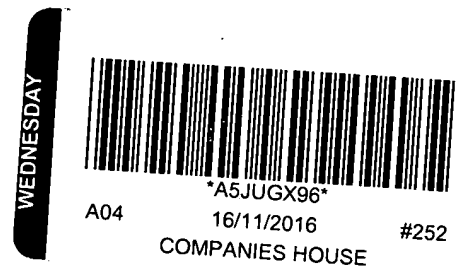


# Kenwood Limited

Registered No. 872044

## Report and Financial Statements

31 December 2015



Kenwood Limited

## **Corporate Information**

### **Directors**

Fabio de' Longhi

Silvia de' Longhi

### **Secretary**

Alan Cummings

### **Auditors**

Ernst & Young LLP

19 Threefield Lane

Southampton

Hampshire

SO14 3QB

### **Registered Office**

Unit 1 Kenwood Business Park

New Lane

Havant

Hampshire

PO9 2NH

## Strategic Report

The Directors present their strategic report for the year ended 31 December 2015.

### Principle Activities

The company's principal activity during the year was the selling and marketing of small domestic appliances.

### Business Review

The profit for the year, after taxation, is £27,652,000 (2014: £8,033,000). The directors paid an interim ordinary dividend of 15.17p per ordinary share amounting to £3,800,000 on 29 December 2015.

During the year the company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, Kenwood Appliances Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. Details of the recognition or measurement differences arising on the adoption of FRS 101 are included in note 29 to these financial statements.

The Company's key financial and other performance indicators during the year were as follows:

	2015 £000	2014 £000	Change %
Turnover	294,310	307,468	-4.3%
Underlying profit	14,199	19,805	-28.3%
Profit for the financial year	27,652	8,033	+244.2%
Shareholder's equity	67,129	43,922	+52.8%
Average number of employees	272	279	-2.5%

The Underlying profit of Kenwood Ltd at 4.8% of Turnover in 2015 highlights a reduction from prior year of 6.4%. The exceptionally tough economic trading conditions across the whole territory combined with considerable unfavourable movements in exchange rates to produce a significant reduction in Turnover and consequential impact on the absolute value of Gross Profit. The impact in particular of the Rouble and Hryvnia movements during the year heavily impacted the comparable Turnover of the company. The Gross Profit of 24.6% of Turnover in 2015 is comparable to the prior year of 25.6%.

The holding activity within 2015 also saw the receipt of dividends from the company's investment in De'Longhi Kenwood MEIA F.Z.E. which produced a significantly favourable impact on the profit for the financial year.

The previous year saw many competitors focus their efforts onto the sector shares of the company's brands and this continued in 2015, with key categories like Kitchen Machines coming under further increased pressure, along with other categories of the Kenwood brand. Both the Braun and De'Longhi brands produced favourable turnover performance in comparison to the previous year. This came despite a consistent and uniform presentation of all the brands to the international market place, further highlighting the trend of a consumer centric approach being required in the product offering. This has been the clear focus of the product development of all of the brands but is proving challenging to bring such innovative products to market with clear points of consumer difference.

## Strategic Report (continued)

### Business Review (continued)

The past year has continued the investment in the company's infrastructure, balancing the short term marketing and expediting requirements with the longer term view of where technology and innovation will come into play in the competitive territories of the company. The average number of employees has reduced from 279 within 2014 to 272 within 2015, with the difference mainly relating to timing of replacements etc rather than a strategy to reduce the overall headcount.

The coming year of 2016 will see further challenges due to the economic climate, shift in exchange rates and continual focus of our competitors on the shares of Kenwood Ltd. Ultimately strong marketing of consumer centric innovative products will prove to be the strongest defence of the company's position in all of our markets.

### Principal risks and uncertainties

- **Competitive risk**

The company operates in a highly competitive market, particularly on price and availability, where there are a few key dominant customers. This generally results in downward pressure on margins and the risk that customer demands are not met. The commercial team seek to mitigate this risk by continually monitoring market prices and building close relationships with customers.

- **Financial instruments risk**

Given the size of the company, the directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The finance department seeks assistance in managing the company's foreign currency risk from the treasury department of the company's ultimate parent company, De' Longhi S.p.A., where necessary.

The company's assets and liabilities include the following financial instruments:

- Cash, liquid resources and short-term debtors and creditors that arise directly from the company's investment activities; and
- Derivative transactions undertaken by the company to manage market risks and currency risks.

The main risks arising from the company's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and price risk.

- **Foreign currency risk**

The company's profits and net assets could be significantly affected by currency movements as a substantial proportion of the company's assets and liabilities is denominated in currencies other than sterling. The company enters into forward currency contracts as a means of limiting or decreasing its exposure to particular foreign currencies.

- **Interest rate risk**

The company's finances are assisted by short-term borrowing. Changes in interest rates affect the company's bottom line profit. The company does not mitigate this risk as the potential movements are expected to be minimal and any borrowing short term. If the rates were to become highly variable and significant, then the company would move to structure borrowing differently to minimise any risk.

- **Credit risk**

The company undertakes sales to numerous companies mainly in the UK and Europe, whose credit rating is assessed case by case and the risk is then covered by insurance policies where cover is economically obtainable.

## Strategic Report (continued)

### Principal risks and uncertainties (continued)

- Liquidity risk

Any additional funding requirements may be met by short term borrowing, potentially supported by the ultimate parent company, De'Longhi S.p.A.

- Pricing risk

The company is exposed to supplier price risk as a result of its operations. The company seeks to mitigate this risk by negotiating prices in advance with suppliers where possible.

- Investment risk

In addition, the company carries investment risk, but mitigates this by investing only in other De'Longhi group companies, of which it has a good working knowledge.

By order of the board

Fabio de' Longhi  
Director

8 November 2016



## Directors' Report

### Registered No. 872044

The directors present their report for the year ended 31 December 2015

### Directors of the company

The current directors are shown on page 1.

