(147)	(90)	(106)	(128)
Pre-tax profit/(loss)	(1,179)	(468)	(497)	(293)
Profit/(loss) for the year	(1,179)	(468)	(497)	(293)

Fair review of business and company performance

Kern Limited is part of the global Kern group.

The principal activity of the company continued to be that of the importation, distribution and maintenance of mailing systems, packaging solutions and related software. It is directly responsible for sales and maintenance in the UK.

Further shrinking of the mailing market is considered inevitable. However Kern remains in a good position, and this has been improved by new product launches and further development of the packaging side of the business in order to exploit a greater market share in a shrinking marketplace.

During the year the parent undertaking reinforced its commitment to providing on-going financial support to the company by waiving repayment of a further £1,180,000 of a long term intra-group loan.

KERN LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

Principal risks and uncertainties

Financial instruments

The company does not use significant financial instruments, other than debtors, creditors and other items that arise directly from its operations.

Principal business risks and uncertainties

The principal risks and uncertainties facing the company are foreign currency risk, liquidity risk and credit risk. Senior management review and agree policies for managing these risks and these are summarised below. Continuity of supply is not considered a risk because the majority of the company's products are supplied intra-group.

Foreign currency risk

Currency fluctuation remains a risk due to the significant level of imported products. The company considers the use of forward foreign exchange contracts to hedge the risk on significant contracts.

Liquidity risk

Liquidity risk has been reduced by the financial restructuring of the company commenced in 2010 and the continuing financial support of the immediate parent undertaking, Kern AG. However, the company also seeks to manage this risk, to ensure sufficient liquidity is available to meet foreseeable needs, through its credit terms with customers and suppliers.

Credit risk

The credit risk arises from the collection of trade debtors. Procedures have been implemented for the collection of these debtors in order to manage the relative risk, including where appropriate, requiring customer deposits and stage payments. Credit control is tight and there is a low historic level of bad debts.

Development and performance

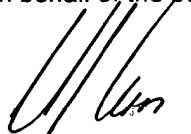
The development and performance of the company during the year:

Cost management remains under strict control. The Brexit vote caused uncertainty in markets in which Kern operates and foreign currency exchange rates reduced margins on sales and service revenue, due to the increased cost of sales.

Position of the company as at the year end

Kern continues its planned diversification into the packaging market place. A new agency agreement has been entered into with a robotic and end of line automation company. However, this is a long sales cycle product range, typically 12 months and 6 to 8 months lead time from order. Further distribution agreements were also made for packaging machines in late 2016.

On behalf of the board



Mr U Kern
Director

August 31, 2017
Date

KERN LIMITED

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The director presents his annual report and financial statements for the year ended 31 December 2016.

The Strategic Report on page 1 includes the review of company performance in the year, its position at the year end and the principal risks facing the company.

Director

The director who held office during the year and up to the date of signature of the financial statements was as follows:

Mr U Kern

Results and dividends

The results for the year are set out on page 7.

The director does not recommend payment of an ordinary dividend.

Statement of director's responsibilities

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

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

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

KERN LIMITED

DIRECTOR'S REPORT (CONTINUED)

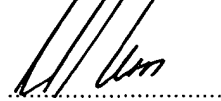
FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of disclosure to auditor

The director in office at the date of approval of this annual report confirms that:

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

On behalf of the board



Mr U Kern

Director

August 31st, 2017

KERN LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF KERN LIMITED

We have audited the financial statements of Kern Limited for the year ended 31 December 2016 set out on pages 7 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of director and auditor

As explained more fully in the Director's Responsibilities Statement set out on page 3, the director is 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

KERN LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBER OF KERN LIMITED

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.

Andrea Wulff (Senior Statutory Auditor)
for and on behalf of Moore Stephens (South) LLP

Chartered Accountants
Statutory Auditor

21st September 2017

The French Quarter
114 High Street
Southampton
SO14 2AA

KERN LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	2015 £
Revenue	3	4,792,406	6,542,581
Cost of sales		(3,320,395)	(4,370,606)
Gross profit		1,472,011	2,171,975
Distribution costs		(60,773)	(57,787)
Administrative expenses		(2,169,303)	(2,492,245)
Other operating expenses		(274,204)	(317)
Operating loss	4	(1,032,269)	(378,374)
Investment income	7	313	777
Finance costs	8	(147,275)	(90,708)
Loss before taxation		(1,179,231)	(468,305)
Taxation	9	-	-
Loss for the financial year		(1,179,231)	(468,305)
Total comprehensive loss for the year		(1,179,231)	(468,305)

The income statement has been prepared on the basis that all operations are continuing operations.

