

Company Registration No. 01727919 (England and Wales)

**KERN LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

WEDNESDAY



A08 \*A7GRU7P7\* #408  
17/10/2018  
COMPANIES HOUSE

# KERN LIMITED

## COMPANY INFORMATION

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

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# KERN LIMITED

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# KERN LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2017

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The director presents the strategic report and financial statements for the year ended 31 December 2017 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

	2017	2016	2015	2014
	£'000	£'000	£'000	£'000
Sales	3,709	4,792	6,543	6,650
Gross margin %	30.55	30.72	33.20	33.60
Operating profit/(loss)	(921)	(1,032)	(378)	(391)
Interest payable on group loans	(112)	(147)	(90)	(106)
Pre-tax profit/(loss)	(1,032)	(1,179)	(468)	(497)
Profit/(loss) for the year	(1,032)	(1,179)	(468)	(497)

#### 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 £1,000,000 of a long term intra-group loan.

# KERN LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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### **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. Kern are launching a packaging machine in 2018 aimed primarily at "E-Commerce" distribution of items.

On behalf of the board



Mr U Kern

Director

*October 8th, 2018*

Date

# KERN LIMITED

## DIRECTOR'S REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2017

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The director presents his annual report and financial statements for the year ended 31 December 2017.

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 2017**

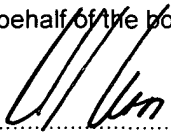
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### Statement of disclosure to auditor

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

8-10-2018

# KERN LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF KERN LIMITED

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### Opinion

We have audited the financial statements of Kern Limited (the 'company') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement Of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

### Basis for opinion

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

### Conclusions relating to going concern

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

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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.

### Other information

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

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

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- 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; and
- the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.



# KERN LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBER OF KERN LIMITED

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Director's Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

#### Responsibilities of director

As explained more fully in the Director's Responsibilities Statement, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

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

**Chartered Accountants**  
**Statutory Auditor**

15<sup>th</sup> October 2018

The French Quarter  
114 High Street  
Southampton  
SO14 2AA

# KERN LIMITED

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Revenue	3	3,708,855	4,792,406
Cost of sales		(2,575,964)	(3,320,395)
<b>Gross profit</b>		<b>1,132,891</b>	<b>1,472,011</b>
Distribution costs		(53,384)	(60,773)
Administrative expenses		(2,024,350)	(2,169,303)
Other operating income/(expenses)		24,375	(274,204)
<b>Operating loss</b>	<b>4</b>	<b>(920,468)</b>	<b>(1,032,269)</b>
Investment income	7	15	313
Finance costs	8	(111,953)	(147,275)
<b>Loss before taxation</b>		<b>(1,032,406)</b>	<b>(1,179,231)</b>
Tax on loss	9	-	-
<b>Loss for the financial year</b>		<b>(1,032,406)</b>	<b>(1,179,231)</b>

The Income Statement has been prepared on the basis that all operations are continuing operations.

# KERN LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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	2017 £	2016 £
Loss for the year	(1,032,406)	(1,179,231)
Other comprehensive income	-	-
Total comprehensive income for the year	<u>(1,032,406)</u>	<u>(1,179,231)</u>

# KERN LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 £	£	2016 £	£
<b>Fixed assets</b>					
Property, plant and equipment	10		137,033		104,567
<b>Current assets</b>					
Inventories	12	3,003,891		3,123,208	
Trade and other receivables	13	576,508		847,722	
Cash at bank and in hand		158,287		107,010	
		<u>3,738,686</u>		<u>4,077,940</u>	
<b>Current liabilities</b>	14	<u>(2,053,806)</u>		<u>(1,328,188)</u>	
Net current assets			1,684,880		2,749,752
<b>Total assets less current liabilities</b>			<u>1,821,913</u>		<u>2,854,319</u>
 <b>Long term parent company loans</b>	15		1,779,436		2,779,436
<b>Equity</b>					
Called up share capital	20		1,250,000		1,250,000
Retained earnings/(losses)			(1,207,523)		(1,175,117)
<b>Total equity</b>			<u>42,477</u>		<u>74,883</u>
 <b>Total equity and long term parent company loans</b>			<u>1,821,913</u>		<u>2,854,319</u>

The financial statements were approved and signed by the director and authorised for issue on 8-10-2018.