### Dividends

The directors recommended an interim ordinary dividend of 15.17 pence per share amounting to £3,800,000 to its immediate parent undertaking Kenwood Appliances Limited on 29 December 2015. No other dividends have been paid during the year and no final dividend is recommended by the directors.

### Future developments

The realisation of the changing market place that took place in 2014 continued within 2015 and further highlighted the future direction of the business being focused on meeting consumer needs with its products. It's clear that these consumer needs are increasingly becoming more emotional and needs based rather than functional or technically driven.

Improvements in these aspects can only be brought to bear with a deep knowledge and understanding of international consumer behaviours, whilst incorporating these into forward thinking products that perform, look and feel how the consumer would like them to.

The coming year will see a rationalisation of the Kitchen Machine range and adopt a strategy of customisation to allow a flexible approach to the individual consumer needs whilst allowing future more extensive use of the products capabilities. This individuality and customisation is seen as an important aspect to the future of the company's products, with the brands of the business clearly focused in meetings these needs in a complimentary way.

### Financial Instruments

Details of financial instruments are provided in the strategic report on pages 3 and 4.

### Research and development

The company has pursued its programme of research and development during the year to improve existing products and introduce new products.

### Events since the balance sheet date

Dividends of US\$30,000,000 were received in three instalments of US\$10,000,000 on 22 March 2016, 29 June 2016 and 28 July 2016 respectively from a subsidiary undertaking, De'Longhi Kenwood MEIA F.Z.E. in respect of the holding activity of Kenwood Limited. There are no other known events after the date of the Balance sheet that require disclosure.

### Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, the Company will wherever practicable provide continuing employment in the same or an alternative position and to provide appropriate training and / or support to achieve this aim.

## Directors' Report (continued)

### Employee involvement

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. During the year, the Company has utilised the internal intranet, e-mails, all hands conferences and briefings to keep employees up to date and informed on matters that may concern them. This also includes ensuring employees are aware of the wider financial and economic factors that influence the performance of the Company.

As part of the De'Longhi Group, employees are able to utilise a Group portal "Plus" to keep informed of developments in the wider De'Longhi Group.

Regular meetings are held in departments and also on a one to one basis between line managers and employees to take into consideration views of the employees. This encourages an open two way relationship between managers and employees providing the opportunity for them to be engaged with the direction of the Company.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 2 to 4.

It is expected that the company will continue to generate positive cash flows on its own account for the foreseeable future and also has significant financial resources available. Therefore, the directors' believe that the company is well placed to manage its principal risks and uncertainties despite the continued uncertainty in the Global economy.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Auditors

Ernst & Young LLP has been engaged to audit the financial statements of Kenwood Limited. The assignment will expire with the approval of the annual report and financial statements for the year ended 31 December 2018.

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board

Fabio de' Longhi  
Director  
8 November 2016



## **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENWOOD LIMITED**

We have audited the financial statements of Kenwood Limited for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 29. 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 Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

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

As explained more fully in the Directors' Responsibilities Statement (set out on page 7), 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENWOOD LIMITED  
(continued)**

**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.

*Ernst & Young LLP*

*Geraint Davies (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Southampton*

*11 November 2016*

## Income Statement

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
<b>Turnover</b>	3	294,310	307,468
Cost of sales		(221,991)	(228,736)
<b>Gross profit</b>		<u>72,319</u>	<u>78,732</u>
Distribution costs		(57,833)	(56,850)
Administrative expenses		(11,340)	(11,227)
Other operating expenses		(610)	(263)
Other operating income		11,663	9,413
<b>Underlying profit</b>	4	<u>14,199</u>	<u>19,805</u>
Exchange (Losses)/gains		(5,210)	(4,825)
Other financial expenses		(2,222)	(1,955)
Finance income	8	23,001	-
Interest receivable and similar income	9	185	217
Interest payable and similar cost	10	(1,414)	(2,149)
Other finance costs – bank guarantee and factoring fees		(26)	(20)
Other finance costs – pensions	10	(22)	(887)
		<u>14,292</u>	<u>(9,619)</u>
<b>Profit on ordinary activities before taxation</b>		<u>28,491</u>	<u>10,186</u>
Tax expense	11	(839)	(2,153)
<b>Profit for the financial year</b>		<u><u>27,652</u></u>	<u><u>8,033</u></u>

## Statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
<b>Profit for the financial year</b>		<b>27,652</b>	<b>8,033</b>
<b>Other comprehensive income:</b>			
<b>Items that cannot be reclassified to profit or loss:</b>			
Re-measurement (losses)/gains on defined benefit pension plans	19	(42)	78
Tax on items relating to components of other comprehensive income	11	8	(18)
<b>Items that can be reclassified to profit or loss:</b>			
Adjustment for cash flow hedges transferred to the initial carrying amount of the hedged item		(793)	2,395
Tax on items relating to components of other comprehensive income	11	182	(502)
Other comprehensive income for the year, net of tax		(645)	1,953
<b>Total comprehensive income for the year</b>		<b>27,007</b>	<b>9,986</b>

