

Registrar's Copy

Hewland Engineering Limited

Report and Financial Statements

Year Ended

31 August 2016

Company Number 00584792



Hewland Engineering Limited

Report and financial statements for the year ended 31 August 2016

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Directors

W Hewland
S R Deane
S L Robins

Secretary and registered office

J Callow, Waltham Road, White Waltham, Maidenhead, Berkshire, SL6 3LR

Company number

00584792

Auditors

BDO LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Hewland Engineering Limited

Strategic report for the year ended 31 August 2016

The directors present their strategic report together with the audited financial statements for the year ended 31 August 2016.

2016: An overview

2016 marked a year of transition for Hewland Engineering Limited. Investments in people and capabilities have placed the business in a positive position for future growth but that investment, coming before revenue, on new and secured programmes has impacted EBITDA within the year.

The new leadership team, the building of which, commenced with the appointment of new CEO, Steve Robins in November 2015 continues to take shape with a clear and progressive plan for the growth of the business over the coming years.

The business commenced the roll out of Project 25 with clear strategic actions under the banners of employee engagement, marketing and promotion of the Hewland brand, an aggressive product development strategy, a drive for operational excellence with exceptional customer service and diversification.

The business was successful in concluding strategic partnerships with the likes of Miller Oils for the development and sale of a co-branded high performance transmission oil and with Le Mans Co for the further development of the Hewland brand in Japan. These partnerships are indicative of the strategy Hewland will pursue to accelerate growth in current and new markets and territories. The business has made significant progress on other strategic partnerships which should start to positively impact the business in 2017 and which will allow it to support new opportunities which historically would have been outside of the businesses capabilities.

The business has secured a significant road car project which will provide a long term repeatable and predictable revenue stream and start to grow the non-motorsport activity. Diluting the dependence upon core motorsport is a further strategic objective though the positive effect of motorsport technology and the challenges it presents will mean that motorsport will always be at the core of Hewland's activity. This is demonstrated very strongly by the growth in electric vehicle applications and development. The continued support of the growing Formula E race series has led to technology developments which are now being applied to non-motorsport applications. The business sees this as a significant opportunity and is working closely with a number of EV technology developers in Europe, Asia and the US.

Strategic long term partnerships have been formed with Onroak for the support of its LMP2 programme and other race series as it expands its business across the globe. New GT programmes have also been secured and these will all start to generate revenue in the next financial year. Revenues from design consultancy also continued to increase within the year.

The new business pipeline has increased by a factor of 5 within the year and as further marketing and expansion into new territories and partnerships continues this is anticipated to increase further. The order book was 101% above the equivalent year end position for 2015. The shift in exchange rates following Brexit has resulted in Hewland products being priced more competitively overseas again opening up new opportunities.

Operationally the business continued to invest in capacity and capability. Prior investments in operational planning and scheduling tools were consolidated and these together with the new operational leadership team will start to drive operational efficiencies. Further investments were also made in machining capability and capacity to deal with new secured programmes. The business strengthened its engineering and design capability with the first entrants in its new graduate programme which is part of a long term continued enhancement of the business in key areas.

The new planning and scheduling processes supported a targeted reduction of stock within the year and this will continue as part of the overall stock realignment and reduction. Further provisioning for aged stock was also made within the period.

Hewland Engineering Limited

Strategic report for the year ended 31 August 2016 *(continued)*

2016: An overview (continued)

The restructuring of the leadership team and investments in new products and capabilities resulted in increased spend in some operational areas. Whilst a proportion of this will be retained to support the projected increased revenues it is anticipated that there will be some realignment of cost base in the coming months.

As the business approaches its 60th anniversary new and secured programmes present an opportunity for significantly increased revenue in 2017 and beyond.

This growth will also support the business in managing and supporting the Defined Benefit pension deficit which, due to factors associated with Brexit and specifically gilt yields, increased within the year. The timing of the valuation as of 31 August 2016 represented the absolute low point in terms of recent annual gilt yields with significant positive movement either side of that date (see further details in the Financial Performance below). The business has a defined deficit reduction payment structure and positive working relationships with the scheme trustees who are fully aware and supportive of the business's growth plans.

2016: Financial Performance

The results for the company for the last four years demonstrate the journey that the business has undertaken:

	2013	2014 9 Months	2015	2016
Turnover	£10,909,170	£10,867,810	£11,727,619	£10,944,672
Reported Operating (loss)/profit	(£121,519)	£1,596,289	(£207,809)	(£1,849,231)
Underlying EBITDA	£999,405	£1,959,749	£761,397	(£1,004,393)

Operating loss for the twelve months to August 2016 is £1,849,231, a significant increase over 2015's loss of £207,809. On an underlying basis, operating loss is £1,557,166 (31 August 2015: profit of £328,724). Underlying operating (loss)/profit for financial years 2016 and 2015 is calculated by adjusting the company's operating (loss)/profit for stock provision, PPF levy and bad debt provisions. As mentioned in the overview additional operational expenditure and the stock reduction programme has resulted in an increase in operating loss for the year. The stock reduction and additional provisioning in the period amounting to £1.1m of additional cost impacting the P&L.

The Company's preferred measure of its underlying profitability is underlying EBITDA (which is the underlying operating (loss)/profit plus depreciation) saw a decrease from £761,397 in 2015 to (£1,004,393) in 2016.