KERN LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 £	£	2015 £	£
Fixed assets					
Property, plant and equipment	10		104,567		126,375
Current assets					
Inventories	12	3,123,208		3,566,516	
Trade and other receivables	13	847,722		1,393,405	
Cash at bank and in hand		107,010		355,934	
		4,077,940		5,315,855	
Current liabilities	14	(1,328,188)		(2,703,597)	
Net current assets			2,749,752		2,612,258
Total assets less current liabilities			2,854,319		2,738,633
Long term parent company loans	15		2,779,436		2,664,519
Equity					
Called up share capital	20		1,250,000		1,250,000
Retained earnings/(losses)			(1,175,117)		(1,175,886)
Total equity			74,883		74,114
Total equity and long term parent company loans			2,854,319		2,738,633

The financial statements were approved and signed by the director and authorised for issue on

Mr U Kern
Director

August 31st, 2017

Company Registration No. 01727919

KERN LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £	Retained earnings £	Total £
Balance at 1 January 2015	1,250,000	(1,207,581)	42,419
	<hr/>	<hr/>	<hr/>
Period ended 31 December 2015:			
Total comprehensive loss for the year	-	(468,305)	(468,305)
Write-off of long term intra-company loan	-	500,000	500,000
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2015	1,250,000	(1,175,886)	74,114
	<hr/>	<hr/>	<hr/>
Period ended 31 December 2016:			
Total comprehensive loss for the year	-	(1,179,231)	(1,179,231)
Write-off of long term intra-company loan	-	1,180,000	1,180,000
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	1,250,000	(1,175,117)	74,883
	<hr/>	<hr/>	<hr/>

KERN LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £	£	2015 £	£
Cash flows from operating activities					
Cash absorbed by operations	24	(1,389,418)		(16,538)	
Interest paid		(147,275)		(90,708)	
Net cash outflow from operating activities		(1,536,693)		(107,246)	
Investing activities					
Purchase of property, plant and equipment		(7,461)		(23,737)	
Proceeds on disposal of property, plant and equipment		-		50	
Interest received		313		777	
Net cash used in investing activities		(7,148)		(22,910)	
Financing activities					
Loans advanced from group		1,294,917		-	
Net cash generated from/(used in) financing activities		1,294,917		-	
Net decrease in cash and cash equivalents		(248,924)		(130,156)	
Cash and cash equivalents at beginning of year		355,934		486,090	
Cash and cash equivalents at end of year		107,010		355,934	

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

Company information

Kern Limited is a limited company domiciled and incorporated in England and Wales. The registered office is New Zealand House, 9th Floor, 80 Haymarket, London, United Kingdom, SW1Y 4TQ. The principal place of business is 5 Sopwith Park, Concorde Way, Segensworth North, Fareham Hampshire, United Kingdom. PO15 5RT.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

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

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Going concern

The company meets its day to day working capital requirements through assistance from group and currently remains dependant upon the continuing financial support of the immediate parent company, Kern AG. On this basis, the director considers it appropriate to prepare the financial statements on the going concern basis. The continuing financial support of the immediate parent company is a material uncertainty and the financial statements do not include any adjustments that would result from a withdrawal of the parent company's support.

1.3 Revenue

Revenue is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of discounts, VAT and other sales related taxes.

Sales revenues fall into three different types:

- Bespoke machines: revenue is recognised on delivery of the machine.
- Parts and spares: revenue is recognised on delivery of the order.
- Service contracts: income is recognised on a deferred basis over the life of the contract

Where a customer requests to enter a bill and hold arrangement the revenue is only recognised where a formal contract has been entered into and the following conditions are met:

- the reason for the bill and hold arrangement is substantive;
- the product is separately identifiable and belonging to the customer;
- the product is ready for physical transfer to the customer; and
- the company does not have the ability to use the product or direct it to another customer.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

(Continued)

1.4 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	period of lease
Warehouse and Test Equipment	20% on cost
Office Equipment	20% on cost
Electronic Equipment and Software	33.3% on cost

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Impairment of non-current assets

At each reporting end date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

1.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and, where applicable, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Where applicable, bank overdrafts are shown within borrowings in current liabilities.

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are measured at transaction price.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.9 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax.

Current tax

No tax is currently payable due to the substantial trading losses available for carry forward and offset against future profits. Taxable profit differs from the profit before taxation as reported in the income statement because it excludes items of income or expense that are either taxable or deductible in other years (timing differences) or not subject to taxation or allowed as a deductible expense for taxation purposes (permanent differences).

