

Company Registration No. 02999887 (England and Wales)

**J. H. LAVENDER & COMPANY LTD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2016**



# J. H. LAVENDER & COMPANY LTD

## COMPANY INFORMATION

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<b>Directors</b>	Mr A J Rose Mr J M Warner Mr I M Timings
<b>Secretary</b>	Mr A V Taylor
<b>Company number</b>	02999887
<b>Registered office</b>	Hall Green Works Crankhall Lane West Bromwich West Midlands B71 3JZ
<b>Auditor</b>	Baldwins Audit Services Limited Churchill House 59 Lichfield Street Walsall West Midlands WS4 2BX

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# J. H. LAVENDER & COMPANY LTD

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# J. H. LAVENDER & COMPANY LTD

## STRATEGIC REPORT

**FOR THE YEAR ENDED 31 OCTOBER 2016**

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The directors present the strategic report for the year ended 31 October 2016.

### Fair review of the business

#### Year End Position as at 31st October 2016

The company continued the rationalisation of its core business activities focusing on the manufacture of high pressure die-casting components and the CNC machining thereof. This coupled with the continued trend for customers to transfer tools overseas, has resulted in a reduction in overall sales to £8,569,138 from £11,436,532 in 2015. However, profitability has increased for the third year in a row and now equates to 5.79% compared to 5.01% in 2015 and 3.64% in 2014. A profit before tax of £495,758 has been achieved resulting in Shareholders' funds increasing some 10.3% from £2,376,299 in 2015 to £2,620,514 in 2016.

The aim over the last 12 months has been to improve productivity and this has been reflected with gross margins increasing from 17.03% in 2015 to 20.52% in 2016. This has been driven via numerous initiatives ranging from energy reduction to continued investment in state of the art machinery. In 2016, £263,025 was spent on new buildings (by the parent company) and £635,392 was spent on plant and equipment, most notably CNC machinery. In addition, approximately £35,000 was also spent on computer equipment as a new MRP system was installed with EDI capabilities. These productivity improvements are considered to be key to the company's continued success, in what remains a very difficult and demanding market place.

### Principal risks and uncertainties

#### Price Risk

The price of aluminium over the last 12 months has increased steadily. There is uncertainty in the future cost of aluminium, however this is mitigated by agreements that allows the company to pass on any movements in price to the customer.

#### Interest Rate Risk

The companies invoice discounting facility is linked to the Bank of England base rate and although it has been stable at historic lows for several years now, the inevitable rise in rates in coming years, will expose the company to an element of interest rate risk.

#### Economy Risk

As was seen in 2009, an economic downturn within the UK and the rest of Europe can severely impact on the trading ability of the company.

### Key performance indicators

#### Analysis using key performance indicators:

##### Profit ratio

Pre-tax profit margin      5.79%    (2015: 5.01%)

##### Liquidity ratio

Current ratio                0.97      (2015: 0.96)

##### Capital ratio

Interest cover               9.06      (2015: 6.34)

On behalf of the board



Mr I M Timings

Director

22 February 2017

# **J. H. LAVENDER & COMPANY LTD**

## **DIRECTORS' REPORT**

***FOR THE YEAR ENDED 31 OCTOBER 2016***

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The directors present their annual report and financial statements for the year ended 31 October 2016.

### **Principal activities**

The principal activity of the company continued to be that of aluminium pressure and gravity diecasters and machinists.

### **Directors**

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

Mr A J Rose

Mr J M Warner

Mr I M Timings

### **Results and dividends**

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

Ordinary dividends were paid amounting to £180,600. The directors recommend payment of a final dividend amounting to £180,600.

### **Research and development**

The company incurs on-going expenditure in various areas of research and development. A complete tooling design and manufacturing service is offered, utilising our extensive engineering experience. The Technical and Quality staff are involved with assisting customers from the inception of their design right through to the manufacture of production parts. Input, advice and feedback from sampling procedures all assist the product engineers with making sure the final product is as per specification and fit for purpose.

The same resources are also applied to achieve optimum manufacturing and quality standards for existing parts. Frequent design modifications to components are undertaken along with modifications to improve both quality and the casting process itself. The development of production techniques are refined and modified accordingly to ensure all objectives are met.