The Company ended the period with a net cash position of £550,842 (2015: £598,904).

The Company's profit and loss reserve was adversely impacted in the period by £1,045,000 due to the increase in the defined benefit pension liability. This impact was predominantly due to the low annual gilt yields at the time of the year end valuation and directly impacted the discount rates used in the valuation.

This reduction in discount rate to 2.3% from 4.0% in the prior year created the largest impact however, this was partially offset by the reduction in RPI (2.9% down from 3.2% prior year) and CPI (1.7% down from 2.0% prior year).

The investment performance was favourable to expectations in the year and increased the plan's assets to £13,089,000 from £10,431,000 in 2015. This however, was offset by the increase in liabilities to £19,772,000 (£16,235,000 in 2015) and increased the pension liability in the Balance Sheet by £879,000. The balance to Profit and Loss Reserve being the difference between net interest costs and the employer contributions.

As stated previously the company has a pension deficit reduction plan agreed with the trustees which includes annually increasing contributions being made by the company on a monthly basis reducing the deficit until such

Hewland Engineering Limited

Strategic report for the year ended 31 August 2016 *(continued)*

2016: An overview *(continued)*

time the scheme becomes self sufficient. One of the main strategic actions of the coming years is to ensure the pension scheme retains a strong sponsoring employer and that the deficit is managed accordingly.

2016: Key Performance Indicators

The Company uses several key performance indicators ('KPIs') to manage and direct the performance of the business to consistently deliver a service which "*exceeds client expectations*". These are then formally cascaded down to set the performance criteria of the senior management team, all of whom now have a significant element of their pay directly related to their successful delivery against KPIs pertinent to their functional area.

As reported last year, the company has also continued to overhaul its internal reporting functions to focus on debtor management, robust cash forecasting procedures and, in particular, profitable sales. The KPIs that the Company uses to manage its cashflows and protect itself from the risks noted elsewhere in this Strategic Report are:

- Profitability analysis by client, by product range, by complete transmission model and by individual parts
- Debtor days outstanding
- Creditor days outstanding
- Liquidity ratio
- Weekly cashflow plans
- Gross margin
- Staff efficiency ratios

In terms of publicly available KPIs, the company is pleased to report the following showing its management of working capital and key indicators of business performance:

	2013	2014	2015	2016
Debtor days outstanding	40.0	36.0	30.1	34.6
Creditor days outstanding	80.3	74.4	73.4	57.0
Liquidity ratio	1.0	1.2	1.6	1.1
Gross margin	29.9%	33.8%	21.9%	11.4%

For the purposes of the above calculations turnover used includes other operating income.

Debtor days remain a focus for the business and are managed closely. The lower Creditor days shows the company's commitment to maintaining good supplier relationships which will be essential for the Company's future predicted growth.

The 31% decrease in our liquidity ratio on the prior year is a clear demonstration of the impact of the upfront investment securing new business and before corresponding revenues have been received.

Gross margin in the year was impacted by the significant stock reduction achieved and the additional provisioning against non-moving and slow moving stock (£1,125,989).

Hewland Engineering Limited

Strategic report for the year ended 31 August 2016 (*continued*)

2016: Market and customers

The motorsport sector in general has seen a period of stability in established race series and a growth in emerging series such as Formula E. As some of the major OEM's have reassessed their commitments and investment in the high end of motorsport (eg LMP1) they have transferred budgets to Formula E and other various GT racing series. This is maintaining a healthy list of new programmes and therefore opportunities for key suppliers such as Hewland and also presenting opportunities for the application of new technologies and products.

There is global interest in the development of electric and autonomous vehicles. This is also an area benefitting from significant government investment with the Innovate programme and the Advanced Propulsion Centre in the UK being positive examples of government funding streams which are supporting new projects in this area. It is projected that by 2025 25% of global car sales will have "electric engines" as compared with 5% today (source Goldman Sachs Global Investment Research). The appetite for investment in this new technology is also particularly evident in Asia.

As markets demand greater variability and niche products a high number of low to mid volume specialist road and track car projects have emerged. These are either targeted at high value consumers and products or serve as technology demonstrators for the major manufacturers. As a trend this is evident on a global basis and both present opportunities for the application of motorsport technology.

New motorsport programmes and the emerging EV market therefore represent significant opportunities for Hewland and the possibility to deploy technology and expertise developed in motorsport in to new sectors. The proliferation of road going applications also presents an opportunity for the business to move in to a new volume range.

The business has the technical foundations and has also put in place some key partnerships to support diversification in to new geographical sectors and the new and higher volume markets.

Established motorsport customers such as DTM, GP2 have been supplemented by new Formula E and LMP2 customers. The new TLST transmission will make its debut in 2017 in the LMP2 category in Europe, the US and Asia and alongside the current GT business provides a long term stable motorsport revenue profile over the coming years.

When this is added to new secured road going and EV projects it supports a very positive business forecast for 2017 and beyond.

Hewland Engineering Limited

Strategic report for the year ended 31 August 2016 (*continued*)

2016: Risks and uncertainties

The main financial risks arising from the Company's activities are credit risk and liquidity risk. These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

The Company's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made. To mitigate default risk, the company also requires deposits with all bespoke orders and stage payments for longer-term projects.