Kenwood Limited

**Statement of changes in equity**  
for the year ended 31 December 2015

	Notes	Share capital A class £000	Share capital B class £000	Share premium £000	Cash flow hedge reserve £000	Capital contribution £000	Retained earnings A class £000	Retained earnings B class £000	Total equity £000
<b>At 1 January 2014</b>		25,025	-	4,458	2	10,000	1,426	-	40,911
Profit for the financial year		-	-	-	-	-	8,033	-	8,033
Other comprehensive income		-	-	-	1,893	-	60	-	1,953
Total comprehensive income for the year		-	-	-	1,893	-	8,093	-	9,986
Shares issued		-	1,500	-	-	-	-	-	1,500
Reclassification of preference shares		25	-	-	-	-	-	-	25
Equity dividends paid	12	-	-	-	-	-	(8,500)	-	(8,500)
<b>At 31 December 2014</b>		25,050	1,500	4,458	1,895	10,000	1,019	-	43,922
Profit for the financial year		-	-	-	-	-	3,671	23,981	27,652
Other comprehensive income		-	-	-	(611)	-	(34)	-	(645)
Total comprehensive income for the year		-	-	-	(611)	-	3,637	23,981	27,007
Equity dividends paid	12	-	-	-	-	-	(3,800)	-	(3,800)
<b>At 31 December 2015</b>		<u>25,050</u>	<u>1,500</u>	<u>4,458</u>	<u>1,284</u>	<u>10,000</u>	<u>856</u>	<u>23,981</u>	<u>67,129</u>

**Balance Sheet**

as at 31 December 2015

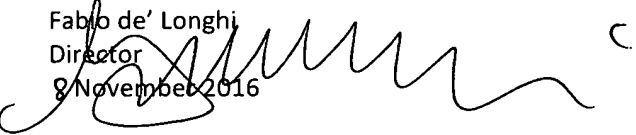
		2015 Total £000	2014 Total £000
	Notes		
<b>Fixed assets</b>			
Intangible assets	13	4,534	4,016
Tangible assets	14	7,347	7,420
Investments	15	1,358	1,358
		<u>13,239</u>	<u>12,794</u>
<b>Current assets</b>			
Stocks	16	15,410	13,320
Trade debtors		43,044	52,294
Amounts due from group undertakings	17	47,687	60,055
Other debtors		32	18,097
Prepayments and accrued income		451	234
Deferred tax assets		758	501
Cash at bank and in hand		36,846	13,850
		<u>144,228</u>	<u>158,351</u>
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts		5,204	25,075
Trade creditors		24,165	26,290
Amounts owed to group undertakings	17	44,807	48,032
Income tax payable		750	685
Other tax and social security		6,370	6,129
Other creditors		2,483	11,045
Accruals and deferred income		3,319	6,129
Provision for liabilities	18	1,147	1,083
		<u>88,245</u>	<u>124,468</u>
<b>Net current assets</b>		55,983	33,883
<b>Total assets less current liabilities</b>		69,222	46,677
<b>Creditors: amounts falling due after more than one year</b>			
Deferred income		909	1,081
Provision for liabilities	18	1,184	979
Defined benefit pension plan deficit	19	-	695
<b>Net assets</b>		<u><u>67,129</u></u>	<u><u>43,922</u></u>

## Balance Sheet

as at 31 December 2015  
(continued)

	Notes	2015 Total £000	2014 Total £000
<b>Capital and reserves</b>			
Share capital	20	26,550	26,550
Share premium		4,458	4,458
Cash flow hedge reserve	21	1,284	1,895
Capital contribution		10,000	10,000
Retained earnings	21	24,837	1,019
<b>Total equity</b>		<b>67,129</b>	<b>43,922</b>

Fabio de' Longhi  
Director  
8 November 2016



## Notes to the financial statements

For the year ended 31 December 2015

### 1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Kenwood Limited (the "Company") for the year ended 31 December 2015 were authorised for issue by the board of directors on 8 November 2016 and the balance sheet was signed on the board's behalf by Fabio de' Longhi. Kenwood Limited is a limited company incorporated and domiciled in England.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Kenwood Appliances Limited who is the immediate parent undertaking. The Company's ultimate parent undertaking and controlling party is De'Longhi S.p.A.

The results of Kenwood Limited are included in the consolidated financial statements of De'Longhi S.p.A. which are available from Via L.Seitz 47, 31100 Treviso, Italy.

The principal accounting policies adopted by the Company are set out in note 2.

### 2. Accounting policies

#### 2.1. Basis of preparation

The Company transitioned from previously extant UK GAAP to FRS 101 for all periods presented. Transition reconciliations showing all material adjustments are disclosed in note 29.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- 2.1.1. The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement, (this exemption requires that equivalent disclosures are included in the financial statements of the group in which the entity is consolidated).
- 2.1.2. The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated
- 2.1.3. The requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
  - a) the requirement in paragraph 79(a)(iv) of IAS 1;
  - b) paragraph 118(e) of IAS 38 Intangible Assets;
  - c) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
  - d) the requirements of IAS 7 Statement of Cash Flows;
  - e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;



**2.1.3 (continued)**

- f) the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

**2.2. Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

**2.2.1. Development costs**

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected life of each project. At 31 December 2015, the carrying amount of capitalised development costs was £4,534,000 (2014: £4,016,000).

**2.2.2. Taxation**

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 11.

**2.2.3. Pension and other post employment benefits**

The cost of defined benefit pensions plans and other post employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are contained in note 19.

**2.3. Significant accounting policies**

**2.3.1. Foreign currency translation**

The company's financial statements are presented in sterling, which is also the company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

**2.3.1 Foreign currency translation (continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**2.3.2. Research and development costs**

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

**2.3.3. Intangible assets**

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement under the category of Administrative Expenses in the year in which the expenditure is incurred. The useful lives of capitalised development costs are expected to be in correlation to an average project life of 3 years and are amortised on a straight line basis and reflected in the income statement under the category of Administrative Expenses

**2.3.4. Tangible fixed assets and depreciation**

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over the expected useful lives using the straight line basis. The expected useful lives of the assets to the business are reassessed periodically in the light of experience.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset over its expected useful economic life as follows:

Plant and equipment	- over 5 to 10 years
Tooling	- over 1 to 3 years
Fixtures and Fittings	- over 3 to 8 years
Buildings	- over 50 years for buildings and over 15 years for leasehold improvements

#### **2.3.4 Tangible fixed assets and depreciation (continued)**

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

#### **2.3.5. Investments**

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

#### **2.3.6. Provision for liabilities**

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

#### **2.3.7. Leases**

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

#### **2.3.8. Financial Assets – derivative financial instruments and hedging**

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:

- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;

### **2.3.8 Financial Assets – derivative financial instruments and hedging (continued)**

- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

IAS 39 requires that all derivatives be measured at fair value.