The Board of Directors view this item of expenditure as essential in developing customer relations and in ensuring that the casting process is as efficient and robust as possible, to maintain quality of product for the customer and to maintain margins for the Company itself.

### **Future developments**

Sales have continued to remain subdued for the start of the new financial year following the vote in June 2016 to leave the EU. This uncertainty is not helping the industry and has resulted in some potential contracts not being secured due to the customer having fears over currency risk exposure. In addition some previously secured new contracts for machined and assembled components have had their introductions delayed.

Despite these negative impacts on sales levels, the company will still follow its capital investment plan. This will result in a new bespoke building to house its CNC machining operations, which will be completed by the end of the current financial year. This is being financed via continued support from our Bankers HSBC along with grant funding from the Black Country LEP.

2017 sees J.H.Lavender reach its centenary trading year. Whilst the Directors are not in a position to comment on the next 100 years, it's comforting to note that to date the business has a stronger foundation than ever before and continues to trade profitably.

# **J. H. LAVENDER & COMPANY LTD**

## **DIRECTORS' REPORT (CONTINUED)**

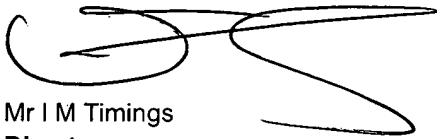
**FOR THE YEAR ENDED 31 OCTOBER 2016**

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### **Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

A handwritten signature in black ink, consisting of a large, stylized 'S' shape with a horizontal line crossing it.

Mr I M Timings

**Director**

22 February 2017

# **J. H. LAVENDER & COMPANY LTD**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

***FOR THE YEAR ENDED 31 OCTOBER 2016***

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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 financial statements for each financial year. Under that law the directors have 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 directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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.

# **J. H. LAVENDER & COMPANY LTD**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF J. H. LAVENDER & COMPANY LTD**

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We have audited the financial statements of J. H. Lavender & Company Ltd for the year ended 31 October 2016 set out on pages 7 to 27. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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 directors; 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 October 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

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



# **J. H. LAVENDER & COMPANY LTD**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF J. H. LAVENDER & COMPANY LTD**

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### **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.

**Mr David James Baldwin FCCA (Senior Statutory Auditor)  
for and on behalf of Baldwins Audit Services Limited**

13 March 2017

**Chartered Accountants  
Statutory Auditor**

Churchill House  
59 Lichfield Street  
Walsall  
West Midlands  
WS4 2BX

# J. H. LAVENDER & COMPANY LTD

## PROFIT AND LOSS ACCOUNT

**FOR THE YEAR ENDED 31 OCTOBER 2016**

	Notes	2016 £	2015 £
Turnover	3	8,569,138	11,436,532
Cost of sales		(6,810,434)	(9,488,406)
<b>Gross profit</b>		<b>1,758,704</b>	<b>1,948,126</b>
Administrative expenses		(1,249,545)	(1,306,918)
Other operating income		48,121	38,326
<b>Operating profit</b>	4	<b>557,280</b>	<b>679,534</b>
Interest receivable and similar income	7	15	15
Interest payable and similar charges	8	(61,537)	(107,134)
<b>Profit before taxation</b>		<b>495,758</b>	<b>572,415</b>
Taxation	9	(70,943)	(113,872)
<b>Profit for the financial year</b>		<b>424,815</b>	<b>458,543</b>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# **J. H. LAVENDER & COMPANY LTD**

## **STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 2016**

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	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Profit for the year</b>	<b>424,815</b>	<b>458,543</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>424,815</b>	<b>458,543</b>

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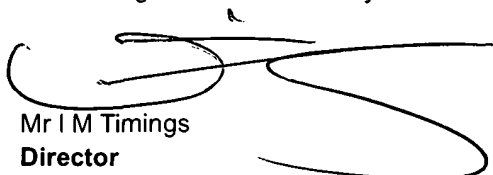
# J. H. LAVENDER & COMPANY LTD