The Company does not have any bank loans. Asset finance facilities are maintained for key equipment purchases but the Company's policy in respect of interest rate risk on such facilities is to only secure fixed rate finance. In respect of liquidity risk, the Company maintains readily accessible bank deposit accounts to ensure the company has sufficient funds for its operations. The cash deposits are held in a mixture of short term deposits and current accounts which earn interest at a floating rate.

The Company sells in Sterling and so does not have any exchange rate exposure in that regard. On the supplier side, most goods and services are sourced in Sterling, but where some limited purchases need to be made in non-Sterling currency, individual forward purchases of currency are made to fix the exchange rate risks and uncertainties.

The Company and its management consider that the biggest risks stem from the rapid resurgence of the motorsport industry which can lead to working capital difficulties if not properly managed. The KPIs set out on page 3 are used to carefully monitor the business on a weekly and monthly basis to ensure that this risk is minimised.

As the Company exports 66% of its finished goods, the economic environment in key overseas markets of North America, Asia and Europe has an impact on spend by team and series sponsors on motorsport as well as on the amounts available to the central management of race series from such income streams as TV rights payments.

Further details on the company and its globally recognised bespoke solutions can be found at the Company's website: www.hewland.com

Approval

This strategic report was approved on behalf of the Board 16/3/2017



W Hewland

Director

Hewland Engineering Limited

Report of the directors for the year ended 31 August 2016

The directors present their report together with the financial statements of the company for the year ended 31 August 2016.

Principal activities

The principal activity of the company in the year under review was that of the manufacture and marketing of gearboxes and their component parts to the motor racing and rallying industry.

Results for the year under review

The Board present a full review of the business and its results within the Strategic Report on pages 1 to 5 but in summary the results of the company are as follows:

	2016	2015
Turnover	£10,944,672	£11,727,619
Loss on ordinary activities before taxation	(£2,098,985)	(£453,230)
Underlying EBITDA	(£1,004,393)	£761,397

Directors

The directors of the company during the year were:

W Hewland
S L Robins (appointed 1 April 2016)
S R Deane

Dividends

The total distribution of dividends for the year ended 31 August 2016 totalled £306,210 and were paid:

'A' Ordinary shares:	£142,208
'B' Ordinary shares:	£128,002
'C' Ordinary shares:	£36,000

Financial Risk

See discussion of risks in the strategic report on pages 1 to 5.

Hewland Engineering Limited

Report of the directors for the year ended 31 August 2016 (*continued*)

Research and development

Innovation and aggressive product development is central to the Hewland strategy and targeted business growth within its current and new markets. Hewland support the full research and development cycle from concept to manufacture with continual innovation of products and processes working internally and with our partners.

In support of that and our strategic plan during 2016 we have expanded our Advanced Engineering and Design Department with additional product and process designers as well as investing in leading edge design and analysis tools. These new tools and capabilities further support the Research and Development efforts and ensure that when delivered to market new products fulfil the requirements of the clients' chassis and powertrain engineers in as short a lead time as is possible.

Research and Development effort is now being applied to conventional combustion, hybrid and electric powertrains on applications from single seat race cars to commercial and utility vehicles. During 2016 we have deployed the new development tools to support advanced system analysis which has driven significant efficiency and weight gains. Those benefits have been applied to a number of new sectors for the business including commercial and utility vehicles. At the pinnacle of that R&D effort are projects such as the VBB3 electric land speed record car which secured the record in September 2016 utilising Hewland technology in its drivetrain.

The business works with a number of strategic partners who actively support our R&D effort on the development of material, lubricant and manufacturing technologies for new product and applications. These have led to completely new revenue streams which shall start to deliver benefit during 2017 both from joint product offerings and new products which historically have been beyond the business's capability.

From a manufacturing process perspective our ERP and shop-floor data capture systems were further enhanced during 2015/16 as we target increased flexibility and improved response time for both our own designs and the increasing number of research and development initiatives. The investment in development in manufacturing continued with the addition of new equipment and further innovation in the use of prior investments such as spiral bevel grinding. Although at early stages the business is also actively engaged with the development of new manufacturing processes that would transform its manufacturing and supply chain structure.

Our Advanced Engineering team continue to be commissioned for specific consultancy programs from an array of global clients as well as an increasing number of mainstream OEM clients looking for collaborative support on innovative "Special Vehicle" programs.

A number of new projects have been secured within the year which takes the business in to new products and markets. These would not be possible without the continual investment in R&D and the focus on innovation.

We equally remain committed to environmental sustainability and this continues to play an important part in our decisions regarding our R & D activities and strategic plan.

Hewland Engineering Limited

Report of the directors for the year ended 31 August 2016 (*continued*)

Directors' responsibilities

The directors are responsible for preparing the strategic report, report of the directors 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.

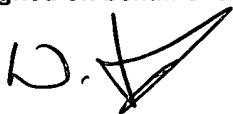
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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.

Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of which the auditors are unaware.

The auditors, BDO LLP, are deemed to have been reappointed in accordance with section 487 of the Companies Act 2006.