If financial instruments qualify for hedge accounting, the following treatment applies:

**Fair value hedge** - If a derivative instrument is designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability that is attributable to a particular risk that will affect profit or loss, the gain or loss from re-measuring the hedging instrument at fair value should be recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

**Cash flow hedge** - If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a highly probable forecast transaction which could affect profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in other comprehensive income. The effective portion of the cumulative gains or losses are reversed from net equity and reclassified to profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reclassified to the income statement. If a hedging instrument or hedging relationship is terminated, but the transaction being hedged has not yet occurred, the cumulative gains and losses, recorded up until then in the statement of comprehensive income, are reported in the income statement at the same time that the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in net equity are immediately reclassified to the income statement. If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are transferred immediately to the income statement.

### **2.3.9. Factoring of trade receivables**

The Company factors some of its trade receivables. Trade receivables factored without recourse, resulting in the substantial transfer of the related risks and rewards, are derecognized from the financial statements at the time of their transfer.

Receivables whose factoring does not result in the substantial transfer of the related risks and rewards, are retained in the statement of financial position.

The receivables are assigned without recourse to a bank, which then transfers them to a special purpose entity which finances the purchase of the receivables by issuing asset-backed securities; the repayment of these securities, placed on the market and all subscribed by institutional investors, as well as the related interest, depends on the cash flow generated by the portfolio of securitized receivables. Receivables are sold at their face value, less a discount that reflects credit risk and the transaction's financial costs.

### **2.3.10. Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes material purchases on a Weighted Average Price basis, associated import freight and duty costs plus related tooling charges.

**2.3.10 Stocks (continued)**

Cost of stock includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchase of materials. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

**2.3.11. Trade and other debtors**

Trade debtors, which generally have between 30 and 90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

**2.3.12. Cash at bank and in hand**

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

**2.3.13. Government grants**

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

**2.3.14. Pension & post-employment benefits**

During the year the Company has had responsibility for three pension plans. Two trust based schemes, (Defined Benefit and Defined Contribution, both of which are closed to further accrual) and one current Group Personal Pension plan that members currently employed have made contributions into.

Over the past few years the Company in alignment with the Trustees had been working towards eliminating the historical deficit of the Defined Benefit Scheme and securing all of its remaining liabilities with two insurance companies, (Aviva and Legal & General).

This transfer of liability had been materially transacted as at the Balance Sheet date and had been fully transacted with the Trust being terminated as at the approval of these Report and Accounts.

**2.3.15. Revenue recognition**

Revenues are recognized to the extent that it is probable that the economic rewards will flow to the Group and their amount can be measured reliably, in other words when the principal risks and rewards of ownership of the goods have been transferred to the buyer. Revenues are reported net of discounts, allowances and returns, including those estimated on the basis of past trends.

**2.3.15 Revenue recognition (continued)**

Revenues from the sale of goods are recognized when the risks and rewards of ownership of the goods have been transferred to the buyer, usually coinciding with the despatch of goods to customers and their acceptance of the same. Another condition for recognizing revenue is that the collection of the related receivable is reasonably certain.

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

**2.3.16. Costs and expenses**

Costs and expenses are accounted for on an accrual basis.

**2.3.17. Dividends**

Dividend distributions represent a movement in net equity in the period in which they are declared by the shareholders in general meeting.

Dividends received are reported when the Company is entitled to receive the payment.

**2.3.18. Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

### 2.3.19. Estimates and assumptions

These financial statements, prepared in accordance with FRS 101, contain estimates and assumptions made by the Company relating to assets and liabilities, costs, revenues and contingent liabilities at the reporting date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.

The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period: actual results could therefore differ from these estimates.

The following paragraphs discuss the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

### 2.3.20. Allowance for doubtful accounts

The allowance for doubtful accounts reflects estimated expected losses on trade receivables recognized in the financial statements and not covered by insurance. It is determined on the basis of past experience, by analysing current and previous past due amounts and the quality of credit.

Changes in the economic environment could cause the performance of some of the Company's customers to deteriorate, with an impact on the recoverability of trade receivables, to the extent uninsured.

### 2.3.21. Product warranty provisions

The Company makes provisions for the estimated cost of product warranties. Management establishes the amount of these provisions on the basis of past trends relating to the frequency and average cost of under-warranty repairs and replacement.

## 3. Turnover

Turnover is attributable to one continuing activity, the selling and marketing of small domestic appliances. All turnover originates in the UK.

An analysis of turnover by geographical destination is given below:

	2015 £000	2014 £000
United Kingdom	117,324	122,497
Europe	176,538	184,746
Other	448	225
	<u>294,310</u>	<u>307,468</u>
	<u><u>294,310</u></u>	<u><u>307,468</u></u>

**4. Underlying profit**

	2015 £000	2014 £000
This is after charging:		
Research and development costs written off	3,532	3,992
Amortisation of deferred development costs	1,321	921
Total research and development costs	<u>4,853</u>	<u>4,913</u>
Depreciation of owned fixed assets	2,955	2,857
Cost of stock recognised as an expense (included in cost of sales)	217,328	224,551
Operating lease rentals - land and buildings	1,373	1,356
Operating lease rentals - plant and machinery	59	67
Operating lease rentals - motor vehicles	264	284

**5. Auditor's remuneration**

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2015 £000	2014 £000
Audit of the financial statements	<u>68</u>	<u>63</u>

**6. Staff costs**

	2015 £000	2014 £000
Wages and salaries	11,761	10,802
Social security costs	946	961
Other pension costs – defined contribution scheme (note 19)	588	551
	<u>13,295</u>	<u>12,314</u>

The average monthly number of employees during the year was as follows:

	2015	2014
Office management and administration (excluding directors)	181	188
Research and development	48	47
Manufacturing and distribution	43	44
	<u>272</u>	<u>279</u>



**7. Directors' remuneration**

The directors received no remuneration in respect of qualifying services during the year (year ended 31 December 2014: £14,726). The directors were not members of either the Kenwood defined benefit or defined contribution pension schemes.