## BALANCE SHEET

AS AT 31 OCTOBER 2016

	Notes	2016 £	£	2015 £	£
<b>Fixed assets</b>					
Tangible assets	11		4,088,013		3,779,578
<b>Current assets</b>					
Stocks	13	776,570		860,819	
Debtors	14	1,796,089		2,137,040	
Cash at bank and in hand		16,083		14,525	
		<u>2,588,742</u>		<u>3,012,384</u>	
<b>Creditors: amounts falling due within one year</b>	15	<u>(2,661,154)</u>		<u>(3,183,355)</u>	
<b>Net current liabilities</b>			(72,412)		(170,971)
<b>Total assets less current liabilities</b>			4,015,601		3,608,607
<b>Creditors: amounts falling due after more than one year</b>	16		(913,426)		(858,590)
<b>Provisions for liabilities</b>	20		(481,661)		(373,718)
<b>Net assets</b>			<u>2,620,514</u>		<u>2,376,299</u>
<b>Capital and reserves</b>					
Called up share capital	23		1,000		1,000
Profit and loss reserves			<u>2,619,514</u>		<u>2,375,299</u>
<b>Total equity</b>			<u>2,620,514</u>		<u>2,376,299</u>

The financial statements were approved by the board of directors and authorised for issue on 22 February 2017 and are signed on its behalf by:

  
Mr I M Timings  
Director

Company Registration No. 02999887

# J. H. LAVENDER & COMPANY LTD

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2016

	Notes	Share capital £	Profit and loss reserves £	Total £
<b>Balance at 1 November 2014</b>		1,000	1,916,756	1,917,756
<b>Year ended 31 October 2015:</b>				
Profit and total comprehensive income for the year		-	458,543	458,543
<b>Balance at 31 October 2015</b>		1,000	2,375,299	2,376,299
<b>Year ended 31 October 2016:</b>				
Profit and total comprehensive income for the year		-	424,815	424,815
Dividends	10	-	(180,600)	(180,600)
<b>Balance at 31 October 2016</b>		1,000	2,619,514	2,620,514

# J. H. LAVENDER & COMPANY LTD

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 OCTOBER 2016

	Notes	2016 £	£	2015 £	£
<b>Cash flows from operating activities</b>					
Cash generated from operations	27	508,847		1,504,763	
Interest paid		(61,537)		(107,134)	
Income taxes refunded		77,813		38,910	
<b>Net cash inflow from operating activities</b>		<u>525,123</u>		<u>1,436,539</u>	
<b>Investing activities</b>					
Purchase of tangible fixed assets		(374,373)		(265,150)	
Interest received		15		15	
<b>Net cash used in investing activities</b>		<u>(374,358)</u>		<u>(265,135)</u>	
<b>Financing activities</b>					
Proceeds of new bank loans		257,801		-	
Repayment of bank loans		-		(967,692)	
Payment of finance leases obligations		(226,408)		(317,891)	
Dividends paid		(180,600)		-	
<b>Net cash used in financing activities</b>		<u>(149,207)</u>		<u>(1,285,583)</u>	
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>1,558</u>		<u>(114,179)</u>	
Cash and cash equivalents at beginning of year		14,525		128,704	
<b>Cash and cash equivalents at end of year</b>		<u><u>16,083</u></u>		<u><u>14,525</u></u>	

# **J. H. LAVENDER & COMPANY LTD**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2016**

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### **1 Accounting policies**

#### **Company information**

J. H. Lavender & Company Ltd is a company limited by shares incorporated in England and Wales. The registered office is Hall Green Works, Crankhall Lane, West Bromwich, West Midlands, B71 3JZ.

#### **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 £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 October 2016 are the first financial statements of J. H. Lavender & Company Ltd prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 November 2014. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

#### **1.2 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **1.3 Turnover**

Turnover represents net invoiced sales of goods, excluding value added tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### **1.4 Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 1 Accounting policies

(Continued)

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

Plant and machinery	8% to 20% on reducing balance
Fixtures, fittings & equipment	8% to 33.3% on reducing balance
Computer equipment	33.3% on reducing balance
Motor vehicles	33.3% on reducing balance

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 fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.



# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

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### 1 Accounting policies

(Continued)

#### 1.7 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. 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.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally 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.