Signed on behalf of the board by:



W Hewland
Director

Date 16/03/17

Hewland Engineering Limited

Independent auditor's report

TO THE MEMBERS OF HEWLAND ENGINEERING LIMITED

We have audited the financial statements of Hewland Engineering Limited for the year ended 31 August 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Hewland Engineering Limited

Independent auditor's report (*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.



*Simon Brooker (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom*

17 March 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Hewland Engineering Limited

Statement of comprehensive income for the year ended 31 August 2016

	Note	2016 £	2015 £
Turnover	3	10,944,672	11,727,619
Cost of sales		(9,784,934)	(9,209,442)
Gross profit		1,159,738	2,518,177
Administrative expenses		(3,106,691)	(2,783,042)
Other operating income		97,722	57,056
Operating Loss	4	(1,849,231)	(207,809)
Interest receivable and similar income		883	1,175
Interest payable and similar charges		(41,637)	(27,596)
Other finance costs	16	(209,000)	(239,000)
Loss on ordinary activities before taxation		(2,098,985)	(473,230)
Taxation on loss on ordinary activities	8	943,996	583,617
(Loss)/profit for the financial year		(1,154,989)	110,387
Actuarial (losses)/gains on defined benefit pension scheme	16	(1,045,000)	263,000
Taxation in respect of items of other comprehensive income		209,000	(54,123)
Other comprehensive (loss)/income for the year		(836,000)	208,877
Total comprehensive (loss)/income for the year		(1,990,989)	319,264

All amounts relate to continuing activities.

All recognised gains or losses in the current and prior year are included in the statement of comprehensive income.

The notes on pages 16 to 31 form part of these financial statements

Hewland Engineering Limited

Balance sheet at 31 August 2016

<i>Company number 00584792</i>	Note	2016 £	2016 £	2015 £	2015 £
Fixed assets					
Tangible assets	9		3,124,121		2,404,982
Current assets					
Stocks	10	6,322,632		7,423,141	
Debtors	11	2,426,168		1,941,945	
Cash at bank and in hand		550,842		598,904	
		<u>9,299,642</u>		<u>9,963,990</u>	
Creditors: amounts falling due within one year	12	<u>(3,016,782)</u>		<u>(2,051,757)</u>	
Net current assets			6,282,860		7,912,233
Total assets less current liabilities			9,406,981		10,317,215
Creditors: amounts falling due after more than one year	13		(1,195,779)		(680,370)
Provision for liabilities	15		(259,906)		(267,350)
Net assets excluding pension liability			7,951,296		9,369,495
Pension liability	16		(6,683,000)		(5,804,000)
Net assets			1,268,296		3,565,495
Capital and reserves					
Called up share capital	17		10,100		10,100
Capital redemption reserve			500,000		500,000
Profit and loss reserve			758,196		3,055,395
Equity attributable to owners of the company			1,268,296		3,565,495

These financial statements were approved by the Board of Directors and authorised for issue on 16/3/2017

W Hewland
Director

The notes on pages 16 to 31 form part of these financial statements

Hewland Engineering Limited

Statement of changes in equity for the year ended 31 August 2016

	Share capital £	Capital redemption reserve £	Profit and loss reserve £	Total equity £
1 September 2015	10,100	500,000	3,055,395	3,565,495
Comprehensive loss for the year				
Loss for the year	-	-	(1,154,989)	(1,154,989)
Actuarial losses on defined benefit pension scheme	-	-	(1,045,000)	(1,045,000)
Taxation in respect of items of other comprehensive loss			209,000	209,000
Other comprehensive loss for the year	-	-	(836,000)	(836,000)
Total comprehensive loss for the year	-	-	(1,990,989)	(1,990,989)
Contributions by and distributions to owners				
Dividends	-	-	(306,210)	(306,210)
Total contributions by and distributions to owners	-	-	(306,210)	(306,210)
31 August 2016	10,100	500,000	758,196	1,268,296

The notes on pages 16 to 31 form part of these financial statements

Hewland Engineering Limited

Statement of changes in equity for the year ended 31 August 2015

	Share capital £	Capital redemption reserve £	Profit and loss reserve £	Total equity £
1 September 2014	10,100	500,000	3,121,582	3,631,682
Comprehensive income for the year				
Profit for the year	-	-	110,387	110,387
	-	-	263,000	263,000
Actuarial gains on defined benefit pension scheme	-	-	263,000	263,000
Taxation in respect of items of other comprehensive income			(54,123)	(54,123)
Other comprehensive income for the year	-	-	208,877	208,877
Total comprehensive income for the year	-	-	319,264	319,264
Contributions by and distributions to owners				
Dividends	-	-	(385,451)	(385,451)
Total contributions by and distributions to owners	-	-	(385,451)	(385,451)
31 August 2015	10,100	500,000	3,055,395	3,565,495