**8. Finance Income**

	2015 £000	2014 £000
Dividends received from overseas subsidiaries (holding activity)	23,001	-
	<u>23,001</u>	<u>-</u>

**9. Interest receivable and similar income**

	2015 £000	2014 £000
Bank interest receivable	185	217
	<u>185</u>	<u>217</u>

**10. Interest payable and similar charges**

	2015 £000	2014 £000
Bank interest and similar charges	1,414	2,149
Other finance (income)/expenses: retirement benefits		
Interest on retirement benefits liabilities (note 19)	1,219	1,531
Expected return on pension scheme assets (note 19)	(1,197)	(1,383)
	<u>22</u>	<u>148</u>
GMP equalisation	-	739
	<u>22</u>	<u>887</u>

**11. Taxation****a) Tax charged in the income statement**

	2015 £000	2014 £000
Current income tax:		
UK corporation tax	1,152	1,681
Amounts overprovided in previous years	(274)	(68)
Total current income tax	<u>878</u>	<u>1,613</u>

**11. Taxation (continued)**

	2015 £000	2014 £000
Deferred tax:		
Origination and reversal of temporary differences	(15)	522
Impact of change in tax laws and rates	-	(36)
Amounts (over)/underprovided in previous years	(24)	54
Total deferred tax	(39)	540
<b>Tax expense in the income statement</b>	<b>839</b>	<b>2,153</b>

**b) Tax relating to items charged or credit to other comprehensive income**

	2015 £000	2014 £000
Current tax:		
Tax on defined benefit pension plans	-	-
Total current income tax	-	-
Deferred tax:		
Actuarial (losses)/gains on defined benefit pension plans	(8)	18
Net (loss)/gain on revaluation of cash flow hedges	(182)	502
Total deferred tax	(190)	520
<b>Tax (credit)/expense in the statement of other comprehensive income</b>	<b>(190)</b>	<b>520</b>

**c) Reconciliation of the total tax charge**

The tax expense in the income statement for the year is lower than (2014: lower than) the average standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are reconciled below:

	2015 £000	2014 £000
Accounting profit before income tax	28,490	10,242
Tax calculated at UK standard rate of corporation tax of 20.25% (2014: 21.5%)	5,769	2,202
Expenses not deductible for tax purposes	25	1
Non-taxable income	(4,657)	-
Tax overprovided in previous years	(298)	(14)
Change in tax laws and rates	-	(36)
<b>Total tax expense reported in the income statement</b>	<b>839</b>	<b>2,153</b>

**11. Taxation (continued)****d) Change in corporation tax rate**

The UK corporation tax rate was reduced from 21% to 20% effective 1 April 2015. Any deferred tax expected to reverse in the year to 31 December 2016 has been remeasured using the rates substantively enacted at 31 December 2015.

**e) Deferred tax**

The deferred tax assets/(liabilities) included in the balance sheet are as follows:

	2015 £000	2014 £000
Decelerated capital allowances	803	784
Accelerated research and development amortisation	(323)	(348)
Defined benefit pension plan deficit	-	139
Revaluation of cash flow hedges	(167)	(536)
Provisions for expenses deductible in future periods	445	462
	<u>758</u>	<u>501</u>

Deferred tax in the income statement is as follows:

	2015 £000	2014 £000
Decelerated capital allowances	19	28
Accelerated research and development amortisation	25	(63)
Defined benefit pension plan deficit	(147)	(511)
Revaluation of cash flow hedges	187	(4)
Provisions for expenses deductible in future periods	(45)	10
	<u>39</u>	<u>(540)</u>

**12. Dividends paid and proposed**

	2015 £000	2014 £000
Declared and paid during the year:		
Equity dividends on class A ordinary shares:		
First interim for 2015: 15.17p (2014: 33.93p)	3,800	8,500
Dividends paid	<u>3,800</u>	<u>8,500</u>

The directors do not propose the payment of a final dividend for the year (2014: £Nil).

**13. Intangible fixed assets**

	Development Costs £000
Cost:	
At 1 January 2015	9,801
Additions	1,853
Disposals	(14)
At 31 December 2015	<u>11,640</u>
Accumulated amortisation:	
At 1 January 2015	5,785
Charge for the year	1,321
Disposals	-
At 31 December 2015	<u>7,106</u>
Carrying amount at 31 December 2015	<u><u>4,534</u></u>
Carrying amount at 31 December 2014	<u><u>4,016</u></u>

**14. Tangible fixed assets**

	Buildings £000	Plant and tooling £000	Fixtures and fittings £000	Total £000
Cost:				
At 1 January 2015	4,810	21,772	4,814	31,396
Additions	170	2,116	596	2,882
Disposals	-	(2,844)	(290)	(3,134)
At 31 December 2015	<u>4,980</u>	<u>21,044</u>	<u>5,120</u>	<u>31,144</u>
Depreciation:				
At 1 January 2015	2,318	17,954	3,704	23,976
Charge for the year	345	2,038	572	2,955
Disposals	-	(2,844)	(290)	(3,134)
At 31 December 2015	<u>2,663</u>	<u>17,148</u>	<u>3,986</u>	<u>23,797</u>
Carrying amount at 31 December 2015	<u><u>2,317</u></u>	<u><u>3,896</u></u>	<u><u>1,134</u></u>	<u><u>7,347</u></u>
Carrying amount at 31 December 2014	<u><u>2,492</u></u>	<u><u>3,818</u></u>	<u><u>1,110</u></u>	<u><u>7,420</u></u>