Deferred tax

Deferred tax liabilities are recognised for all timing differences caused by the varying treatment of certain items for taxation and accounting purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

(Continued)

1.11 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or non-current assets.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.12 Retirement benefits

The company operates a defined contribution scheme for the benefit of employees. Contributions payable are charged to the income statement in the year they are payable. The assets of the scheme are held separately from the company in an independently administered fund.

1.13 Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

1.14 Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date with the exception of intra-company long term loans. Such loans are carried in the statement of financial position at the historical rate of exchange without subsequent re measurement for changes in exchange rates. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Exchange differences are taken to profit and loss account.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the director is required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Depreciation

The company accounts for depreciation in accordance with FRS102. The depreciation expense is the allocation of the cost of the asset over the periods in which the asset will be used. Judgements are made on the estimated useful life of the assets, which are regularly reviewed.

Stock provision

In accordance with FRS102 the company makes provision against the cost of slow moving and obsolete stock. This is to ensure that the stock value stated in the financial statements represents its value at the lower of cost and net realisable value. Judgements are made on the future saleability of stock when calculating the required provision, which are regularly reviewed.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

3 Revenue

An analysis of the company's revenue is as follows:

	2016 £	2015 £
Turnover		
Machines	2,017,089	3,280,589
Servicing	2,775,317	3,261,992
	<u>4,792,406</u>	<u>6,542,581</u>

Revenue analysed by geographical market

Revenue derived from geographical markets outside of the United Kingdom is negligible.

4 Operating loss

	2016 £	2015 £
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	309,704	12,224
Depreciation of owned property, plant and equipment	29,269	26,890
Profit on disposal of property, plant and equipment	-	(50)
Cost of inventories recognised as an expense	2,196,502	3,181,010
Operating lease charges	<u>296,847</u>	<u>309,689</u>

5 Auditor's remuneration

	2016 £	2015 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the company's financial statements	<u>16,695</u>	<u>18,500</u>
For other services		
All other non-audit services	<u>14,605</u>	<u>5,719</u>

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2016 Number	2015 Number
Engineering	35	39
Sales & marketing	6	5
Customer services	7	9
Administration	6	6
	<u>54</u>	<u>59</u>

Their aggregate remuneration comprised:

	2016 £	2015 £
Wages and salaries	1,890,399	2,103,133
Social security costs	223,013	248,622
Pension costs	170,621	174,022
	<u>2,284,033</u>	<u>2,525,777</u>

Redundancy payments made or committed	<u>(11,627)</u>	<u>30,638</u>
---------------------------------------	-----------------	---------------

7 Investment income

	2016 £	2015 £
Interest income		
Interest on bank deposits	<u>313</u>	<u>777</u>

8 Finance costs

	2016 £	2015 £
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	<u>147,275</u>	<u>90,708</u>

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

9 Taxation

The actual charge for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2016 £	2015 £
Loss before taxation	(1,179,231)	(468,305)
Expected tax credit based on the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(235,846)	(94,832)
Tax effect of expenses that are not deductible in determining taxable profit	98	3,501
Unutilised tax losses carried forward	231,891	89,363
Depreciation in excess of capital allowances	3,857	1,968
Taxation for the year	-	-

10 Property, plant and equipment

	Leasehold improvements £	Warehouse and Test Equipment £	Office Equipment £	Electronic Equipment and Software £	Total £
Cost					
At 1 January 2016	367,680	50,801	123,534	310,438	852,453
Additions	4,645	-	-	2,816	7,461
Disposals	-	-	(355)	(959)	(1,314)
At 31 December 2016	372,325	50,801	123,179	312,295	858,600
Depreciation and impairment					
At 1 January 2016	253,214	50,580	120,582	301,702	726,078
Depreciation charged in the year	22,518	49	1,417	5,285	29,269
Eliminated in respect of disposals	-	-	(355)	(959)	(1,314)
At 31 December 2016	275,732	50,629	121,644	306,028	754,033
Carrying amount					
At 31 December 2016	96,593	172	1,535	6,267	104,567
At 31 December 2015	114,466	221	2,952	8,736	126,375

11 Financial instruments

	2016 £	2015 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	716,465	1,581,353

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

(Continued)

11 Financial instruments

Carrying amount of financial liabilities
Measured at amortised cost

3,605,431 4,416,254

12 Inventories

2016 2015
£ £

Spare parts 1,513,842 1,563,013
Finished goods and goods for resale 1,609,366 2,003,503

3,123,208 3,566,516

13 Trade and other receivables

2016 2015
£ £

Amounts falling due within one year:

Trade receivables 580,541 1,193,160
Amounts due from fellow group undertakings - 510
Other receivables 28,914 31,749
Prepayments and accrued income 238,267 167,986

847,722 1,393,405

Trade receivables disclosed above are measured at amortised cost.