  
 .....  
 Mr U Kern  
 Director

Company Registration No. 01727919

# KERN LIMITED

## STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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	Share capital £	Retained earnings £	Total £
<b>Balance at 1 January 2016</b>	1,250,000	(1,175,886)	74,114
<b>Period ended 31 December 2016:</b>			
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
<b>Balance at 31 December 2016</b>	1,250,000	(1,175,117)	74,883
<b>Period ended 31 December 2017:</b>			
Total comprehensive loss for the year	-	(1,032,406)	(1,032,406)
Write-off of long term intra-company loan	-	1,000,000	1,000,000
<b>Balance at 31 December 2017</b>	1,250,000	(1,207,523)	42,477

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# KERN LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	£	2016 £	£
<b>Cash flows from operating activities</b>					
Cash generated from/(absorbed by) operations	24		250,021		(209,418)
Interest paid			(111,953)		(147,275)
<b>Net cash inflow/(outflow) from operating activities</b>			138,068		(356,693)
<b>Investing activities</b>					
Purchase of property, plant and equipment		(86,806)		(7,461)	
Interest received		15		313	
<b>Net cash used in investing activities</b>			(86,791)		(7,148)
<b>Financing activities</b>					
Repayment of borrowings		-		114,917	
<b>Net cash (used in)/generated from financing activities</b>			-		114,917
<b>Net increase/(decrease) in cash and cash equivalents</b>			51,277		(248,924)
Cash and cash equivalents at beginning of year			107,010		355,934
<b>Cash and cash equivalents at end of year</b>			158,287		107,010

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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### 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 2017

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### 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 2017

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#### 1 Accounting policies

(Continued)

##### **Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

##### **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.

##### **Other financial liabilities**

Derivatives, including interest rate swaps and 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 finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

##### **Derecognition of financial liabilities**

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

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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### 1 Accounting policies

(Continued)

#### 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.

#### 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.

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 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.

#### 3 Revenue

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

	2017 £	2016 £
<b>Turnover</b>		
Machines	1,277,665	2,017,089
Servicing	2,431,190	2,775,317
	<u>3,708,855</u>	<u>4,792,406</u>

##### Revenue analysed by geographical market

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

#### 4 Operating loss

	2017 £	2016 £
Operating loss for the year is stated after charging:		
Exchange losses	12,292	309,704
Depreciation of owned property, plant and equipment	54,340	29,269
Cost of inventories recognised as an expense	1,659,222	2,196,502
Operating lease charges	<u>273,722</u>	<u>296,847</u>

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 5 Auditor's remuneration

	2017 £	2016 £
Fees payable to the company's auditor and associates:		
<b>For audit services</b>		
Audit of the financial statements of the company	17,195	16,695
<b>For other services</b>		
All other non-audit services	11,056	14,605

#### 6 Employees

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

	2017 Number	2016 Number
Engineering	27	35
Sales & marketing	6	6
Customer services	7	7
Administration	7	6
	47	54

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	1,618,359	1,890,399
Social security costs	193,289	223,013
Pension costs	154,656	170,621
	1,966,304	2,284,033
Redundancy payments made or committed	32,691	(11,627)

#### 7 Investment income

	2017 £	2016 £
<b>Interest income</b>		
Interest on bank deposits	15	313

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 8 Finance costs

	2017 £	2016 £
<b>Interest on financial liabilities:</b>		
Interest payable to group undertakings	111,953	147,275

### 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:

	2017 £	2016 £
Loss before taxation	(1,032,406)	(1,179,231)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(198,738)	(235,846)
Tax effect of expenses that are not deductible in determining taxable profit	3	98
Unutilised tax losses carried forward	202,843	231,891
Permanent capital allowances in excess of depreciation	(6,780)	-
Depreciation in excess of capital allowances	-	3,857
Unpaid pension contributions	2,672	-
Taxation for the year	-	-

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 10 Property, plant and equipment

	Leasehold improvements	Warehouse and Test Equipment	Office Equipment	Electronic Equipment and Software	Total
	£	£	£	£	£
<b>Cost</b>					
At 1 January 2017	372,325	50,801	123,179	312,295	858,600
Additions	3,120	2,055	759	80,872	86,806
At 31 December 2017	375,445	52,856	123,938	393,167	945,406
<b>Depreciation and impairment</b>					
At 1 January 2017	275,732	50,629	121,644	306,028	754,033
Depreciation charged in the year	23,053	392	915	29,980	54,340
At 31 December 2017	298,785	51,021	122,559	336,008	808,373
<b>Carrying amount</b>					
At 31 December 2017	76,660	1,835	1,379	57,159	137,033
At 31 December 2016	96,593	172	1,535	6,267	104,567