The notes on pages 16 to 31 form part of these financial statements

Hewland Engineering Limited

Statement of cash flows for the year ended 31 August 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
(Loss)/profit for the financial year		(1,154,989)	110,387
Adjustments for:			
Depreciation and impairment of fixed assets	9	564,733	480,672
Net interest payable		40,754	26,421
Taxation credit		(936,552)	(715,786)
Difference between net pension expense and cash contribution		(166,000)	(21,000)
Decrease/(increase) in trade and other debtors		1,721	(217,731)
Decrease in stocks		1,100,509	87,705
Increase/(decrease) in trade and other creditors		737,019	(578,165)
(Decrease)/increase in provisions		(7,444)	132,169
Profit on disposal of fixed assets		(11,961)	(48,000)
Cash from operations		167,790	(743,328)
Interest paid		(41,637)	(27,596)
Taxation received		659,608	244,521
Net cash generated from operating activities		785,761	(526,403)
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets	9	17,154	48,000
Purchases of tangible fixed assets	9	(120,910)	(391,812)
Interest received		883	1,175
Net cash from investing activities		(102,873)	(342,637)
Cash flows from financing activities			
Capital element of lease repaid		(424,740)	(225,546)
Equity dividends paid	7	(306,210)	(385,451)
Net cash used in financing activities		(730,950)	(610,997)
Net decrease in cash and cash equivalents		(48,062)	(1,480,037)
Cash and cash equivalents at beginning of year		598,904	2,078,941
Foreign exchange gains and losses		-	-
Cash and cash equivalents at end of year		550,842	598,904

Cash and cash equivalents comprise only cash at bank and in hand.

The notes on pages 16 to 31 form part of these financial statements

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 31 August 2016

1 Accounting policies

Hewland Engineering Limited is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 21. The date of transition to FRS102 was 1 September 2014.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies.

Basis of accounting

The financial statements have been prepared on a going concern basis and in accordance with applicable accounting standards and under the historical cost accounting rules.

The following principal accounting policies have been applied:

Turnover

Turnover represents the amount invoiced in respect of ordinary activities and is stated after trade discounts and net of value added tax.

Turnover is recognised when the risks and rewards of owning the goods have passed to the customer which is generally on delivery.

Tangible fixed assets

Assets are measured at depreciated historical cost. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation

Land is not depreciated. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life allowing for its estimated residual value as follows:

Land and buildings	-	4% on cost
Plant and machinery	-	10% on cost
Fixtures and fittings	-	10% on cost
Motor vehicles	-	20% on reducing balance
Office equipment	-	20% on cost

Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited against the cost of the assets at the time of acquisition, resulting in a reduction in the depreciation charge on the assets to which the grant relates.

The company has not directly benefited from any other forms of government assistance.

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 31 August 2016 (*continued*)

1 Accounting policies (*continued*)

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Work in progress is valued taking into account the stage of completion of relevant works orders at the period end. Work in progress and finished goods take account of an appropriate proportion of directly attributable costs and overheads. Provision is made for obsolete and slow moving items where appropriate.

Research and development

Expenditure on research and development is written off in the period in which it is incurred.

Foreign currency translation

(a) Functional and presentation currency

Assets and liabilities in foreign currencies are translated into the entity's functional currency using the exchange rates at the balance sheet date.

(b) Transactions and balances

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income or expense'.

Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid or when credited to shareholder loan accounts. Final equity dividends are recognised when approved by the shareholders at an annual general meeting or by written resolution.

Reserves

The Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- The capital redemption reserve contains the nominal value of own shares that have been acquired by the company and cancelled.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 31 August 2016 (*continued*)

1 Accounting policies (*continued*)

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. The current income tax credit/charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss in interest payable over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

The company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard (1 September 2014) to continue to be charged over the shorter period to the first market rent review rather than the term of lease.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 31 August 2016 (*continued*)

1 Accounting policies (*continued*)

Pension costs and other post-retirement benefits

The company operates a defined benefit pension scheme for eligible employees which was closed to future accrual on 31 May 2011. The assets are held separately from those of the company. The pension scheme surplus or deficit is recognised in the balance sheet as a pension asset or liability as appropriate. Contributions to the scheme are paid according to a deficit reduction plan agreed with the Trustees. From 1 June 2011 these consist of deficit funding only. The overall expected rate of return of the plan assets has been based on the average expected return of each asset class, weighted by the amount of assets in each class. The scheme holds quoted securities which are valued at current bid price.

The company contributes to money purchase pension schemes on behalf of eligible employees including, from 1 June 2011, contributions previously made to the defined benefit scheme. Additional retirement benefits are provided for nominated employees through a money purchase executive benefit scheme. These schemes are administered independently and the assets held separately from the company. The premiums are charged to the profit and loss account.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these financial statements, the directors have made the following judgements:

- Determine whether leases entered into by the company as a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Other key sources of estimation uncertainty

- *Tangible fixed assets (see note 9)*

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- *Stocks (see note 10)*

Where stock is manufactured, the cost includes all direct and fixed expenditure. Volume assessments consider factors such as historical demand, sales projections and future market conditions. Work In Progress is valued dependant on the percentage of completed operations attributable to each individual works order.

Stock that is deemed to be non-moving is provisioned for in full for any product that has not been utilised, either through manufacture or sale, within the previous four financial years. Stock deemed to be slow moving is also provisioned for and is valued by determining the annual demand for each individual stock item and for any stocking level greater than 10 years the remaining value is provided for. These valuation approaches are consistent with prior year.

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 31 August 2016 (continued)

2 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

- *Debtors (see note 11)*

Trade debtors are stated at cost less accumulated provisions for impairment. Management continually assess whether trade debtors show any indication of impairment and, where an amount receivable is beyond agreed credit terms, exercise judgement as to the recoverability of the debt. In assessing this they consider the financial position of the debtor, their record of payment and prevailing market conditions.