**15. Investments**

## a) Investments in subsidiaries

	2015 £000	2014 £000	
	1,358	1,358	
	<u>1,358</u>	<u>1,358</u>	
	Historical Cost £000	Impairment provision £000	Net book value £000
At 1 January 2014	-	-	-
Additions in the year	1,358	-	1,358
At 31 December 2014	<u>1,358</u>	<u>-</u>	<u>1,358</u>
At 31 December 2015	<u>1,358</u>	<u>-</u>	<u>1,358</u>

## b) Details of Group undertakings

Name of Company	Class of Share	Proportion of nominal value owned	Country of registration (or incorporation) and operation
De'Longhi Kenwood MEIA F.Z.E. †	Ordinary	100%	Dubai
Kenwood Appliances (Singapore) Limited †	Ordinary	100%	Singapore
Kenwood Appliances (Malaysia) SND BHD *†	Ordinary	100%	Malaysia

\* denotes that shares are held through an intermediate holding company.

† denotes that shares were acquired in 2014.

The subsidiary undertakings are wholly owned and are largely engaged in the distribution of domestic appliances.

On 23 December 2014, the Company acquired 100% of the issued share capital of both Kenwood Appliances (Singapore) PTE Limited and De'Longhi Kenwood MEIA F.Z.E., which were incorporated and operated in Singapore and the United Arab Emirates respectively, from Kenwood International Limited.

**16. Stocks**

	2015 £000	2014 £000
Raw materials	384	625
Finished goods and goods for resale	15,026	12,695
	<u>15,410</u>	<u>13,320</u>

**17. Amounts due from/owed to group undertakings**

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

Amounts owed to group undertakings are unsecured, interest free and payable on demand.

**18. Provision for liabilities**

	Onerous Contract provision £000	Guarantee provision £000	Short term total £000	Guarantee provision £000	Dilapidation provision £000	Long term total £000
At 1 January 2015	379	704	1,083	429	550	979
Charge/(credit) during the year	(16)	80	64	205	-	205
At 31 December 2015	363	784	1,147	634	550	1,184

Guarantee provision – As the company products are eligible for a warranty, provision is made for the estimated costs of dealing with guarantee claims. The level of provision made is based on the company's experience of past levels of claims.

Onerous contract provision – Where suppliers look to recover costs relating to future commitments of long lead time components that are subsequently not required due to product design, product life status or demand changes that Kenwood has instigated.

**19. Pensions and other post-employment benefits****Background**

Kenwood Limited is the sponsoring employer of a funded defined benefit pension scheme in the UK, which provides retirement benefits based on members salary when leaving employment. The assets of the scheme were held in a separately administered fund and the scheme was administered by a trustee body (independent of Kenwood Limited) who were responsible for ensuring that the scheme is sufficiently funded to meet current and future obligations.

On 30 September 2002 the defined benefit section of the scheme was closed to future accrual, and a new defined contribution section was introduced to provide future benefits. In March 2007 the Defined Contribution section also closed to new entrants but continued to allow existing member contributions until March 2014. A non-Trust based 'Group Personal Pension' plan was introduced to accept new members from April 2007 and remained the only pension scheme that employed members contributed into during 2015.

Contributions to both the Group Personal Pension plan and the Trust based Defined Contribution scheme were charged to the profit and loss account as they become payable in accordance with the scheme rules. The contributions made to the scheme for the year were £588,000 (2014: £551,000).

**19. Pensions and other post-employment benefits (continued)****Defined Benefit section**

In November 2011 a buy-in was completed with Aviva for the pensioners of this section of the Scheme who retired before July 2011. In June 2013, a further buy-in was completed with Legal & General covering the remaining members of this section on a deferred premium basis. These arrangements have now been made buy-outs with benefits in the name of the members. The final premiums were settled with Aviva and Legal & General before 31 December 2015 and all liabilities of the DB Scheme are now insured with these two insurers. This included additional provision where appropriate to cover what would be a reasonable basis to meet the expected additional liability arising from Equalisation of GMPs.

The assets of the defined benefit scheme are held in separate trustee administered funds.

The assets and liabilities of the schemes at 31 December are:

	2015 £000	2014 £000
Annuities	-	38,399
Other	-	116
	<hr/>	<hr/>
Fair value of scheme assets	-	38,515
Present value of scheme liabilities	-	(39,210)
	<hr/>	<hr/>
Defined benefit pension plan deficit	-	(695)
	<hr/>	<hr/>
<b>Total amounts taken to Income Statement and Other Comprehensive Income</b>		
	2015 £000	2014 £000
Recognised in the income statement:		
Past service (income)/costs including settlements	(341)	739
	<hr/>	<hr/>
Recognised in arriving at profit on ordinary activities before tax	(341)	739
Net interest on defined benefit liability (note 10)	22	148
	<hr/>	<hr/>
Total recognised in the income statement	(319)	887
	<hr/>	<hr/>
	2015 £000	2014 £000
Taken to the Statement of Comprehensive Income:		
Actuarial return on scheme assets – gain	2,399	5,373
Less: Amounts included in net interest on the net defined benefit liability	(1,197)	(1,383)
	<hr/>	<hr/>
Remeasurement gains/(losses) return on scheme assets excluding interest income	1,202	3,990
Remeasurement gains/(losses) actuarial (gains)/losses on scheme liabilities	(1,244)	(3,912)
	<hr/>	<hr/>
Remeasurement (loss)/gain recognised in other comprehensive income	(42)	78
	<hr/>	<hr/>