##### **Basic financial assets**

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

##### **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 publically 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. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

##### **Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 OCTOBER 2016

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#### 1 Accounting policies

(Continued)

##### **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**

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

##### **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.

#### 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

The tax expense represents the sum of the tax currently payable and deferred tax.

##### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 OCTOBER 2016

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#### 1 Accounting policies

(Continued)

##### **Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are 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. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

##### **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 fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

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**

Contributions are charged to the profit and loss account in the year they are payable, in accordance with the rules of the scheme.

##### **1.13 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

##### **1.14 Government grants**

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

Government grants relating to turnover are recognised as income over the periods when the related costs are incurred. Grants relating to an asset are recognised in income systematically over the asset's expected useful life. If part of such a grant is deferred it is recognised as deferred income rather than being deducted from the asset's carrying amount.

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are 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.

### 3 Turnover and other revenue

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

	2016 £	2015 £
<b>Turnover</b>		
Principal activity	8,569,138	11,436,532

#### Other significant revenue

Interest income	15	15
Grants received	48,121	38,326

#### Turnover analysed by geographical market

	2016 £	2015 £
United Kingdom	7,606,585	10,487,446
Europe	804,083	929,722
United States of America	920	1,323
South America	23,214	18,041
China	134,336	-
	8,569,138	11,436,532

### 4 Operating profit

	2016 £	2015 £
Operating profit for the year is stated after charging/(crediting):		
Government grants	(48,121)	(38,326)
Fees payable to the company's auditor for the audit of the company's financial statements	9,075	9,200
Depreciation of owned tangible fixed assets	250,750	205,627
Depreciation of tangible fixed assets held under finance leases	89,188	132,602
Cost of stocks recognised as an expense	3,289,911	4,778,685
Operating lease charges	13,865	5,963

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 5 Employees

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

	2016 Number	2015 Number
Production staff	70	90
Management and administration	24	25
Directors	3	3
	<u>97</u>	<u>118</u>

Their aggregate remuneration comprised:

	2016 £	2015 £
Wages and salaries	2,829,162	3,364,095
Social security costs	283,070	338,943
Pension costs	123,703	132,119
	<u>3,235,935</u>	<u>3,835,157</u>

### 6 Directors' remuneration

	2016 £	2015 £
Remuneration for qualifying services	246,360	233,290
Company pension contributions to defined contribution schemes	18,904	16,984
	<u>265,264</u>	<u>250,274</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2015 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	166,115	158,626
Company pension contributions to defined contribution schemes	18,904	16,984
	<u>185,019</u>	<u>175,610</u>

# J. H. LAVENDER & COMPANY LTD

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

### 7 Interest receivable and similar income

	2016 £	2015 £
<b>Interest income</b>		
Interest on bank deposits	15	-
Other interest income	-	15
	<u>15</u>	<u>15</u>
<b>Total income</b>	<u>15</u>	<u>15</u>

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	15	-
	<u>15</u>	<u>-</u>

### 8 Interest payable and similar charges

	2016 £	2015 £
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest on bank overdrafts and loans	2,466	256
Interest on finance leases and hire purchase contracts	26,975	45,461
Interest on invoice finance arrangements	29,673	58,576
	<u>59,114</u>	<u>104,293</u>
<b>Other finance costs:</b>		
Other interest	2,423	2,841
	<u>61,537</u>	<u>107,134</u>

### 9 Taxation

	2016 £	2015 £
<b>Current tax</b>		
Adjustments in respect of prior periods	(37,000)	71,792
	<u>(37,000)</u>	<u>71,792</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	48,790	42,080
Tax losses carried forward	59,153	-
	<u>107,943</u>	<u>42,080</u>
<b>Total deferred tax</b>	<u>107,943</u>	<u>42,080</u>
<b>Total tax charge</b>	<u>70,943</u>	<u>113,872</u>

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 OCTOBER 2016

#### 9 Taxation

(Continued)