- *Deferred tax (see note 15)*

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The directors exercise judgement on the applicable tax rates and whether there will be sufficient profits in the future to absorb the reversal of the underlying timing differences.

- *Pensions (see note 16)*

The Defined Benefit pensions scheme liabilities are calculated using an independent actuarial valuation using the latest available tri-annual valuation and rolling this forward to the current reporting date.

The discount rate used is derived from an AA-rated Over 15 year Corporate Bond Index plus a determined margin to reflect the average term of the liabilities being longer than the duration of the index.

Inflation and pension increases assume the Bank of England implied inflation spot rate at a term consistent with the term of the liabilities less a factor to reflect supply and demand issues, CPI inflation is assumed to lag long term RPI inflation by a pre-determined factor.

Mortality assumptions are updated from the latest version of the CMI projection model and assumptions are made to determine the long term improvement rates and the proportion of members expected to be married at retirement.

3 Turnover

Turnover is attributable to the principal activity of the company. An analysis of turnover by geographical market is given below.

	2016 £	2015 £
United Kingdom	3,537,413	3,909,994
Europe	4,545,792	4,350,532
Rest of the World	2,861,467	3,467,093
	10,944,672	11,727,619

Hewland Engineering Limited

Notes forming part of the financial statement
for the year ended 31 August 2016 (*continued*)

4 Operating Loss

	2016 £	2015 £
This is arrived at after charging/(crediting):		
Research and development expenditure	7,979,024	4,989,073
Inventory recognised as an expense	2,716,453	2,415,895
Depreciation of tangible fixed assets – owned	328,590	363,109
Depreciation of tangible fixed assets - leased	236,143	118,298
Operating lease expense - building	425,000	425,000
Operating lease expense - plant and machinery	41,300	33,497
Profit on disposal of other fixed assets	(11,961)	(48,000)
Defined benefit pension cost (see note 16)	375,000	260,000
PPF Levy	47,081	31,567
Bad debts and other miscellaneous costs	1,070	(47,808)
Exchange losses	(7,381)	1,108
Auditors' remuneration:		
- fees payable for audit services	20,700	20,100
- taxation compliance and related services	3,340	3,250
- other services	2,750	2,500

5 Employees

	2016 £	2015 £
Staff costs (including directors) consist of:		
Wages and salaries	4,581,849	4,648,769
Social security costs	494,398	504,053
Other pension costs	506,989	233,375
	5,583,236	5,386,197

The average number of employees (including directors) during the year was as follows:

	2016 Number	2015 Number
Production	85	81
Design, and research and development	10	10
Administration	24	28
	119	119

Hewland Engineering Limited

Notes forming part of the financial statement for the year ended 31 August 2016 (*continued*)

6 Directors' remuneration

	2016 £	2015 £
Aggregate emoluments	218,530	158,855
Company contributions to money purchase pensions schemes	11,419	9,906

There were 2 directors in the company's defined benefit pension scheme (2015 - 2) and 2 directors in the group's defined contribution pension scheme (2015 - 2) during the period.

The total amount payable to the highest paid director in respect of emoluments was £98,869 (2015 - £104,993). Company pension contributions of £9,919 (2015 - £9,906) were made to money purchase schemes on behalf of the highest paid director.

Key management personnel include all directors and selective senior management of the company who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £300,980 (2015 - £192,405).

7 Dividends

	2016 £	2015 £
'A' ordinary shares of £1 each - interim paid	142,208	225,028
'B' ordinary shares of £1 each - interim paid	128,002	128,002
'C' ordinary shares of £1 each - interim paid	36,000	32,421
	306,210	385,451

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 31 August 2016 (continued)

8 Taxation on loss on ordinary activities

	2016 £	2015 £
<i>UK corporation tax</i>		
Current tax on loss of the period	(1,126,899)	(640,955)
Adjustment in respect of previous periods	(18,653)	(20,708)
Total current tax credit	(1,145,552)	(661,663)
<i>Deferred tax</i>		
Origination and reversal of timing differences	19,291	132,169
Changes in tax rates	(26,735)	-
Total deferred tax (credit)/charge	(7,444)	132,169
Less/ current tax (credited)/charged directly to equity	(209,000)	54,123
Taxation on loss on ordinary activities	(943,996)	(583,617)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK applied to loss before tax. The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before taxation	(2,098,985)	(473,230)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 20.00% (2015 - 20.58%)	(419,797)	(97,391)
Effects of:		
Fixed asset differences	2,454	(300)
Expenses not deductible for tax purposes	95	335
Adjustments in respect of previous periods	(18,653)	(20,708)
Other permanent differences	80	41
Additional deduction for R&D expenditure	(1,084,843)	(909,751)
Surrender of tax losses for R&D tax credit refund	427,444	268,795
Amounts (credited)/charged directly to equity	(209,000)	54,123
Adjustment to deferred tax to average rate of 20.00%	166,462	1,220
Deferred tax not recognised	(17,238)	174,142
Total tax credit for the year	(1,152,996)	(529,494)

The forthcoming change in the corporation tax rate from 20% to 19% in future periods will not materially affect the future tax charge.