14 Current liabilities

Notes 2016 2015
£ £

Trade payables 290,764 227,380
Amount due to parent undertaking 423,306 1,061,870
Amounts due to fellow group undertakings 10,188 199,247
Other taxation and social security 142,192 268,006
Deferred income 18 360,001 683,856
Other payables 37,194 109,131
Accruals 64,543 154,107

1,328,188 2,703,597

15 Non-current liabilities

Notes 2016 2015
£ £

Other borrowings 16 2,779,436 2,664,519

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

16 Borrowings

	2016 £	2015 £
Loans from group undertakings	2,779,436	2,664,519
Payable after one year	2,779,436	2,664,519

Amounts owed to group undertakings comprise various long term loans from the company's immediate parent. The loans are subject to the terms of formal loan agreements, bear a variable rate of interest based on the guidelines for interest rates between related parties of the Swiss Confederation and are repayable at the discretion of the borrower.

17 Deferred taxation

Deferred taxation and the amounts not provided in the financial statements are as follows:

The potential deferred tax asset has not been recognised in respect of tax losses of £6,370,000 (2015: £5,210,000).

The potential deferred tax asset could amount to £1,274,000 (2015: £1,042,000).

18 Deferred income

	2016 £	2015 £
Other deferred income	360,001	683,856

Income in respect of service contracts is recognised on a deferred basis over the life of the contract. The deferred income shown above represents the element of current service contracts relating to future periods.

19 Retirement benefit schemes

	2016 £	2015 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	170,621	174,022

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Included within accruals is £nil (2015: £15,134) in respect of contributions owed regarding defined contribution schemes.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

20 Share capital

	2016 £	2015 £
Ordinary share capital		
Issued and fully paid		
1,250,000 ordinary shares of £1 each	1,250,000	1,250,000

21 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £	2015 £
Within one year	251,673	275,688
Between two and five years	196,979	398,137
	<u>448,652</u>	<u>673,825</u>

22 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, is as follows:

	2016 £	2015 £
Aggregate compensation	<u>165,530</u>	<u>163,908</u>

The director received no remuneration or benefits from the company.

Transactions with related parties

During the year the company entered into the following transactions with related parties:

	Sale of goods		Purchase of goods	
	2016 £	2015 £	2016 £	2015 £
Kern AG, immediate parent company	248	-	367,129	1,190,821
Fellow subsidiaries	7,111	29,156	320,854	489,173
	<u>7,359</u>	<u>29,156</u>	<u>687,983</u>	<u>1,679,994</u>

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

22 Related party transactions

(Continued)

	Loan interest		Warranty claims	
	2016	2015	2016	2015
	£	£	£	£
Kern AG, immediate parent company	147,275	90,708	26,033	16,408

All related party transactions are conducted at trade prices in accordance with the group's transfer pricing policy.

The following amounts were outstanding at the reporting end date:

	2016	2015
	£	£
Amounts owed to related parties		
Kern AG, immediate parent company	3,202,742	3,726,389
Fellow subsidiaries	10,188	198,738
	<u>3,212,930</u>	<u>3,925,127</u>

As part of the group financial support, Kern AG, the immediate parent company, waived repayment of £1,180,000 (2015:£500,000) of an intra-group loan during the year.

No guarantees have been given or received.

23 Controlling party

The company is wholly owned by Kern AG, the immediate parent undertaking, which is incorporated in Switzerland.

The ultimate controlling party is Kern Holding AG, the company's ultimate parent company, which is incorporated in Switzerland.

KERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

24 Cash generated from operations

	2016 £	2015 £
Loss for the year after tax	(1,179,231)	(468,305)
Adjustments for:		
Finance costs	147,275	90,708
Investment income	(313)	(777)
Gain on disposal of property, plant and equipment	-	(50)
Depreciation and impairment of property, plant and equipment	29,269	26,890
Movements in working capital:		
Decrease/(increase) in inventories	443,308	(413,325)
Decrease in trade and other receivables	545,683	132,017
(Decrease)/increase in trade and other payables	(1,051,554)	754,337
(Decrease) in deferred income	(323,855)	(138,033)
Cash absorbed by operations	<u>(1,389,418)</u>	<u>(16,538)</u>