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

	2016 £	2015 £
Profit before taxation	495,758	572,415
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2015: 20.00%)	99,152	114,483
Tax effect of expenses that are not deductible in determining taxable profit	96	97
Tax effect of income not taxable in determining taxable profit	(9,624)	(7,665)
Tax effect of utilisation of tax losses not previously recognised	(59,153)	(67,789)
Adjustments in respect of prior years	(37,000)	71,792
Other permanent differences	7,990	-
Depreciation addback	67,987	67,646
Capital allowances	(106,448)	(106,772)
Deferred taxation movement	107,943	42,080
Tax expense for the year	70,943	113,872

#### 10 Dividends

	2016 £	2015 £
Final paid	180,600	-

The proposed final dividend for the year ended 31 October 2016 is:

	Per share £	2016 Total £	2015 Total £
Ordinary	180.60	180,600	-

The proposed final dividend is subject to approval by shareholders and has not been included as a liability in these financial statements.

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 11 Tangible fixed assets

	Plant and machinery	Fixtures, fittings & equipment	Computer equipment	Motor vehicles	Total
	£	£	£	£	£
<b>Cost</b>					
At 1 November 2015	7,319,677	51,645	195,921	24,750	7,591,993
Additions	608,156	4,964	35,253	-	648,373
At 31 October 2016	7,927,833	56,609	231,174	24,750	8,240,366
<b>Depreciation and impairment</b>					
At 1 November 2015	3,605,773	33,605	152,600	20,437	3,812,415
Depreciation charged in the year	311,497	6,609	20,395	1,437	339,938
At 31 October 2016	3,917,270	40,214	172,995	21,874	4,152,353
<b>Carrying amount</b>					
At 31 October 2016	4,010,563	16,395	58,179	2,876	4,088,013
At 31 October 2015	3,713,904	18,040	43,321	4,313	3,779,578

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2016 £	2015 £
Plant and machinery	1,272,463	1,524,924
Depreciation charge for the year in respect of leased assets	89,188	132,602

### 12 Financial instruments

	2016 £	2015 £
<b>Carrying amount of financial assets</b>		
Debt instruments measured at amortised cost	1,721,122	2,001,741
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	3,028,761	3,519,183



# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 13 Stocks

	2016 £	2015 £
Raw materials and consumables	32,037	57,890
Work in progress	744,533	802,929
	<u>776,570</u>	<u>860,819</u>

### 14 Debtors

	2016 £	2015 £
<b>Amounts falling due within one year:</b>		
Trade debtors	1,660,416	1,991,692
Corporation tax recoverable	37,000	77,813
Amount due from parent undertaking	55,706	-
Other debtors	5,000	10,049
Prepayments and accrued income	37,967	57,486
	<u>1,796,089</u>	<u>2,137,040</u>

Included in the above trade debtors figure are balances totalling £1,295,466 (2015: £1,899,858) that are subject to invoice finance arrangements. The trade debtor balances have been transferred to the counterparty, though the transaction does not qualify for derecognition on the basis that the late payment risk is retained by the company. The associated liability recognised in creditors amounts to £1,162,718 (2015: £1,104,667)

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

	Notes	2016 £	2015 £
Bank loans and overdrafts	17	1,162,718	1,104,667
Obligations under finance leases	18	228,958	193,740
Trade creditors		889,320	1,468,675
Other taxation and social security		217,279	244,051
Government grants	21	48,121	48,121
Other creditors		62,221	76,676
Accruals and deferred income		52,537	47,425
		<u>2,661,154</u>	<u>3,183,355</u>

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 16 Creditors: amounts falling due after more than one year

	Notes	2016 £	2015 £
Bank loans and overdrafts	17	199,750	-
Obligations under finance leases	18	433,257	420,883
Amounts due to group undertakings		-	207,117
Government grants	21	280,419	230,590
		<u>913,426</u>	<u>858,590</u>

### 17 Loans and overdrafts

	2016 £	2015 £
Bank loans	<u>1,362,468</u>	<u>1,104,667</u>
Payable within one year	1,162,718	1,104,667
Payable after one year	<u>199,750</u>	<u>-</u>

#### Secured debts

The finance leases are secured by a chattels mortgage, dated 01/10/2010, and there is a legal assignment of contract monies, dated 26/03/2014, both with HSBC Asset Finance (UK) Ltd and HSBC Equipment Finance (UK) Ltd.