Unrecognised deferred tax asset

The company has unutilised tax losses of approximately £3m (2015 - £3m) available for offset against future taxable profit subject to agreement from HMRC. A deferred tax asset amounting to £1.8m (2015 - £1.8m), including amounts arising in relation to defined benefit pension scheme has not been recognised on the basis that its future economic benefit is uncertain.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 31 August 2016 (*continued*)

9 Tangible fixed assets

	Land and buildings £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Office equipment £	Total £
<i>Cost</i>						
At 1 September 2015	37,584	10,015,681	1,234,831	86,958	1,237,786	12,612,840
Additions	-	1,261,854	16,718	-	10,493	1,289,065
Disposals	-	(41,472)	-	(7,995)	-	(49,467)
At 31 August 2016	37,584	11,236,063	1,251,549	78,963	1,248,279	13,852,438
<i>Depreciation</i>						
At 1 September 2015	1,999	8,121,895	1,085,782	33,784	964,398	10,207,858
Provided for the year	2,738	451,115	25,857	12,376	72,647	564,733
Disposals	-	(38,112)	-	(6,162)	-	(44,274)
At 31 August 2016	4,737	8,534,898	1,111,639	39,998	1,037,045	10,728,317
<i>Net book value</i>						
At 31 August 2016	32,847	2,701,165	139,910	38,965	211,234	3,124,121
At 31 August 2015	35,585	1,893,786	149,049	53,174	273,388	2,404,982

Included in the total net book value of plant and machinery is £2,221,195 (2015 - £1,159,380) in respect of assets held under finance leases or hire purchase contracts. Depreciation for the year on these assets was £236,143 (2015 - £118,298).

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 31 August 2016 (*continued*)

10 Stocks

	2016 £	2015 £
Raw materials	112,498	135,832
Work in progress	776,151	547,198
Finished goods	5,433,983	6,740,111
	<u>6,322,632</u>	<u>7,423,141</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

11 Debtors

	2016 £	2015 £
Trade debtors	1,117,332	962,858
Corporation tax debtor	1,126,899	640,955
VAT debtor	99,032	-
Prepayments and accrued income	82,905	338,132
	<u>2,426,168</u>	<u>1,941,945</u>

All debtors are due within one year.

12 Creditors: amounts falling due within one year

	2016 £	2015 £
Trade creditors	1,112,938	686,487
Other taxation and social security	146,388	157,151
Other creditors	165,214	234,057
Accruals	220,975	152,300
Deferred income	882,389	560,890
Obligation under finance leases	488,878	260,872
	<u>3,016,782</u>	<u>2,051,757</u>

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 31 August 2016 (*continued*)

13 Creditors: amounts falling due after more than one year

	2016 £	2015 £
Obligation under finance leases	1,195,779	680,370
Maturity of debt:		
In one year or less	488,878	260,872
In more than one year but not more than two years	487,789	255,247
In more than two years but not more than five years	707,990	425,123
	1,195,779	680,370

14 Financial instruments

The company's financial instruments may be analysed as follows:

	2016 £	2015 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	1,200,237	1,300,990
Financial liabilities		
Financial liabilities measured at amortised cost	9,064,516	7,437,734

Financial assets measured at amortised cost comprise trade debtors and accrued income.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, pension liability, accruals and deferred income.

Information regarding the company's exposure to and management of credit risk, liquidity risk, market risk, cash flow interest rate risk, and foreign exchange risk is included in the strategic report.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 31 August 2016 (*continued*)

15 Provision for liabilities

Deferred taxation

	2016 £	2015 £
Accelerated capital allowances	259,906	267,350
Deferred tax liability	259,906	267,350

The movement in the deferred tax liability during the period is as follows:

	Deferred taxation £
At 1 September 2015	267,350
Credit to the profit and loss account	(7,444)
At 31 August 2016	259,906

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 31 August 2016 (*continued*)

16 Pensions

The company operates a defined benefit pension scheme in the UK funded by employer's contributions with assets held in a separate trustee administered fund. A full actuarial valuation was carried out at 1 May 2009 and updated to 31 August 2015 and 31 August 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The scheme was closed on 31 May 2011 and the employer continues to make deficit funding contributions to the scheme.

	2016 £	2015 £
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	16,235,000	16,042,000
Interest cost	610,000	637,000
Actuarial losses/(gains)	4,179,000	(194,000)
Benefits paid	(835,000)	(250,000)
Settlement (gains)/losses	(417,000)	-
At the end of the year	19,772,000	16,235,000
<i>Reconciliation of fair value of plan assets</i>		
At the beginning of the year	10,431,000	9,954,000
Interest income on plan assets	401,000	398,000
Actuarial gains	2,717,000	69,000
Contributions by employer	375,000	260,000
Benefits paid	(835,000)	(250,000)
At the end of the year	13,089,000	10,431,000
Fair value of plan assets	13,089,000	10,431,000
Present value of plan liabilities	(19,772,000)	(16,235,000)
Net pension scheme liability	(6,683,000)	(5,804,000)

None of the fair values of the scheme's assets includes any of the company's own financial instruments or any property occupied by, or other assets used by, the company.

The company expects to contribute £393,750 (2016 - £375,000) to its defined benefit pension scheme during the year ending 31 August 2017.