**19. Pensions and other post-employment benefits (continued)****Reconciliation of defined benefit obligation**

	2015 £000	2014 £000
Opening present value of defined benefit obligation	39,210	34,756
Interest cost	1,219	1,531
Actuarial (gains)/losses from changes in demographic assumptions	1,499	-
Actuarial (gains)/losses from changes in financial assumptions	(255)	3,912
Past service cost including settlements	(341)	739
Benefits paid	(1,511)	(1,728)
Benefits paid in respect of settlements	(39,821)	-
Closing defined benefit obligation	-	39,210

**Reconciliation of fair value of assets**

	2015 £000	2014 £000
Opening fair value of scheme assets	38,515	31,470
Interest income	1,197	1,383
Return on assets less interest income	1,202	3,990
Assets distributed on settlements	(39,821)	-
Contribution by employer	418	3,400
Benefits paid	(1,511)	(1,728)
Closing fair value of scheme assets	-	38,515

The liabilities set out in this note have been calculated based on the results of the full Scheme Funding Assessment as of 30 September 2010, updated to 30 November 2015. The liabilities were calculated at 30 November 2015 as this was the date all liabilities and assets of the scheme were settled. The present value of the defined benefit obligation were measured using the projected unit credit method.

Kenwood Limited has now been relieved of the requirement to make further contributions to the scheme apart from any residual expenses required for winding up the scheme.

The disclosures set out below are based on calculations carried out as at 31 December 2015 by an independent qualified actuary.

**Principle assumptions**

	2015 Per annum	2014 Per annum
Discount rate	3.50%	3.47%
Retail prices index (RPI) inflation	3.30%	3.30%
Consumer prices index (CPI) inflation	2.40%	2.40%
Rate of increase to pensions in payment:		

**19. Pensions and other post-employment benefits (continued)**



**Principle assumptions (continued)**

	2015 Per annum	2014 Per annum
RPI subject to max 5% pa	3.20%	3.20%
RPI subject to max 4% pa	3.00%	3.00%
CPI subject to max 3% pa	2.10%	2.10%
Pre and post retirement mortality	S2NxA CMI 2015 with long term rates of 2.0% pa (males) and 1.75% pa (females)	S2NxA CMI 2013 with long term rates of 1.5% pa (males) and 1.0% pa (females)
Cash commutation	Nil	90%
Future life expectancy of male aged 65 at balance sheet date	23.1	22.7
Future life expectancy of male achieving age 65 20 years after balance sheet date	26.1	24.8
Future life expectancy of female aged 65 at balance sheet date	25.0	24.5
Future life expectancy of female achieving age 65 20 years after balance sheet date	27.7	26.0

Assumptions are shown as at 30th November 2015 rather than the balance sheet date as this was the settlement date.

**Sensitivity of Defined Benefit Obligation**

The Defined Benefit Obligation was fully settled on 30 November 2015. Therefore there are no sensitivities to present.

**Projected profit/loss recognition**

Now that the Defined Benefit Obligation has been fully settled there is not expected to be any further charge to the income statement or any further contributions from the company.

Similarly due to the settlement of the defined benefit obligation, no disclosures have been made regarding asset and liability matching strategies or future cash flows.

**20. Authorised, issued and called up share capital**

	2015 thousands	2014 thousands	2015 £000	2014 £000
Ordinary £1 A shares (Trading)	25,050	25,050	25,050	25,050
Ordinary £1 B shares (Holding)	1,500	1,500	1,500	1,500
	<u>26,550</u>	<u>26,550</u>	<u>26,550</u>	<u>26,550</u>

On 22 December 2014 the company amended its articles of association. The amendments were:  
The existing 25,000 6% redeemable participating preference shares were re-designated as A ordinary shares of £1 each.

The existing 25,025,000 issued ordinary shares of £1 each were re-designated as A ordinary shares of £1 each.

That a new class of ordinary shares, class B be created for the holding activities of the company.

On 22 December 2014 the company issued £1,500,000 of class B share capital which was fully subscribed by Kenwood Appliances Limited. The consideration received was then utilised to fund investments in De'Longhi Kenwood MEIA F.Z.E and Kenwood Appliances (Singapore) Limited (see note 15).

**21. Reserves**

	Cash flow hedge reserve £000	Retained earnings A class £000	Retained earnings B class £000	Total Equity £000
At 31 December 2013	2	1,426	-	1,428
Profit for the financial year	-	8,033	-	8,033
Net movement on cash flow hedges (net of tax)	1,893	-	-	1,893
Actuarial gains on defined benefit pension plans (net of tax)	-	60	-	60
Equity dividends paid	-	(8,500)	-	(8,500)
At 31 December 2014	<u>1,895</u>	<u>1,019</u>	<u>-</u>	<u>2,914</u>
Profit for the financial year	-	3,671	23,981	27,652
Net movement on cash flow hedges (net of tax)	(611)	-	-	(611)
Actuarial gains on defined benefit pension plans (net of tax)	-	(34)	-	(34)
Equity dividends paid	-	(3,800)	-	(3,800)
At 31 December 2015	<u>1,284</u>	<u>856</u>	<u>23,981</u>	<u>26,121</u>

The cash flow hedge reserve recognises the fair value of unrealised economic hedging contracts as at 31 December 2015.

**22. Forward currency contracts**

The values relating to forward contracts held in assets and liabilities at 31 December 2015 are £1,961,000 (2014: £3,912,000) and £1,129,000 (2014: £1,234,000) respectively.

The fair value of forward currency exchange contracts was determined using quoted forward exchange rates matching the maturity of the contracts.

The value of the assets and liabilities is dependent on exchange rate movements and the timing is dependent on the contract maturity. The forward contracts open at 31 December 2015 are due to mature throughout 2016, ending in December 2016. The assets are included in amounts receivable from group undertakings and the liabilities are included in the amounts due to group undertakings.