The invoice discounting account is secured by a fixed charge on non-vesting debts and floating charge, dated 22/09/2009, with HSBC Invoice Finance (UK) Ltd.

The bank borrowings are further secured by a debenture with HSBC Bank Plc, dated 24/09/2009, a composite company unlimited multilateral unlimited guarantee with HSBC Plc dated 24/09/2009 and a legal assignment of contract monies, with HSBC Bank Plc, dated 10/07/2012.

### 18 Finance lease obligations

	2016 £	2015 £
Future minimum lease payments due under finance leases:		
Within one year	255,308	217,439
In two to five years	<u>480,846</u>	<u>471,946</u>
	736,154	689,385
Less: future finance charges	<u>(73,939)</u>	<u>(74,762)</u>
	<u>662,215</u>	<u>614,623</u>

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 OCTOBER 2016

### 18 Finance lease obligations

(Continued)

Finance lease payments represent rentals payable by the company for certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 5 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### 19 Provisions for liabilities

		2016 £	2015 £
Deferred tax liabilities	20	481,661	373,718
		<u>481,661</u>	<u>373,718</u>

### 20 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2016 £	Liabilities 2015 £
<b>Balances:</b>		
Accelerated capital allowances	495,713	446,923
Tax losses	(14,052)	(73,205)
	<u>481,661</u>	<u>373,718</u>
<b>Movements in the year:</b>		2016 £
Liability at 1 November 2015		373,718
Charge to profit or loss		107,943
		<u>481,661</u>
Liability at 31 October 2016		<u>481,661</u>

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 OCTOBER 2016

#### 21 Government grants

Deferred income is included in the financial statements as follows:

	2016 £	2015 £
Current liabilities	48,121	48,121
Non-current liabilities	280,419	230,590
	<u>328,540</u>	<u>278,711</u>

#### 22 Retirement benefit schemes

	2016 £	2015 £
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	<u>123,703</u>	<u>132,119</u>

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.

#### 23 Share capital

	2016 £	2015 £
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
1,000 Ordinary of £1 each	<u>1,000</u>	<u>1,000</u>

#### 24 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	43,455	33,836
Between two and five years	92,261	104,045
In over five years	-	5,793
	<u>135,716</u>	<u>143,674</u>

# J. H. LAVENDER & COMPANY LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 OCTOBER 2016

#### 25 Related party transactions

##### Remuneration of key management personnel

The remuneration of key management personnel, who are also directors, is as follows.

	2016 £	2015 £
Aggregate compensation	265,264	250,274

The company has taken advantage of exemptions available under FRS 102.33.1A whereby transactions between two or more members of a group, where one is a wholly owned subsidiary of the other, have not been disclosed.

#### 26 Controlling party

The parent company of J. H. Lavender & Co Ltd is J. H. Lavender (Holdings) Ltd.

The directors of J. H. Lavender (Holding) Limited are regarded as its controlling parties by virtue of their ability to act in concert in respect of the operations of the company.

J. H. Lavender & Co Ltd is consolidated into J. H. Lavender (Holdings) Ltd group accounts.

#### 27 Cash generated from operations

	2016 £	2015 £
Profit for the year after tax	424,815	458,543
<b>Adjustments for:</b>		
Taxation charged	70,943	113,872
Finance costs	61,537	107,134
Investment income	(15)	(15)
Depreciation and impairment of tangible fixed assets	339,938	338,229
<b>Movements in working capital:</b>		
Decrease in stocks	84,249	104,092
Decrease in debtors	300,138	1,245,383
(Decrease) in creditors	(822,587)	(824,149)
Increase/(decrease) in deferred income	49,829	(38,326)
<b>Cash generated from operations</b>	<b>508,847</b>	<b>1,504,763</b>

# **J. H. LAVENDER & COMPANY LTD**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***FOR THE YEAR ENDED 31 OCTOBER 2016***

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### **28 Non-audit services provided by auditor**

In common with many businesses of our size and nature we use our auditor to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

In common with many other businesses of our size and nature we use our auditors to provide tax advice and to represent us, as necessary, at tax tribunals.