Hewland Engineering Limited

Notes forming part of the financial statements
for the year ended 31 August 2016 (continued)

16 Pensions (continued)

	2016 £	2015 £
<i>Amounts recognised in the profit and loss amount are as follows:</i>		
<i>Amounts included in 'Other finance costs'</i>		
Net interest cost	209,000	239,000
<i>Analysis of actuarial loss recognised in other comprehensive income</i>		
Actual return less interest income included in net interest income	(2,717,000)	(69,000)
Experience losses and gains arising on the scheme liabilities	3,762,000	(194,000)
Actuarial losses/(gains)	1,045,000	(263,000)
Cumulative amount of actuarial losses	5,937,000	4,892,000
	2016 £	2015 £
<i>Composition of plan assets</i>		
Liability driven investments	4,861,000	-
European bonds - Corporate bonds	-	5,465,000
European bonds – Index-linked bonds	-	2,131,000
Property	-	945,000
Cash	89,000	239,000
Alternatives and other	-	118,000
Diversified growth	8,139,000	1,533,000
Total plan assets	13,089,000	10,431,000

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 31 August 2016 (continued)

16 Pensions (continued)

	2016 %	2015 %
<i>Principal actuarial assumptions used at the balance sheet date</i>		
Discount rates*	2.30	4.00
Future salary increases	0.00	0.00
Future pension increases of RPI or 5 per cent p.a if less	2.90	3.10
Future pension increases of RPI or 2.5 per cent p.a if less	2.30	2.40
Inflation assumption (RPI)	2.90	3.20
Inflation assumption (CPI)	1.70	2.00

* Discount rate in 2016 has been derived from Merrill Lynch Corporate Bond Index whereas the discount rate applied in valuing pension deficit in 2015 was derived from the Markit iBoxx Corporate Bond Index. Refer to Note 2 (page 20) for details of changes in assumption sources undertaken in the current financial year.

	Number	Number
Mortality rates		
- for a male aged 65 now	86.6	87.1
- at 65 for a male member aged 45 now	87.7	88.4
- for a female aged 65 now	88.6	89.1
- at 65 for a female member aged 45 now	89.7	90.6

17 Called up share capital

	2016 £	2015 £
<i>Allotted, issued and fully paid</i>		
8,080 'A' ordinary shares of £1 each	8,080	8,080
505 'B' ordinary shares of £1 each	505	505
1,515 'C' ordinary shares of £1 each	1,515	1,515
	10,100	10,100

All classes of shares noted above are non-redeemable. Each share is entitled to one vote in any circumstances, has equal rights to dividends and is entitled to participate in a distribution.

18 Commitments under operating leases

The company had minimum lease payments under non-cancellable operating leases as set out below:

	Land and buildings 2016 £	Other 2016 £	Land and buildings 2015 £	Other 2015 £
Not later than 1 year	425,000	7,738	425,000	16,757
Later than 1 year and not later than 5 years	354,167	-	779,167	7,738
Later than 5 years	-	-	-	-
	779,167	7,738	1,204,167	24,495

Hewland Engineering Limited

Notes forming part of the financial statements for the year ended 31 August 2016 (continued)

19 Contingent liabilities

H M Customs and Excise Duty Deferment Bond of £500.

20 Related party disclosures

W Hewland is the ultimate controlling party by virtue of his majority holding of the company's 'A' ordinary shares.

During the year dividends totalling £164,002 (2015 - £160,423) were credited to the shareholders' loan accounts of close relatives of W Hewland, a director of the company.

As disclosed in note 16 the company is the sponsoring employer for the Hewland Engineering Limited 1972 Pension and Life Assurance Scheme which was set up to provide retirement pensions for eligible employees. The scheme was closed on 3 May 2011. The company contributed a total of £375,000 (2015 - £260,000) to the scheme during the period, all of which related to deficit funding payments. The company also pays all administrative costs relating to the scheme which during the year totalled £115,814 (2015 - £120,948).

Dividends totalling £142,208 (2015 - £225,028) were credited to W Hewland's director loan account during the year. The amount due from the company to W Hewland as at 31 August 2016 was £35,547 (2015 - £105,048).

The Company continues to lease land and buildings from W Hewland at a rent of £425,000 per annum, on a full tenant's repairing lease. Rent of £425,000 was incurred for the current and prior financial years.

21 First time adoption of FRS 102

	Note	Equity as at 1 September 2014 £	Profit for the year ended 31 August 2015 £	Equity as at 31 August 2015 £
As previously stated under former UK GAAP		3,631,682	76,264	3,565,495
Transitional adjustments				
Change to measurement of net finance cost on defined benefit pension schemes	a	-	(20,000)	-
Taxation in respect of actuarial gains on defined benefit pension scheme credited directly to equity.	a	-	54,123	-
As stated in accordance with FRS 102		<u>3,631,682</u>	<u>110,387</u>	<u>3,565,495</u>

Explanation of changes to previously reported profit and equity

- FRS 102 has the effect of adjusting the split of amounts recognised in profit and loss and other comprehensive income as a result of recognition requirement in profit or loss of a net interest cost on defined benefit pension schemes. The effect of this has been to increase reported profits for the year ended 31 August 2015.

The above changes have no impact on the overall movement in retained earnings at 31 August 2015 as the increase in profit for the year is offset by an equal amount now recognised in other comprehensive income.