### 11 Financial instruments

	2017 £	2016 £
<b>Carrying amount of financial assets</b>		
Debt instruments measured at amortised cost	573,186	716,465
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	3,292,185	3,605,431

### 12 Inventories

	2017 £	2016 £
Spare parts	1,542,279	1,513,842
Finished goods and goods for resale	1,461,612	1,609,366
	3,003,891	3,123,208

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 13 Trade and other receivables

	2017 £	2016 £
Amounts falling due within one year:		
Trade receivables	390,374	580,541
Other receivables	24,525	28,914
Prepayments and accrued income	161,609	238,267
	<u>576,508</u>	<u>847,722</u>

Trade receivables disclosed above are measured at amortised cost.

### 14 Current liabilities

	Notes	2017 £	2016 £
Trade payables		302,398	290,764
Amount due to parent undertaking		1,131,104	423,306
Amounts due to fellow group undertakings		7,171	10,188
Other taxation and social security		258,996	142,192
Deferred income	18	282,062	360,001
Other payables		3,574	37,194
Accruals		68,501	64,543
		<u>2,053,806</u>	<u>1,328,188</u>

### 15 Non-current liabilities

	Notes	2017 £	2016 £
Other borrowings	16	<u>1,779,436</u>	<u>2,779,436</u>

### 16 Borrowings

	2017 £	2016 £
Loans from group undertakings	<u>1,779,436</u>	<u>2,779,436</u>
Payable after one year	<u>1,779,436</u>	<u>2,779,436</u>

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.

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

### 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 £7,420,000 (2016: £6,370,000).

At a tax rate of 19% the potential deferred tax asset could amount to £1,410,000 (2016: £1,274,000 at 20%).

### 18 Deferred income

	2017 £	2016 £
Other deferred income	282,062	360,001

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

	2017 £	2016 £
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	154,656	170,621

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 £13,882 (2016: £nil) in respect of contributions owed regarding defined contribution schemes.

### 20 Share capital

	2017 £	2016 £
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
1,250,000 ordinary shares of £1 each	1,250,000	1,250,000
	1,250,000	1,250,000



# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 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:

	2017 £	2016 £
Within one year	244,828	251,673
Between two and five years	643,438	196,979
In over five years	34,500	-
	<u>922,766</u>	<u>448,652</u>

#### 22 Related party transactions

##### Remuneration of key management personnel

The remuneration of key management personnel, is as follows:

	2017 £	2016 £
Aggregate compensation	<u>167,059</u>	<u>165,530</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	
	2017 £	2016 £	2017 £	2016 £
Kern AG, immediate parent company	225	248	305,477	367,129
Fellow subsidiaries	<u>34,008</u>	<u>7,111</u>	<u>14,071</u>	<u>320,854</u>
	Loan interest		Warranty claims	
	2017 £	2016 £	2017 £	2016 £
Kern AG, immediate parent company	<u>108,999</u>	<u>147,275</u>	<u>11,465</u>	<u>26,033</u>

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

# KERN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

### 22 Related party transactions

(Continued)

The following amounts were outstanding at the reporting end date:

	2017 £	2016 £
<b>Amounts owed to related parties</b>		
Kern AG, immediate parent company	2,910,540	3,202,742
Fellow subsidiaries	7,171	10,188

As part of the group financial support, Kern AG, the immediate parent company, waived repayment of £1,000,000 (2016:£1,180,000) of an intra-group loan during the year.

### 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.

### 24 Cash generated from operations

	2017 £	2016 £
Loss for the year after tax	(1,032,406)	(1,179,231)
<b>Adjustments for:</b>		
Finance costs	111,953	147,275
Investment income	(15)	(313)
Depreciation and impairment of property, plant and equipment	54,340	29,269
<b>Movements in working capital:</b>		
Decrease in inventories	119,317	443,308
Decrease in trade and other receivables	271,214	545,683
Increase in trade and other payables	803,557	128,446
(Decrease) in deferred income	(77,939)	(323,855)
<b>Cash generated from/(absorbed by) operations</b>	<b>250,021</b>	<b>(209,418)</b>