**23. Holding activity**

The assets and liabilities of the holding activity of Kenwood Limited as at 31 December 2015 were:

	2015 £000	2014 £000
Investments	1,358	1,358
Cash at bank and in hand	24,123	142
<b>Net current assets</b>	<u>25,481</u>	<u>1,500</u>
Share capital – B class	1,500	1,500
Retained earnings – B class	23,981	-
<b>Total equity</b>	<u>25,481</u>	<u>1,500</u>

**24. Off-balance sheet arrangements**

The company enters into operating lease arrangements for the hire of buildings and plant & equipment as these arrangements are a cost effective way of obtaining the short-term benefits of these assets. These leases have an average duration of 15 years for buildings and 3 years for plant & machinery. Only the property contains an option for renewal. Future minimum payments under non-cancellable operating leases are disclosed below.

	Land and buildings		Other	
	2015 £000	2014 £000	2015 £000	2014 £000
Within one year	1,266	1,356	250	251
Within two to five years	3,780	4,071	269	188
After more than five years	472	1,410	-	2
	<u>5,518</u>	<u>6,837</u>	<u>519</u>	<u>441</u>

There are no other material off-balance sheet arrangements.

**25. Contingent liability**

During 2013 a former distributor gave indication of a potential claim against Kenwood Ltd in respect of contract issues in the Middle East. Discussions have taken place between the two companies on an informal level and to this date no legal action has been instigated by the distributor nor can the amount of any potential claim be measured with sufficient reliability.

**26. Post balance sheet events**

Dividends of US\$30,000,000 were received in three instalments of US\$10,000,000 on 22 March 2016, 29 June 2016 and 28 July 2016 respectively from a subsidiary undertaking, De'Longhi Kenwood MEIA F.Z.E. in respect of the holding activity of Kenwood Limited. There are no other known events after the date of the Balance sheet that require disclosure.

**27. Other related party transactions**

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

**28. Ultimate Group undertaking**

The Company's immediate parent undertaking is Kenwood Appliances Limited. The Company's ultimate parent undertaking and controlling party is De'Longhi S.p.A., which is the parent undertaking of the smallest and largest group to consolidate these financial statements and is incorporated in Italy. Copies of its Group financial statements are available from Via L.Seitz 47, 31100 Treviso, Italy.

**29. Transition to FRS 101**

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its equity as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards" except for paragraph 21.

**Exemptions applied**

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The Company has taken advantage of the following exemptions:

Cumulative actuarial gains and losses on pensions and other post-employment benefits are recognised in full in equity on the date of transition to IFRS. This is the same treatment as under previous UK GAAP.

Reconciliation of equity as at 1 January 2014	Notes	FRS101 Re- classifications/ Re- UK GAAP measurements		FRS 101 £000
		£000	£000	
Amounts due from group undertakings	1	36,317	529	36,846
Deferred tax assets	1, 2	947	615	1,562
Amounts owed to group undertakings	1	(47,943)	(349)	(48,292)
Defined benefit pension plan deficit	2	(2,629)	(657)	(3,286)
Retained earnings	1	(1,290)	(136)	(1,426)
Cash flow hedge reserve	1	-	(2)	(2)
			<u>-</u>	
			<u>-</u>	

Reconciliation of Total comprehensive income  
year ended 31 December 2014

	Notes	£000
Total recognised gains (under UK GAAP)		8,008
FRS 101 remeasurements:		
Add: IAS 39 derivatives as at 31 December 2014 (net of tax affect)	1	2,116
Less: IAS 39 derivatives as at 1 January 2014 (net of tax affect)	1	(138)
Total comprehensive income (under FRS 101)		<u>9,986</u>

Reconciliation of equity as at 31 December 2014	Notes	FRS101 Re- classifications/ Re- UK GAAP measurements		FRS 101 £000
		£000	£000	
Amounts due from group undertakings	1	56,144	3,911	60,055
Deferred tax assets	1, 2	924	(423)	501
Amounts owed to group undertakings	1	(46,799)	(1,233)	(48,032)
Defined benefit pension plan deficit	2	(556)	(139)	(695)
Retained earnings		(798)	(221)	(1,019)
Cash flow hedge reserve	1	-	(1,895)	(1,895)
			<u>-</u>	
			<u>-</u>	

1. Valuation of forward currency contracts

Previously under UK GAAP, the valuation of forward currency contracts as calculated by IAS 39, were not included in the primary financial statements. Under IFRS an adjustment is required to include this valuation in the primary financial statements. As a result of transition to FRS 101, the following adjustments have been recognised in relation to valuation of forward currency contracts:

Amounts due from group undertakings carrying value in the balance sheet was increased by £3,911,000 at 31 December 2014 (1 January 2014: increased by £529,000).

Deferred tax asset carrying value in the balance sheet was decreased by £562,000 at 31 December 2014 (1 January 2014: decreased by £42,000)

Amounts owed to group undertakings carrying value in the balance sheet was increased by £1,233,000 at 31 December 2014 (1 January 2014: increased by £349,000)

Cash flow hedge reserve carrying value in the balance sheet was increased by £1,895,000 at 31 December 2014 (1 January 2014: increased by £2,000).

Retained earnings carrying value in the balance sheet was increased by £221,000 in 2014 by valuation of forward currency contracts (1 January 2014: increased by £136,000).

2. Pension liability and the related deferred tax asset

Under previous UK GAAP the pension liability or asset was required to be shown net of the related deferred tax asset or liability. Under FRS 101 the pension liability or asset is required to be shown gross and the related deferred tax included within deferred tax asset or liability line on the balance sheet.

Both the deferred tax asset and defined benefit pension plan deficit carrying values in the balance sheet were increased by £139,000 at 31 December 2014 (1 January 2014: increased by £657,000).

Transition to FRS 101 also resulted in a reduction of £9,000 in other finance costs - pension in 2014 with a corresponding decrease in Re-measurement gains on defined benefit pension plans in other comprehensive income. These adjustments did not impact total comprehensive income and are therefore not presented in the reconciliation of total comprehensive income above.